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HRIS and Global Compliance Framework

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Abstract:

This article covers some of the most relevant aspects of global HRIS implementation projects, focusing on the major legislative and regulatory compliance issues around the world. The objective of this article is to provide a framework and examples for an approach to successfully evaluate and manage global compliance.

Introduction

International regulatory compliance is a phrase that strikes fear in the hearts of many HR professionals. This fear can be directly attributed to a lack of knowledge with respect to the details around the country-specific compliance requirements and to the associated risk due to the lack of compliance, as well as to the absence of a framework for assessing (auditing) the organization's adherence to compliance requirements.

“[An] issue for regulatory strategists is the prevalence of “stability” biases that create a tendency toward inertia. The impact of such biases is acute in regulatory settings because the typical career track of successful executives in many industries—save highly regulated ones, such as telecommunications or electric utilities—doesn't involve exposure to government issues. As a result, those executives often are personally ill-prepared for shifting political winds that boost the importance of regulatory issues and are prone to underinvest in the regulatory skills of their organizations or to delegate without exercising sufficient oversight.”¹

As this research from McKinsey demonstrates, many global HR organizations do not understand the considerable risk their organization is exposed to without having a global compliance framework in place. Clearly, if your organization is located in 50 or 100 countries around the world, this can be daunting undertaking. Fortunately, a modern global human resource information system (HRIS) can be a useful tool to help the global HR professional build a framework and track the complexities associated with global compliance.

There are many different global HR systems on the market that can support the basic HR processes – from employee recruitment to termination, including benefits administration, total compensation, absence management, time tracking, payroll, as well as talent management with learning, performance, career, and succession planning modules. Vendors and platforms aside, what all global implementation projects have in common is an enormous challenge with regard to the differences and peculiarities found in each region and in each country on the deployment roadmap. In addition to the obvious challenges, such as cultural differences and language barriers, which already pose considerable risks for

global projects, there are also compliance, regulatory and legal issues. These issues, if underestimated or not handled properly, can be so severe as to create a financial impact across the organization becoming one of the main causes of project failure. At Jeitosa, we have developed a framework for organizing the most common functional areas of human resources management according to their degree of impact on country-specific regulatory and legislative compliance (see Figure 1).

- **High Impact:** major functionality differences, configuration, fields, reports, calculations and processes that are highly impacted by the legislation of the country concerned with significant reporting and process compliance requirements. In this category are the functional areas of payroll, time and attendance, health and safety, and benefits.
- **Medium Impact:** some functionality differences that can often be circumvented if the system is flexible and configurable and allows the creation of attributes, rules and custom reports. We classify here the staffing processes such as hires, promotions, demotions, transfers, and terminations, as well as absence management and total compensation.
- **Low Impact:** minor reporting and configuration issues that are usually not required to complete transactions. Talent management components are good examples, such as recruitment, performance reviews, training, career and succession planning. We also classify positions, headcount management, and workforce planning as low impact areas.

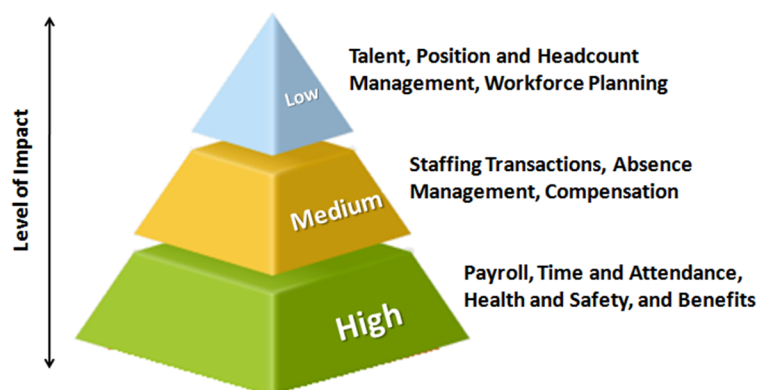


Figure 1. Degree of Impact of Country-specific Legal Aspects.

