

# The Current State and Future of Payroll 2023



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transparent and strategic  
approaches that leverage  
great partnerships



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## About the Survey

The Current State and Future of Payroll survey ran from January through March 2023. We gathered useable responses from 231 HR professionals in virtually every industry vertical. Respondents were located around the world, with the majority residing in North America.

The participants represent a broad cross-section of employers, ranging from small businesses with fewer than 50 employees to enterprises with 20,000 or more employees.

Twenty-two percent of respondents represent organizations with over 1,000 employees, 39% represent mid-size organizations (100 to 999 employees) and the rest represent organizations with fewer than 100 employees. In various portions of the report, we analyze data by size of organization.

Questions for the survey were guided by an independent panel of HR professionals whose expertise were invaluable.

# Executive Summary

Payroll has a tremendous effect on the employee experience. Apart from their expectations to be paid in a timely, fair and equitable manner, employees increasingly expect modifications such as daily pay,<sup>1</sup> pay transparency<sup>2</sup> and better access to their pay information.

Further, organizations must strive to keep up with inflation rates, which lead to added financial stress for many employees, and to comply with the payroll-related laws and regulations of the regions in which they hire their employees.

This study shows that many organizations are struggling to meet the moment. Under half of organizations are confident in their ability to enhance their employee payroll experience, and under two-fifths are confident in their ability to keep up with economic trends.

In this report, we delve into the current state of payroll systems and future trends that will shape this function. Specifically, we discuss:

- The degree to which organizations see their payroll function as strategic or administrative
- How confident organizations are in the capability of their payroll function to meet organizational goals
- Common challenges facing payroll strategy and processes
- Methods used by organizations to devise a competitive and equitable pay strategy
- How organizations deal with pay transparency and paying globally dispersed employees
- How organizations rate their ability to comply with wage, hour and taxation policies and regulations
- The role of technology and degree of automation in payroll
- Future trends affecting payroll
- The key differences between organizations that take a more strategic approach to payroll and organizations that do not

<sup>1</sup> Kelly, J. (2022). In a revolutionary shift, fintech DailyPay empowers workers to get paid whenever they want. *Forbes*. Retrieved from <https://www.forbes.com/sites/jackkelly/2021/10/24/in-a-revolutionary-shift-fintech-dailypay-empowers-workers-to-get-paid-whenever-they-want/?sh=39f505044c48>

<sup>2</sup> Bell, L. (2022). Why pay transparency laws are crucial for women of color. *DiversityInc*. Retrieved from <https://www.diversityinc.com/pay-transparency-laws-are-crucial-for-women-of-color-heres-why/>

Below are the major findings of this study:

Major  
Finding **1**

**Payroll does not play a highly strategic role in most organizations**

- Just 15% of respondents say payroll in their organizations is highly strategic
- Over half (55%) say payroll functions in their organizations are either not strategic (19%) or somewhat strategic (36%)
- While 8 in 10 organizations are confident in their pay strategy's ability to comply with laws/regulations, less than half say their pay strategy is good or excellent at:
  - ▶ Enhancing employee payroll experience (47%)
  - ▶ Adjusting pay for work in different geographies (47%)
  - ▶ Differentiating the organization from its competitors (44%)
  - ▶ Keeping pace with economic trends (39%)

Major  
Finding **2**

**Organizations struggle to pay competitively in today's market and to keep up with economic trends**

- The four most widely cited challenges facing *pay strategy* are:
  - ▶ Paying competitively in today's market (62%)
  - ▶ Economic trends (52%)
  - ▶ Employees' financial stresses (35%)
  - ▶ Improving pay equity (32%)
- The four most widely cited challenges facing *payroll processes* are:
  - ▶ Lack of technology integration (38%)
  - ▶ Inflexible payroll systems (32%)
  - ▶ Inconsistent or minimal automation (31%)
  - ▶ Cost of payroll technology systems (28%)

## Major Finding 3

### Organizations use a variety of sources and approaches in order to adapt to today's changing economic and regulatory environment

- Major pay-related strategies followed to hire and retain key talent include:
  - ▶ Special incentive/bonus programs (41%)
  - ▶ Sign-on bonuses (35%)
  - ▶ Frequent merit or performance-based pay increases (34%)
- Primary sources of data to collect information about pay levels are:
  - ▶ Government sources (36%)
  - ▶ Trade and professional organizations (34%)
  - ▶ Organization's payroll system (33%)
- Major approaches organizations follow in response to pay transparency laws are:
  - ▶ Increasing salary for underpaid employees (46%)
  - ▶ Attracting candidates on non-pay related offerings (32%)
  - ▶ Increasing hiring from a diverse applicant pool (28%)
- Pay strategies for location-based pay include:
  - ▶ Pay rates set by the main office location or regional offices (45%)
  - ▶ Pay set to the national level and adjusted upward if necessary (23%)

## Major Finding 4

### Over a third of organizations find compliance with wage, hour and taxation policies and regulations challenging

- Over a third (35%) of organizations rate compliance with wage, hour and taxation policies and regulations a 4 (21%) or 5 (14%) on a 5-point scale where 5 denotes 'compliance is a significant challenge'
- About two-fifths say remote and/or hybrid work has made compliance little (27%) or much (12%) harder

## Major Finding 5

### A majority of organizations rely on time-tested methods to pay employees and rarely offer payroll-related add-ons

- More than 9 in 10 organizations (94%) pay employees through direct deposit
- About two-fifths pay employees using paychecks
- Under one-fifth offer payroll-related add-ons such as:
  - ▶ Making charitable donations via payroll deduction (19%)
  - ▶ Paycard services (13%)
  - ▶ Pay for purchases via payroll deduction (13%)
  - ▶ Earned wage access (11%)

## Major Finding 6

### **Most organizations have automated payroll and compliance to at least a moderate degree, but fewer have done so to a high degree**

- A majority of organizations have automated payroll and compliance processes to at least a moderate degree, at 86% and 72%, respectively. However:
  - ▶ Just over half have automated payroll processes to a high (35%) or very high (17%) degree
  - ▶ Just over a third have automated compliance processes to a high (21%) or very high (14%) degree
- Primary ways technology has influenced the design and implementation of pay in organizations are:
  - ▶ Improved automation of pay and compliance (46%)
  - ▶ Improved pay communications to employees (42%)
- While a majority of organizations (95%) have not suffered payroll security breaches over the past two years, just over a third (37%) rate themselves 9 or 10 (completely confident) on their confidence on their organization's security practices regarding payroll

## Major Finding 7

### **The near-term future of payroll will be driven by the need for integrated systems and pay transparency**

- Over half (52%) say the primary trend shaping payroll over the next two years is increased integration of payroll, HR and attendance systems
- Other key trends cited by over a third of respondents are:
  - ▶ Increasing pay transparency (37%)
  - ▶ Changing payroll from an operational role to a strategic role (34%)
  - ▶ Focusing on employee experience (through initiatives such as personalization) (34%)
  - ▶ Digitalization/automation of payroll processes (33%)



## Major Finding 8

**Compared with organizations with more administrative payroll functions, those with more strategic payroll functions tend to differ in terms of priorities and capabilities**

- Strategic payroll functions report a better ability to:
  - ▶ Differentiate the organization from its competitors – almost 4 times more likely (92% vs. 24%)
  - ▶ Comply with laws/regulations – almost 1.5 times more likely (92% vs. 75%)
  - ▶ Enhance employee payroll experience – almost 2.5 times more likely (84% vs. 32%)
  - ▶ Adjust pay for work in different geographies – almost 3 times more likely (84% vs. 29%)
  - ▶ Keep pace with economic trends – almost 3 times more likely (79% vs. 27%)
  - ▶ Empower payroll employees to contribute as strategic business partners – 4 times more likely (72% vs. 18%)
  - ▶ Control unnecessary costs/expenditures – more than 1.5 times more likely (72% vs. 45%)
  - ▶ Offer valuable payroll add-ons – 3.5 times more likely (56% vs. 16%)
  - ▶ See greater differentiation in increases between outstanding and competent performers – over 3 times more likely (56% vs. 15%)
  - ▶ Have strategic review and control processes for base salary increases – over twice more likely (50% vs. 23%)
  - ▶ Demonstrate increased use of AI in design and implementation of pay strategy – more than 6 times more likely (26% vs. 4%)
  - ▶ Automate payroll processes – more than twice as likely (74% vs. 39%)
  - ▶ Automate compliance processes – more than 2.5 times as likely (68% vs. 27%)
  - ▶ Believe use of globalization partners will shape payroll over the next two years (16% vs. 1%)
- Administrative payroll functions suffer from a number of challenges to payroll processes:
  - ▶ Lack of technology integration – 4 times more likely (39% vs. 10%)
  - ▶ Inflexible payroll system – 6 times more likely (32% vs. 5%)
  - ▶ Inconsistent or minimal automation – 6 times more likely (32% vs. 5%)

Please note that the findings and recommendations contained in this report are informational only. Nothing in this report should be construed as constituting legal opinions or advice. Please consult an attorney if you have questions about the legal requirements, rules or regulations associated with any content discussed in this report.

# Strategic Payroll Functions Are the Exception, Not the Rule



## Finding: Just 15% of organizations identify their payroll strategy as highly strategic

To better understand the role that payroll plays in organizations today, we asked respondents about where they stand in terms of a payroll strategy maturity model (see *Payroll Strategy Maturity Model* on next page). We discovered that less than one-fifth (15%) of organizations say payroll in their organizations plays a highly strategic role. Moreover, less than a third (30%) say payroll in their organizations is even moderately strategic. A majority believe payroll in their organization is only somewhat strategic (36%) or not at all strategic (19%).

In short, payroll is viewed as a strategic partner in only a minority of organizations. In most cases it is seen as an administrative function that relies on strategic guidance from others in the organizations.

We assume much of this guidance comes from the total rewards department, which is typically viewed as the more strategic half of the compensation/payroll partnership. Some of the strategic guidance may also come from other important areas of the organization such as HR leadership, senior executives, and the board.

Later in this report, we will delve more deeply into the perspectives and practices that separate organizations with a highly strategic payroll function from organizations with a less strategic one.



## Payroll Strategy Maturity Model

The following describes the payroll strategy maturity model that was used in the survey on which this report is based. The strategic nature of payroll depends on how integrated it is with the overall strategy of the business and the role it plays in driving and achieving key business goals. Below are the categories we used in the original survey:

### **Not strategic:**

The function processes payroll transactions and distributes employee pay with little or no consideration of broader strategic goals of the organization. In fact, changes may be difficult due to entrenched processes, cultural attitudes, and/or technologies.

### **Somewhat strategic:**

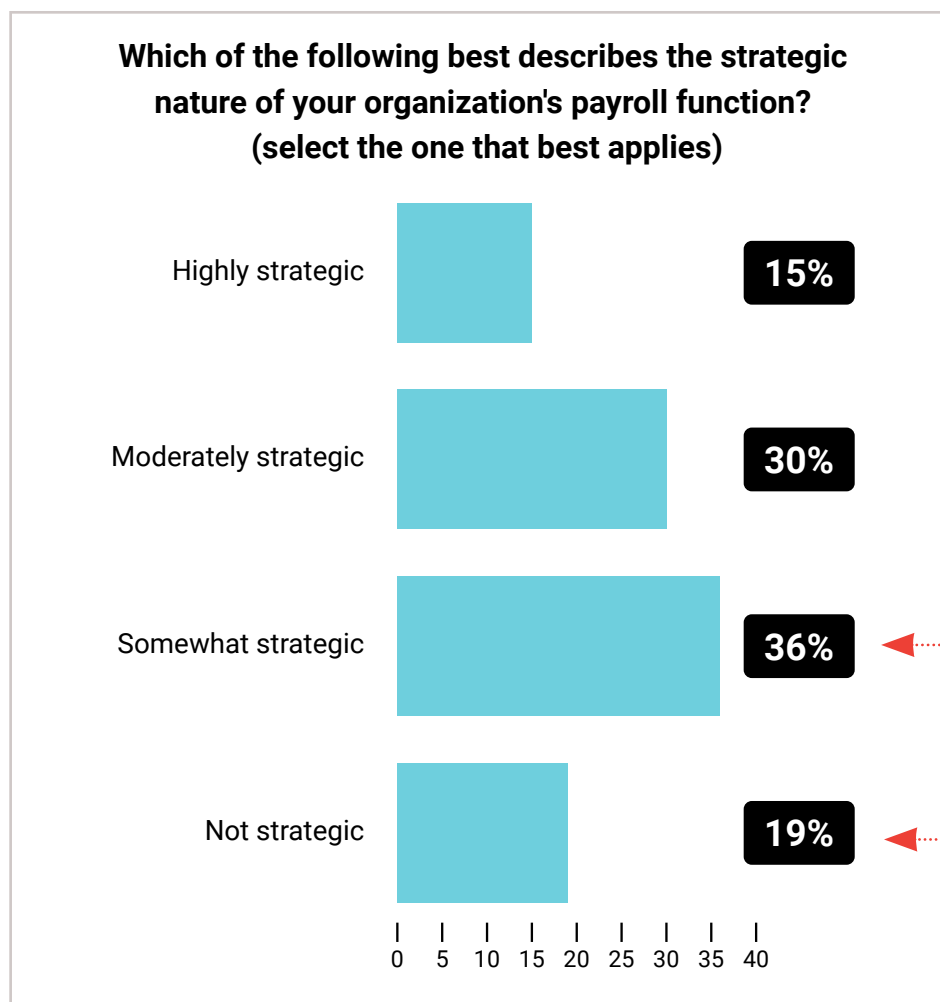
The function takes into consideration the basic needs of the organization in terms of work-related processes, policies and legal compliance but is not well aligned with overall business goals and strategy.

