

HR.com's Future of Payroll 2025



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Executive Summary

About the Survey

This study is based on HR.com's "Future of Payroll 2025" survey, which ran from November 2024 to January 2025. We gathered responses from 206 HR professionals in virtually every industry vertical. Respondents are from all over the world, with the majority from North America, especially the United States.

The respondents represent organizations with a broad cross-section of employees ranging from small businesses with fewer than 50 employees to enterprises with over 20,000 employees. About 70% of our respondents were from organizations with over 100 employees.

Today's payroll functions are striving to balance day-to-day administrative and compliance needs with more strategic approaches. While the payroll functions in most organizations excel at the former, only a quarter operate at higher strategic levels, according to our latest research.

Why is a more strategic approach important? After all, payroll has always been about the practicalities of getting people paid accurately and on time while staying compliant with rules and regulations.

"Amid persistent impediments to achieving efficiency and risk mitigation in processing payroll, payroll professionals also face a necessity and opportunity to become strategic in the eyes of organizational leadership," says Brent Skinner, Executive Community Leader of the Future of Payroll and Workforce Management at HR.com. "The key to their success lies in finding modern, innovative solutions for these operational, security and compliance-related challenges even while leveraging their newfound time and mental space to lift themselves out of a purely reactive and process-focused mindset."

Challenges such as competitive pay, pay equity, and economic pressures are just a few of the factors driving payroll departments to take more strategic points of view. In doing so, payroll can increasingly improve the employee experience, optimize costs, ensure compliance, and support better decision-making. Integrating payroll with broader workforce and financial strategies enhances its value as a driver of business success.

This study explores these and other related issues, shedding light on the state of payroll today and the opportunities that lie ahead. Issues covered include:

- the challenges organizations face in progressing beyond compliance to achieve strategic payroll operations
- ongoing difficulties in aligning payroll strategies with market demands for fair and competitive compensation
- barriers to adopting advanced payroll technologies, including cost, lack of integration, and minimal automation
- risks related to payroll system breaches and varying levels of confidence in current security measures
- the implications of pay transparency, AI adoption, and system integration on the future of payroll management
- how payroll departments with a more strategic focus tend to differ from other payroll departments in terms of both approaches and practices



Our Major Research Findings

Major Finding 1

Most payroll departments excel at compliance but struggle to improve their payroll maturity.

- Based on the HR Research Institute's Payroll Maturity Model (detailed later in this report),
 - ▶ 23% are at the "Ad-hoc" (7%) and "Reactive" (16%) stages of payroll maturity
 - ▶ 52% are at the "Managed" stage
 - ▶ 25% are at the "Optimized" (19%) and "Strategic" (6%) stages of payroll maturity
- Payroll strategy in over half of organizations is good or excellent at:
 - ▶ complying with laws/regulations (87%)
 - ▶ adjusting pay for work in different geographies (64%)
 - ▶ enhancing the employee payroll experience (62%)
 - ▶ controlling unnecessary costs/expenditures (60%)
- Over half of organizations are currently redesigning their payroll strategy (24%) or have redesigned in the last 2 years (31%).

Major Finding 2

Paying competitively continues to remain the top challenge facing payroll strategy.

- The top challenges faced by today's payroll *strategies* are:
 - ▶ paying competitively in today's market
 - ▶ staying updated on laws
 - ▶ economic trends (e.g., inflation, recession)
 - ▶ managing pay equity and transparency
- Top challenges facing payroll *processes* are:
 - ▶ lack of technology integration
 - ▶ cost of payroll tech systems
 - ▶ inconsistent or minimal automation

Major Finding 3

A majority of firms still hesitate to use employer of record (EOR) firms, but the proportion of users is growing.

- Close to two-thirds of organizations say they do not use EOR and do not foresee using it. However, the proportion of firms saying this has declined from 80% in 2023 to 70% in 2024 and 64% in 2025.
- 15% of organizations are currently using an EOR.
- The top consideration while choosing an EOR is compliance with laws/regulations in the nations where it does business.

