

PAYROLL PROCESSING: OUTSOURCE OR DO IT IN-HOUSE

By

NORIMY BINTI MAT ISA

802422

**A Thesis Submitted to the Graduate School in Partial
Fulfillment of Master of Human Resource Management
University Utara Malaysia**

PERMISSION TO USE

In the submission of this thesis in fulfillment of the requirement for a postgraduate degree program under *Universiti Utara Malaysia (UUM)*. I hereby agree to permit the University Library to use this project paper as reference purposes, duplication or extraction for academic usage. All the above mentioned condition can be done by getting approval from *my supervisor or The Dean of College of Business, UUM*. Any duplication, publication or extraction for profitable purposes is highly restricted for this study without my written permission. It is also understood that due recognition shall be given to me and to *Universiti Utara Malaysia* for any scholarly use which may be made of any material from my thesis.

An appreciation should be given to UUM due to the permission allow to use all the resources for the project paper. An application letter to use it can be addressed to the:

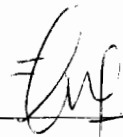
Dean
College of Business
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman.

DISCLAIMER

The author is responsible for the accuracy of all opinion, technical comment, factual report, data, figures, illustrations and photographs in this dissertation. The author bears full responsibility for the checking whether material submitted is subject to copyright or ownership right. Universiti Utara Malaysia (UUM) does not accept any liability for the accuracy of such comment, report and other technical and factual information and the copyright or ownership rights claims. The author declares that this dissertation is original and his own except those literatures, quotations, explanations and summarizations which are duly identified and recognized. The author hereby granted the copyright of this dissertation to College of Business, Universiti Utara Malaysia (UUM) for publishing if necessary.

Date: 21/02/2011

Student Signature: _____



ACKNOWLEDGEMENTS

First and foremost, the highest gratitude to Allah S.W.T and His Prophet Muhammad S.A.W for giving me the strength to complete this thesis even though with the tight schedule.

Thousands and millions of gratitude to my supervisor, Madam Norizan Binti Haji Azizan for the academic guidance and support, my direct manager, Mr. Umasuten A/L Karisnan and my relative, Mr. Mohd Najib Hamdi Bin Ahmad Mahadi Mehat respectively for the help rendered in completing this study.

Special thanks to my family for all the support and patience, especially my beloved husband, Mohd Khairul Nizam Bin Mohd Ariffin, my lovely daughter, Nur Aimi Nadhirah Binti Mohd Khairul Nizam and last but not least, to my dearest mother, Hajah Habibah Binti Md. Isa.

My sincere thanks also goes to all other persons who may be involved directly or indirectly in helping me to complete this final project paper.
Thank you.

Norimy Binti Mat Isa

February, 2011

ABSTRAK

Objektif utama kajian ini ialah menilai keberkesanan kos untuk kumpulan Jabatan Gaji Intel Malaysia dan proses kerja yang dilakukan oleh penganalisa gaji. Ia bertujuan untuk membuat perbandingan kaedah yang berbeza sekiranya digunakan dalam memproses gaji samada untuk menggunakan khidmat pihak kedua atau memproses sendiri bagi gaji awal bulan. Kaedah manakah yang dapat memberi penjimatan kos yang lebih berkesan. Selain itu, perbandingan dua kaedah ini digunakan bagi melihat proses manakah yang dapat menjimatkan masa memproses gaji dan mengurangkan langkah-langkah dalam memproses gaji supaya lebih berkesan.