### **Moderately strategic:**

The function incorporates key feedback from senior leaders so the pay strategy helps drive strategic business goals as well as distributes pay in a secure and compliant manner.

### **Highly strategic:**

The function is involved in decision-making at high levels and creates a multidimensional pay strategy aligned with the organization's talent management strategy *and* overall business strategy; payroll is highly secure, compliant, transparent, fair, and yet flexible enough to accommodate unique needs.



Editor's Note: View previous page to see how these levels were defined in the context of the survey.



**Over half of respondents say payroll in their organizations is either not strategic or only somewhat strategic**



## Finding: Organizations are most confident in their ability to comply with laws/regulations and least confident in their ability to offer valuable payroll add-ons

Payroll in most organizations is responsible for certain goals. We asked respondents to rate the ability of the pay strategy in their organizations to meet these common goals. More than 8 in 10 respondents believe the pay strategy in their organization is good or excellent at complying with laws/regulations.

However, just over half (54%) believe that the payroll strategy in their organizations is good or excellent at controlling unnecessary costs/expenditures, and less than half (47%) say it is good or excellent at enhancing employee payroll experience or adjusting pay for work in different geographies.

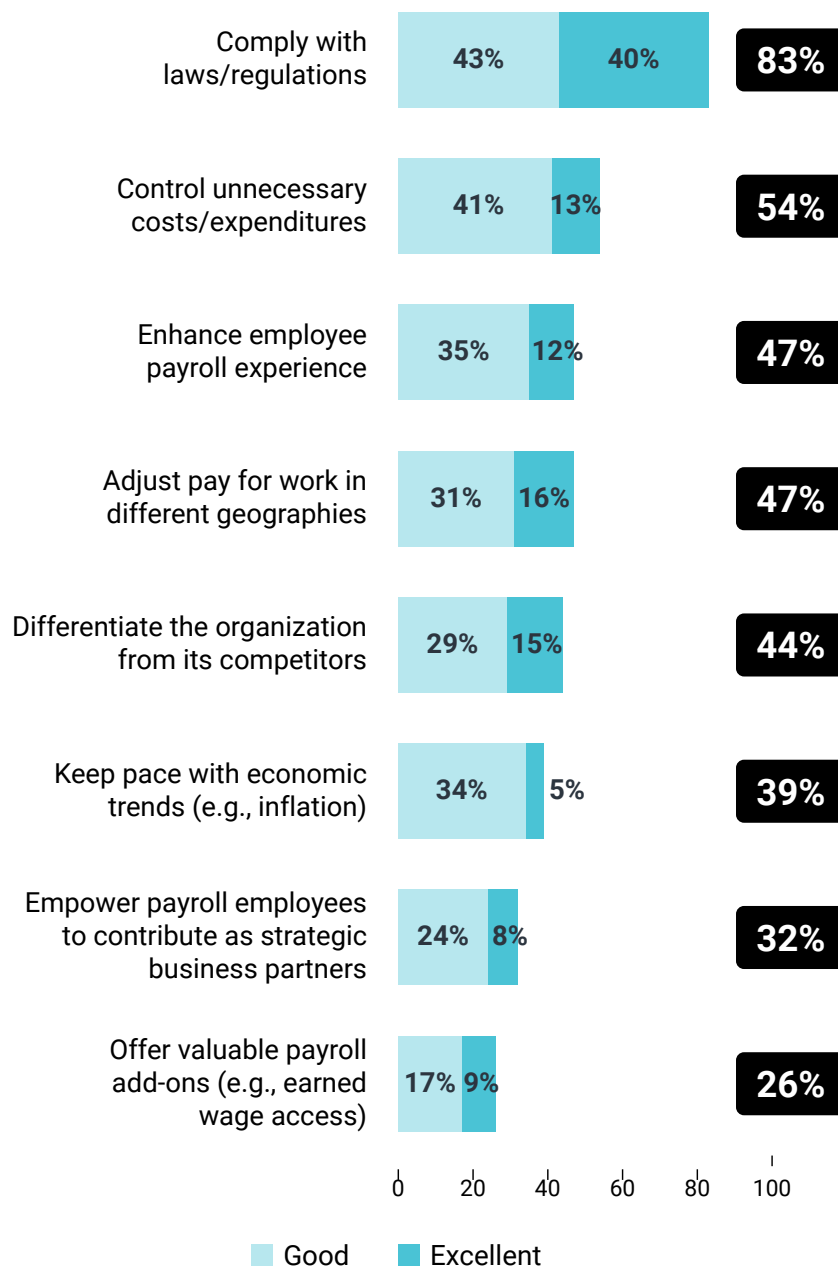
We believe that, with the increased prevalence of remote work and geographically dispersed employees, coupled with high demand for key talent, it is often important to devise a pay strategy capable of improving employee experience and adapting to the needs of employees in different locations.

The lack of strategic positioning of payroll might be traced to poor empowerment of payroll employees, with less than a third saying pay strategy in their organization is good or excellent at empowering payroll employees to contribute as a strategic business partner.



## How would you rate the ability of your organization's pay strategy to:

Percent responding good/excellent



**Under half of organizations give high ratings to their ability to enhance the employee payroll experience**



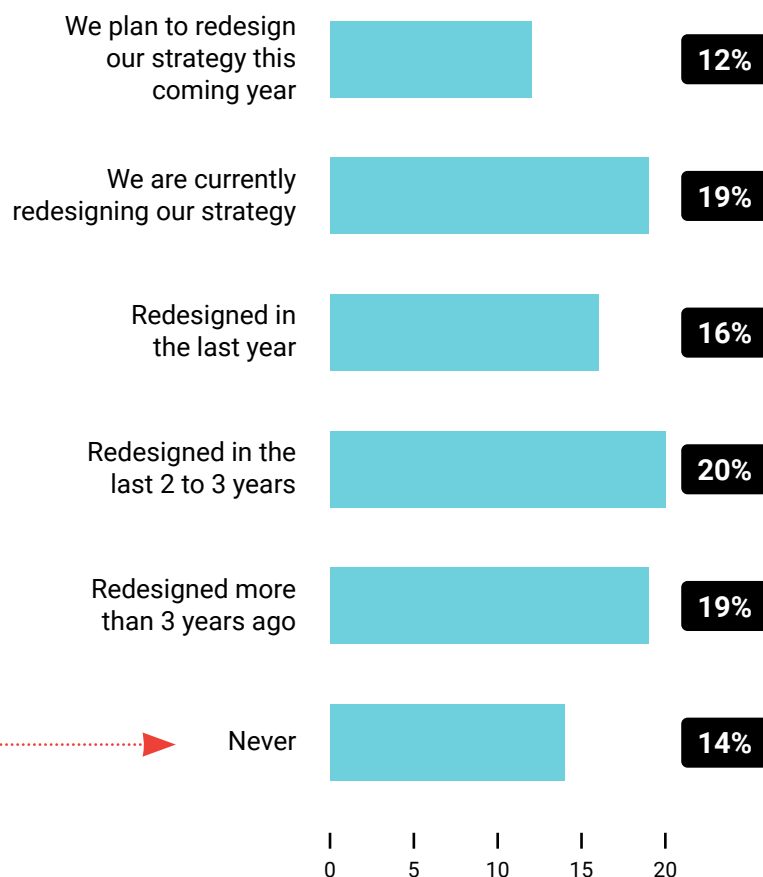
## Finding: Just one-third of organizations have redesigned their pay strategy last year or are currently redesigning their strategy

With recent changes to businesses at large, it is only natural that pay strategy be updated to keep up with business change. The lack of strategic ties with business is evident in the outdated payroll strategy in many businesses. About one-fifth have redesigned their payroll strategy more than three years ago. This means that the effects of the pandemic, increases in remote/hybrid work, and changes in labor market have not been reflected in the payroll strategy. In about a third of organizations, the payroll strategy has been redesigned in the last year (16%) or is being redesigned at present (19%).



Over one in ten organizations (14%) has never redesigned their payroll strategy

### How recently has your organization significantly redesigned its payroll strategy? (select the one that best applies)



# Payroll Encounters Both Strategic and Process Challenges

One reason to redesign payroll strategies is to cope with challenges. To better understand them, we asked about the challenges to both strategy and processes.



**Finding: Over a third of organizations find complying with wage, hour and taxation policies and regulations to be quite challenging, and most view it as at least moderately challenging**

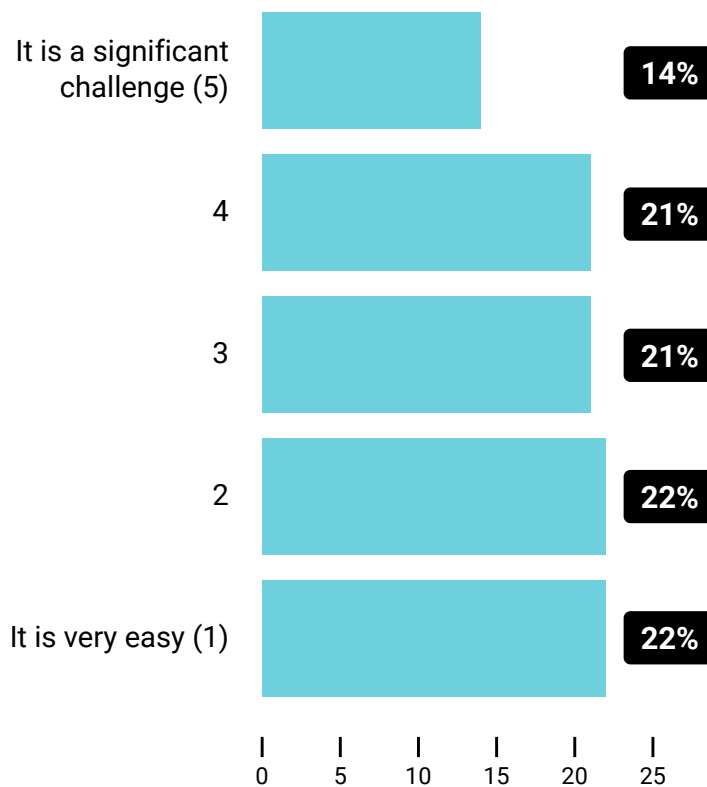
We asked respondents to rate how challenging it is for their organizations to comply with all wage, hour and taxation policies and regulations (local, national and corporate). Organizations are almost equally divided on whether they find compliance with these policies and regulations easy or difficult.

More than a third (35%) say it is a significant challenge (4 or 5 on a 5-point scale), while more than two-fifths (44%) say it is relatively easy (1 or 2 on the same scale). This still leaves, however, 56% that view it as at least moderately challenging.



On a scale of 1 to 5, how challenging is it for your organization to comply with all wage, hour, and taxation policies and regulations?

**Note: this includes local, national, and corporate**







## Finding: Organizations find paying competitively to be the most pressing challenge to payroll strategy today

The most pressing challenge facing organizations with regard to designing their current payroll strategy is the need to pay competitively in today's market (62%). This is likely driven by the need to hire and retain key talent in an environment of high inflation and pay transparency laws.

This may be why a little over half (52%) also say that keeping up with economic trends (e.g., inflation and recession) is challenging. Moreover, these economic trends lead to other challenges such as employees' financial stresses (35%).

Rounding out the top five challenges are "improving pay equity" (32%) and "hiring or retaining qualified payroll professionals" (26%). In the later sections we will explore what specific strategies and practices organizations employ to deal with these challenges.



**Which of the following are the top 5 challenges that your organization faces with regard to its current pay strategy? (select up to 5)**



Editor's Note: In the original data, 5% of respondents stated that they "face no challenges." We removed those responses and recalculated, so this only shows percentages for those that face challenges.



**More than a quarter (26%) cite managing differences in local, regional and national laws to be a challenge**



## Finding: About a third of organizations struggle with a lack of technology integration in regard to their payroll processes

When it comes to payroll processes, a lack of technology integration is the most widely cited challenge, chosen by nearly a third of organizations (31%). About a quarter also say inflexible payroll systems (26%) and inconsistent or minimal automation (25%) cause difficulties. These three issues can be traced to lack of appropriate technologies in payroll systems.