Major Finding 4

Organizations continue to rely on government sources and organization's payroll system to collect information about pay levels.

- The top sources of information about pay levels are:
 - ▶ organization's payroll system (44%)
 - ▶ government sources (43%)
 - ▶ trade and professional organizations (40%)
- Benefits (70%) and bonuses (67%) are top strategies used by organizations to hire and retain talent.
- The top ways organizations adhere to pay transparency laws are:
 - ▶ hiring from a diverse applicant pool (41%)
 - ▶ educating employees on methodology for determining pay (36%)
 - ▶ addressing salary for underpaid employees (36%)

Major Finding 5

Payroll automation is moderate to high in most organizations.

- The majority of organizations report moderate (39%), high (27%) or very high (12%) levels of payroll automation.
- The top features organizations would like to be included in their payroll software are:
 - ▶ customizability (37%)
 - ▶ benefits management integration (35%)
 - ▶ reporting and analytics (33%)

Major Finding 6

The most common payroll-related "add-on" is direct deposit flexibility, but fewer organizations offer other advanced services.

- The top payroll-related add-on offered is direct deposit flexibility (57%)
- All other add-ons such as discounts and perks, budget savings, earned wage access are offered by under a third of organizations.
- Technology is most likely to have influenced the design and implementation of payroll in the following ways:
 - ▶ improved employee self-service
 - ▶ improved automation of pay and compliance
 - ▶ improved ability to collect pay-related data
 - ▶ added dashboard for payroll management
 - ▶ improved pay communications to employees

Major Finding 7

Payroll security is typically solid, but there are security breaches and concerns.

- 14% have suffered a payroll system security breach in the past two years.
- Only 64% of respondents are highly confident (scoring at least eight out of 10) in their organization's payroll security practices.

Major Finding 8

Increased integration of payroll, HR and attendance systems are seen as the top trends shaping payroll in the next two years.

- The trends highly likely to shape payroll over the next two years are:
 - ▶ increased integration of payroll, HR and attendance systems (55%)
 - ▶ digitization/automation of payroll processes (43%)
 - ▶ increased pay transparency (35%)
 - ▶ artificial intelligence (AI) built into payroll systems (35%)
- AI is expected to improve payroll system and/or strategy through:
 - ▶ automation (75%)
 - ▶ analytics and forecasting (72%)
 - ▶ employee self-service (63%)

Major Finding 9

Compared with transactional payroll functions, transformative payroll functions are:

- nearly 16X more likely to have automated payroll to a high/very high degree
- over 5X more likely to keep pace with economic trends
- over 4X more likely to enhance the employee payroll experience
- over 3X more likely to offer valuable payroll add-ons
- over 3X more likely to control unnecessary costs/expenditures
- over 2X more likely to address salary for underpaid employees and 3X more likely to hire from a diverse applicant pool in response to pay transparency laws
- 2X more likely to offer direct deposit flexibility as a payroll-related add-on.
- almost 2X more likely to be currently redesigning their payroll strategy or have done so in the last 2 years
- facing significantly fewer challenges related to keeping payroll data secure, staying updated on laws, managing payroll tech stack well
- significantly more likely to have benefited from the use of technology in payroll design and implementation in areas such as improved automation of pay and compliance, improved employee self-service, added dashboard for payroll management, etc.

Defining transactional and transformative payroll functions

- **Transformative payroll functions** – organizations with payroll functions at higher levels of maturity on the HRRI's Payroll Maturity Model.
- **Transactional payroll functions** - organizations with payroll functions at lower levels of maturity on the HRRI's Payroll Maturity Model.

Later in this report, we shed more light on how we arrived at these two groupings.

Please note that the findings and recommendations contained in this report are for informational purposes 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.