Untuk mencapai matlamat kajian, kaedah kuantitatif analisis digunakan dan data dikutip melalui instrumen kajian yang digunakan dengan kaedah temu bual secara tidak langsung dan juga mengakses pangkalan data. Model khidmat pihak kedua digunakan dalam kajian ini bagi menganalisa situasi dalaman dan situasi khidmat pihak kedua. Sistem telah dibina bagi membantu menganalisa kedua-dua kaedah ini. Data dimasukkan ke dalam sistem untuk menghasilkan output samada kaedah khidmat pihak kedua atau memproses sendiri lebih baik. Analisis kos akan dilakukan untuk mengetahui pulangan pelaburan samada positif atau negatif. Dapatan kajian menunjukkan memproses gaji sendiri dapat memberi penjimatan kos dan juga perbandingan kedua kaedah menunjukkan penjimatan masa dan mengurangkan langkah-langkah memproses gaji dapat diperolehi dengan memproses gaji sendiri untuk gaji awal bulan.

Kesimpulannya, kajian mendapati bahawa memproses gaji sendiri dapat menjimatkan kos. Ini bermakna ia dapat memberi pulangan keuntungan pada jangka masa yang panjang. Selain itu, dengan menggunakan kaedah memproses gaji sendiri, ia dapat menjimatkan masa pemrosesan serta dapat mengurangkan langkah-langkah dalam pemrosesan gaji. Oleh itu, kerja penganalisa gaji akan lebih efisien and efektif. Seterusnya, melalui kajian ini didapati bahawa pihak Jabatan Gaji Intel disarankan agar menyemak setiap tahun bagi mengetahui kuantiti gaji diproses dan kos operasi bagi memastikan kos tetap dan harga kontrak berada dalam keadaan yang berpatutan dengan perkhidmatan yang diberikan. Diharapkan agar Jabatan Gaji Intel dapat mengadakan mensyuarat tahunan untuk mengurangkan kos kontrak.

ABSTRACT

The main objective of the study is to evaluate cost efficiency for GAR HR SSC for payroll department in Intel Malaysia and the payroll analyst's work efficiency. This is to see which methods could bring cost saving. Other than that, comparison of the two methods will be used to evaluate which process is effective for payroll processing in terms of time saving and efficiency.

In order to meet the objectives, quantitative approach was used for data collection. Research instrument for this study is unstructured interview with payroll analyst and retrieved information from database. For this research, system has been built by using closed loop outsourcing decision model to do internal and vendor assessment. It has been used to help in making assessment for this study. Input will be entered into the system to get output whether to outsource or in-house advance pay processing. The cost analysis will be used to get return of investment either positive or negative. The result show that in-house advance pay processing could bring cost saving and comparison of the two methods show that in-house can save time and eliminate some processes in completing payroll processing for advance pay.

In summary, research show that in-house processing for advance pay could bring cost saving. This means, it can give positive return of investment in the long term. Other than that, by using in-house processing it can shorten processing time and eliminating unnecessary waste in processing advance pay. With that, payroll analyst's work will be more efficient and effective. Thus, Intel GAR HR SSC for payroll department should continuously revisit annually for GAR pay slip volume, process simplicity and operation cost to assure overhead and contract price stay competitive with quality services if they would consider with outsourcing. Suggest that human resource to conduct yearly operations review on reducing contracted cost with payroll vendor.

TABLE OF CONTENTS	Page
PERMISSION TO USE	i
DISCLAIMER	ii
ACKNOWLEDGEMENTS	iii
ABSTRAK	iv
ABSTRACT	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
LIST OF ABBREVIATIONS	x

Chapter 1 Introduction

1.1	<i>Introduction to the Study</i>	1
1.2	<i>Background of the problem</i>	7
1.3	<i>Problem Statement</i>	10
1.4	<i>Research Objectives</i>	12
1.5	<i>Research Questions</i>	12
1.6	<i>Significance of the Study</i>	13
1.7	<i>Definition of Key Terms</i>	15
1.8	<i>Conclusion</i>	17

Chapter 2 Literature Review

2.1	<i>Introduction</i>	18
2.2	<i>Payroll Processing Approaches</i>	18
2.3	<i>Comparison of the Two Methods</i>	23
2.4	<i>Payroll Processing Tasks</i>	28
2.5	<i>Issues and Challenging in Outsourcing</i>	32
2.6	<i>Research Framework</i>	37
2.7	<i>Conclusion</i>	40