### Differences based on size of organization

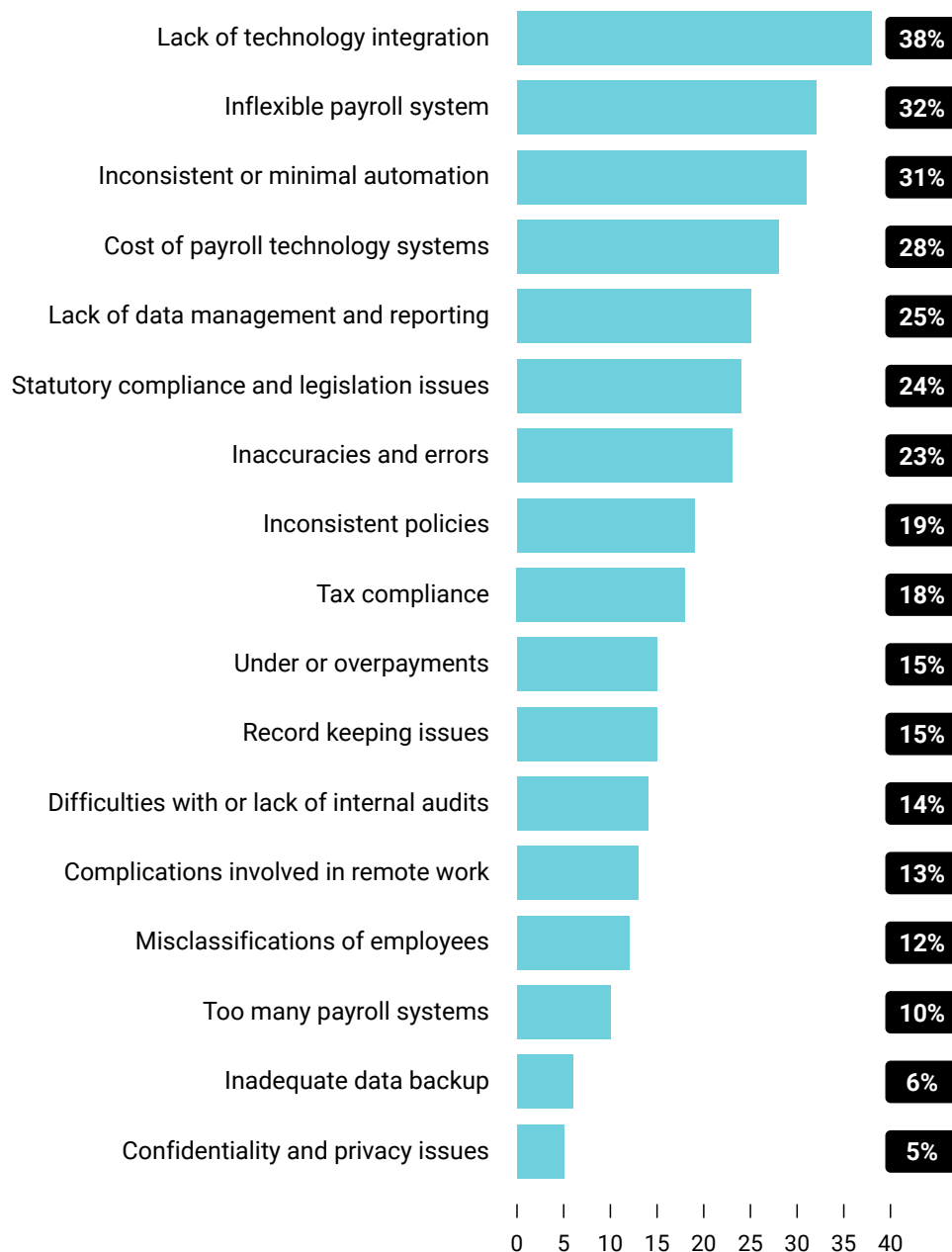
Organizations of different sizes face different payroll-related challenges. While the top challenge for large organizations is inaccuracies and errors (42%), mid-size organizations say their biggest challenge is related to lack of technology integration (35%). Small organizations are most likely to cite problems related to inconsistent or minimal automation (30%).

## Defining Small, Mid-sized and Large Organizations



For the purpose of this report, large organizations have 1,000 or more employees, mid-sized organizations have 100 to 999 employees, and small organizations have 99 or fewer employees.

### Which of the following are the top 5 challenges your organization faces with regard to its current payroll processes? (select up to 5)



Editor's Note: In the original data, 18% of respondents said they face no challenges in this area. To keep this consistent with the previous graph, we removed those responses and recalculated, so this only shows percentages for those that face challenges.



**One-quarter of organizations face challenges due to statutory compliance and legislation issues**

# Firms Use Various Approaches to Create a Competitive, Equitable Pay Strategy

In order to pay competitively and deal with economic upheavals while remaining equitable, organizations have relied on several pay strategies. The section below deals with methods organizations follow to create an equitable and competitive pay strategy.



## Finding: Organizations rely on special and sign-on bonuses to hire and retain key talent

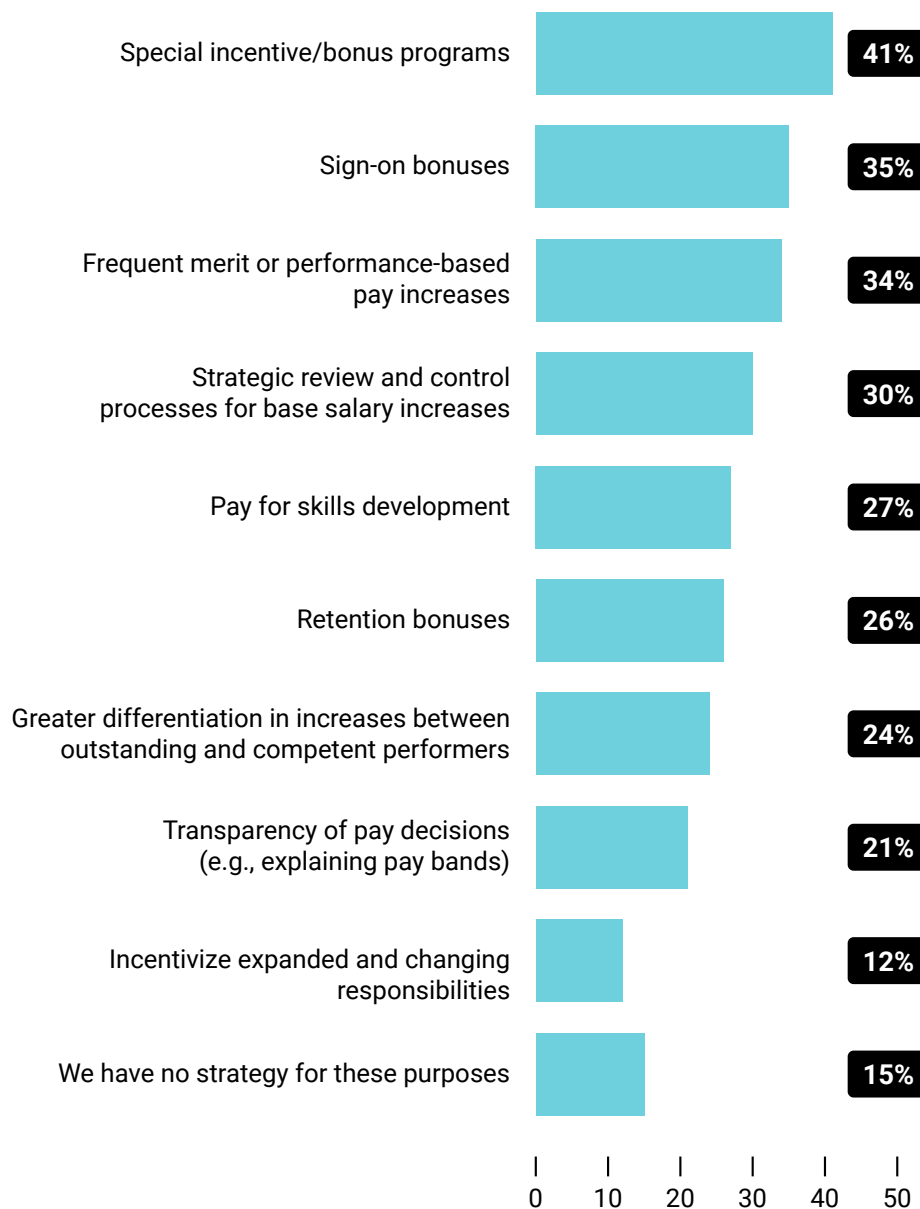
As we saw earlier, paying competitively was identified as the number one challenge facing organizations when designing pay strategy. So how do organizations design pay so they may hire and retain key talent? The most widely cited answer is the use of special incentives and bonus programs.

Two-fifths of organizations offer special incentive/bonus programs to lure key talent, and more than a third offer sign-on bonuses (35%) and frequent merit or performance-based pay increases (34%). It is interesting to note that just over a quarter offer retention bonuses (26%), indicating that there may be more emphasis on *hiring* key talent than *retaining* them. More than one in ten (15%) organizations have no pay-strategy for hiring and retaining workers.

## Differences based on size of organization

Organizations of different sizes rely on different strategies to hire and retain key talent. The top choice in large organizations is sign-on bonuses (68%), while mid-size organizations are most likely to offer special incentive/bonus programs (43%) and small organizations are most likely to offer frequent merit or performance-based pay increase (32%).

**Which of the following pay and/or compensation strategies does your organization follow to hire and retain key talent?  
(select all that apply)**



**Only about a quarter offer retention bonuses to hire and retain key talent**

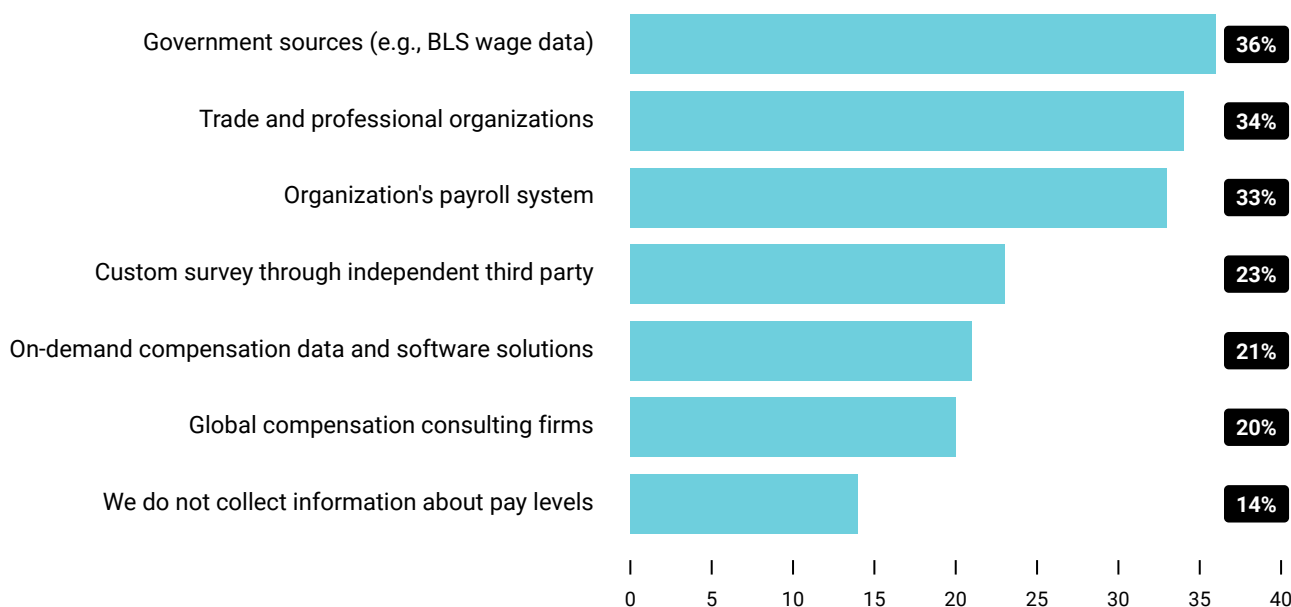


## Finding: Government and trade/professional organizations are the primary sources of salary data for organizations

Paying competitively requires information on pay levels so the pay strategy can be adjusted accordingly. More than a third rely on information from external sources such as the government (36%) and trade and professional organizations (34%). A third rely on the organization's payroll system, an internal source. These tend to be easily available, cost-effective information sources.

Custom-surveys (23%) and global compensation consulting firms (20%) are less likely to be used, probably due to the cost involved, but these methods may be able to provide more personalized information to suit an organization's needs. Interestingly, 15% do not collect information about pay levels at all.

### Which salary data sources do you use to collect information about pay levels? (select all that apply)



**Only one-fifth utilize on-demand compensation data and software solutions to collect information about pay levels**





## Finding: The most commonly cited way of complying with pay transparency laws is by increasing the salary for underpaid workers

Once organizations have collected pay data, this information can be used to create equitable pay within their organizations. In light of recent pay transparency laws, this becomes even more imperative. The table below, based on a more extensive one from the Center for American Progress, provides a summary of laws relating to pay transparency.<sup>3</sup>

### Information on pay transparency laws

State	What information are employers required to share?
<b>Maryland</b>	"The wage range for the position for which the applicant applied."
<b>Colorado</b>	"Hourly or salary compensation, or a range of the hourly or salary compensation, and a general description of all the benefits and other compensation to be offered."
<b>Connecticut</b>	The wage range for the applicant or employee's position.
<b>Nevada</b>	The wage or salary range or rate for a position, promotion, or transfer.
<b>Rhode Island</b>	"The wage range for the position for which the applicant is applying."
<b>Washington</b>	"The wage scale or salary range, and a general description of all the benefits and other compensation to be offered."
<b>California</b>	"The salary or hourly wage range that the employer reasonably expects to pay for the position."
<b>New York</b>	Compensation or range of compensation.

<sup>3</sup> Demante, B., Hoffman, L., & Khattar, R. (2023, March 23). Quick facts about state salary range transparency laws. *Center for American Progress*. Retrieved from <https://www.americanprogress.org/article/quick-facts-about-state-salary-range-transparency-laws/>

One effect of pay transparency is to reveal pay inequity due to gender and racial pay gaps. In 2021, overall, women earned about \$.82 for every dollar men earned; Hispanic or Latina women earned about \$.58 and Black women earned about \$.63 for every dollar earned by White men.<sup>4</sup>

Some differences may be tied to a variety of factors aside from bias, such as type of role or years of experience, but if other factors are comparable and people are still not equitably paid for equal work, then employers need to address those inequities.

