

HR and Payroll management within SMEs
Research Survey

December 2007 – Executive Summary

Commissioned by MidlandHR

New research identifies HR and payroll management headaches that beset small to medium sized organisations

1. Aim of the study

To identify the points of pain around payroll and HR issues within SME organisations.

2. How the research was conducted

The research was carried out online by Spectrum Consulting, on behalf of MidlandHR, and is based on responses from 101 organisations in the public and private sectors.

3. Overview

- The benefits of integrating human resources and payroll functions have yet to be realised by the majority of small to medium sized organisations in the UK
- Vast majority of respondents, regardless of size, identified keeping good people, with three-quarters of the biggest organisations; 70% in the mid-range; and 60% of smaller employers expressing concerns.

AND

- HR and related issues are discussed 'often or every time' at board meetings, most frequently by 85% in the 201 to 1000 employee band; over three-quarters (77%) of those with 1001 plus people; and 49% with up to 200 personnel.

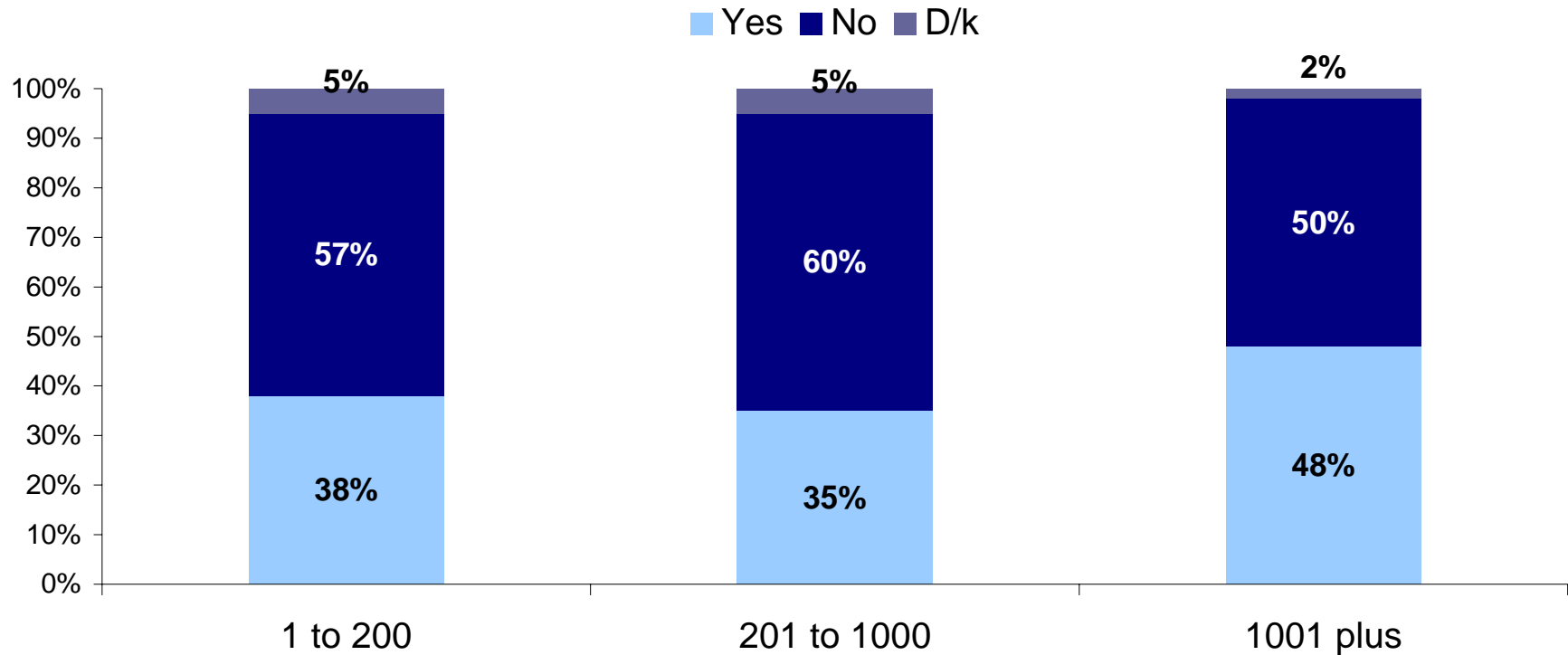
BUT

- Less encouraging is that when asked about the importance of HR issues to meeting organisational business goals, the finding showed that just half of those polled in the 1001 plus employee range ranked this as very important, followed by 45% with 201 to 1000 people; and 41% in the up to 200 personnel band.