The State of Today's Payroll Functions

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

Finding: Most payroll departments are neither highly transformative nor completely transactional but find themselves somewhere in between

We asked respondents to rate their payroll function on the HR Research Institute's Payroll Maturity Model (see model below). The results illustrate a spectrum of payroll sophistication across organizations, with over half (52%) falling into the "Managed" category. While this reflects consistent processes and a notable level of automation, it also indicates that many organizations are yet to fully leverage payroll as a strategic tool.

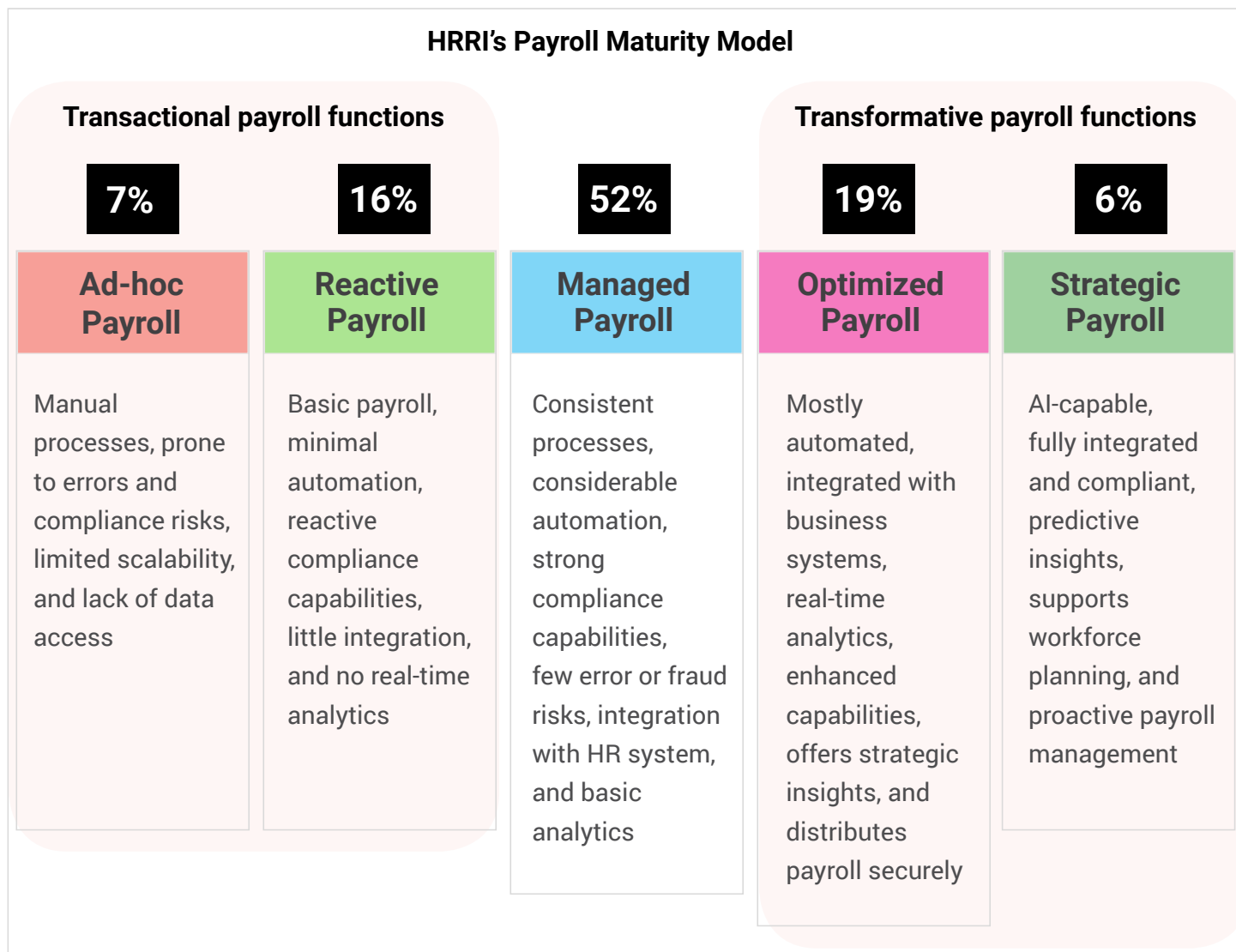
"In payroll, 'tweeners' are halfway to becoming fully mature in their payroll journey," says Brent Skinner, Executive Community Leader of the Future of Payroll and Workforce Management at HR.com. "The question is whether they see new opportunities appearing on the horizon. Too many payroll managers, overly focused on eliminating inefficiencies, fail to recognize the need to pivot to imagining payroll as a more strategic function. Absent a new mindset as they optimize operations, they run the risk of engineering themselves out of existence rather than recasting themselves as trusted advisors to organizational leadership."

