

**The Effects of National Business Systems on
Human Resource and Payroll Administration –
A Comparative Study of Germany and the UK.**

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Abstract

Organisations use an increasing number of national and international in-company shared service centres and outsourcing arrangements in the quest for efficiency improvements. A prime candidate for standardisation are administrative activities in which firms take advantage of the rapidly evolving information technology. This pull towards convergence is subject to a counter-force of national regulations, institutions and cultural factors that acts as a barrier to cross-border standardisation of administration. The administrative activities of the human resource and payroll functions are an important topic as most employees have predominantly transactional contact with these departments. Moreover, if the HR director fulfils the role of strategic business partner it is likely that in a time of increasing competition and economic difficulty the effectiveness and costs of administrative tasks become an area of attention.

This paper examines the time and efforts spent by medium sized organisations on HR administration and payroll activities in Germany and the UK. Using case studies, the research addresses the descriptive questions of what the administrative and payroll activities are in HR functions in the two countries, and seeks to determine the variations between the countries and the reasons for the differences. As an exploratory study, the research indicates how the national business systems affect the effort and time expended on HR administration, and hence the study contributes to the debate on convergence, as well as to the literature on the role and activities of the HR function.

A number of important results from the study concern the significance in time and effort of HR administration and payroll. Some similarity exists between the two countries in the range of detailed activities, such as the processes of HR administration, and payroll, although there are differences in time and costs spent in such areas as recruitment, induction, tracking time and attendance, enquiries, and surveys. Some of these differences can be traced to institutional factors. This indicates that there is a continued divergence between the two countries which make the desegregation of administrative activities across the borders of national business systems – as opposed to within a country – more complex.

There are also other likely effects on the strategic role of the HR function. The detailed activities and costs outlined in payroll allow HR directors a more informed assessment of their processes and an improved evaluation of efficiency-raising options such as outsourcing or the use of shared service centres. Crucially, for both payroll and HR administration the differences between country business systems can be integrated in the assessment whether and where (nationally, internationally) administration processes can be centralised. Understanding a key part of the HR work and costs, - the internal and external influence factors as well as technical advancements - is likely to be part of the changing strategic role of the HR professional.

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Introduction

A decade ago the emergence of the “Euro-company” led to a convergence debate concentrating on trends such as EU legislation and European-level consultative arrangements (Marginson et al 1993). For a long time there has been a vigorous debate about convergence and divergence factors in the comparative and international human resources (HR) and industrial relations literature (Müller 1999, Ferner and Quintanilla 1998; Mueller 1994). A recent review indicates that the focus of attention varies from external factors (cultural and national business systems perspectives) to broad internal organisational and HR strategies, structures and policies (Clark, Gospel, and Montgomery 1999). The globalisation of HR policies and practices is also strongly impacted by the rapid progress in information technology. Using more sophisticated HR software is likely not only to increase the speed of work processes and the breadth of information available for decisions (Nagel 2001) but also affects HR administration processes strongly.

The area of HR *administration*, however, is relatively underrepresented in the literature. This is surprising since administrative activities can often be automated with the help of process redesigns and rapidly evolving technology (Bates 2002, LaPointe 1998, Zimmerman 2001). The increasing number of national and international in-company shared service centres and outsourcing arrangements shows that these new work options are being taken up by organisations (Greer et al 1999). Organisations are obviously attempting to standardise processes in order to reap economies of scale while attempting to redesign processes in order to automate these. Administrative tasks are a prime candidate for automation and redesign as they are less subject to discretionary judgements and dynamics and, at the same time, they are more subject to management control. If organisations redesign their administrative approaches on a cross-border basis these developments could mean that HR administration may be an area of high international convergence. However, our knowledge about what administrative task is being “disaggregated” into a central

international location and what are the influences of national institutions, regulations and business cultures is severely limited. This paper defines some of the administrative activities in HR and payroll and assesses the effort involved in two countries, Britain and Germany, which have radically different institutions, regulations and cultures (Lane 1992; Trompenaars 1993; Hofstede 1980; Stewart et al 1994). These different national business systems (Whitley 1992) constitute a pull towards continued national divergence.

The German and UK National Business Systems

External factors which influence HRM, industrial relations and organisational decisions on people management can be classified into four key institutional areas – the state, the industrial relations (IR) system, the financial system within the business environment as well as patterns of education and training (c.f. Whitley 1992:25-36 Lane 1992:66-76). These are all embedded within the national culture (Hollingsworth and Boyer 1997).

