PayFit

The Payroll Outsourcing Pains Whitepaper 2023

Surveying the experiences of businesses who have previously outsourced their payroll, and how payroll software has helped them navigate the associated challenges.

The results are in, and it's official - outsourcing company
payroll to a third party comes with challenges that are
unnecessarily frustrating and negatively impactful
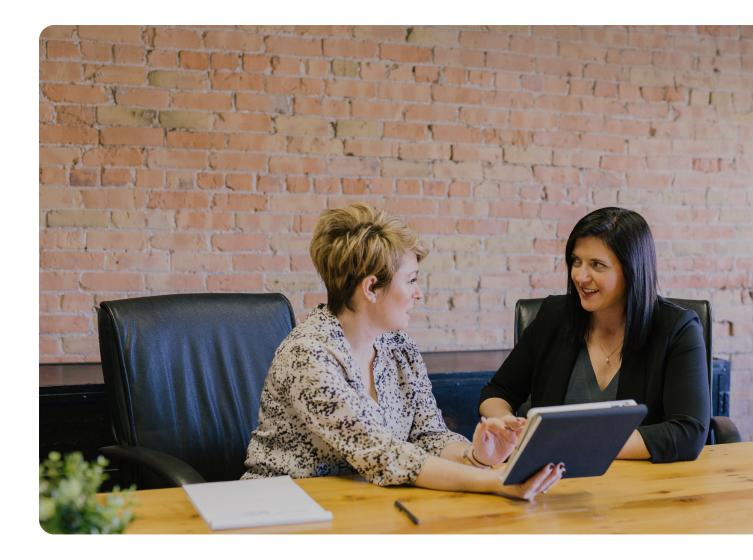for those tasked with overseeing the processes involved.

Challenges we hear when speaking to businesses looking
to move away from outsourcing, such as the amount
of time spent going back and forth, the lack of control,
extra fees and frequent mistakes, have all come to bear
in the results of this survey.

In reaching out to ex-outsourcers across the UK, and not
just those who've come to us, we feel that we've taken
a more precise reading of those challenges than we have
done before.

We hope that you find the results as intriguing as we do!

Natalia McCall
Head of Customer Success
PayFit UK

Introduction

Paying someone else to take care of payroll for you is an attractive proposition. But outsourcing by its very nature means relinquishing a huge degree of control and insight to somebody else. Many businesses accept the drawbacks that come with outsourcing as being an unavoidable part of the package, but for some the challenges have proven too much to continue.

We surveyed 210 individuals across the UK responsible for payroll within their businesses, who have at some point outsourced, within HR and finance roles. Included are the experiences of several PayFit users, and how they have overcome some of the challenges associated with outsourcing by bringing their payroll in-house.

Within this whitepaper, we'll share notable trends and highlights across a range of topics that the questions were centred on, such as communication issues, data insight, errors, stress, and more.

Going back and forth with an outsourced provider

An unnecessary drain on resources

Getting the information required from an outsourced payroll provider means asking them for it. And this means sending an email, or picking up the phone. You might get an out of office, or a voicemail. Even if you don't, you may still have to wait several hours (or even days) to get a response. And once you do get that response, it might not be what's required or expected, so cue having to start the whole process again.

In our survey, **56%** of respondents said that they found the time spent going back and forth with their outsourced payroll provider either **'somewhat'** or **'extremely'** challenging. Coincidentally, this was the top factor that made our respondents decide to move away from outsourcing, with **39%** of respondents saying it was a key reason for doing so.

56%

The percentage of respondents who said that they found the time spent going back and forth with their outsourced provider either **'somewhat'** or **'extremely'** challenging

The headlines

- ✓ **56%** found the time spent going back and forth with their outsourced provider either **'somewhat'** or **'extremely'** challenging

- ✓ **39%** stated that this was a reason for them making the move away from outsourcing

- ✓ *"The back and forth between the two functions was time consuming and took me away from my core business function"*

Mistakes in the data

Paying employees or reconciling accounts becomes a recurring nightmare

"20% of payslips were wrong on the first month of change - unhappy employees, very frustrating."

"The errors caused a lot of arguments within the company."

These are just two examples of how respondents struggled with this particular challenge.

If an outsourced provider is using manual processes or outdated software to manage payroll and make complex calculations, the chances of mistakes being made multiplies.

And if requesting a particular report, for example to reconcile accounts or work out how much is owed to HMRC, the potential for mistakes increases as additional communication steps are added into the mix.

A staggering **93%** said they experienced mistakes related to their payroll when outsourcing either **'occasionally'**, **'frequently'**, or **'every month'**.

30% told us that mistakes were a major deciding factor in choosing to move away from outsourcing.

93%

The percentage of respondents who said that they found the time spent going back and forth with their outsourced provider either **'somewhat'** or **'extremely'** challenging

The headlines

- ✓ **93%** revealed that they experienced mistakes related to payroll **'occasionally'**, **'frequently'**, or **'every month'**

- ✓ **30%** said this was a deciding factor in choosing to bring payroll in-house

- ✓ *"Having to engage with 3rd parties every time to rectify errors was time consuming"*

Dealing with lots of queries from employees

A consequence of relinquishing ownership of payroll

Helping your people to have a fulfilling workplace experience is a priority for HR teams and business leaders. But when you're getting the same payslip-related questions every payday, or are unable to answer them because somebody else holds the keys, it can get immensely frustrating for all those concerned. Employees don't get the answers they're looking for, those managing payroll have their time and energy taken up unnecessarily. It's a lose-lose situation.

