

# HR vs Finance

Who should own payroll?



Namely 

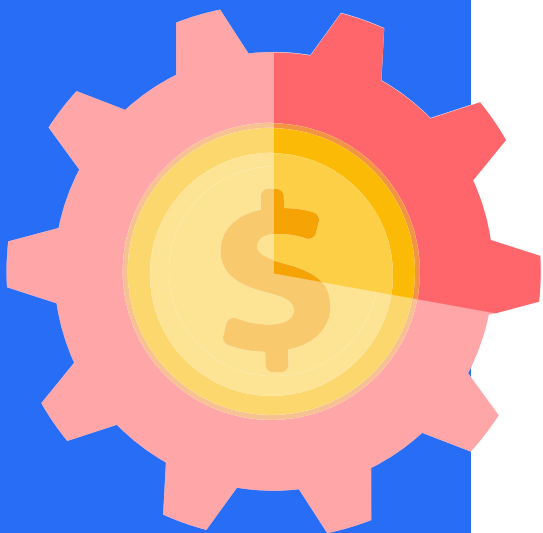
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# Introduction

Ask management at almost any small or mid-sized company, “Who owns payroll at your organization?” and you’re bound to get answers all over the map.

In fact, in Namely’s recent research, we found that 34 percent of companies say that HR owns payroll; 25 percent say that finance owns payroll; 35 percent say a separate payroll department owns payroll; and 6 percent completely outsource payroll. Needless to say, there is no standard for where payroll should fall within a company.

According to Deloitte, however, “There has been a shift in the market on where Payroll reports. Organizations are moving Payroll from reporting to Finance to either reporting to HR or reporting to a shared service where a shared service could report to either HR or Finance.”

They report that as of 2020, 50 percent of companies responded that payroll now falls to the HR team. Deloitte also reported that on average, employees responsible for payroll spend only 27 percent of their monthly time actually running payroll. The rest of their time is split between reconciliation, audits, and controls (which would historically fall under the finance department) and answering employee questions (which would historically fall under the HR department).

So where should payroll fall at your company? Let’s explore some considerations that can help you make the best decision.

# The Pros of HR Owning Payroll

What are some reasons that it might make the most sense for HR to own payroll operations? Let's explore.

## Adhering to Strict Compliance Regulations

Naturally, your HR department is well versed in complicated labor laws that are related to leave, pay, and health insurance. These regulations comprise a substantial part of legislative payroll compliance so it makes sense for HR to take on payroll as they already have great grasp on the compliance component of the role.

## Ability to Communicate Sensitive Information

Both HR and payroll are employee-facing functions; whoever runs payroll has to make necessary changes such as pay rates, start dates, benefit changes, and termination tracking. Without proper HR training on privacy and confidentiality, handling information of this nature poses a risk of privacy breaching. HR is best suited to answer employee questions about pay that may need to be discussed confidentially on a routine basis.

On top of that, although it is unpleasant to deal with unhappy employees, payroll errors are inevitable, and HR is best prepared to handle difficult employee experiences.



## Utilizing Data to Fuel Growth

If HR takes on payroll in smaller organizations, the team can utilize opportunities for education by offering workshops and classes to help employees better understand paycheck and benefit decisions. This can lead to more engaged employees and higher retention rates.

Payroll information can also drive insights about where, when, and how employees work and can be used to fuel transformation. The closer HR is to this information, the better they can inform change.

## Increased Efficiency

“Ideally, employee data flows one-way from HR into payroll. When HR owns payroll, companies minimize the risk of important information getting overlooked, which in turn reduces payroll errors. When HR owns payroll, it’s easier to limit access to highly sensitive employee information, which gives both employees and executives assurance of confidentiality. As long as adequate internal controls exist, there’s no reason why HR shouldn’t also manage payroll in a small organization. It’s more efficient to have the keepers of critical employee information also be the issuers of pay and managers of related concerns.”

– Meg McCormick Martin, SHRM-SCP, Director, Human Resources at Clark Enterprises USA LLC

## Linking Payroll to Employee Experience

“Organizations today are focusing more on end-to-end employee digital experience over operational efficiency, and Payroll is an area closely linked to HR, and the employee experience.”

– Deloitte



# The Pros of Finance Owning Payroll

We've covered why payroll may be owned by HR, but what are some reasons it may fall under finance? Let's take a look.

## Finance Teams are Detail-Oriented

Since they are so number-oriented, finance teams are known for being especially meticulous. This helps them have a deep understanding of tax laws and financial statements. Being so detail-focused is key to paying employees properly and on time, identifying payroll errors and addressing them immediately, and ultimately, staying compliant. To avoid financial risk, whoever owns payroll at an organization must also meticulously conduct audits on a regular basis—which is right in a finance team's wheelhouse.

## Payroll & Tax Compliance is Complex

Of course, staying compliant is a top priority for HR teams. However, payroll and tax compliance is very technical and complex. When handling payroll, organizations must adhere to federal, state, and local regulations. If they violate any, they can face extremely costly penalties and fines. Violations may include misclassifying employees, not paying them properly for overtime, withholding the right amount of taxes from their wages, and breaching federal laws like the Equal Pay Act.



That's why it's critical for whoever runs payroll to be audit experts who understand the legal risks and processes behind payroll and tax compliance—which for many organizations is their finance team.

## Paying Employees is a Financial Cost

When looking at it from a financial perspective, payroll is one of the largest expenses for a company. In fact, paying employees accounts for 68 percent of a company's total overhead.

Since it is such a significant expense, many companies find that it makes the most sense for their finance teams to oversee payroll. When they own payroll processing, finance teams can constantly keep a close eye on their organization's overall budget and spend by monitoring how much they are paying their employees. This also enables them to forecast workforce costs easily and see how it impacts their company's bottom line.