There are a number of comparisons between the German with the British business system which can be drawn (Lane 1992; Lane and Bachmann 1997; Tempel 2001; Ferner and Varul 1998). A recent article summarised the differences as follows: the German business system is more long-termist, more developmental, and more cooperative, and is based on a higher degree of juridification and regulation (Dickmann 2003). Some of the likely impacts of the differences in their general business system characteristics on human resource management and, especially, on administrative activities are outlined below.

The differences in the business systems encourage distinct HR strategies, structures and practices. Apart from alleged German high uncertainty avoidance (Hofstede, 1980) some supporting factors for long-termism can be found in the financial insider system (Marginson and Sisson 1994: 29-33) and employment law which favours long-term planning. For example, German 'Mittelstands' (middle sized) firms have a planning horizon that is twice as long as comparable British companies (Carr 1998). Companies are also likely to create incentives for staff to stay on, such as internal

career systems. The reasons may be found partly in their long term orientation and also in tighter and more costly regulations governing redundancies such as social plan provisions (Streeck 1997, Hentze 1991).

Vocational qualifications are less common in the UK than in Germany (Gospel 1998). The German high quality dual vocational training system is widely regarded as successful inside and outside the Federal Republic (Müller 1997). The education and vocational training institutions support a high level of professional skills and knowledge, especially up to intermediate management levels. The skilled German worker (Facharbeiter) is seen as a national competitive advantage (c.f. Springer 2000 for car manufacturing). The business environment, labour laws and industrial relations patterns encourage a company's developmental orientation towards functional flexibility.

The consensus and compromise principles of the German social market economy have led to a number of strong stakeholder powers for workers (Streeck 1997; Garnjost and Wächter 1996). HR strategies encourage co-operative behaviour: the extensive employee co-determination rights stimulate high employee involvement and information via the works councils and other mechanisms (Müller 1999; Wächter 1992). The strong position of employee representatives acts as an incentive for companies to use long-term career and succession schemes and places a focus on vocational training and staff development (Müller 1999). Overall, there is a stronger spirit of industrial relations co-operation (Müller-Jentsch 1995) that is absent from the more voluntaristic British system (Lane 1992).

Germany's history, culture, institutional and industrial structure is distinct from the United Kingdom: a collectivist culture (Leeds, et al 1994; Ronen 1986) is combined with a tight institutional framework (Lane 1995; Müller 1997). The German business system has come to rely on a consensus philosophy, self-reinforcing socio-cultural institutions and a distinct approach to business management (Lane 1992; Müller-Jentsch 1995). Thus, Germany has a specific socio-cultural environment which influences the patterns of HR administration of indigenous firms.

By contrast the UK is more individualistic in regard to employment contracts, and relies more on flexibility of time, task and contract. The UK has a variety of institutional, industry sector and different business unit level arrangements. There are characteristically in the UK many small organisations and a strong service sector where most staff are employed.

One of the likely effects of the tight institutional framework (Lane 1992) and the developmental and cooperative orientation in Germany is a lesser focus on external recruitment and selection. The Saratoga (2001) report supports this speculation with German organisations having a median of 8.9% of external recruitment (as a percentage of total staff p.a.) while UK organisations display the highest percentage amongst EU countries with 14.9%¹. Hence, if administrative processes are not vastly more complex, there should be fewer administrative activities associated with recruitment and selection amongst German companies. In a “normal” year, the higher regulative thresholds and costs for German organisations with respect to redundancies and their drive to functional flexibility should lead to a lower termination rate compared to the UK². Again, Saratoga (2001) data indicates that with 10.7% of terminations in Germany, relatively fewer staff leave than in the UK (14.5%). Thus, it seems that lesser instances of administrative processes linked to terminations occur in Germany.

The Literature on HR administration activities and costs

Most of the work undertaken by HR functions is concerned with administering employment in organisations. Even in the famous formulations showing the strategic roles in HRM to be those of business partner and change agent, Ulrich (1997) still acknowledge the administrative role.

¹ While these figures are moderated by the economic cycle and its effects on the labour market, the data was gathered before the downturn in Germany.

² It is puzzling, however, that the involuntary termination rate is similar in the two countries (Saratoga 2001).

Guest and Horwood (1980) demonstrated that in both the public and private sectors the majority of time was spent on recruitment and selection activities, (the majority of which were administrative – processing job applications, organising selection programmes, making offers of employment, taking up references) on industrial relations, and to a lesser extent on training and development work. Recent studies, such as those by PricewaterhouseCoopers (PwC 2000) and the American Bureau of National Affairs (BNA 2002) on HRM activities confirm the basic activities which have existed in the field for 75 years: Employment, Joint Consultation or Employee Relations, Wages, Training and Development and Health and Safety (Moxon 1951). In addition there are the various administrative activities not only associated with these functional activities, but also as separate pieces of work, such as payroll, time and attendance tracking or absence management.