4. Findings

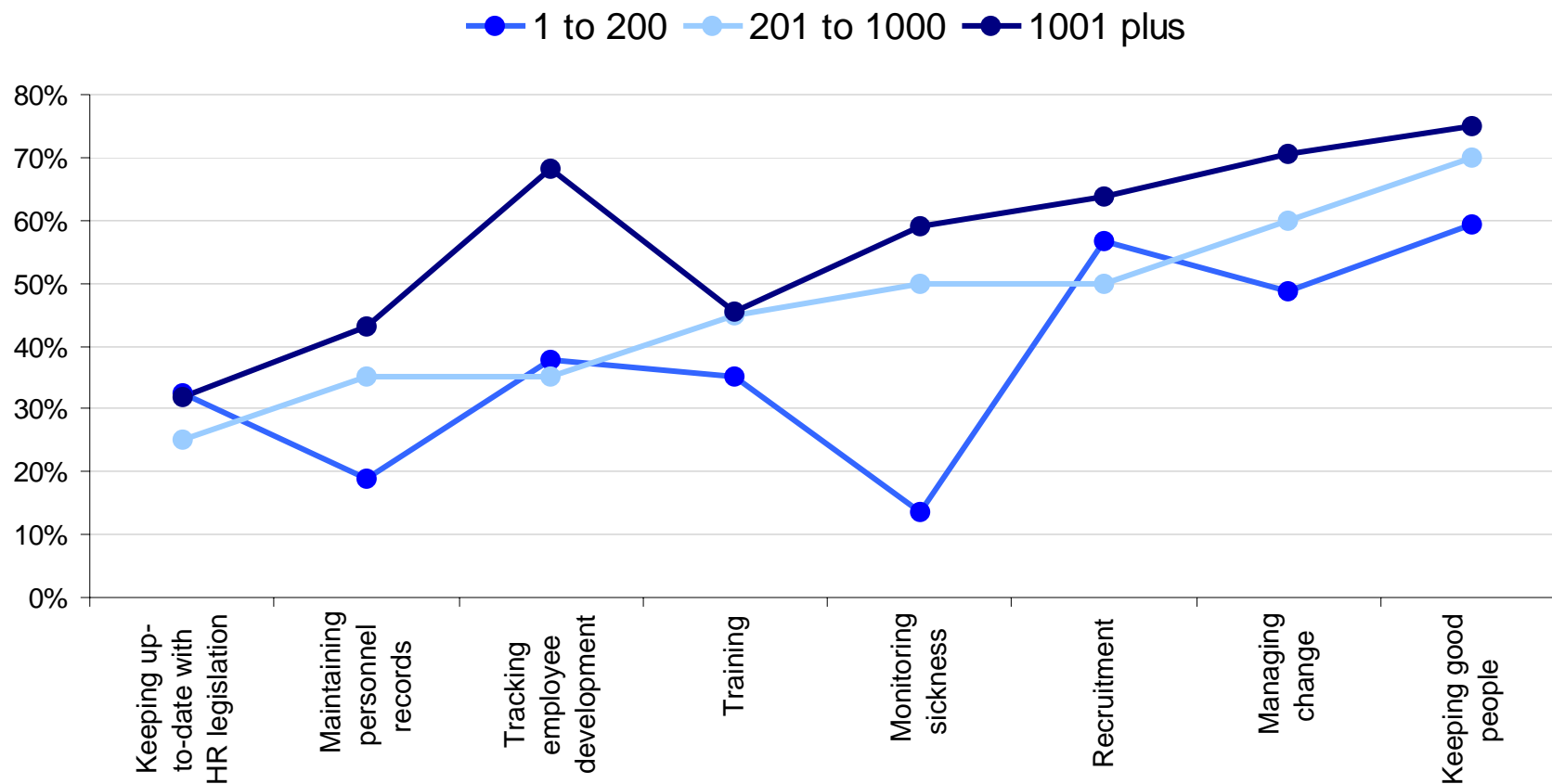
Only around one-third of those with up to 1000 employees had integrated HR with payroll. And those with more than 1001 employees fare little better, with less than half (48%) saying their systems are integrated.

Fig. 1 *Question: Are HR/payroll functions integrated*



In light of this, perhaps it should come as no surprise to learn that tracking employee development, training, monitoring sickness, recruitment, managing change and keeping good people are all causing HR management headaches.

Fig 2. Question: Problems associated with HR management



Monitoring sickness, for example, was cited as a problem by half of respondents in the 201 to 1000 employee range and by nearly 60% with more than 1000 employees. This was less of a problem for those with up to 200 employees and less, where just 12% said monitoring was an issue. At this level, of course, absence is much more visible.

As might be expected in view of the constant barrage of new employment regulation, all respondents cited problems with keeping up to date with HR legislation. And the bigger the organisation is, the greater the difficulty of maintaining personnel records. This was quoted by 42% of those with more than 1000 employees; 35% in the 201 to 1000 range; and just under 20% for those with up to 200 employees.