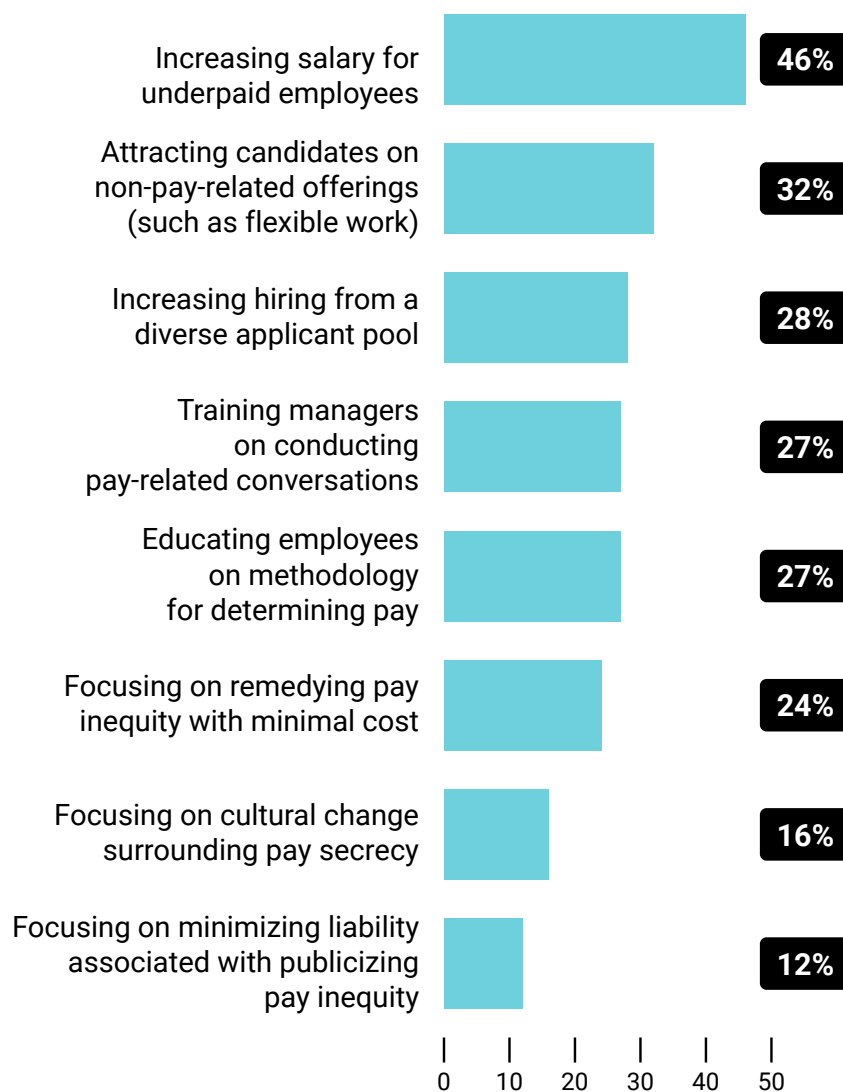
Among organizations that must respond to pay transparency laws, what approaches do they take? The most widely cited approach (46%) in our study is to bring underpaid employees up to the level of other employees.

Of course, if pay rates are equitable but still below industry standards, organizations may need to use other approaches. Sometimes this requires offering other ways of attracting new recruits. In fact, about a third rely on taking the focus off of pay and attracting candidates on non-pay-related offerings such as flexible work (32%).



<sup>4</sup> U.S. Government Accountability Office. (2022, December). Women in the workforce: The gender pay gap is greater for certain racial and ethnic groups and varies by education level. U.S. GAO. Retrieved from <https://www.gao.gov/products/gao-23-106041>

**What are the major approaches your organization follows in response to pay transparency laws? (select all that apply)**



Editor's note: 28% of respondents selected "We do not need to deal with such laws." We removed these responses and recalculated the data so the graph only shows the approaches of organizations that must respond to pay transparency laws to some degree.



**A little over a quarter (27%) say they educate employees on their methods for determining pay**

# Remote Work Arrangements Have Brought New Pay Challenges and Opportunities

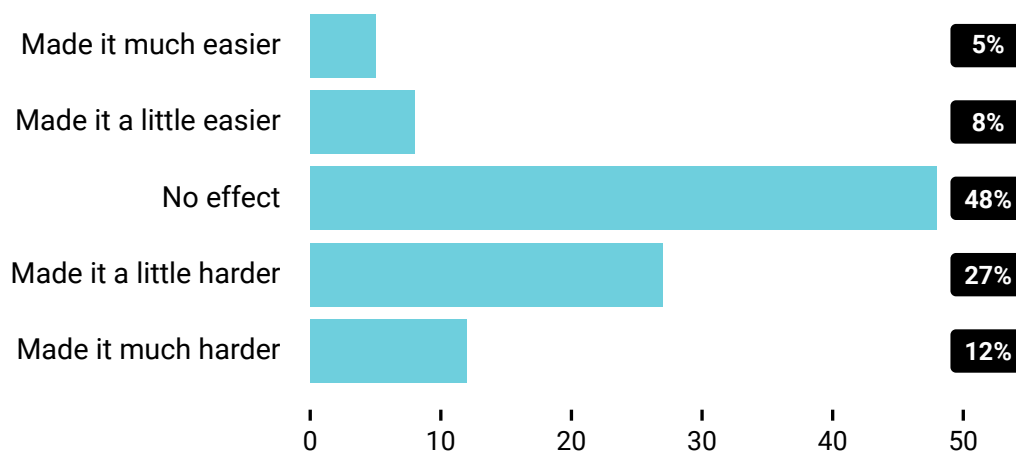


## Finding: Remote work has made payroll compliance more difficult in two-fifths of organizations

When the Covid-19 pandemic struck and employees had more opportunities to work from anywhere, many moved to locations with more affordable housing, better schools and lower costs of living. However, employers must often comply with the pay policies of these locations.

This has made compliance with wage and tax regulations a little (27%) or much harder (12%) in about two-fifths of organizations. Nearly half, however, claim remote work has not brought about much change in their ability to comply with pay-related laws, and 13% say it actually made compliance easier.

### How has remote and/or hybrid work affected your organization's ability to comply with wage, hour, and tax regulations?





## Finding: Pay rates are set by the main office or regional offices when deciding on location-based pay

The rise of remote work arrangements has meant that many organizations can recruit employees from anywhere in the world. This requires organizations to rethink their pay practices to match the standard of living in employees' specific locations. How do organizations go about determining the location-based pay of employees?

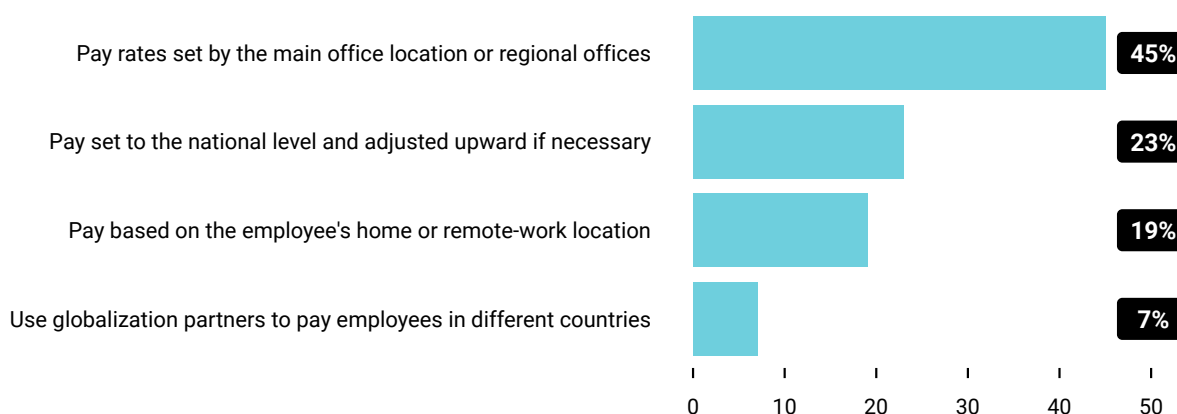
More than two-fifths (45%) say this responsibility falls on the main office or regional offices. In about a quarter of cases, pay is set to the national level and adjusted upward if necessary. In two-fifths of organizations, the pay is based on the employee's home or remote-work location.

### Using Globalization Partners

Only 7% use globalization partners to pay employees in different nations, but this percentage could grow in coming years. Such partnerships potentially reduce the burden on organizations to comply with pay and taxation-related laws in each region. Globalization partners who specialize in hiring and remuneration of employees in particular regions can be a cost effective option while reducing the legal liability of organizations. The use of globalization partners increases with size of organization: 13% of large organizations use them compared with 11% of mid-size firms and 2% of small ones.

#### What pay strategy does your organization follow for location-based pay? (select all that apply)

**Note: This means factoring employees' location into their pay.**



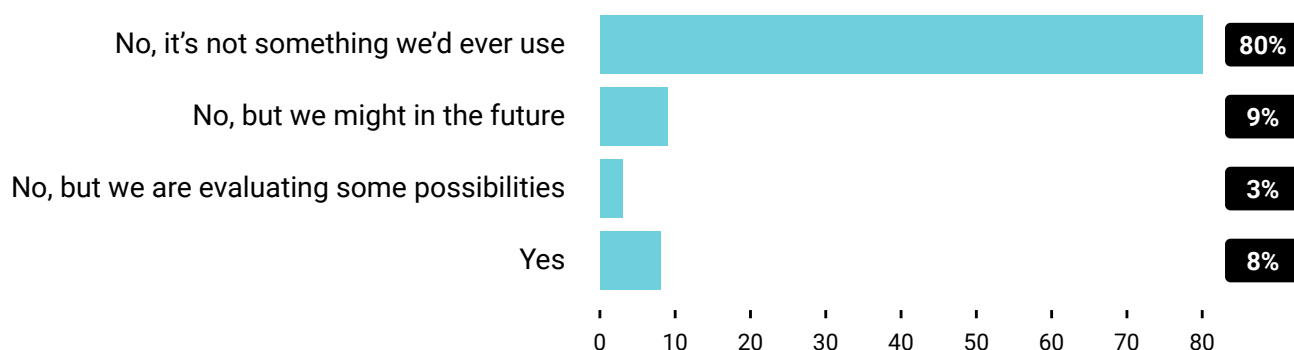


## Finding: Although just 8% of respondents currently use employer of record (EOR) firms, another 12% indicate it's something they would consider

In a separate poll that included 1,577 respondents, we asked, "Does your organization currently use an employer of record (EOR) firm in order to employ workers on your behalf without opening your own business entity in a given country?"

Although only 8% currently use an EOR, another 12% are either currently evaluating possibilities (3%) or might consider using such firms in the future (9%).

### Does your organization currently use an employer of record (EOR) firm in order to employ workers on your behalf without opening your own business entity in a given country?



### What Is an Employer of Record?

An Employer of Record (EOR) is a service provider that assumes responsibility for the legal, HR, tax, and local compliance obligations related to a company's workforce in a foreign country where the company does not have a legal presence. By engaging an EOR, the company delegates the tasks of talent acquisition, onboarding, and payroll processing to the EOR, while still retaining control over hiring decisions, compensation structures, job responsibilities, and contract terminations. In essence, an EOR functions as an outsourced HR service that ensures the company's adherence to local labor laws in the jurisdiction where its employees reside and work.

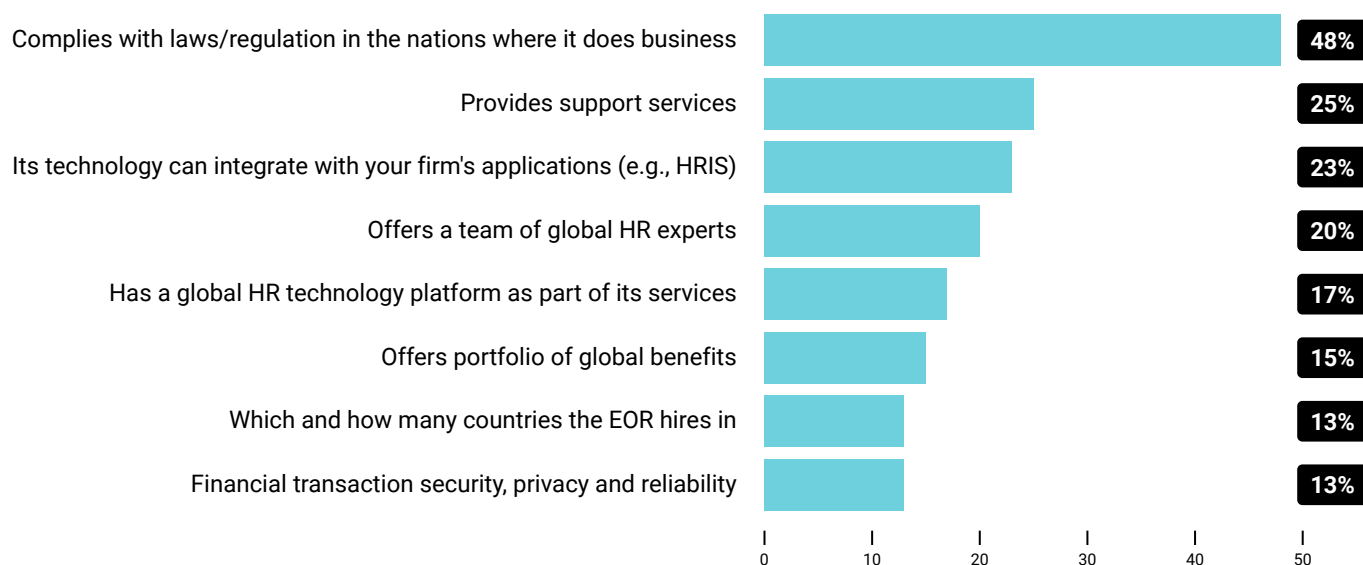


## Finding: Almost half the firms that use an EOR select and evaluate them based on compliance with laws/regulation in the nations where they do business

What do firms look for when selecting and evaluating an EOR? By far the most widely cited answer (48%) is compliance with local laws/regulation. After all, each country is governed by variety of laws regulating payroll, taxation and employment, which makes compliance tedious for many global companies.