While the ratio of full-time equivalent HR staff to total organisational headcount was 1:111 in the US (BNA 2002), this was 1:129 in Germany and 1:123 in the UK (Saratoga 2001). The CRANET survey (Brewster et al 2001) outlines these ratios as 1:80 for West Germany and 1:83 for the UK in 1999. Saratoga depicts mean HR department cost per FTE as £ 868 in the UK and £ 519 in Germany. The mean of organisations operating in 22 European countries was £877 with wide variations according to industry sector and size.³

Unfortunately, while there exists some information about general HR costs, there is a lack of research into the area of administrative activities within human resources and payroll. First, we do not have a clear understanding of what are the key administrative activities within HR and payroll either in Germany or the UK. Second, to our knowledge no large-scale quantitative survey details the administrative effort in either of these countries. As a consequence, we do not know what variations exist between administrative HR and payroll activities between these European countries and how they may be explained. Only by analysing the patterns of administrative tasks in the

³ It is important to note that costs are frequently not attributed in strict relation to the work input and some HR administrative effort is located in other departments. The BNA (2002) data shows we must be cautious in assuming that time is equated to cost, that cost savings would be totally in HR if outsourced or that redeployment of staff, or staff flexibility is only an issue for HR.

UK and Germany can a picture start to emerge about the enduring influence of the national business systems and/or the convergence impact of new technology.

Based on the above discussion this paper will address the following research questions:

- What are the key administrative activities within human resources and payroll that are found in the UK and Germany?
- What is the administrative effort in UK and Germany within the HR and payroll functions?
- What are some of the determinants of the variations we observe?
 - Can these be linked to “internal” factors such as different organisation structures, different sectors / companies?
 - Are they likely to be due to “external” factors such as the national business system or the competitive environment?

Questions about administrative efforts and the patterns of HR administration performed are critical at a time when new ways to deliver HR services are developing rapidly through for example e-HRM solutions and the outsourcing of whole HR functions (Hammond 2002, Roberts, 2002).

Methodology

There is little formalised and systematically acquired knowledge of the administrative costs of human resource and payroll activities in the two countries. It was decided therefore to carry out research with a strong exploratory element. A qualitative research method has a higher ability to investigate contexts (Miles and Huberman 1994). We therefore conducted research at the organisation level, examining particular organisations as case studies with a semi-structured interview questionnaire that formalised the important issues to explore. This gave us the freedom to concentrate on topics of particular interest that emerged in the different interviews. Thus, the case study method chosen allowed us to explore some of the causes, processes and consequences of behaviour (Yin 1994).

The existing literature on HR administration costs concentrates on large organisations. To fill the gap we decided to focus on organisations employing between 200 and 3,000 staff for the selection of the sample since these organisations are more numerous than large organisations. These organisations – with the exception of divisions or subsidiaries of bigger entities - are less likely to have access to the integrated systems and solutions available in larger companies that can reduce their administrative effort. For reasons of access, in-depth knowledge and geography four companies in the German sample were larger than 3,000 employees.

In Germany, a sample size of 15 was chosen. As random selection would not have guaranteed heterogeneity in this small sample, a selection pattern considering the dimensions *size*, *geography* and *industry* of the participants was applied. In the UK, 20 organisations were selected from two databases: the regional Chamber of Commerce and the University's database. In both countries a letter was sent to the organisations which was followed by telephoning those that expressed interest. The companies were offered a report based on the findings and a one-day seminar with participants during which the results were to be discussed.

The characteristics of the case organisations can be inferred from Table 1. The research was carried out between June 2002 and February 2003. The contacts within the organisations were often the heads of human resources, in many cases

accompanied by other members of staff. Since the interviewees had prior sight of the questionnaire most information was available at the interview, although with probing, certain items needed further analysis. It should be stressed that we dealt with a self-selected sample which may mean that there was a higher awareness and/or interest in the efficiency of HR administration processes. This, in turn, may have impacted on some of the answers given.

