

## Crossing Lines - Relief for your Cross-Border HR / Payroll Headaches

*By: Karen Speirs*

*Having Trouble Paying Workers in the USA and Canada Correctly?*

*Can't Get Data You Need for Tough Budget Decisions?*

*Today, companies operating with cross-border workforces face the challenge of trying to re-deploy people to various jurisdictions as projects expand, shrink, or close. Can heavy-industry financial directors do this juggling act without painstaking manual work, jeopardizing the current knowledge base, and creating legal risks? Yes, you can! Read on to find out how.*

Leo scanned his 2009-2010 budget for the umpteenth time that week. As financial manager for an oil and gas services supplier, he had been asked by the CEO, George, to be prepared for budget cutbacks on projects if the price of oil dropped any lower (or rose higher for that matter), or to be ready if some projects closed and others expanded. In this market, no projects were secure, but one thing was certain: he would be moving their people from one place to the next and the jurisdictional headaches were just going to get worse.

This time last year, a reduction in revenues was the furthest thing from anyone's mind. Back then, with oil at \$140 per barrel, the organization was growing rapidly. Leo and the operations manager, Roland, worried about finding qualified and skilled workers to staff their facilities. They were anticipating a big wave of new exploration opportunities across North America for their oil services company. Now they would be lucky to get new maintenance contracts. They were working hard to keep the contracts they had for projects that were "on hold" or were operating at limited capacity.

George had called a Monday morning senior management meeting that week and asked Leo to attend. Taking a deep breath, George sketched out their predicament on the white board. It wasn't a pretty picture; the group stared at a potentially grim future. "For the past five years we've managed a 30% year-over-year growth, and we anticipated putting it all back into capital expenditures as we were able to access the debt markets," George explained. "But now, those plans have to be put on hold."



*"The industry will be expecting us to price down. Our cost base is way up. We need more floaters, on-call people, which means more remote managers of sites that have essentially shut down. It might also mean more part-timers and fewer regular staff at our current client projects. We'll be shifting resources like crazy and we know that's going to be hard on everyone."*



*“...we have to make sure we have the right people in the right roles managing those part-timers to maintain our certifications,” he added. “We don’t want to put our organization or our clients at risk by taking too many short cuts.”*

Everyone nodded and started to fidget.

“When I look at our new maintenance contract numbers, I see that calls are increasing,” George continued. Everyone in the room waited for the big “but”. Sure enough, there it was. “But our year-over-year comparables show rig utilization at 75% for the year in all our territories, with drilling down 39%<sup>1</sup> since September. Meanwhile, 25% of our clients have put their exploration projects on indefinite hold, and 30% are operating on significantly reduced capacity. What this is telling me is that there may be an opportunity to get some new maintenance contracts to keep equipment operational while the projects are on hold; but we all know that isn’t where the big money is, and our business is extremely price sensitive. It doesn’t always make sense to chase contracts just to keep our people working, but with few alternatives after the battering we take on prices...” George’s voice trailed away. “Our margins are pretty slim... but we’ve got to figure out how we’re going to make it on maintenance until oil demand picks up. Problem is, we don’t when that’ll be. It’s bad now, folks. Short-term thinking is resulting in reduced capacity, which is going to make our lives feel like a roller coaster for the next few months”

George paused and let out a big sigh. “We’re going to have to make some tough decisions about where to cut costs. The industry will be expecting us to price down. Our cost base is way up. We need more floaters, on-call people, which means more remote managers of sites that have essentially shut down. It might also mean more part-timers and fewer regular staff at our current client projects. We’ll be shifting resources like crazy and we know that’s going to be hard on everyone.” George stopped and looked over at his CFO.

The firm’s legal counsel, Brad, was also present that day. “And we have to make sure we have the right people in the right roles managing those part-timers to maintain our certifications,” he added. “We don’t want to put our organization or our clients at risk by taking too many short-cuts. And you have to watch the differences in Canadian labor laws and US labor laws. And there’s Quebec. It’s a headache, I know.” Brad saw Leo shake his head.

“My people spend all their time trying to figure out how to manually override our financial system just to make all these adjustments to payroll based on different jurisdictional labor laws,” Brad said. Leo knew no one understood this better than Brad who watched his department like a hawk.

### **Cutting Costs, Not Service Quality**

That was two days ago. Now it was Wednesday and Leo’s brain didn’t seem to be cooperating with George’s request. His normally quick mind just couldn’t seem to find the right answers to the questions: Where to cut without impacting quality of service to clients?; Where to reduce without undermining operational effectiveness?; Who to let go without demoralizing the people and losing key knowledge groups that made their company one of the best to work for?