What else do such firms look for? A quarter want to know about support services, and nearly as many (23%) want firms that provide technologies that can integrate with their firm's applications, such as their Human Resource Information Systems. Many (17%) also see a global HR technology platform as part of their services. And, a fifth seek firms that offer a team of global HR experts.

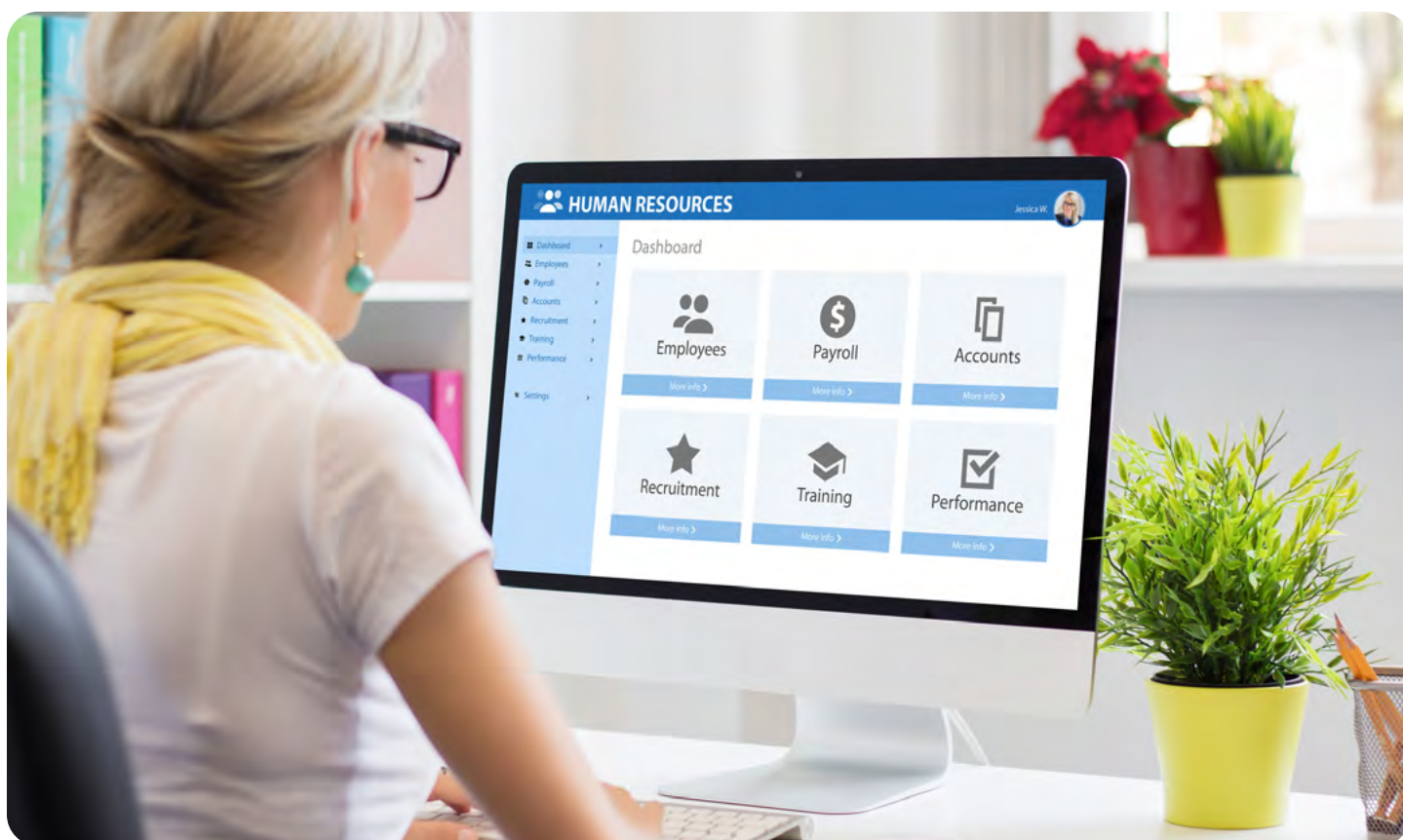
### What criteria did your organization use in its evaluation and selection of its EOR firm? (select all that apply)





We also asked firms that are currently evaluating EORs or considering using them in future about what factors they look for while evaluating such service providers. Again, compliance with local laws/regulations tops the list in both cases. Rounding out the rest of the top five criteria cited are:

- offers financial transaction security, privacy and reliability
- has a global HR technology platform as part of its services
- provides support services
- has technology that integrates with the firm's applications (e.g., HRIS)



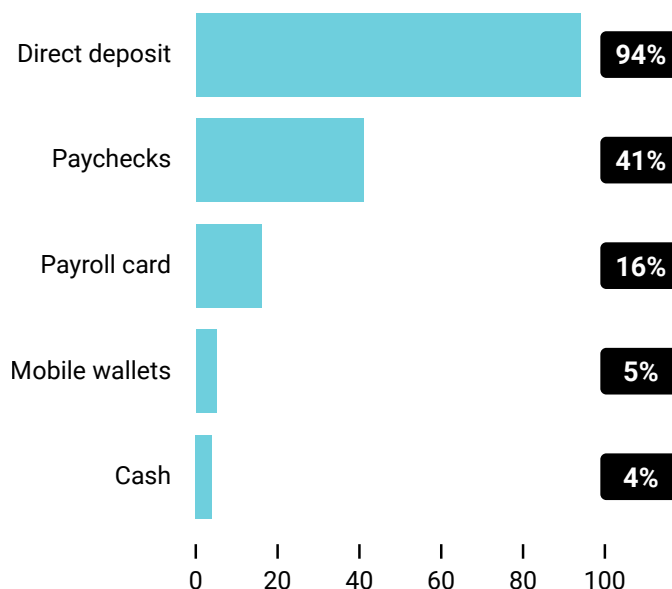
# There's Greater Consensus on Payroll Basics and Less on Payroll Add-ons



## Finding: Almost all organizations (94%) pay through direct deposit

In more than 9 in 10 organizations (94%), employees are paid through direct deposit. This is arguably the safest and least complicated method of executing payroll, and there's a virtual consensus about using it. That doesn't mean, however, it is the only game in town. About two-fifths still rely on paychecks while a smaller proportion leverage payroll cards (16%) or mobile wallets (5%).

**Which of the following ways to pay employees does your organization use? (select all that apply)**





## Finding: Only a minority of organizations offer payroll-related add-ons

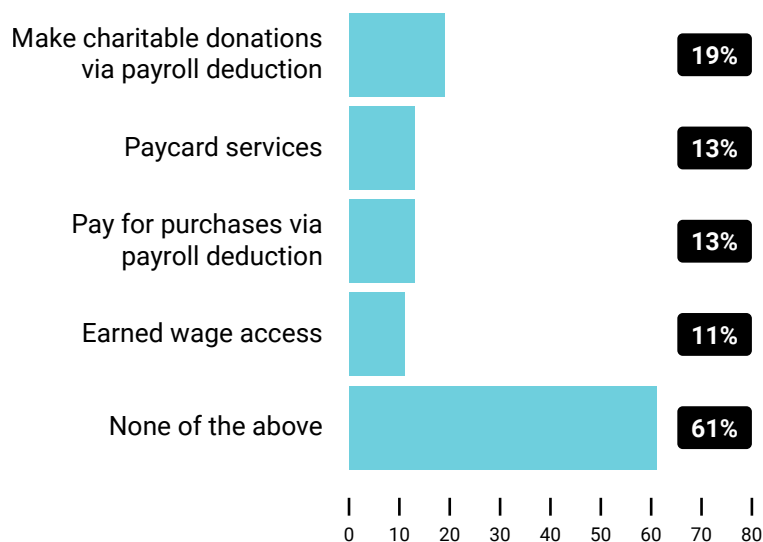
Earlier in the report, we reported that only 26% of responding organizations report being good or excellent at offering valuable payroll add-ons such as earned wage access. The finding that 61% say they offer no payroll-related add-ons supports the previous observation.

Among those that offer add-ons, however, the ability to make charitable donations via payroll deductions is most widely cited. Moreover, more than 10% of all respondents—and over a quarter of those who offer some type of add-on—offer paycard services, pay for purchase via payroll deductions, and earned wage access.

### Differences based on size of organization

Large organizations offer payroll-related add-ons to a much greater extent than mid-size and small organizations. For instance, more than half of large organizations offer employees the option to make charitable donations via payroll deduction (55%) compared to under one in ten of mid-size (9%) and just 6% of small organizations.

#### Which payroll-related add-ons does your organization currently offer employees? (select all that apply)



# Payroll-related Technologies Are Primarily Used to Automate and Communicate

Technology has become indispensable for payroll today, but what are the various ways it can help design payroll?



## Finding: Technology has primarily improved automation of pay and compliance

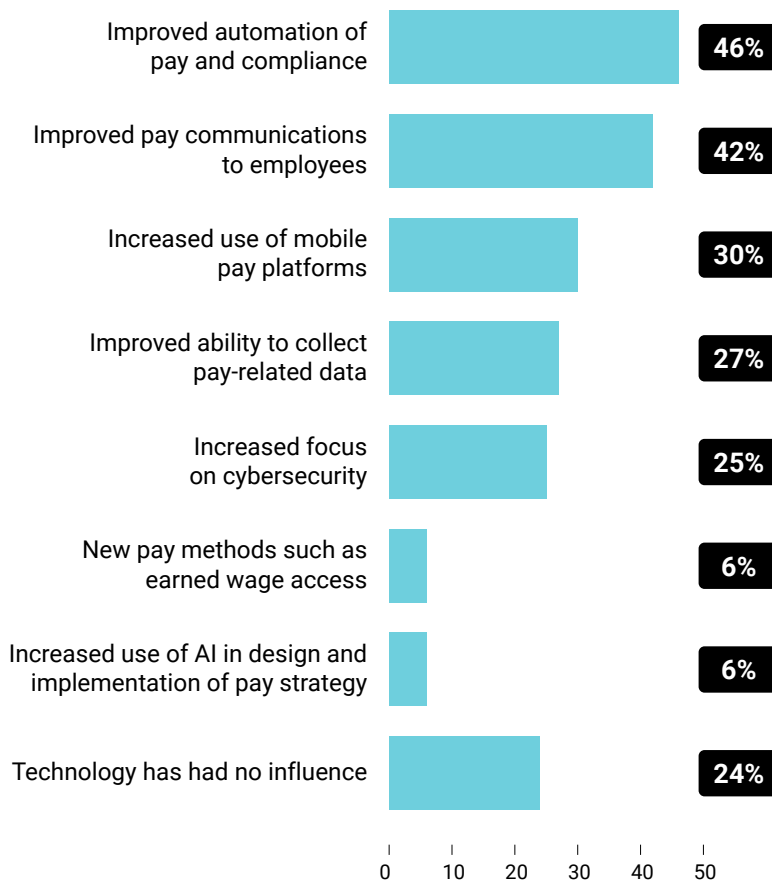
We asked, “In which of the following ways has technology influenced the design and implementation of pay in your organization?” The most widely cited response, at 46%, is the automation of pay and compliance. Of course, this helps in reducing labor-intensive work and errors.

Two-fifths (42%) use technology to improve communication to employees, which likely contributes to improvements in pay-related employee experiences. With technology also comes the need to focus on cybersecurity, which is cited by 25%.

Surprisingly to us, a quarter of respondents say technology has no influence on the design and implementation of pay in their organizations. This response is more common among smaller organizations than larger ones, but even a substantial portion of respondents from larger ones (19%) reported this. We will delve into this in next year’s survey to gain greater clarity.

As we will find later in this report, however, organizations with more strategic payroll functions are also far more likely to leverage technology that affects the design and implementation of pay.