Table 1a: Key descriptives of the UK sample

UK Organisations	Industry Sector	No of full-time Employees in UK	FTE HR Department	FTE Payroll Department	FTE Org. / HR Staff	FTE Org. / Payroll Staff	Average Cost Payroll per FTE
Law 1	Prof. Services	1015	31.0	3.0	33	338	56
Accounting	Prof. Services	393	5.6	1.0	70	393	32
Engineering	Manufacturing	245	2.7	0.3	91	818	31
Construction	Construction	719	7.6	2.0	95	360	106
Adhesives	Chemicals	1289	15.0	2.5	86	516	76
Housing 1	Not for Profit	1417	17.0	4.0	83	354	72
Education	Education	2200	21.0	6.0	105	367	66
Chilled Foods	Food	925	4.0	2.0	231	463	56
Chemicals	Chemicals	545	4.0	1.0	136	545	68
Estate Agency	Prof. Services	375	3.8	N/a	100	N/a	50
Publishing	Publishing	215	1.8	0.2	119	1075	68
Law 2	Prof. Services	646	16.0	1.0	40	646	23
Financial Services	Fin. Services	1737	17.0	2.0	102	869	25
Advertising	Advertising	175	0.1	0.1	-	1591	20
Edu-Publishing	Publishing	550	4.0	1.0	138	550	49
Housing 2	Not for Profit	570	22.4	2.0	25	285	108
Railways	Transport	2430	12.0	16.0	203	152	121
Electricity	Utilities	2534	29.0	3.0	87	845	43
Cars	Manufacturing	358	4.5	2.0	80	179	128
Airport	Aviation	414	4.0	2.0	104	207	168

Table 1b: Key descriptives of the German sample

German Organisations	Industry Sector	No of full-time Employees in Germany	FTE HR Department	FTE Payroll Department	FTE Org. / HRStaff	FTE Org. / Payroll Staff	Average Cost Payroll per FTE
Manufacturing 1	Manufacturing	375	3.0	N/a	125	N/a	N/a
Research 1	Business Services	660	7.0	1.2	94	654	45
Engineering 1	Manufacturing	680	9.0	N/a	76	340	108
Engineering 2	Manufacturing	775	22.0	1.0	35	776	45
Manufacturing 2	Manufacturing	800	11.5	2.0	70	525	65
Service 1	Business Services	800	3.0	N/a	267	N/a	N/a
Retail 1	Retail / Manufacturing	830	9.0	3.5	92	271	123
Manufacturing 3	Manufacturing	1.400	6.0	2.0	233	700	51
Finance 1	Financial Services	1.675	32.5	8.0	52	209	156
Retail 1	Retail / Manufacturing	1.700	12.5	4.0	136	425	67
Research 2	Business Services	2.100	27.0	2.5	78	840	42
Finance 2	Financial Services	5.588	101.0	10.0	55	559	56
Logistics 1	Business/Transport. Service	7.200	19.0	8.0	379	900	32
Retail 2	Retail	12.000	54.0	19.0	222	616	50
Retail 3	Retail	22.500	100.0	25.0	225	1000	24

One way to increase the consistency of the answers was to define the administrative items carefully. Administrative tasks, are typically more routine and normally leave little freedom for discretion and creativity in the way they are performed. The responsibility for the contents of these tasks lies often elsewhere while the responsibility for the quality of the administrative service delivery lies with the person who performs these activities. The questionnaire items were derived from the

literature review and in cooperation with experts from a major firm that specialises in providing HR outsourcing services. The questionnaire was piloted with three organisations in the UK. A research team met regularly to review the results. The questionnaire was first developed in English and then translated into German where it was piloted again. Subsequently, it was reviewed by German HR and payroll specialists. The review led to the inclusion of three further questions on the so-called “Riester Rente”, a shift in the pension provision approach introduced in Germany during 2002. Moreover, some questions covering further HR administration fields e.g. relating to benefits administration, were taken out in order to decrease interview times and increase the chances of access. In both countries HR administration would cover the areas of recruitment and selection, induction, termination, employee contract management, absence administration, time and attendance tracking, employee queries relating to administration, expatriate administration, as well as enquiries and surveys from professional bodies. Payroll administration consisted of collection and collation of data, interpretation and manual calculation, data entry, checking and controls, data processing, payroll accounting, dealing with employee queries, declarations and statutory audits and enquiries. A definition of the administrative tasks is given in Appendix A and B.

During the first analysis of the data, items that did not seem to be reliable or were lacking were probed during a telephone call or by means of an email request in order to raise the quality of data. After each company visit, a report was compiled for each case which was then sent to the subject organisations. The contacts were asked to check whether there were any inconsistencies or misunderstandings in the data.

The HR departments varied distinctly in their sizes, costs, functions, breadth and depth of work. In one UK organisation there was no personnel function with HR work being carried out by two staff in part of their time. In the UK, the biggest HR department had 31 staff and the biggest payroll department 16. In Germany, the biggest personnel function had 101 employees and the biggest payroll function 25. The “HR span” – the number of employees served by one HR staff – varied between 25.4 and 231.3 in the UK (median 100.0), and between 35.2 and 378.9 (median 94.2) in Germany. This roughly accords with the ratios described earlier, showing the sample does have some typicality.