## HR Teams Can Focus on Other Initiatives

From onboarding and offboarding to benefits enrollment and performance reviews, HR teams have a ton on their plate. When you add payroll processing to their already endless to-do lists, they aren't able to spend as much time on other important HR tasks. This is especially true for smaller HR teams. Paying employees, conducting audits, and keeping an eye out for payroll errors are all time-consuming responsibilities that have to be done—which means sometimes initiatives like employee engagement and recognition take the back burner, when they really should be a top priority.

When finance teams own payroll, HR has more time to plan strategic initiatives, survey employees for feedback, focus on retention, analyze benchmarks to make sure that they're staying competitive in the job market, and more.

# Questions to Ask When Considering Where Payroll Should Report

## Is your company over 50 employees?

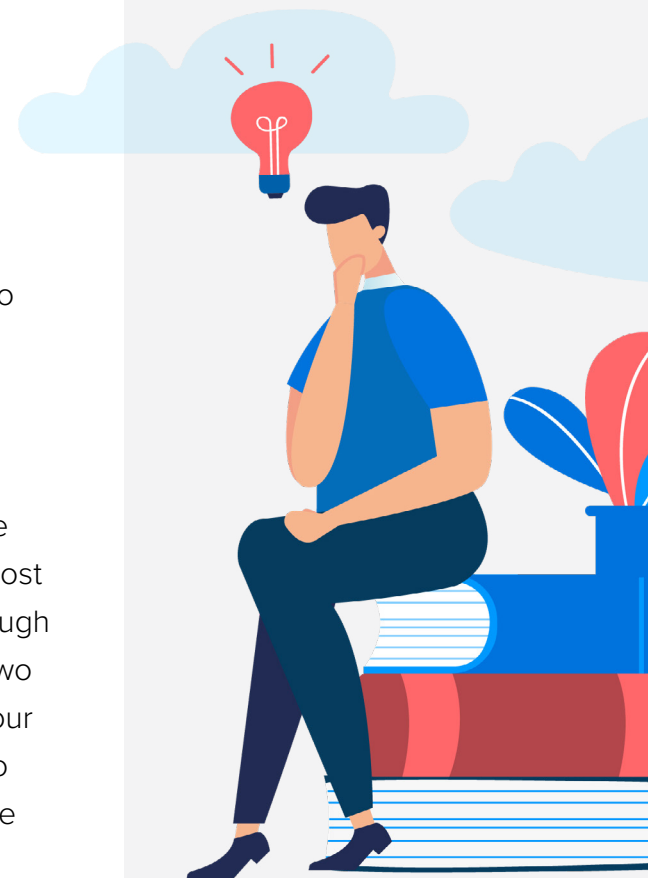
If one is the loneliest number, 50 is the most intimidating for HR teams at small businesses. Once your headcount passes this threshold, you effectively trigger an avalanche of new reporting and HR compliance requirements. This is also the point where companies usually transition off of PEOs and begin to fully own their HR.

If you're still under that 50-employee mark, it's likely that you are (or should be) outsourcing your payroll completely—whether that be to a PEO or to a payroll technology company that can help you offload administrative burden.

Once you're over 50 employees, that's when the “Who should own payroll?” question really begins to come into play. Leading us to our next question.

## How many people are on your HR team?

It may come as no surprise that if you have zero full-time HR employees, they can't own payroll processes. But most small- and mid-sized companies do have HR teams, though often small themselves. If your HR team is only one or two people, consider either outsourcing payroll or having your finance team handle it. This will allow your HR team to focus on recruitment, building company culture, workforce compliance, and other important people initiatives.



Once your HR team is a bit more sizable, however, it becomes possible to have a dedicated payroll resource on your team—or at least someone who has the bandwidth to handle payroll operations and questions as a part of their role.

### **What is your main payroll focus: employee experience or process improvement?**

When thinking about your payroll goals, are you hoping to ease the day-to-day administrative burden and make payroll as seamless as possible for those who are running it? Or is your main goal making sure employees are happy with their paychecks, that they understand all deductions, and that they have someone they can ask all their payroll-related questions?

Think about questions like these when deciding where payroll should fall. HR is typically where employees will go when they have questions or when pay issues arise. But HR often isn't as versed in financial practices and they might not be able to build seamless processes for your company. There is no right or wrong answer—only what is right or wrong for your organization.

### **Are your finance employees trained on employee confidentiality?**

Perhaps the most important skill HR professionals possess is the ability to keep employee information confidential. This has been hammered into their brain across their schooling and their professional careers. While of course finance employees at companies have to keep financial information confidential, they do not have the same training as HR professionals when it comes to employee confidentiality.





## Do you have multi-state or international employees?

When all of your employees live in one state within the same country, payroll is certainly easier. But in today's work-from-anywhere environment, this just isn't often the case. When your business starts to hire employees in different states and countries, you introduce new complications and compliance issues. For instance, when an employee moves to a new state, your company must go through state tax registration in that state. And with international employees, employers must make the decision of whether they want to register in that country, use an Employer of Record Service, stick with their PEO, or outsource their payroll to an international payroll provider. Think about the complexity of your payroll when making the decision about where that responsibility should fall.



# About Namely

Combining intuitive HR technology and best-in-class service, Namely empowers mid-size companies to build better workplaces. Simplifying the complexities of recruiting, onboarding, time & attendance, performance management, benefits administration, compliance, payroll, and HR analytics, Namely offers an integrated platform that saves companies time and improves their employees' experiences. Distinguished by a dedicated support model and enhanced service offerings, Namely delivers an all-in-one HR solution for today's people teams. Learn more at [Namely.com](https://www.namely.com) and follow us [@NamelyHR](https://twitter.com/NamelyHR).