Chapter 3 Methodology

3.1	Introduction	41
3.2	Research Design	
	3.2.1 Type of Study	42
	3.2.2 Source of Data	42
	3.2.3 Unit of Analysis	43
3.3	Data Collection	43
3.4	Data Analysis Techniques	45

Chapter 4 Findings

4.1	Introduction	51
4.2	Overview of Collected Data	52
4.3	Closed Loop Outsource Decision Model Test, Cost Benefit Analysis Test and Comparison Current Process versus Future Process	58
	4.3.1 Internal Assessment and Vendor	59
	4.3.2 Cost Benefit Analyst Test	62
	4.3.3 Result after run the system	68
	4.3.4 Comparison current process versus future process	69
4.4	Reliability Analysis	72
4.5	Major Findings	73
4.6	Summary of Findings	74
4.7	Conclusion	75

Chapter 5 Discussion, Conclusions and Recommendations

5.1	Introduction	76
	5.1.1 Discussion	76
5.2	Limitation of the study	79
	5.2.1 Time Constraint	79
	5.2.2 Lack of Experience	80
	5.2.3 Limitation in literature review	80
	5.2.4 Data sampling and scope of research	81
5.3	Recommendation for future research	81
5.4	Theoretical and practical implication	82
5.5	Conclusion	83

References

LIST OF TABLES

Table 2.1 Payroll Benchmarking Survey	20
Table 2.2 Comparison of two methods	24
Table 2.3 Selected Payroll Department Profiles	25
Table 2.4 A sample of descriptions of payroll administration activities	29
Table 2.5 Annual payroll cost per outsourcing/ non-outsourcing Organizations	30
Table 2.6 Reason for payroll governance decisions	33
Table 3.1 Comparison Pricing Table	45
Table 4.1 Payroll Analyst Name	53
Table 4.2 Plant, headcount and volume	54
Table 4.3 Payroll Processing	55
Table 4.4 Advance Pay Processing	55
Table 4.5 Pricing Table	55
Table 4.6 Type of Payroll Processing	56
Table 4.7 Comparison Pricing Table	58
Table 4.8 Assessments of Outsourcing Analysis	61
Table 4.9 Standard Headcount Burden Rates	63
Table 4.10 Projected cost for Future Process	63
Table 4.11 Summary of Total Cost	66
Table 4.12 Current (Outsource) versus Future (In-House) Processing Cost	67
Table 4.13 Comparison of Cost per Heads	67

LIST OF FIGURES

Figure 2.1: Research Framework	37
Figure 3.1: Closed Loop Outsource Decision Model	46
Figure 4.1: Intel's Outsourcing Analysis System	59
Figure 4.2: Perform Cost Analysis	62
Figure 4.3: Action to be taken	69
Figure 4.4: Payroll Processing Process Flow	71

LIST OF ABBREVIATIONS

ADP	Automated Data Processing
ADV	Advance Payment
C/B	Cost-benefits
C/E	Cost-effectiveness
GAR	Greater Asian Region
GENI	Human Resource Employee Database
HR	Human Resource
IM	Intel Microelectronic
IP	Intel Product
IP	Internet Protocol
MTHEND	Month End Payment
NPV	Net Present Value
PDM	Payroll Data Management
PHP	Hypertext Preprocessor
PMR	Payroll Manager's Report
ROI	Return of Investment
SMG KL	Intel SMG KL
SSC	Shared Services Centre
T3	Intel Technology

CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

In today's situation where organizations are moving towards globalization, they started to look on finding the ways in processing a day to day activities that can be performed in a different way which can provide return of investment to the organization especially on cutting cost. Thus, outsourcing is becoming the norm for every organization to explore in achieving organizational goals.