Caveats

There are a number of limitations to the study that should be born in mind when interpreting the findings. We have already noted that the selection of companies was of necessity not totally representative and the number of cases is too small to infer generally applicable findings. The design did, however, allow us to tap into a wealth of information that is more descriptive and can serve as a forerunner to a wider, quantitative approach. Even a large scale, quantitative research design would have some of this study's other shortcomings which are grounded in the nature of the information required. Sensitive data sought was overlaid with values of how efficient and cost sensitive an organisation should be. The companies had different HR structures, had assigned different roles to HR specialists, had different sizes and operated in diverse industries. Thus, results have to be interpreted with caution. In many instances the "gestalt" of the single case will have to be closely evaluated before jumping to conclusions.

Despite the above, the data do give us insights into the key issues on which the research is focused and the descriptions contained within these 35 case studies are sound. The next part of this article will present HR and payroll administration costs data from the German and British samples.

III Results

It emerged in the interviews that HR and payroll administration costs would generally not be topics for the board – with the exception of the introduction of highly sophisticated and expensive new IT programmes. For the heads of HR in the two countries, however, administration costs were clearly important and many had started initiatives to reduce their department's administrative efforts. In both countries, the more elaborate and larger the HR department the more segmentation of the work could be found. Normally less time was spent on administration by directors and senior managers in bigger organisations. The HR directors in the British sample typically spent 10% – 20% of their time on administrative duties. They would often be concerned with more complex or more political queries and with an hierarchically higher target group (directors and senior managers). Senior HR managers spent between 20% – 40% of their days on administration while managers, officers or (senior) advisors would need up to 60% of their time for administration. Lastly, HR assistants or administrators would be occupied for between 70% and 100% of time with administrative activities. One of the organisational factors in the German sample was that some of the payroll administration work was split into employee groups such as tariff / non-tariff staff and in two cases making a distinction between employees and workers. This created a higher degree of complexity and seemed to have reduced economies of scale according to the interviewees.

Our respondents generally did not analyse administration costs but saw HR activities in terms of process chains including non-administration costs. For example, while HR directors were normally conscious about the total cost of recruitment and selection (and may have had sub-budgets in the area) they were less aware of the costs associated with processing candidate applications, liaison with external service providers etc. Generally speaking, while our respondents sometimes complained about extensive administration activities and at other times seemed to be resigned to this as “another part of the work” they had not previously assessed these in detail¹. This is not surprising as it is difficult to find benchmarks.

In the UK sample we had the opportunity to pose broader questions with respect to HR administration and, therefore, covered a broader range of tasks. The ratio of cost

of HR administration to HR staff salaries in the UK, i.e. the administrative burden, accounted for 67% of HR staff costs. Given that higher paid HR staff spend less of their time on administration and that we possibly did not cover all HR administrative activity, we can conclude that well over two thirds of HR specialists' time is devoted to administration in the UK. Clearly, this is part of the explanation why this is an area of importance for HR directors.

The Patterns of HR Administration

The method used to establish costs and proportion of activity was to assess with the interview partners how much time was spent on what administrative HR activity inside the HR function. In order to facilitate a comparison the percentage share of each HR administrative activity of the nine key processes is given. It is striking that more than a third (37%) of this activity accrues to administering recruitment, selection and induction in the UK. It is, by far, the biggest difference from the German sample organisations where the figure is 16%. One of the possible reasons for the divergence is the differential labour turnover figures in the two countries (Saratoga 2001). Moreover, Streeck (1997) argues that flexible working time accounts permit a better adjustment of German firms to demand fluctuations. Indeed, given the difficult labour market in Germany in 2002 and 2003 our sample indicated an unusually low voluntary turnover. However, there were at least two other key factors which accounted for the relatively higher administration effort in the UK. One is that some of the induction – especially in terms of health and safety – was carried out by the works councils in Germany so that some of the efforts were relocated. The other factor is found in national business practices. While open references are normally included in a job application in Germany, specific written or telephone references are more usually taken up in the UK, leading to some more administration.

The second biggest difference relates to the higher cost of tracking time and attendance in Germany (12%) than in the UK (2%). The CRANET survey (Brewster et al 2001) indicated that substantially more German manufacturing organisations use annualised hours and almost three times as many use flexitime schemes (34% in UK vs 92% in Germany). These can be highly administration intensive to run (c.f. Hoff 2002) depending on the extent of staff covered, the range of time models and the IT programmes used among other things. Moreover, overtime has to be documented in

German companies with works councils as it is subject to co-determination (Hentze, 1991).