A smaller portion (25%) operates at the "Optimized" or "Strategic" levels, showcasing advanced capabilities such as integration with business systems and predictive analytics. However, only 6% of organizations have achieved the highest level, where payroll actively contributes to workforce planning and broader business objectives. On the other end of the spectrum, 23% of organizations remain in the "Ad-hoc" or "Reactive" stages, reflecting significant vulnerabilities in efficiency, compliance, and scalability.

These trends highlight a clear opportunity for organizations to improve the maturity of their payroll functions. By investing in these advancements and ensuring that payroll teams have the necessary skills and tools, organizations can potentially transform payroll into a key enabler of business success.

Differences based on organization size

The larger the organization, the more likely it is to rate its payroll function as strategic. Among large organizations, 21% say their payroll is at the strategic level, compared to none of midsize and just 3% of small organizations that say the same.



Editor's note: These are responses to the question, "Which of the following best describes the level of sophistication of your organization's payroll function?"

Payroll-based cohorts

To better analyze the data from our survey on people analytics, we broke our respondents into groups or cohorts based on the previous question.

Transactional payroll functions: this category includes respondents who indicated that their organizations' payroll functions are at the "Ad-hoc" or "Reactive" stages.

Transformative payroll functions: this category includes respondents who indicated that their organizations' payroll functions are at the "Optimized" or "Strategic" stages.

Throughout this report, we will examine the data in a way that identifies correlations between various organizational factors and the strategic nature of their payroll functions. Correlation does not prove causation, of course, but these correlations may point our attention toward possible best practices and strategies.





Finding: Payroll functions typically excel at compliance, with nearly nine in 10 organizations rating their compliance feature as good or excellent

Organizations rely on payroll to stay compliant, and the vast majority of respondents say they live up to this requirement. Two-fifths (42%) are excellent and another 45% are good at compliance. Only 3% indicate they are poor at compliance. This trend has remained true over the [past two years of our research](#) on [this topic](#).

Close to two-thirds are either good (49%) or excellent (15%) at the potentially challenging task of adjusting pay for different geographies. Another notable finding is that 41% say they are good at enhancing the employee experience, and 21% say they are excellent at it. This likely reflects the broader trend in HR to see its mission as providing a good employee experience, not just completing transactions.

“Effective compliance-related functionality has become table stakes among vendors of software for payroll,” says Skinner. “The most encouraging finding here is that more than two-fifths of respondents see the connection between payroll and the employee experience. Payroll is, in fact, ground zero for the employee experience. The tricky part is that when payroll goes right, employees tend not to notice, whereas when it goes wrong, organizations experience an acute threat to employee retention.”

Differences based on organization size

Larger organizations are more likely than midsized or small ones to say their payroll strategy empowers payroll professionals to contribute as strategic business partners, offers valuable payroll add-ons, and adjusts pay for work in different geographies.

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



Editor's note: Those responding "don't know" accounted for 5% to 16% of respondents, depending on the response item, and were removed from the data set.