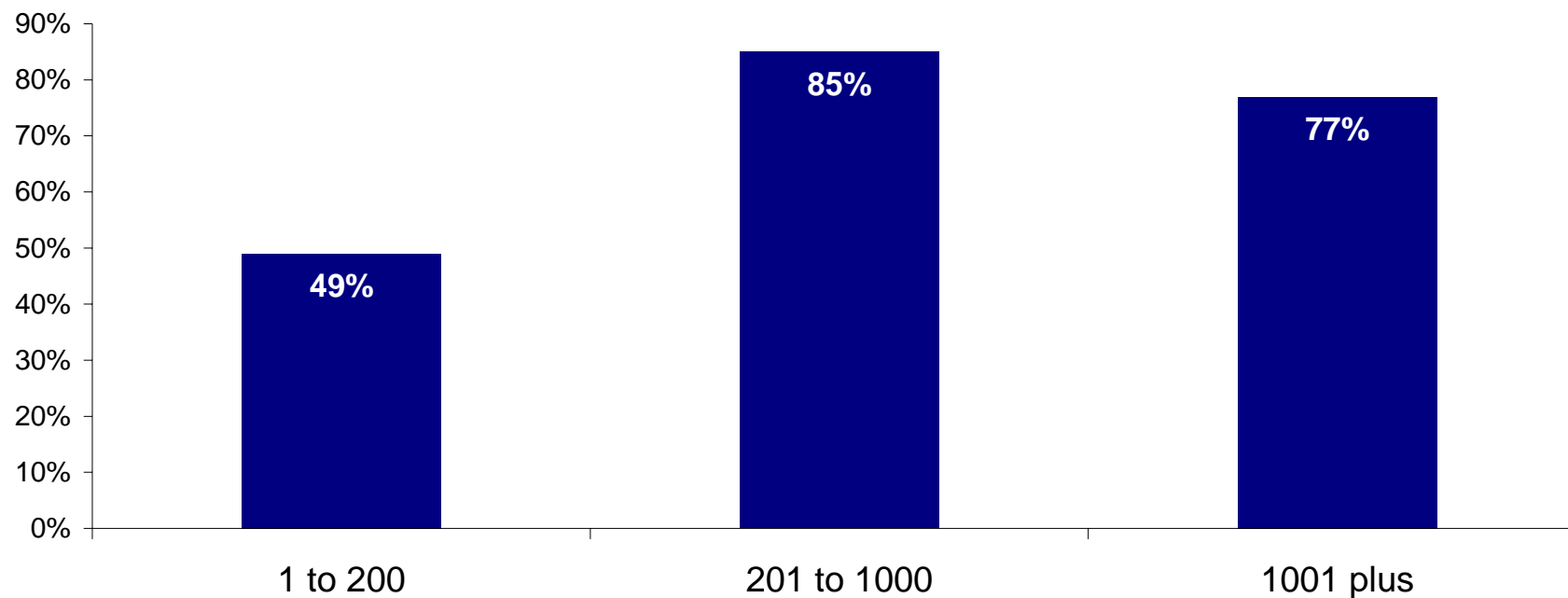
The survey revealed that tracking employee development is a particular headache for the larger organisation, referenced by two-thirds (68%) of those with 1000 plus employees, contrasting with findings of 35% for the 201 to 1000 band and 38% for smaller employers.

Even more significant issues identified by respondents were those associated with recruitment, managing change and keeping good people. Recruitment problems were cited by 62% in the 1000 plus employee range; 57% with fewer than 200 workers; and 50% in the 201 to 1000 band. Managing change was referenced by 70% at the top end, by 60% of mid-sized and 50% smaller organisation.

A really big issue -- which was identified by the vast majority of respondents regardless of size -- is that of keeping good people. Three-quarters of the biggest organisations; 70% in the mid-range; and 60% of smaller employers expressed concerns.

Encouragingly for HR professionals, HR and related issues are discussed 'often or every time' at board meetings, most frequently by 85% in the 201 to 1000 employee band; over three-quarters (77%) with 1001 plus; and 49% with up to 200 personnel.