High Impact:

The high compliance impact areas are the ones that bring the greatest risk exposure to the organization and therefore need the most focused attention and expert localized support. Generally the high compliance impact areas require a local technology solution to meet highly specialized, country-specific requirements or a global solution with highly-developed localizations or “add-ons.”

Payroll: Without doubt, payroll has the greatest impact when it comes to local country legislation and compliance. Payroll processes, calculations and reports are driven by country labor and tax laws, which

are radically different across countries and often even different within states and regions of a country. The implementation of a global payroll solution is a challenging effort, and there are only a few providers who offer payroll with global coverage. Thus many organizations choose to implement local payroll solutions and then develop interfaces between the local payroll providers and their global core HR system. The major advantage with this approach is an assurance that the necessary expertise is available in the local country to accurately calculate and pay employees and file government taxes. The disadvantages are the inefficiencies and lack of negotiating power associated with managing many diverse relationships with different suppliers, as well as the maintenance effort in supporting multiple interfaces for every local country payroll. In some countries, the payroll rules and taxes are extremely complex, such as France's complex time and attendance calculations and Brazil's complex tax calculations. In Germany, unions have considerable power over the process with very tightly controlled data protection requirements, which must be considered when trying to run a global payroll or to transfer data back to the global HR system of record.

Time and Attendance: Because they are directly tied to the payroll system, time tracking systems are also impacted by regulatory and compliance differences. While the data collection rules are often very similar, the data processing logic can be completely different by country. Time scales and weekly hours are country-specific as well as based on collective agreements for different unions and industry types. There are also often complex rules for calculating breaks, overtime, and time-off. One example is the Flexible Retirement for Employees Act in Germany, which encourages companies to establish a part-time employment program for employees age 55 or older. If the weekly hours for an older employee are reduced by 50%, the employee receives his or her part-time income plus a 20% pay supplement (based on the part-time income). The employer is also required to make an additional social security contribution, equivalent to the difference between the contributions based on full- and part-time work.

Health and Safety: Health and Safety requirements are usually driven by both country- and industry-specific regulations, and in some cases, such as India, they can also vary by company size and location. In some other countries, such as Mexico, Brazil and Argentina, all employees are required to perform a pre-employment medical test, which can vary depending on the type of activity the employee is involved in. In the United Arab Emirates, women cannot be employed on any job that is "hazardous, arduous or physically detrimental." Most countries also have strong concerns around the privacy and protection of employee personal and sensitive data, such as the United States' Health Insurance Portability and Accountability Act of 1996 (HIPAA) that establishes rules to protect individually identifiable health information.

Benefits: Companies that implement a global benefits strategy usually see improvement in administrative controls, total compensation information, and employee retention resulting from local and global recognition as a desirable employer. The key to a successful global benefits implementation is to understand which benefits are required by law and which are commonly offered in the industry, as well as by the organization's local competitors. It is also important to understand which components and plans are considered as compensation in some countries, but as benefits in other countries, e.g. company cars and meals can be considered as compensation allowances in some countries and as benefits in some others; and so are taxed differently. There are also major differences in the way that

benefits data is processed, such as the Open Enrollment process in the United States. In many other countries, employees do not have a choice in their benefits, but rather are assigned a benefits package based on eligibility rules and legally mandated benefits. Here are some examples of legally required and country-specific benefits:

- *Australia's Superannuation:* Money is set aside over the worker's lifetime to provide for retirement. Generally, employers pay a compulsory amount of 9% of the worker's earnings against superannuation funds. The funds can be used when the worker retires or turns 65 years of age.
- *Mexico's INFONAVIT:* Employers contribute 5% of the worker's earnings to the Worker's Housing Fund. The fund can then be used as a source of low interest loans, to purchase a house, or if not used, are paid out upon retirement, death or disability.
- *Brazil's Child Care Allowance:* In Brazil, workers with pre-school age children (up to 5 years old) are entitled to a child care allowance, which has a pre-established, fixed amount to be paid against private child care service receipts.
- *Russia's Unemployment Insurance:* A type of insurance that was established in 1991 due to the mass layoffs during the restructuring of government-owned enterprises to a market economy.
- *Philippines' Loans:* Numerous types of loans are available to employees, including short-term credit needs, emergency credit for victims of a natural disaster, and unemployment.