60% of respondents say their payroll strategy is good or excellent at controlling unnecessary costs/expenditures

Results of Chi-square test

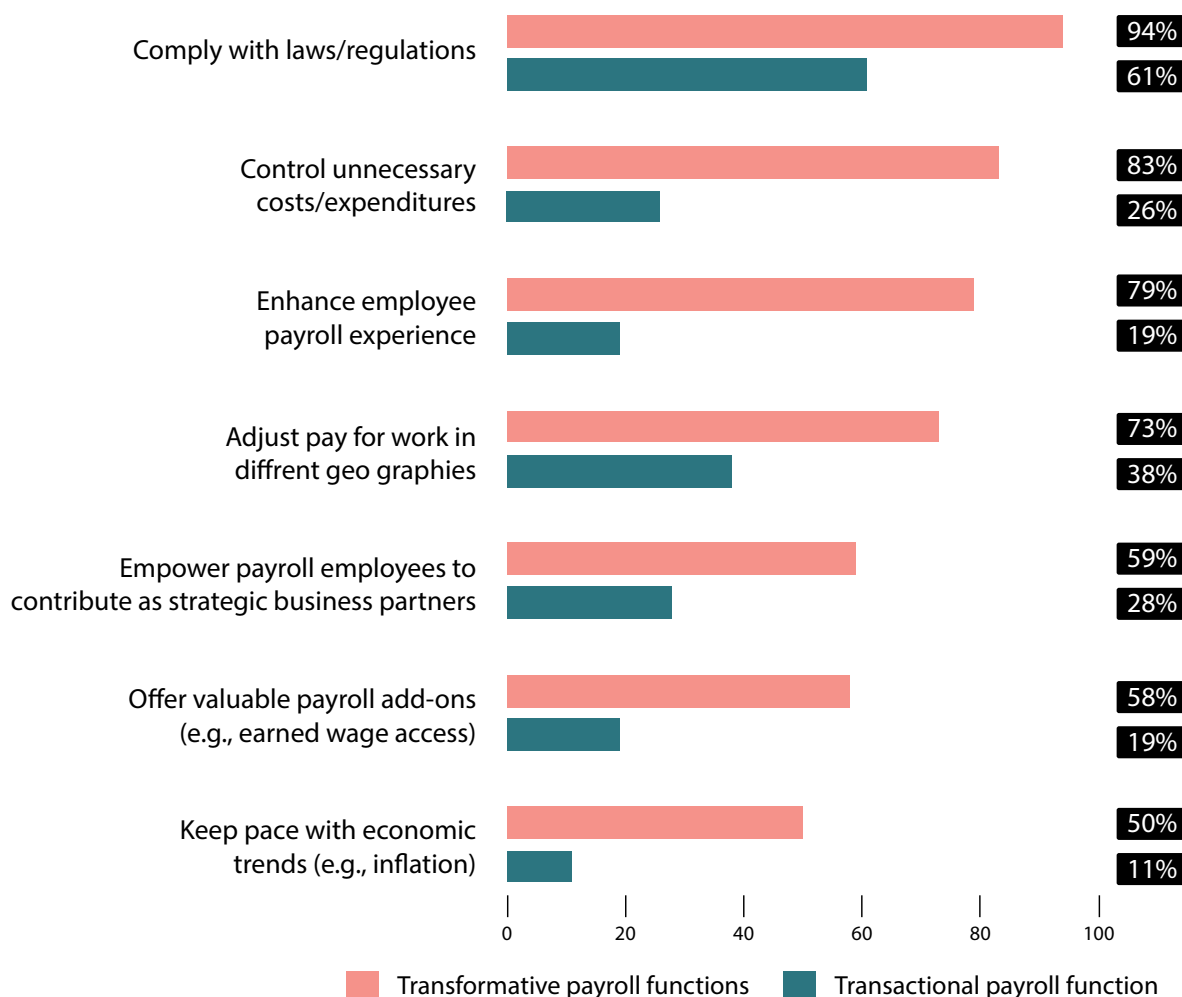
A chi-square test of independence shows that transformative payroll functions are significantly more likely than transactional payroll functions to say their payroll strategy is good/excellent in achieving the listed goals.