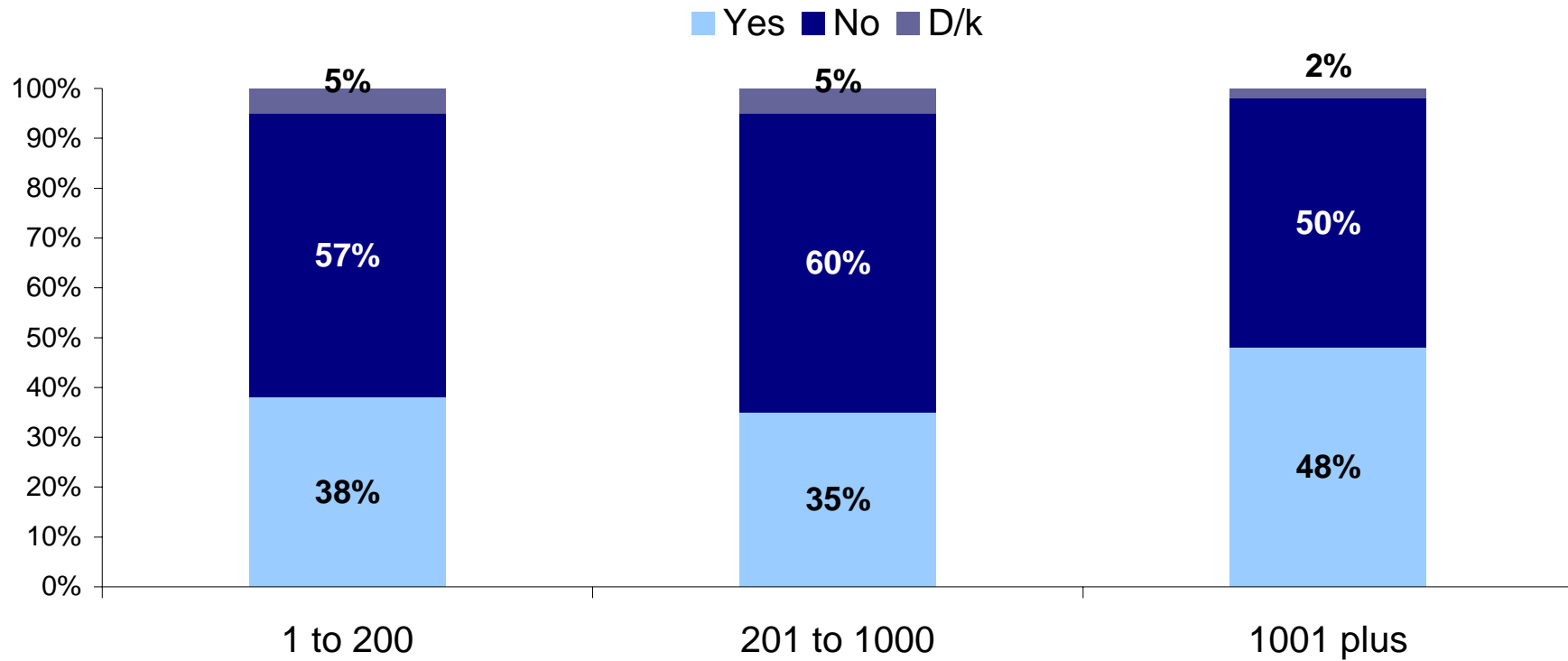
Fig 3. Question: *Frequency with which company reports on HR and related issues at board meetings*



But there should be some cause for concern over the question about the importance of HR issues to companies in terms of meeting their business goals. Just half of those polled in the 1001 plus employee range; 45% with 201 to 1000 people; and 41% in the one to 200 personnel band ranked this as 'very important'.

The majority of HR and services are provided in-house, though payroll appears to be outsourced more commonly by organisations with up to 200 employees -- just under half at 49% -- and by 30% in the 201 to 1000 employee range; and a quarter (25%) at the top-end with 1001plus people. Outsourced payroll service providers are generally specialists in their fields, though the smaller organisations (14%) look to their external accountancy firms to handle payroll.

Fig 4. Question: HR/payroll services carried out in-house



The report found that in the top two bands (201 to 1000 and 1001 plus people) 85% and 82% respectively employed a dedicated HR manager with a support team. This percentage drops to 30% for smaller organisations. Interestingly, perhaps reflecting the nature of the small business, HR is handled by managers with additional responsibilities to HR (22%) while a dedicated HR manager without a support team is the norm for 19% of respondents.

Payroll responsibility sits with a dedicated payroll manager with a team for nearly three-quarters (73%) of organisations with over 1001 employees; 35% for mid-sized and just 8% for smaller companies. In 46% of cases, payroll in smaller companies, is dealt with by a manager with additional responsibilities.

Turning to payroll management, all respondents said they had problems to some degree with complying with tax and NI requirements, costs, employee pensions, administration, and managing payroll systems and software.

Those with less than 200 employees ranked dealing with employee pensions as their biggest headache, followed by cost of payroll management, complying with tax and NI requirements, managing payroll systems and software and administration, eased perhaps by having to deal with fewer employees.

5. About MidlandHR

MidlandHR is a leading supplier of HR management software and services to 'blue chip' companies, government, health and other public sector organisations worldwide. Formed in 1984, MidlandHR provides its customers with tailored solutions to meet all their payroll and personnel requirements. Customers include Friends Provident, Severn Trent Water, University of Bath, Leicestershire County Council and Lincolnshire Police. For more information, visit MidlandHR at <http://www.midlandhr.com>