A third topic – administering terminations – also reveals higher proportional efforts in Germany (12%) compared to the UK (9%). Given that the number of terminations tends to be higher in the UK (Saratoga 2001) this merits a closer look. In the case of redundancies that are initiated by the employer the works council – if it exists – has to be at least consulted in Germany (Hentze 1991). The administration involved in this is substantial. Moreover, the “social selection” determining whom to lay off involves three criteria in relation to a group of “comparable staff”: length of service, marital status and age. Again, this involves a high administrative effort. In all other cases administration levels depend largely on state regulations.

The higher degree of regulations in Germany is also observable within absence management (13% vs UK’s 8% in the sample). In particular documentation relating to maternity and long-term sickness (health insurance formulae pre and post six weeks) is adding to administration effort.

The last area with significant divergences in terms of administrative effort was enquiries and surveys from professional bodies (6% in Germany vs 2% in UK). The higher membership of employer federations, the compulsory membership in local chambers of industry and commerce (Lane 1992) and the higher number of health insurance providers in Germany may explain this difference.

Other administrative activities did not display significant differences between the countries. Despite the new right to part-time employment introduced in 2001 these included the changing of employee contracts (around 15%). The relative effort spent on updating permanent employee data (around 5%) and dealing with employee queries (around 18%) were also similar in the two countries. While German employees may well have more queries, many of these are addressed to the works council rather than the HR department. Lastly, the relative effort spent on the administration of expatriates hardly differed – the sample companies had very few international assignees due to their medium size and their predominantly national operations.

Our sample results seem to indicate that the differences in the institutional factors and the business customs account for a continued divergence between Germany and Britain even in administration-heavy activities. However, this did not mean that the organisations were not working on increasing their administrative efficiency. Information technology was used in both countries and in all organisations to aid and speed up administrative activities (e.g. time and attendance tracking). Although no sample company had yet introduced employee self service (ESS) some organisations were in the process of relocating administrative efforts to their employees. Moreover, practically all the sample firms intended to optimise their processes through integrated payroll and HR software that would, for example, avoid the duplication of effort in data entry. Overall, though, the focus of their HR administrative efforts and the content of these tasks differed substantially between Germany and the UK.

Payroll Administration in the UK and German Sample

The research defined payroll administration as consisting of 10 distinct processes (c.f. Appendix B). The interviews in the sample organisations verified that respondents in Britain and Germany thought they described their key activities accurately. Six key payroll activities – collection and collation, data entry, checking and controls, processing, payroll accounting and filing and archiving – are initiated by payroll professionals who strive to optimise these. Four supplementary payroll activities – interpretation and manual calculation, dealing with employee queries, declarations and statutory audits and enquiries – are mostly initiated from outside the payroll department and are less under the control of the payroll professionals. Most payroll staff hoped to minimize the four supplementary activities in order to raise efficiency. The process steps and attitudes towards the different tasks (optimisation vs minimisation) were surprisingly similar in the two countries.

Employing the same approach as with the HR administration, we will discuss the differences in relative effort between payroll work in the German and British sample. Moreover, we assessed the cost per full-time employee of each of the ten payroll activities. We believe that we can tentatively compare these numbers as the definition and structure of the work was similar in the two countries and because the whole set

of tasks were either conducted completely within the organisation or the cost of outsourcing was detailed. We subsequently added outsourcing costs per FTE to the relevant internal administrative costs of the specific activity.

Overall, the cost of the ten payroll activities was higher in Germany (£64.1 per FTE) compared to Britain (£48.6 per FTE). One of the reasons was the higher average salary of a payroll professional in Germany. Some other potential explanations are outlined below. The biggest differences between payroll administration costs relate to payroll accounting, interpretation and manual calculations, dealing with employee queries, declarations and statutory audits and enquiries. Payroll accounting was more expensive in the UK (£ 6.5 per FTE or 13.3% of total payroll cost) than in Germany. This cost differential can partly be explained by the more frequent use of outsourcing providers in the UK than in Germany. Where companies had external organisations to do the payroll processing and accounting for them, they tended to have higher average costs. This applied especially to small organisations which avoided the investment in payroll software and expertise (c.f. Maurer and Mobley 1998; Lever 1997).

Another significant divergence is the higher costs of interpretation and manual calculations in Britain (£5.5 per FTE vs £3.7 in Germany). As one of the key reasons for interpretation and manual calculations were diverging information on time sheets, the higher German HR administration costs with respect to time and attendance tracking may be beneficial in producing higher levels of accuracy. Interestingly, the costs of dealing with employee queries, declarations and statutory audits and enquiries were all significantly higher in Germany. The reasons seem likely to be related to the above discussions of higher regulation, higher complexity and higher membership in professional bodies within the German business system than in the UK.