Finding: Transactional payroll functions do poorly on most aspects of payroll strategy

Transformative payroll functions tend to perform well at both compliance issues and more strategic issues. They especially excel in key payroll outcomes such as complying with laws/regulations (94%), controlling costs (83%), adjusting pay across geographies (73%), and enhancing employee payroll experiences (79%).

By comparison, transactional functions need improvement in various areas, especially in adapting to economic trends (11%) and offering payroll add-ons like earned wage access (19%), which can be important for employee satisfaction.

How would you rate the ability of your organization's payroll strategy to: (% responding "Good" or "Excellent")



Editor's note: Those responding "don't know" accounted for 14% or less of the respondents, and these responses were removed from the data set.



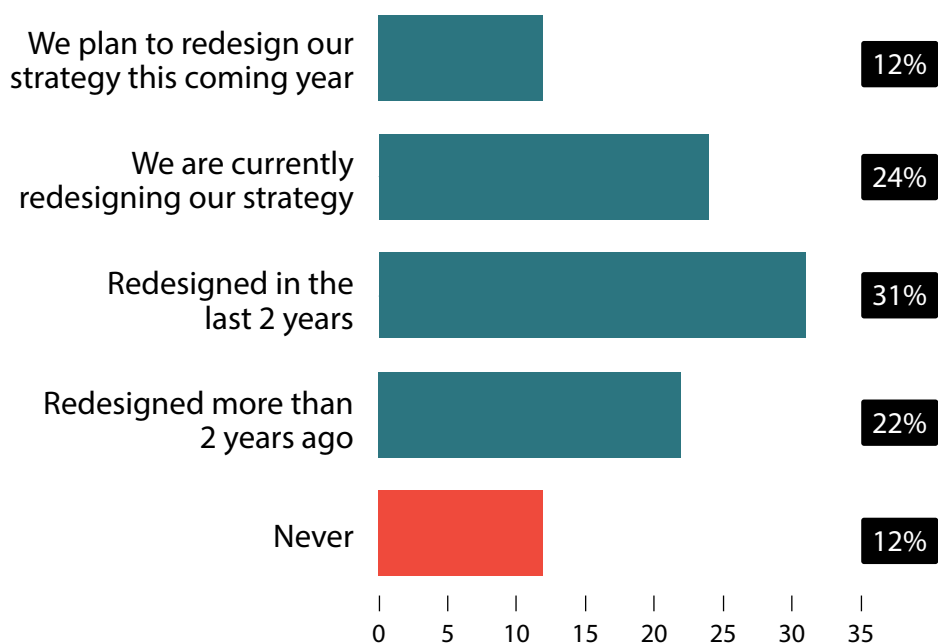
Finding: Over half of organizations (55%) are currently redesigning or have recently updated payroll strategies

Within the past two years, 31% of organizations have redesigned their payroll strategies, and another 24% are currently undergoing redesigns. An additional 12% plan to update their strategies in the coming year, indicating a strong trend toward revitalizing payroll strategies.

However, 22% say they redesigned payroll strategies over two years ago, and 12% have never updated their strategies, leaving them vulnerable to inefficiencies and compliance risks.

We believe organizations should prioritize regular updates to their payroll strategies. Regular reviews safeguard competitiveness and adaptability in a changing landscape.

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



Editor's note: Those responding "don't know" accounting for 16% of respondents were removed from the data set.



Over one in ten organizations have never redesigned its payroll strategy

Results of Chi-square test

A chi-square test of independence shows that transformative payroll functions are significantly more likely than transactional payroll functions to say they are currently redesigning their payroll function or have done so in the last 2 years.