**In which of the following ways has technology influenced the design and implementation of pay in your organization?  
(select all that apply)**



**About a third (30%) report increased use of mobile pay platforms**

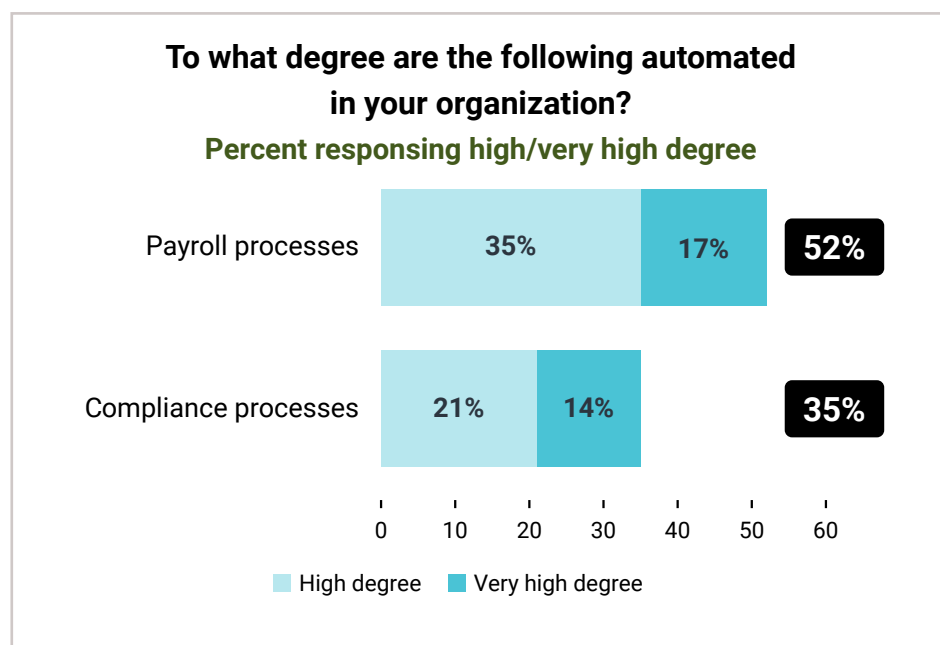


## Finding: Although most organizations automate payroll processes to at least a moderate degree, just over half automate them to a high/very high degree

While automation is seen as an important outcome of using technology in payroll, how many organizations have automated their payroll and compliance processes to a high or very high degree? Just over half (52%) say they have automated their payroll processes to a high/very high degree, while just over a third (35%) say the same about compliance processes.

However, a majority of organizations have automated payroll and compliance processes to at least a moderate degree, at 86% and 72%, respectively.

We view this as an area ripe for improvement since automation not only reduces the time and effort required in manual processing but is also instrumental in reducing errors and maintaining compliance with changing laws.



# Although Some Express High Confidence in their Payroll Security, Others Are Less Certain

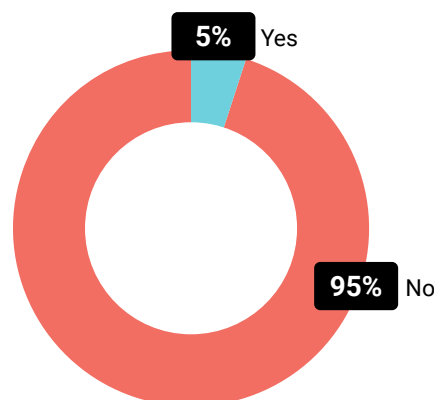
Payroll security is an important concern for any organization because security breaches can cause significant loss of time and money. Moreover, dealing with security breaches may redirect focus from important organizational priorities. Further, pay information is often very sensitive and associated with critical employee information such as Social Security numbers, bank account information, etc. This requires organizations to be proactive about payroll security.



## Finding: Five percent of organizations have suffered a payroll system security breach over the last two years

Although we view it as encouraging that 95% of respondents say their companies have not faced any payroll system security breaches over the past two years, this still leaves 1 in 20 reporting such incidents. Considering the short time-frame, that still represents many organizations when extrapolated to the whole economy. Though breaches will differ, many are likely to wreak havoc on brand image and the employee experience.

**Was your company affected by payroll system security breaches in the past two years?**



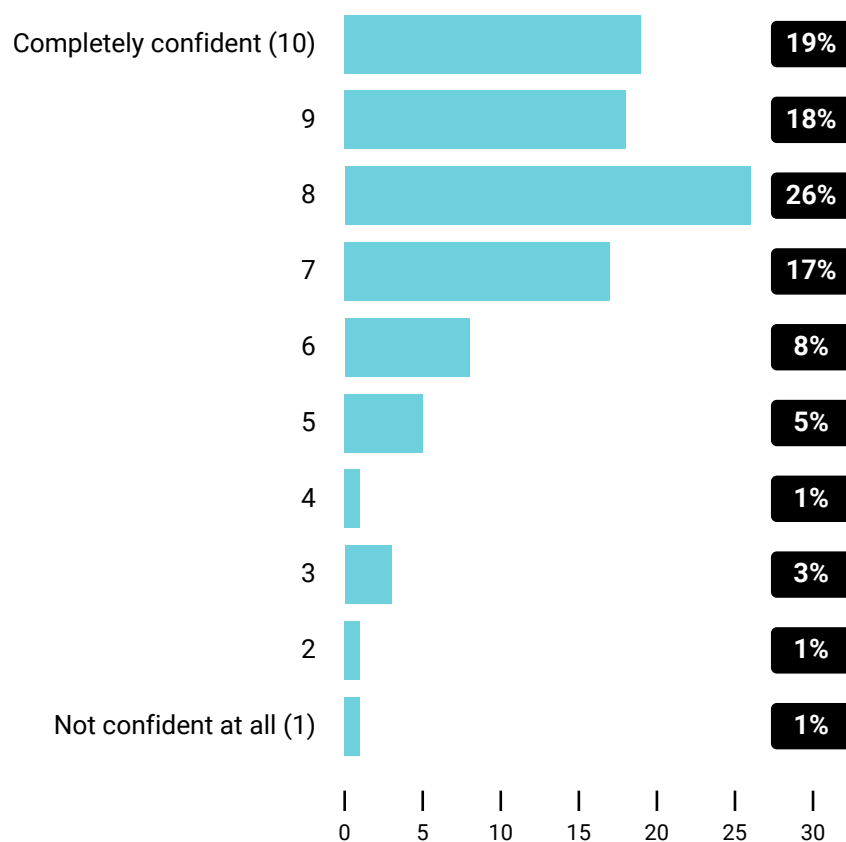




## Finding: Just over a third are highly confident (9, 10) about their organization's security practices regarding payroll

With the availability of cybersecurity applications and features, we might expect a majority of organizations to be very confident in their security practices regarding payroll. However, only 37% give themselves a high confidence rate (a 9 or 10 on a 10-point scale), while one in ten organizations rate their confidence at 5 or below on a 10-point scale. Still, we should note that a large majority of respondents (80%) put their confidence in the 7 to 10 category, suggesting a relatively high confidence level for the large majority of respondents.

### On a scale of 1 to 10, how confident are you in your organization's security practices regarding payroll?



# In the Near Future, Payroll Will Become More Integrated, Transparent and Strategic



## Finding: Increased integration of payroll, HR and attendance systems will influence the payroll in over half of organizations over the next two years

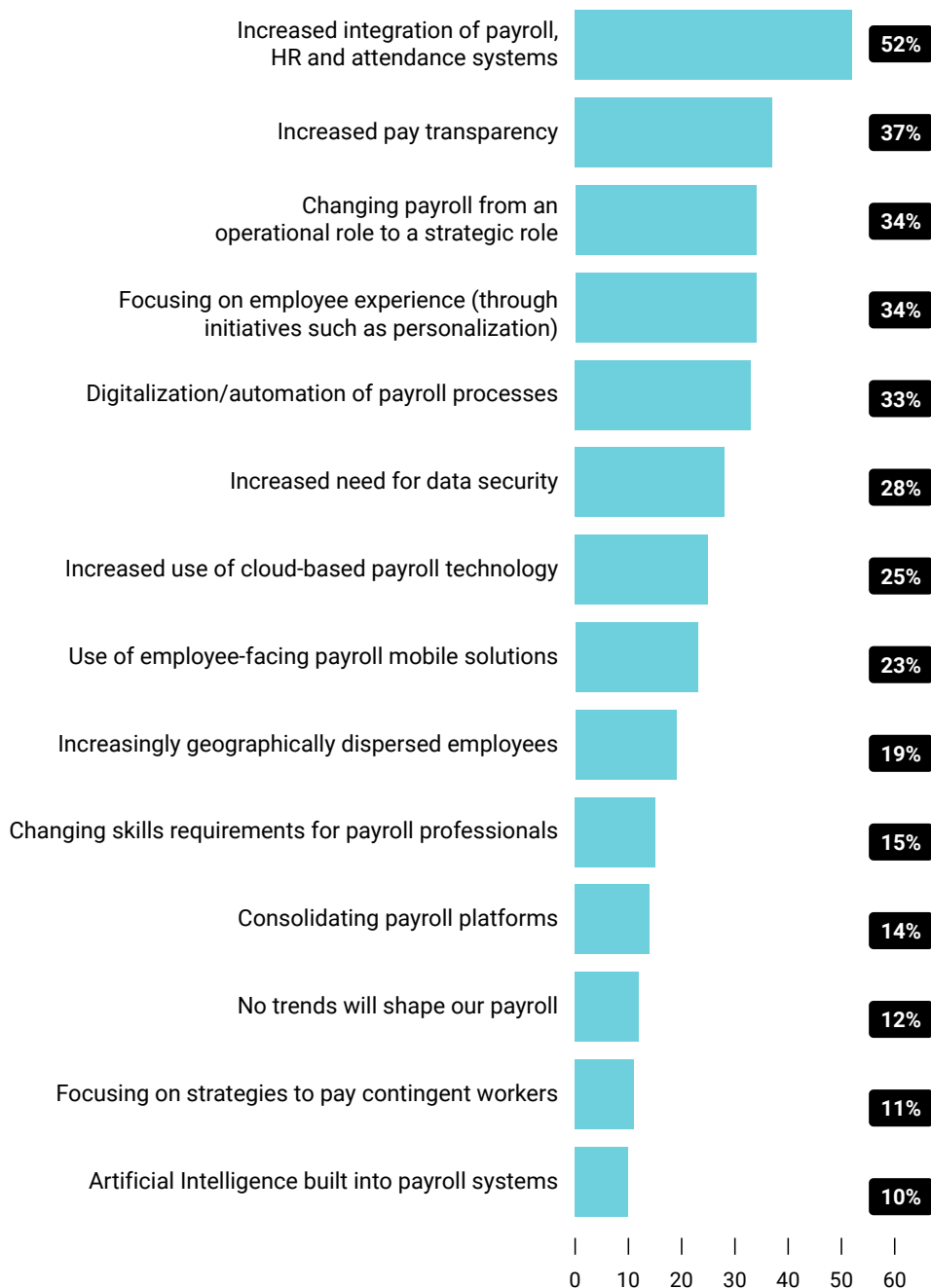
A little over half (52%) of respondents believe increased integration of payroll, HR and attendance systems will shape payroll in their organizations over the next two years. This integration should help reduce errors, improve compliance and allow for a better employee payroll experience.

Just under two-fifths believe pay transparency will be an important influence on payroll, a trend that is likely being driven by changes in laws in various U.S. states.<sup>5</sup> About a third of respondents also indicate that payroll will become more strategic, more focused on the employee experience, and digitized/automated.



<sup>5</sup> Demante, B., Hoffman, L., & Khattar, R. (2023, March 23). Quick facts about state salary range transparency laws. *Center for American Progress*. Retrieved from <https://www.americanprogress.org/article/quick-facts-about-state-salary-range-transparency-laws/>

**Which of the following trends will most shape payroll in your organization over the next two years? (select all that apply)**



# What Do Strategic Payroll Functions Do Differently?

## How we classify *strategic payroll functions* and *administrative payroll functions*

For this report we conducted analyses to gain insights into which practices are most widely used by organizations with more strategically aligned payroll functions. Specifically, we analyzed responses and segmented the data into two groups:

- **Strategic payroll functions:** those who answered the question “Which of the following best describes the strategic nature of your organization’s payroll function?” as “Highly strategic”
- **Administrative payroll functions:** those who answered the same question as “Not strategic” or “Somewhat strategic”

Of course, correlation is not the same as causation. While we cannot state that any particular practice will definitely lead to better payroll functions, we do see intriguing relationships that may, if used judiciously, result in greater success.



# Strategic Payroll Functions Are Better at Meeting Goals and Addressing Challenges

## Results of Chi-squared Test

A chi-square test of independence shows that strategic payroll functions are significantly more likely than administrative payroll functions to say their pay strategy is good/excellent at all listed capabilities.