Although the payroll processes are very similar in the two countries, the data indicates that the relative patterns within payroll activities are distinct. Despite the relative standardisation of the payroll workflow, the national business system seems to retain some influence, (for example employee queries, responding to statutory audits and enquiries and the need to carry out interpretation and manual calculations for lack of sophisticated time and attendance software). However, as the processes are similar and the disaggregation potential of payroll activities is often high it is possible to

bundle payroll activities in international transaction centres such as shared service centres or outsourcing providers. A payroll specialist of a major outsourcing company confided in an interview, however, that the international disaggregation is not without problems. He quoted that specific country-related queries by employees would raise the most difficulties – especially if the payroll employee had never worked in the country in question. This is a further indication that the influence of the national business system endures.

Summary, Discussion and Conclusions

National business systems clearly influence the strategies, policies and practices of HR professionals. However, how the institutional and cultural factors supporting national idiosyncrasies and advances in HR software contributing to internationally standardised practices impact on administrative tasks is less clear. Our objectives were to map out, to analyse and contrast the administrative efforts within the HR and payroll functions in Germany and the UK. In order to do so we had to assess a large range of HR and payroll activities to identify administrative tasks. Given that two thirds of all HR staff costs in our UK sample– and even more of the staff's time – are spent on administrative activities, this is clearly an area that managers and academics need to understand more fully.

The first point to discuss is whether our sample is in its characteristics significantly different from the UK or German population. The median size of our organisations corresponds with those given by Brewster et al (2001) and Saratoga (2001) for UK and German manufacturing and other industries. Importantly, the ratio of FTE HR staff to FTE company staff is, with around 1:101 in the UK and 1:94 in Germany, very similar. Our sample may be not too dissimilar to draw cautious comparisons and inferences (c.f. the caveats section of this paper, above).

The patterns of HR administration varied distinctively between Britain and Germany. Some of the variance was related to the different national business systems. Most importantly, the UK firms experienced far more administrative efforts in terms of recruitment, selection and induction due to a higher labour turnover and a lesser role of works councils in the process. Crucially, the German business systems

characteristics of development and cooperation were linked to lesser administrative efforts in external resourcing. In turn, the German sample would spend more time in other HR administration areas such as tracking time and attendance, terminations or enquiries and surveys from professional bodies. Again, German business systems characteristics could provide some explanation. The higher degree of regulations, an institutionally tight environment with many professional bodies and a stronger manufacturing base were amongst the factors that explained some of the divergence. The data emphasised the continued national divergence – even in administrative areas that at first glance lend themselves to automation and standardization.

The study identified a general cost of payroll activities of £ 48.6 per FTE in the UK and £64.1 in Germany. There are few data sources for a meaningful comparison. However, our figure seems to fall into the range of European payroll activity costs identified by Saratoga (2001). While our sample is not strictly representative this figure may give a tentative indication of the payroll workflow costs in medium to moderately large companies. It is interesting to note that our experience was that organisations were normally aware of overall payroll department costs, although there was a surprising ignorance of the costs of the various sub-activities which make up the payroll administration. Importantly, our research provides a first indication of country-specific cost of single payroll activities. Some of the higher costs in Germany may be explained by business systems characteristics such as a more regulated and complex environment. Moreover, the significance of providing payroll data in detail is that it does not exist in the quantitative literature on the subject. However, it needs to be stressed that any interpretation has to be very cautious since further survey research is needed to gain a more representative assessment of these costs.

The study has indicated that the patterns and contents of administrative effort are different between the two countries resulting in a continued divergence of practices. However, the IT support and process rather than content standardisation – most prominently demonstrated by the payroll processes – show a tremendous pull towards standardisation. It is easily imaginable that internationally integrated IT platforms that are responsive to diverse national business systems requisites will dominate corporations in future. While our medium-sized organisations did not show many

signs of this development, large organisations such as IBM already practice this shared service centre approach in-depth.

If we are to understand the contribution of the HR function to business success it is important to assess the area of administration in detail since large amounts of the HR budget is spent on administrative processes. Moreover, many HR directors in our sample pointed out that it is crucial to get the administration right. If administration processes are poor they found it likely that they would not have an opportunity for a more strategic role due to a lack of trust from their senior colleagues.

Future research

During the research a number of points of interest have emerged. First, it is important to keep the caveats of the first part of this article in mind. More specifically, one needs to be aware that costs do not associate directly with times spent by persons performing the task. Comparing the data across companies that may organise these tasks differently and have diverse degrees of line management involvement is therefore difficult. Thus, looking at our findings, some of the special configurations of contextual factors within organisations can only be explained in terms of the single case rather than in comparing across the sample organisations. Even with the level of detail we have achieved, there is clearly more research needed to be able to generalise about the factors which determine these costs. Our study, however, should inform further surveys, enabling accurate definitions of costs to be made and facilitating the design of surveys to cover this complex area of HR administration. Further new research is likely to yield more detailed insights into how HR/payroll administration tasks evolve in diverse countries.