Leo’s largest line item was wages. He looked at wages across all his facilities and noticed a strange trend: overtime was on the increase everywhere. Why was that? He placed a call to Roland. “I’m trying to find out what’s causing the variance between estimated labor hours and actual labor hours. What can you tell me?”

<sup>1</sup>([http://www.usatoday.com/money/industries/energy/2009-03-02-oil-production-gas-prices\\_N.htm](http://www.usatoday.com/money/industries/energy/2009-03-02-oil-production-gas-prices_N.htm))

Roland felt the muscles in his neck tighten. “I’d like to be able to give you that answer, Leo. I’m wondering myself. Our managers are responding to client needs, so I guess they pull people in when they need them. We’ve never had to track any of that... back in the good old days.”

“But surely we know more than that about how our people are used?” Leo exclaimed. “What about our payroll records?”

“Well, we’ve been growing so fast we just haven’t put in any tracking systems for that level of detail. Your own people should know, shouldn’t they? Call Sharon in HR/Payroll for that info.” Roland paused. “And Leo, I just want you to know that our people are working full out on all our projects. Talk to me before you make any big decisions, will you?”

### Accurate Payroll Data Key to Managing Costs

Labor costs can often be one of the largest line items on an organization’s yearly budget, yet many organizations struggle to reconcile actual labor costs with their budgeted costs. In some instances, the problem may be unforeseen costs that arise during the fiscal year; but more often, the inability to reconcile is directly linked to incomplete or inaccurate payroll data.

Today, companies operating with cross-border workforces face the challenge of re-deploying people to various jurisdictions as projects expand, shrink, or close. For management to have the finely tuned information necessary to make relevant decisions, it is crucial that payroll data be detailed and accurate. This means workers’ times need to be entered at source (ideally through a scheduling system that employees use) and costed to a specific activity such as travel time, regular communications, safety, rig shift, or “treating specialist’s” overtime. Once time and activities are entered correctly, analysis of that time and cost becomes more straightforward.

Leo was starting to get a little frustrated with the lack of information he had to make these strategic cost-cutting decisions. He immediately gave Sharon a call. “How do I find out why we have ballooning overtime, why our managers aren’t scheduling to the budget, and who is making these decisions? I mean really, Sharon, are we in the dark here, or do we have a flawed budget process?”

Sharon had heard about the sliding revenue numbers. As manager of HR/Payroll, she had wondered when she’d be getting the call to start sending out layoff notices. She didn’t expect these kinds of questions. “Well, I can’t really answer those questions myself. I would have to do some investigation and call the managers of our facilities to find out. Overtime is just part of our business, as far as I can tell. When a situation arises and you have to pull people in, you just do it.”



*“Companies operating with cross-border workforces today face the challenge of trying to re-deploy people to various jurisdictions as projects expand, shrink or close. For management to have that kind of finely tuned information to make relevant decisions, it is crucial that payroll data be detailed and accurate.”*



*“If you use schedules that directly link to payroll, you can simply change the schedule and have that pass directly to payroll for processing. Employees only enter what is different than their standard schedule; they only enter the exceptions.”*

Then Sharon started to speak more quickly. “And you have to remember the contract rules. Some people get called in first and others can’t be called in. You can’t override our employment agreements. The best I can get you are the payroll records for each facility or project and we can go through them and see if there are any trends.” Sharon hesitated. “I think I can start that project by Friday”.

Leo sank into his desk chair. His spirits were already in the dumps. Now it sounded like it might be days or weeks before he could even begin to get a handle on their financial situation. George would want his game plan with multiple scenarios for budget cutting — while Leo would still be sitting on the floor sorting timecards with Sharon.

### Signs It’s Time to Review Your HR/Payroll System

So how do you know it is time to investigate your labor costing and make a change?

1. You can’t seem to get the data you need or want from your current system. When you do pull data, it requires a large amount of massaging to fit the reporting requirements.
2. Your payroll system doesn’t allow for inputting of different jurisdictional rules and your provider can’t give you the latest information on labor regulation and tax changes. You spend time trying to keep track manually, making mistakes in payroll in Canadian provinces.
3. Your time collection and entry is centralized; therefore, double-entry is occurring and mistakes are made because you are not capturing time at the source.
4. Your payroll department spends a large amount of time creating, correcting, and managing the accuracy of employee schedules and time-entry transactions.
5. Employees are frustrated with the scheduling process, and even more frustrated with inaccuracies on their paychecks.
6. Without the right people with the right qualifications on the job, you risk increasing your legal liability.
7. You have a large volume of complex rules surrounding schedules and pay, and it is becoming increasingly difficult to handle the volume of changes each pay period — let alone analyze data for budgeting purposes and answer questions from other departments.