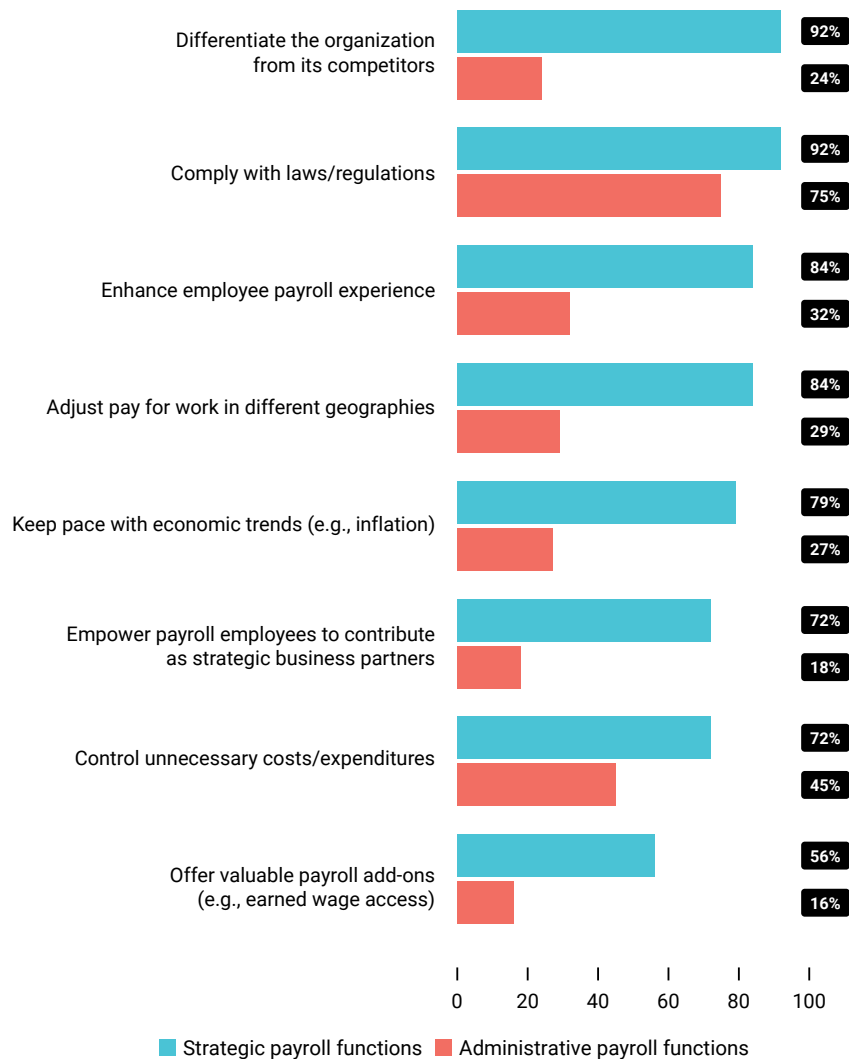
**Finding: 9 in 10 strategic payroll functions say their pay strategy is good or excellent at differentiating their organization from competitors, but just one-quarter of administrative payroll functions say the same**

Strategic payroll functions are more likely than administrative payroll functions to say their organizations are good or excellent at all payroll-related strategies. For example, strategic payroll functions are four times more likely to empower payroll employees to contribute as strategic business partners (72% vs. 18%), nearly four times more likely to say they differentiate the organization from its competitors (92% vs. 24%), and more than three times more likely to offer valuable payroll add-ons (56% vs. 16%).



## How would you rate the ability of your organization's pay strategy to:

### Percent responding good or excellent



**Strategic payroll functions are nearly three times more likely than administrative payroll functions to say their pay strategy is good or excellent at adjusting pay for work in different geographies**



## Results of Chi-squared Test

A chi-square test of independence shows that strategic payroll functions are significantly more likely than administrative payroll functions to say they do not have any challenges related to payroll processes. Moreover, administrative payroll functions are significantly more likely than strategic payroll functions to say they face challenges due to a lack of technology integration, inflexible payroll system and inconsistent or minimal automation.



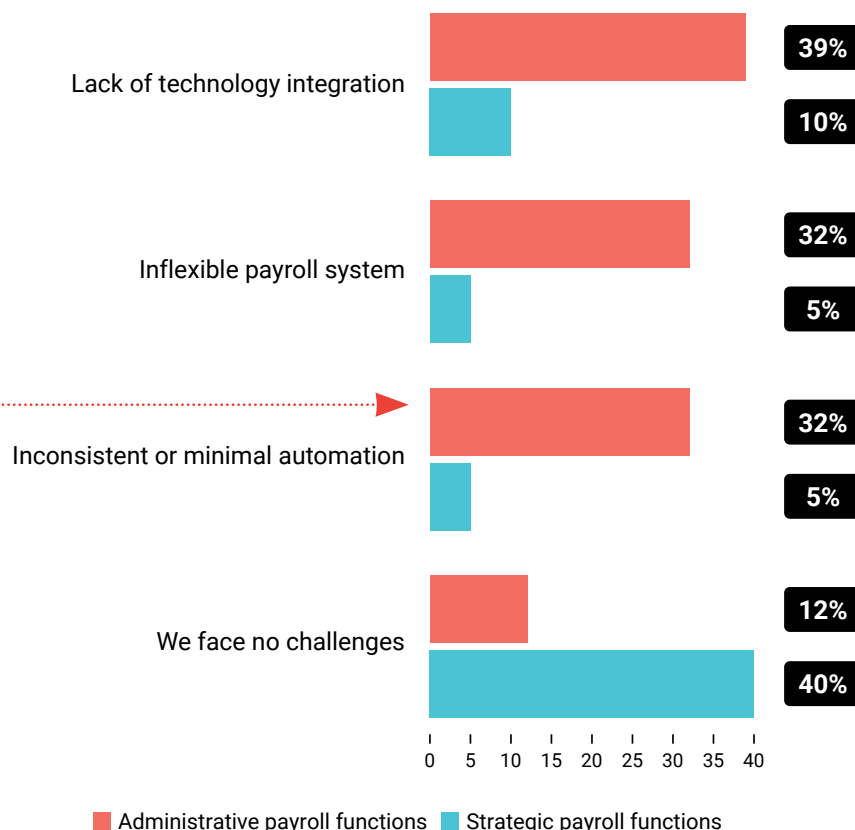
**Administrative payroll functions are more than six times more likely to say that inconsistent or minimal automation is one of the top five payroll-related challenges they face**

## Finding: Two-fifths of strategic payroll functions do not have any payroll-process-related challenges

Administrative payroll functions are more likely to cite challenges related to their current payroll processes. When compared with strategic payroll functions, administrative payroll functions are more than six times more likely to say they face challenges due to inflexible payroll systems and inconsistent or minimal automation (32% vs. 5%), and they are four times more likely to cite challenges related to lack of technology integration (39% vs. 10%).

In contrast, two-fifths of strategic payroll functions say they face no such challenges, compared to just 12% of administrative payroll functions.

### Which of the following are the top 5 challenges your organization faces with regard to its current payroll processes? (select up to 5)

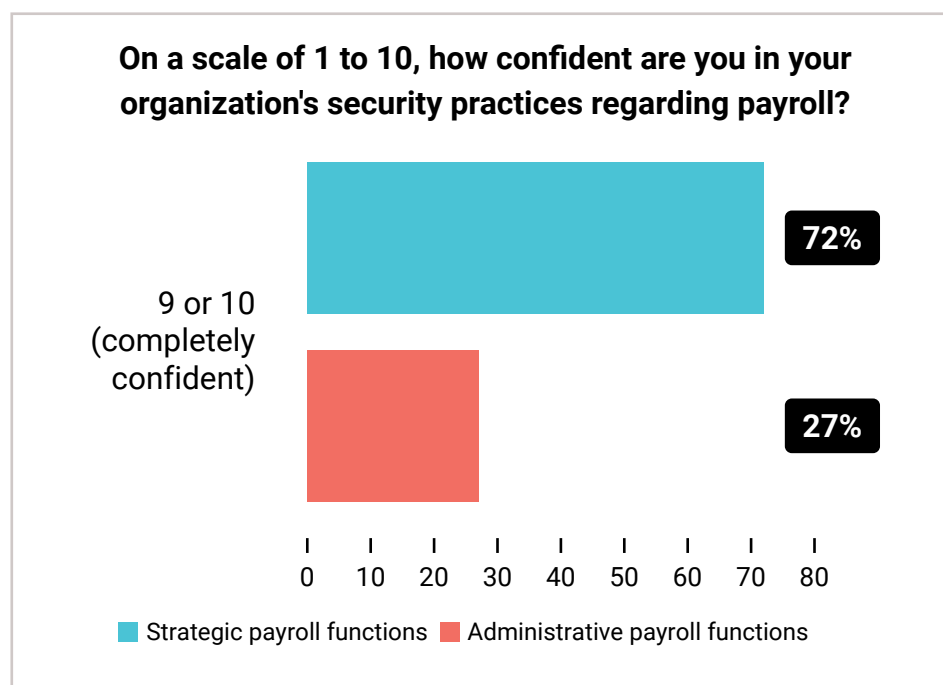


### Results of Chi-squared Test

A chi-square test of independence shows that strategic payroll functions are significantly more likely than administrative payroll functions to rate themselves 9 or 10 on a 10-point scale of confidence regarding their organization's payroll-related security practices

## Finding: Seventy-two percent of strategic payroll functions rate themselves 9 or 10 on a 10-point scale of confidence regarding their organization's payroll security practices

Almost three-fourths (72%) of strategic payroll functions are very confident in their organization's security practices regarding payroll (that is, a 9 or 10 on 10-point scale). By comparison, just over a quarter of administrative payroll functions (27%) say the same.





# Strategic Payroll Functions Update Their Payroll Strategy More Often

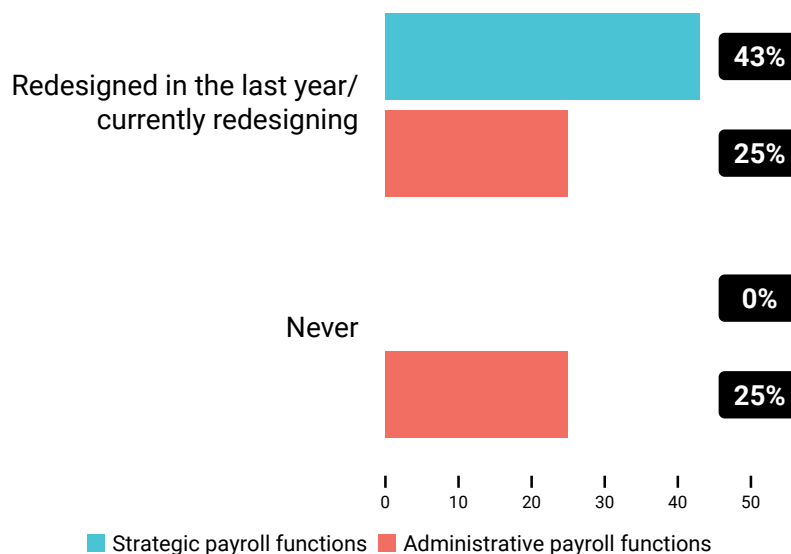
## Results of Chi-squared Test

A chi-square test of independence shows that administrative payroll functions are significantly more likely than strategic payroll functions to say they have never significantly redesigned their payroll strategy.

## Finding: A quarter of administrative payroll functions have never redesigned their payroll strategy

Redesigning a payroll strategy helps organizations pivot and adapt their pay strategy to the myriad changes around them and to stay current on employee needs. More than two-fifths of strategic payroll functions have either redesigned their pay strategy last year or are currently redesigning them. However, a quarter of administrative payroll functions have never redesigned their payroll strategy at all.

### How recently has your organization significantly redesigned its payroll strategy? (select the one that best applies)





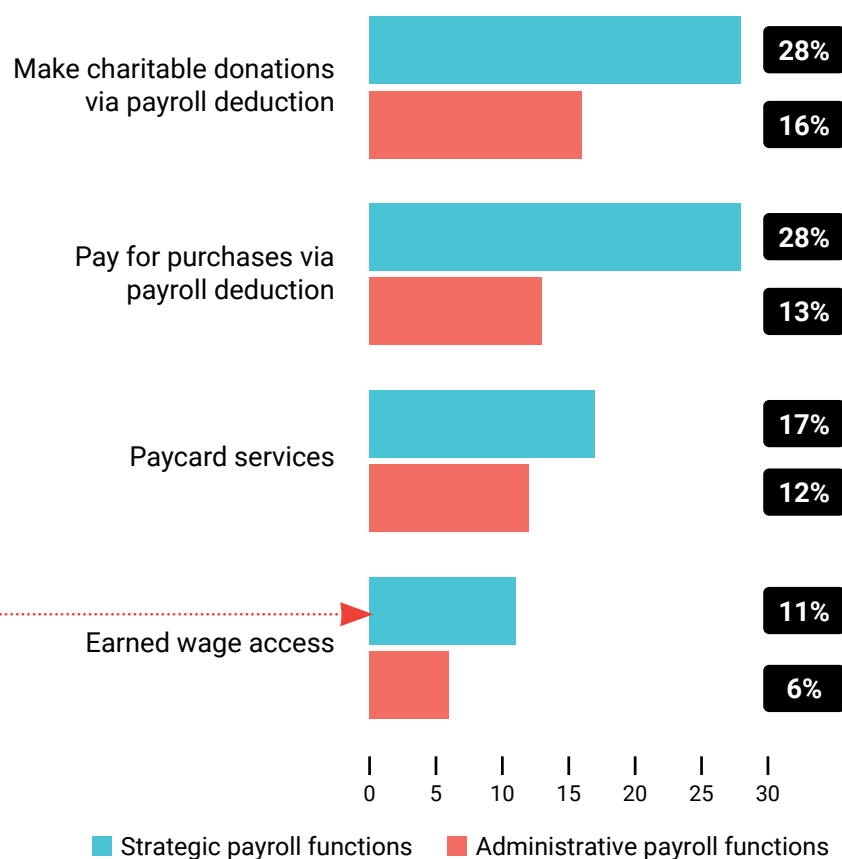
## Finding: Over a quarter of strategic payroll functions allow employees to make charitable donations via payroll deductions

Although most organizations struggle with offering adequate payroll-related add-ons, strategic payroll functions are more likely to offer these benefits. For instance, they are more likely than administrative payroll functions to allow employees to make charitable donations via payroll deduction (28% vs. 16%) and pay for purchases via payroll deduction (28% vs. 13%) and pay for purchases via payroll deduction (28% vs. 13%).