At present we witness radical changes in employment relations, both on an individual and an organisational level. Pension reforms, such as the ‘Riester Rente’ in Germany, have a strong impact on administrative tasks and the role of the HR department. A proactive HR professional can act as a ‘scout’ within the web of administrative regulations and financial opportunities. On an individual level, changes in the psychological contract have led to expectations that employees have more choice e.g. in their benefit packages. For moderately sized organisations this constitutes a push factor towards shared service centres or outsourcing since their staff can contact

specialists more readily. Often new technology would allow the location of these services anywhere in the world – with the limitations of language and complex local regulations. While there may be a good business case for national centralisation of administrative services, the positive effects of international standardisation are far less clear cut. A company that pursues a strategy of local responsiveness may, therefore, find the option of cross-border administrative standardisation less appealing.

Paradoxically, in pursuit of the strategic role for HRM, commentators have perhaps disregarded the daily routines of HR administration. This article has attempted to redress the balance, to return to the reality away from the rhetoric, and to point to the significance of the myriads of mostly tiny but important transactions between employees and employers conducted every day upon which so much depends.

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Appendix A: A Sample Overview of HR Administrative Activities

Area	Examples of Activities
Recruitment and Selection	All administrative tasks within search, selection and processing candidate applications (external and internal), administration related to liaison and contracting with external service providers (letters etc.), administration of instruments (payment for tests, arrangement of ACs), job offers etc. Does not include definition of profile, interview times, selection discussions etc.
Induction	Operations and procedures to enrol a selected candidate as a new employee and prepare for the start in the organisation: internal notifications, HR data registration, payroll set up, arrangement and invitation to formal induction programmes, standard company information, follow ups for probation, future benefits entitlements etc.
Termination	Administration of compulsory and voluntary leavers. E.g. establishing termination papers, final contract payments, compilation of pre-leaving files, communication with former employees etc.
Employee Contracts	Work contract management: drafting, modifications, employee change notices, acknowledging terminations, monitoring fixed term expiry, career history recording etc.
Updating Employee Data	Modification of data for fixed and temporary employee records.
Managing Absence: Sickness	Recording absence start and end, monitoring rules & rights, management of the long term sick
Managing Absence: Maternity	Maternity, paternity, adoption: Recording absence start and end, monitoring rules & rights.
Managing Absence: Holidays	Recording absence start and end, monitoring rules & rights.
Time and Attendance	Attendance & activity data tracking & checking (e.g. from time record systems), overtime and flexitime management, management of other time off work (e.g. bereavement etc.): calculation of statutory and company rights / entitlements, registering requests, etc.
General Employee Queries	Responding to general enquiries from line managers and other employees (incl. mortgage enquiries,...). This includes one-to-one and other forms of queries. Excluded are specific queries relating to training and development and employee contracts.
Expatriates & Inpatriates	Special administration related to expatriates, inpatriates and other detached staff (e.g. on projects in different locations)
Enquiries and Surveys	Responses to enquiries & surveys from professional bodies (statistical offices, industry associations, government, consultancies,...); Includes collective and anonymous data

Appendix B: A Sample of Descriptions of Payroll Administration Activities

Area	Example of Activities
Collection and collation of payroll data	Receiving and collating raw data; including forms, facsimiles, electronic files.
Interpretation and manual calculations	Interpreting and checking raw data and performing manual calculations; accuracy, applicability, signature, HR review, out of cycle pays, absence adjusts, (prep and send to TPP)
Data entry	Input data into system; check interfaced data (variable/permanent record changes)
Checking and controls	Running gross to net trials, checking calculations and accuracy of data input, authorisation of pay run.
Data processing	Final pay run; printing PR management reports; transmit payee BACS, print, seal and distribute payslips, create Finance extract or report.
Payroll accounting	Payroll reconciliation, BACS reconciliation, disbursement reconciliation. Transmission of third party disbursements via BACS, cheques for third party disbursements.
Employee queries	Responding to enquiries connected with payslips i.e. calculations; payments, deductions, accruals, omissions.
Declarations	Control/completion of returns for Tax, Social Security, Court Orders, IR and Court Order Payments (P46, P45, P35 working sheet TCO1/02). EOY returns P14, Employee Statement P60, Employees in this employment P35.
Audits and enquiries	Placing and responding to statutory third party queries (IR, Social Security, Courts etc). ID and DSS payroll audits.
Filing and archiving	Input and output documents, individual and collective (declarations)