53% of respondents said they found this particular issue **'somewhat'** or **'extremely'** challenging when outsourcing, whereas a quarter of respondents ranked this as one of the main deciding factors in choosing to stop outsourcing payroll management.

53%

Over half of respondents found getting lots of payroll-related queries from employees to be '**somewhat'** or **'extremely'** challenging

The headlines

- **53%** said getting lots of queries from employees related to payroll was **'somewhat'** or **'extremely'** challenging

- **26%** said this was a deciding factor in choosing to bring payroll in-house

High stress levels, burnout and employee churn

Which has a knock-on effect across the wider business

Managers and employees can become stressed when the challenges we've spoken about manifest over the course of time. When employees are paid late or incorrectly - an issue that we've heard regularly from ex-outsourcers - this can have huge consequences. Indeed, **20%** of British workers surveyed by the CIPP have left a job as a result of the incorrect or late payment of wages, the stress that this causes being simply too much to warrant staying in the company.

But it's not just employees that bear the brunt - it's those managing the outsourcing relationship too.

For our survey, **60%** found managing payroll **'somewhat'** or **'very'** stressful when outsourcing.

60%

The percentage of ex-outsourcers who said managing payroll was **'somewhat'** or **'very'** stressful when deferring it to a third party

The headlines

- ✓ **60%** found managing payroll **'somewhat'** or **'very'** stressful when outsourcing

- ✓ *"A slow response to emails"*

- ✓ *"A lack of understanding about our business and employees"*

General lack of control over your company's payroll

Because somebody outside the organisation holds the keys

Feeling out of control comes as a consequence of all the points covered so far. Being at the mercy of a third party's communication timeframes, the risk of mistakes, not knowing the answers to questions from employees - all of these things combine to make HR and finance teams feel that they lack control over their company's payroll.

But it's not just a feeling, it's a reality.

56% said that they found the general lack of control over their company payroll as a result of outsourcing **'somewhat'** or **'extremely'** challenging.

In addition, a lack of control was the second biggest reason for businesses moving away from outsourcing, with **35%** listing it as a deciding factor.

THE CHALLENGE IN FOCUS

One respondent told us that they had been contacted by HMRC in regards to missed tax and NI payments, even though the correct amounts were coming out of the company's account. It transpired that their payroll provider had been mistakenly recording the payments under another customer's account instead!

56%

The percentage of respondents who said that they found the general lack of control over their payroll **'somewhat'** or **'extremely'** challenging

The headlines

- ✓ **56%** found the general lack of control over their company payroll **'somewhat'** or **'extremely'** challenging

- ✓ **35%** listed it as a main deciding factor in moving away from outsourcing

- ✓ *"We encountered issues with employees' details being stolen / hacked"*
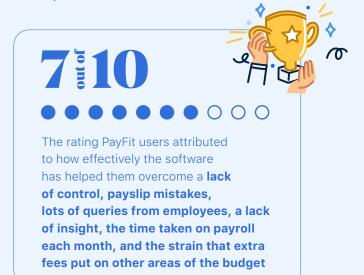
The PayFit difference

A 'best of both worlds' approach, with transformative software at its heart

To the PayFit customers who took part in our survey, we asked them how PayFit has helped them to overcome the challenges they faced previously. The results were conclusive. Out of 10, users gave PayFit a score of **7 or above** when rating how effectively the software helps them overcome previous challenges such as a lack of control, payslip mistakes, a lack of insight, queries from employees and more.

80% of customers surveyed rated the degree to which they feel in control of their payroll data with PayFit as **'substantial'**.

The amount of time saved each month has been a key success factor for PayFit users. No customer respondents said they spend more than **4-5 hours** a month on payroll using PayFit, whereas with their outsourced provider **40%** said they spent **1-2 days**.

Customers also commented on how PayFit has helped improve their cross-team collaboration on payroll tasks, with 60% responding 'very much so' when asked to what extent the software has helped them to do so.

7 out of **10**

The rating PayFit users attributed to how effectively the software has helped them overcome a **lack of control, payslip mistakes, lots of queries from employees, a lack of insight, the time taken on payroll each month, and the strain that extra fees put on other areas of the budget**

The headlines

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- No customer said they spend more than **4-5 hours** a month on payroll using PayFit

- **60%** responded **'very much so'** when asked to what extent PayFit has helped them improve their cross-team collaboration on payroll tasks

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"Our study has shown just how comprehensively PayFit helps users overcome the challenges associated with outsourcing. Additionally, it has been shown to foster better collaboration between different departments."

Natalia McCall,
Head of Customer Success,
PayFit UK

Bringing it all together

Despite a certain amount of 'grin and bear it' when it comes to outsourcing payroll, it's clear that the challenges faced by UK businesses have simply proved too much for some.

Our research has shown that outsourcing payroll comes with a varying degree of challenges that are all closely interlinked, producing a kind of domino effect that has the potential to ripple across whole businesses. These encompass time, communication, data insight, errors and more.

Where the vast majority of these challenges are concerned, PayFit customers have attested to how bringing their payroll in-house and investing in our payroll software has helped them to overcome them.

Transforming payroll for over 10,000 companies

As Europe's leading cloud-based payroll solution, we offer all the tools you need to manage and pay your people. Our best-of-both-worlds approach marries all the control of in-house software with real CIPP-level expertise. On top of this, our technology allows us to code in legislation changes quickly, so our platform is always up to date. See why over 10,000 companies trust us each month at **payfit.com**

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