Medium Impact:

Medium compliance impact areas present a lower level of risk exposure to the organization, however, may still be complex and time-consuming in their adherence and reporting requirements. Generally, the medium compliance areas should be able to be handled in the HRIS through configurable business processes, automated workflows, and localized reporting.

Staffing: Of the various types of staffing transactions, the ones most often impacted by country-specific legislation are hires and terminations. Transfers, promotions, demotions, etc. are similar, and in some cases, may require additional information or legally required steps in the process. Every multinational organization should evaluate the key issues listed below to determine if and how these requirements can be handled by their HRIS:

- *Labor Contract Requirements:* There are various legal requirements on what information needs to be incorporated into employment / labor contract, how to present it to the employee, the language it is written in, and even whether a contract is required or not. In Denmark, the contract must be presented to the employee on the first day of work at the latest and must describe clearly the salary conditions, workplace, working hours, annual leave and notice period. Italy has a similar labor contract model but it can be presented to the worker within 30 days of employment. In Japan, a labor contract is not required; instead, companies with 10 or more employees must create a set of work rules that are then applied to every worker. Work rules must include working details, such as wages, payment conditions, time-off and leave, retirement conditions, etc.

- *Notifications and Administrative Procedures:* Companies must complete some administrative procedures and issue notifications which may depend on legal requirements as well. In Spain new hires must be notified to Spanish Social Security before the employee starts to work. The Hukou system in China requires a booklet to be issued on a family basis with information about the worker, family members, birth date, marital status, address and employer, etc. In Belgium, employers are required to use the language of the region in which they are located for all worker-related documentation. If the office is located in a bilingual region, the company must communicate with employees in their preferred language. In Saudi Arabia, employers must send an annual report to the local labor office with employee data, such as names, ID numbers, positions, nationality, age, and compensation, as well as expected workforce increase or decrease for the following year. In Germany, the Works Council must be involved in all staffing transactions (hires, terminations, promotions, transfers, demotions, compensation plan changes, etc.)
- *Employee Data and Employment Details:* Each country (and in some cases, each state or region, such as in the United States and Australia) has its own definition for the following items which should be tracked in the HR system: contract types, probation periods, working hours, minimum wage, minimum age, social security, national identification numbers, names and address formats.
- *Termination:* The employee termination process is also impacted by country labor laws. Usually the following items need to be considered: termination reasons, notice periods, administrative procedures, severance payments, maternity protection, union protection and collective dismissals. Here are some examples of country-specific procedures that need to be followed when terminating an employee:
 - Hong Kong: For foreign employees, the employer must notify Immigration Department within seven days of the date of termination.
 - Finland: A collective termination can be performed if there is an economic or production issue and if the reduction is substantial and not temporary.
 - Switzerland: Employees cannot be terminated during pregnancy and in the following 16 weeks.
 - Brazil: Employees reaching retirement age cannot be terminated except for justifiable reasons.
 - Australia: Employer has to notify the Commonwealth Employment Service regarding the termination.
 - Spain: A termination document must be provided to the employee with details of the termination and payments to be made due to the termination of the contract.
 - India: To terminate permanent employees, employer must give one month notice or payment in lieu of notice. Notice is not required for temporary workers.
- *Absence Management:* Holiday calendars, time-off and vacation accrual, carryover rules, and absence types are the most impacted items. Many time-off types are common across countries, such as maternity, sickness and jury-duty. Others are less common but still used in some

countries, such as paternity and childcare leave. Below are some examples of country-specific rules on absence management:

- South Korea: Employees are entitled to three days of paternity leave upon the birth of a child and it must be taken within 30 days of the child's birth.
 - Pakistan: Muslim female employees are entitled a mourning period in the event of the husband's death.
 - South Africa: Employees must take annual leave no later than six months after the annual leave cycle.
 - Israel: The Jewish calendar year consists of 12 or 13 months of 29 or 30 days and varies in length of 353, 354, 355, 383, 384, or 385 days based on the lunar cycle.
- *Compensation:* Bonuses and merit increases are somewhat similar across countries, and percentages, eligibilities and targets can be configured in most global HR systems available on the market. There are, however, some countries particularities for allowances, minimum wages, wage types, and the ways in which pay components are combined. For example, in some countries, the law allows employers to pay workers in goods rather than in money, for example, food. Another important issue in managing global compensation is that some countries consider benefits as compensation elements. Many countries (in some cases regions and states) have their own minimum wage rules and collective agreements that impact compensation amounts for certain unions and industry sectors. In China, compensation is typically divided into four elements: base pay, incentives, allowances, and benefits. There is also an "inflationary supplement" which is a percentage added to the base salary. In most Latin American countries, all full-time employees are entitled to a 13th month payment as part of their annual salary. In Singapore, salary must be paid within seven days after the end of the salary period, and in Russia, the law requires employers to pay the salary in two or more installments per month. A very interesting case is Finland, where financial payments are not required by law; instead, workers can be compensated by "gaining of experience" – now, how about that?

Low Impact:

Low compliance impact areas are those that present minimum risk to the organization and have little legislative or regulatory controls that impact HR processes. The differences that exist lie primarily in different terminology and definitions and in varying customary business practices.

- *Talent Management:* Any solid HR system should be able to accommodate global requirements for Talent Management. There may be some differences on Recruitment, such as what applicant data may be stored in the system and how to operate with job boards and agencies in certain countries, but there are rarely any compliance-related particularities around performance management, learning management, career and succession planning. In some countries, like France, companies are required to provide a minimum number of training hours per employee per year, and this information can easily be tracked through data extracts and reports with the relevant information. In the United States, some pieces of applicant personal data can only be captured if the applicant is actively considered for an open position within the organization, which is also something that can be easily defined and configured in most systems.

- *Workforce Planning, Positions and Headcount Management:* Companies manage increases and decreases in their workforce according to their business goals or the economy or other variables. This is mainly budget-driven and not an area impacted by legislative or regulatory compliance. What impacts exist are connected to one of the previously mentioned functional areas, such as payroll and the cost of a termination. Country-specific rules for severance pay can impact the scenario for a workforce reduction. While not country-specific rules exist around headcount management, there are differences in how employees versus contingent workers are defined and hence counted.

Conclusion

According to Cedar Crestone; organizations can “achieve 75% reduction in legal or regulatory penalties” when implementing integrated HR systemsⁱⁱ. However this can only be achieved if the HR system is appropriately implemented and if the critical impact areas described in this article are taken into account early in the deployment effort, ideally even before the HR system has been selected, to ensure that an effective global compliance framework is put in place.

The examples described in this article are just a few cases to illustrate how country-specific labor laws and common industry practices play a critical role in the success of a global HRIS implementation and worldwide roll-out. Understanding these differences and developing a global compliance framework as part of the HRIS deployment effort should be a top priority for executives, project managers, and HR professionals.

Author’s Biography

Felipe Carneiro is a Principal Consultant and Global Advisor with Jeitosa Group International. He has over ten years of experience working with a variety of global HR systems, including Oracle/PeopleSoft, SAP, and Workday. He has experience in many types of global HR processes, functional and technical, inhouse and outsourced, covering recruitment, benefits, payroll, time and attendance, performance, training, compensation, and workforce administration. He can be reached at felipe.carneiro@jeitosa.com.

Endnotes

ⁱ “Why Good Companies Create Bad Regulatory Strategies.” By Andre Dua, Robin Nuttall, and Jon Wilkins. *McKinsey Quarterly*. June 2011.

ⁱⁱ “Value of HR Technology.” A Whitepaper by CedarCrestone. 2008.