Global outsourcing has received considerable attention in the popular and business press over the last few years. These are due to changing circumstances, upsizing, downsizing, rightsizing and prompt many organizations to rethink whether their initial reasons for outsourcing still make sense or some combination of outsourcing and in-house processing might be a more optimal solution in today's situation (Payroll Manager's Report, 2006).

Most companies view outsourcing as business strategy for cutting costs, accessing new skills and capabilities, and achieving greater financial flexibility (Linder, 2004). Now outsourcing is one of the most

The contents of
the thesis is for
internal user
only

References

- Anonymous (2006). What is the best choice to process your payroll. *IOMA's Payroll Manager's Report*, 6(7), 1-11.
- Anonymous (2007). New data on what payroll outsources and what it keeps in-house. *IOMA's Payroll Manager's Report*, 7(2), 1-10.
- Anonymous (2008). Making the outsourcing decision: What is being outsourced? What is kept in-house? *IOMA's Payroll Manager's Report*, 8(12), 1-7.
- Deepak M. (2009). Can payroll outsourcing work for you? *Franchising World*, 41(9), 24-25.
- Dickmann M. & Tyson S. (2005). Outsourcing payroll: beyond transaction-cost economics. *Personnel Review*, 34(4), 451-467.
- Elmuti D. & Kathawala Y. (2000). The effects of global outsourcing strategies on participants' attitudes and organizational effectiveness. *International Journal of Manpower*, 21(2), 112-128.
- Harland C., Knight L., Lamming R. & Walker H. (2005). Outsourcing: assessing the risks and benefits for organizations, sectors and nations. *International Journal of Operations & Production Management*, 25(9), 831-850.

- Isackson J. (2007). Payroll Processing: Use a service or Do it in-house? *Franchising World*, 39(10), 24-26.
- Isackson J. (2007). Payroll Processing: Payroll service or in-house? *Michigan Banker*, 19(4), 48-49.
- Jiang B. & Qureshi A. (2006). Research on outsourcing results: current literature and future opportunities. *Management Decision*, 44(1), 44-55.
- Jiang B., Frazier G. V. & Prater E. L. (2006). Outsourcing effects on firms' operational performance. *International Journal of Operations & Production Management*, 26(12), 1280-1300.
- Kumar S. & Eickhoff J. H. (2006). Outsourcing: When and how should it be done? *Information Knowledge Systems Management*, 245-259.
- Lankford W. M. & Parsa F. (1999). Outsourcing: a primer. *Management Decision*, 37(4), 310-316.
- Linder J. C. (2004). Outsourcing as a strategy for driving transformation. *Strategy & Leadership*, 32(6), 26-31.
- Malaysia Payroll Desktop Manual, retrieved on February 22, 2010.
- Mini Payroll Conference, retrieved on November 29, 2010.

Mou R. & Kleiner B. (2006). Duty of care involving outsourced payroll. *Information Management & Computer Security*, 14(3), 284-293.

Musich P. (2002). Payroll back in-house. *News & Analysis e-week*, 19.

Sekaran U. (1992). *Research Methods for Business: A Skill Building Approach* (2nd ed.). United States of America: John Wiley & Sons, Inc.

Turek W. (2008). Payroll outsourcing goes beyond payroll. *Accounting Technology*, 16.

Cascio W. F. (2000). *Costing Human Resources: The Financial Impact of Behavior in Organizations* (4th ed.). Canada: South-Western College Publishing.

Womack, J.P. & Jones, D.T. (1996). *Lean Thinking: Banish Waste and Create Wealth in Your Corporation*. Simon & Schuster, London.

Womack, J.P., Jones, D.T. and Roos, D. (1991). *The Machine that Changed the World*. HarperCollins, New York, NY.

<http://www.esulb.edu/~msaintg/ppa696/696meas.htm>, retrieved on April 13, 2010.

<http://www.investopedia.com/terms/r/returnoninvestment.asp>,
retrieved on February 18, 2011