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: [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 Karisman 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 keberkesanannya kos untuk kumpulan Jabatan Gaji Intel Malaysia dan proses kerja yang dilakukan oleh penganalisa gaji. Tujuan 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 menjimati masa memproses gaji dan mengurangkan langkah-langkah dalam memproses gaji supaya lebih berkesan.


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 whether 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

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERMISSION TO USE</td>
<td>i</td>
</tr>
<tr>
<td>DISCLAIMER</td>
<td>ii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>iii</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>iv</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>v</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>viii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>ix</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td>x</td>
</tr>
</tbody>
</table>

## Chapter 1 Introduction

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

## Chapter 2 Literature Review

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

## Chapter 3 Methodology
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

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