### The Solution: Integrated Scheduling and Payroll System

If you find yourself faced with some of the challenges listed above, it may be time to review your time collection and scheduling procedures. An integrated scheduling and payroll system offers several significant benefits:

- You can eliminate double-entry and capture detailed time transactions at source in real time, allowing for analysis of time and cost on a minute-by-minute basis.
- By putting the time entry in the hands of employees and/or supervisors, you greatly reduce the corrections needed after the pay has already been processed.

- If you use schedules that directly link to payroll, you can simply change the schedule and have that pass directly to payroll for processing. Employees only enter what is different than their standard schedule; they only enter the exceptions.

Leo realized that their financial situation was just the beginning of a much larger challenge. They would have to upgrade their systems in order to make the right decisions to steer the company through the downturn. What would George say about all this? And when would he find the time to research and implement a new system.

Leo thought he'd better arm himself with some facts before he broke the news to George that they wouldn't be able to respond as rapidly to this situation as he wanted. He placed a call to Duncan, a colleague he had met at an oil services conference. Duncan was the CFO at a larger oil services company in another state. Leo laid out the problem for him.

"I know exactly what you are talking about, Leo," Duncan replied. "Until we integrated scheduling, budgeting, and payroll, we were in the same boat as you. It was like being lost in the fog. I'd think we were making the right decisions, but each time we'd implement a new plan to manage to budget, the plan would have unintended consequences. Then our staff spent a lot of time cleaning up the mess – the wrong resources were let go, good people left because they were overworked, and conflict arose between departments over who was now responsible for particular areas." Duncan changed his tone. "You don't want to go down that route."

"No, I certainly don't", Leo said. "But what is the right solution, Duncan? I'm afraid that installing a new software system is going to cost a fortune and take years to implement. I was just reading about how one organization tried to implement an ERP system and the price tag was ballooning to \$3,000 per employee. That would sink us." Leo's throat felt constricted.

"You don't need a whole new financial system," Duncan reassured him. "You probably just need to augment the one you have with the right HR/Payroll system that knows the rules in the countries where you have projects, and also includes scheduling, budgeting, and tracking. We located a HR/Payroll system that could do both Canadian and US payroll and produced the right rules for the right person in the right jurisdiction. There are some great ones on the market that have that kind of functionality. But what you really want to pay attention to is how well the HR/Payroll systems company does implementation, and how well they maintain your system once you are up and running. That was the critical link for us. Our implementation only cost \$150 per employee."

Leo started to breathe more easily. He listened to Duncan as he identified the steps they would need to take to get ready for a new HR/Payroll system.

## How to Prepare for a New HR/Payroll System

You can take several steps to ensure success with your new system.

1. Get an idea of how big the problem is. How much effort is going into scheduling the workforce and then capturing and correcting time? Even if you deem that with current resource levels the schedules and time changes are manageable, you may be limiting your potential growth.



*"You don't need a whole new financial system," Duncan reassured him. "You probably just need to augment the one you have with the right HR/Payroll system that knows the rules in the countries where you have projects and also includes scheduling, budgeting and tracking."*

1. Consider your needs for time entry. If employees will now be entering their own time and managing their own schedules, your organization will need an interface that works for all employees. That may be a kiosk in the lunchroom, a handheld device with internet access, or your employees' work computers.
2. If you have more than one facility, ensure they are networked together so that the time and scheduling data can be compiled on the main office computer.
3. Review resource levels. Staff who will be directly involved with managing schedules and entering time will have to be trained.
4. Once a system is selected, utilize the expertise of the vendor. They can offer valuable suggestions and help with the rollout of the functionality.

### Benefits of an Integrated Scheduling and Payroll System

Your new system will allow you to:

1. Access detailed information to assist in budgeting and planning. You will be able to drill down and dissect overtime and sick time, and better understand resource utilization.
2. Manage the skills of your workforce and thereby mitigate the risk of not having the right people on the job at the right time.
3. Reduce the amount of data entry the payroll staff must do, freeing them for more analysis type tasks.
4. See the schedule patterns and resource requirements more easily. This will help you with your workforce planning and will also allow you to be more creative with your schedules to accommodate worker needs and requests.
5. Have a happier, more satisfied workforce. Employees will be able to view and update their own schedules. Processes will be transparent and accountability will shift to where it belongs...at source.
6. Gain insights for decision-making as trend analysis and forecasting reports will be easier to produce.
7. Hold managers accountable with incentives and compensation, which can improve supervisors' ability to effectively manage their workforce.

Armed with a game plan, Leo made an appointment to see George. He gathered his notes and left his office, confident that when he returned he would have his backing to begin this system upgrade project. There was not a moment to waste if they were going to stay competitive...and relieve his headaches.



*“Manage the skills of your workforce and thereby mitigate the risk of not having the right people on the job at the right time.”*