**Strategic payroll functions are nearly twice as likely to offer earned wage access as a payroll add-on**

### Which payroll-related add-ons does your organization currently offer employees? (select all that apply)



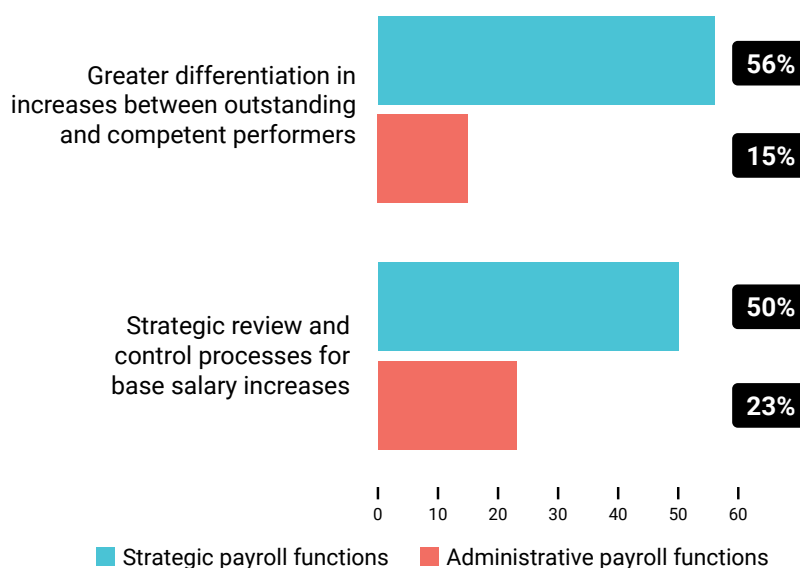
## Results of Chi-squared Test

A chi-square test of independence shows that strategic payroll functions are significantly more likely than administrative payroll functions to offer greater differentiation between outstanding and competent performers.

## Finding: Almost three-fifths of strategic payroll functions differentiate between outstanding and competent performers

Compared to administrative payroll functions, strategic payroll functions are nearly four times more likely to differentiate between outstanding and competent performers in terms of compensation. And, they are more than twice as likely to have a strategic review and control processes for base salary increases (50% vs. 23%).

### Which of the following pay and/or compensation strategies does your organization follow to hire and retain key talent? (select all that apply)



# Strategic Payroll Functions Are More Likely to Leverage Technology and Global Services

## Results of Chi-squared Test

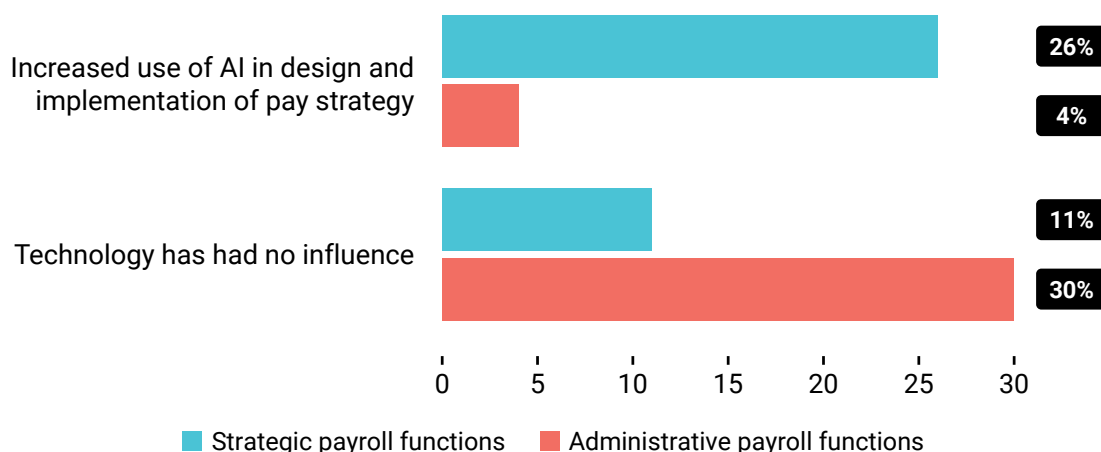
A chi-square test of independence shows that strategic payroll functions are significantly more likely than administrative payroll functions to report increased use of AI in the design and implementation of pay strategy in their organization.

## Finding: Just under a third of administrative payroll functions believe technology has no influence on the design and implementation of pay in their organization

Technology can be invaluable in automating and improving payroll systems. More than a quarter (26%) of strategic payroll functions report increased use of AI in design and implementation of pay strategy while just 4% of administrative payroll functions say the same.

Further, about a third of administrative payroll functions (30%) say technology has no influence on the design and implementation of pay in their organization. This means that they are losing out on numerous benefits of leveraging technology for payroll and this may be one reason why they underperform compared to strategic payroll functions.

### In which of the following ways has technology influenced the design and implementation of pay in your organization? (select all that apply)



### Results of Chi-squared Test

A chi-square test of independence shows that strategic payroll functions are significantly more likely than administrative payroll functions to say they have automated payroll and compliance processes.

## Finding: The majority of strategic payroll functions have automated payroll processes

Leveraging technologies has advantages in terms of payroll automation. About three-quarters (74%) of strategic payroll functions say their payroll process are automated to a high or very high degree, and about two-thirds say the same about their compliance processes. By comparison, far fewer administrative payroll functions have the same level of automated payroll processes (39%) or automated compliance processes (27%).



**Strategic payroll functions are more than twice as likely to say compliance processes are automated to a high or very high degree**

### To what degree are the following automated in your organization?

Percent responding high or very high degree

Payroll processes



Compliance processes



0 10 20 30 40 50 60 70 80

■ Strategic payroll functions ■ Administrative payroll functions

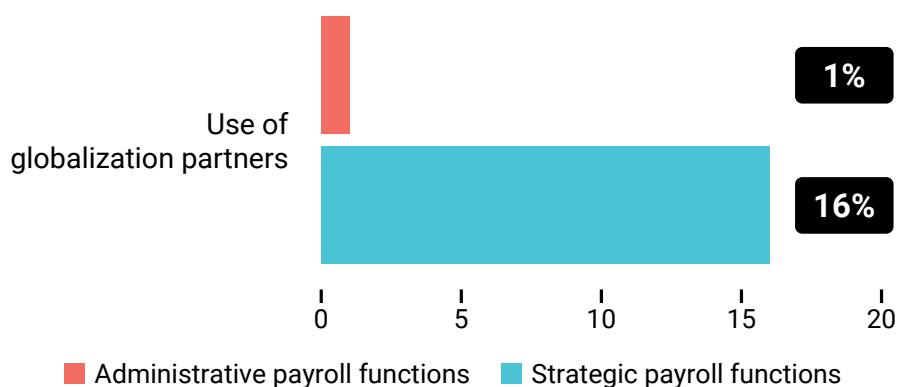
## Results of Chi-squared Test

A chi-square test of independence shows that strategic payroll functions are significantly more likely than administrative payroll functions to say there will be an increased use of globalization partners over the next two years.

## Finding: Strategic payroll functions are far more likely to foresee usage of globalization partners over the next two years

Compared to administrative payroll functions, strategic payroll functions are far more likely to say that the use of globalization partners will shape payroll over the next two years (16% vs. just 1%).

**Which of the following trends will most shape payroll in your organization over the next two years? (select all that apply)**





# Key Takeaways

## Key Takeaway 1

**Perfect the basics of payroll.** This includes actions such as gathering records of employee information, tracking time and attendance, accurately calculating and processing payroll, complying with applicable labor laws, and filing correct reports with the governmental agencies.

## Key Takeaway 2

**Assess the current characteristics of your payroll function, and decide on future directions.** To what degree is the payroll function purely administrative, and can the organization benefit by giving it a more strategic role? Evaluate the potential advantages and drawbacks of a more strategic payroll function, and determine whether the organization is prepared to undertake the necessary changes to achieve it.

## Key Takeaway 3

**Evaluate the challenges faced by the payroll department.** Evaluate process challenges by analyzing technology integration, system flexibility, automation capabilities, and data management to identify potential issues and areas for improvement. Technology integrations can potentially reduce bottlenecks. System flexibility is often key to adapting to changes in the business environment, and automation can improve accuracy, reduce errors and increase productivity. Also evaluate strategic challenges such as competitiveness, adaptation to economic trends, financial stressors, pay equity and pay transparency. Adapt to economic and social trends, in part, by addressing employee financial stressors.

## Key Takeaway 4

**Conduct regular audits to remove errors and inaccuracies.** Some common sources of payroll errors stem from misclassifying employees, errors in tracking time, and tax-related errors. Regular audits of the payroll system and processes can identify and remedy these issues. They can also provide opportunities to identify inefficiencies and provide input for training payroll professionals.

## Key Takeaway 5

**Emphasize payroll-related training.** Develop the skills and expertise of payroll professionals to ensure they are fully versed in payroll procedures and technologies. Also, consider training them in how compensation programs are designed and implemented within the organization. Ensure they understand linkages between performance and pay, and give them the knowledge they need to conduct good pay-related conversations with people outside the function. In addition, help employees understand their role in ensuring they are paid properly and in deriving the maximum value from their compensation and benefits.

## Key Takeaway 6

**Prepare for greater pay transparency.** Many organizations must prioritize improving pay transparency in response to new legislation in various states. Pay transparency involves several dimensions, including communicating pay practices to employees and explaining how pay is determined. It also involves being transparent about the salary or salary ranges for job roles, communicating mistakes related to paychecks or tax withholdings, and providing information about steps taken to correct these mistakes. An organization that focuses on pay transparency is more likely to pay its employees equitably, manage performance and career development fairly, improve DEIB, and be more capable of attracting talented employees.

## Key Takeaway 7

**Seek trustworthy sources of pay level data.** Among the key sources of information mentioned by respondents are government sources of wage data, trade and professional organizations, independent third party surveys and data from the organization's payroll system and vendor partners.

## Key Takeaway 8

**Carefully analyze incentives and bonuses.** Ensure that they align with your organization's goals and values, incentivize behaviors that drive success, and make sure incentives are unbiased. By effectively evaluating and analyzing incentives and bonuses, you can ensure that they are impactful and outcome-driven.



## Key Takeaway 9

**If expanding globally, consider partnering with organizations such as employers of record (EOR) firms.** We found that one of the payroll-related challenges of expanding globally or hiring talent from anywhere in the world is complying with national and regional laws. An EOR might be able to provide invaluable support. For example, the right EOR can hire and pay employees in various parts of the world, staying in compliance with many different tax and labor laws. While choosing an EOR, factors to consider include the following: experience and knowledge of the EOR in the country where your organization is looking to hire, processes in place to ensure compliance with local payroll-related laws, their processes for solving any problems if they occur, the extent of visibility they provide into the payroll systems, and the integration with other technology systems (such as HCM).

## Key Takeaway 10

**Be mindful of pay compression while in a war for talent.** In a bid to hire the best talent during times of tight labor, many organizations resort to higher pay or incentives such as hiring bonuses. This may inadvertently result in new hires earning more than existing staff. These differences in pay between old and new employees performing similar jobs may result in turnover and other problems. A regular pay audit can identify gaps that organizations can promptly address.

## Key Takeaway 11

**Where it makes sense, automate payroll processes through appropriate payroll software and technology.** When appropriate, automate payroll processes using payroll software and technology. Manual payroll processing tends to be laborious and error-prone. Payroll software automates payroll and helps keep organizations up-to-date with payroll-related regulations. Outdated payroll systems often suffer from poor information integration. By automating time and attendance systems, organizations can better maintain accurate records and reduce errors that negatively impact employee engagement and satisfaction. Payroll platforms can potentially facilitate integration across system components. This integration reduces complexity and helps ensure consistency.

## Key Takeaway 12

**Evaluate the ways that new artificial intelligence applications may influence payroll over the next two years.** For example, AI may facilitate new types of automated payroll processing, predictive analytics, fraud detection, personalized payroll services, and compliance.

## Key Takeaway 13

**Consider offering various payroll add-ons such as earned wage access.** Providing these options can positively impact the payroll experience and make employees feel valued and appreciated, leading to higher job satisfaction and retention rates. It is crucial to assess the needs and preferences of your workforce to determine which add-ons will be most impactful. Earned wage access, or EWA, allows employees to receive part of their paycheck before payday. It's also been called on-demand pay. Some predict that "instant pay" for hours will become a trend that employers must respond to.<sup>6</sup>

## Key Takeaway 14

**Focus on payroll security.** Prioritize the use of appropriate payroll software and regularly update it. Additionally, train all employees to use the payroll system properly and keep them aware of security features, best practices, and any changes in payroll software or procedures. Utilize security systems such as firewalls, spam filters, and encryption of sensitive data to protect organizational information. These systems can also be helpful in safeguarding payroll data.

<sup>6</sup> Weikle, B. (2022, January 25). You shouldn't have to wait 2 weeks to get paid, say proponents of new payroll system. *CBC Radio-Canada*. Retrieved from <https://www.cbc.ca/radio/costofliving/early-wage-access-1.6325397>



## About Atlas

Atlas enables innovative companies to compete in a global economy, believing that businesses should employ whomever they want, wherever the talent exists. As the largest Direct Employer of Record (EOR), Atlas is a technology platform that is supported by experts and delivers flexibility for companies to expand across borders, onboard talent, manage compliance, and pay their global workforce without the need for a local entity or multiple third-party providers.

With entities in over 160 countries, Atlas brings localized experience and expertise into an enterprise-grade technology platform that supports thousands of companies and remote teams. The Atlas platform is uniquely designed to deliver end-to-end EOR solutions and empowered user experiences that provide self-service capabilities and real-time insights that lead to improved business outcomes.

We are committed to widening the margins of entrepreneurship and employment alike. Our business model helps startups and SMBs compete on the international playing field—turning commercial innovations into viable global enterprises. In doing so, it brings opportunity to local economies and the people who work there. Learn more at [www.atlashxm.com](http://www.atlashxm.com).



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