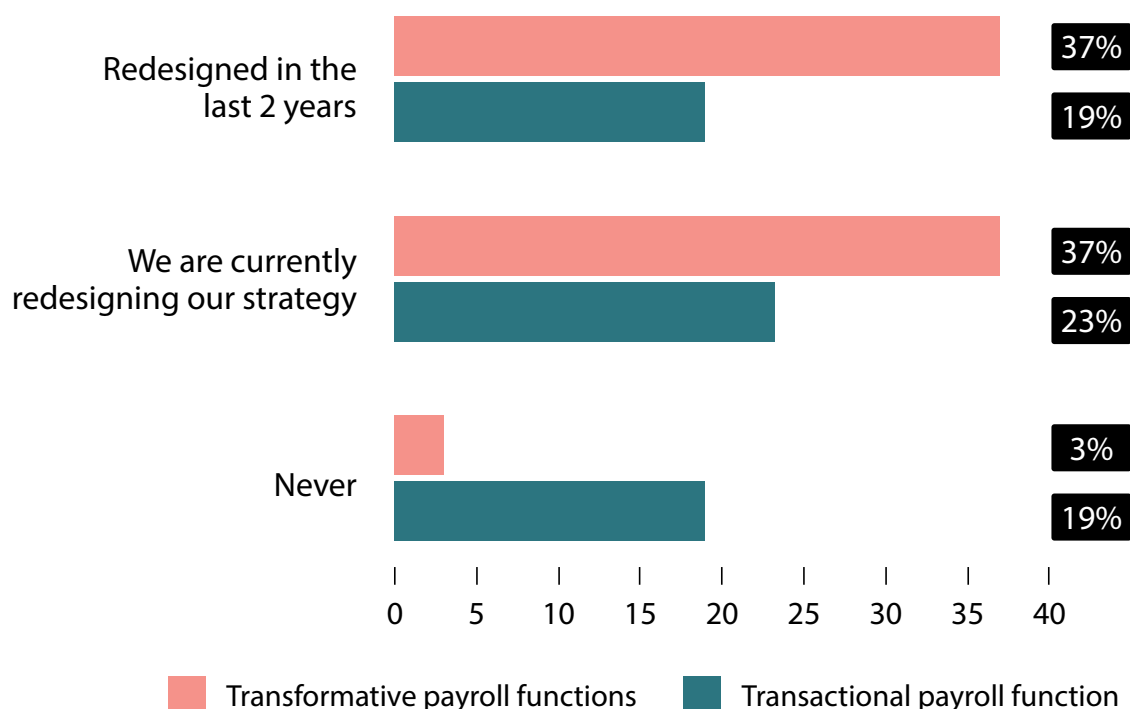
Finding: Transformative payroll functions have undergone a more recent strategy redesign compared to transactional functions

Transformative payroll functions have redesigned their payroll strategy more recently compared to the transactional ones. Thirty-seven percent of transformative functions are currently undergoing a redesign, compared to 23% of transactional ones—making transformative functions 1.6 times more likely to be redesigned. Additionally, 37% of transformative payroll functions have been redesigned in the past two years, double the 19% of transactional functions.

“Operationally fixated, or transactional, payroll departments are on a linear path to get from inefficient to efficient,” says Skinner. “Once they get there, they tend to stay. Contrast this with payroll departments more apt to be strategic, the transformative ones. They understand that strategy demands continual adjustments and reassessment of direction. They have a goal to achieve at all times, not just a mere destination to reach.”

While 19% of transactional payroll functions have never been redesigned, only 3% of transformative functions haven't undergone a redesign, making them six times more likely to stay updated.

How recently has your organization significantly redesigned its payroll strategy?



Editor's note: Those responding "don't know" were removed from the data set. They accounted for 10% of the data set for "transactional payroll functions" and 14% of "transformative payroll functions."



A fifth of transactional functions have never updated their strategy

HRRI Strategic Recommendations

Based on our research, please consider these suggestions.

- **Strengthen strategic payroll:** Focus not only on transactional efficiencies but move to strategic payroll initiatives that align with broader business objectives and drive long-term value.
- **Enhance competitive differentiation:** Use payroll strategies creatively to position the organization as a leader in employee benefits and experience, setting it apart from competitors.
- **Adapt to economic changes:** Build payroll systems that dynamically respond to economic fluctuations, ensuring consistency and trust among employees.
- **Focus on employee experience:** Modernize payroll processes to make them more transparent and employee-friendly, fostering engagement and satisfaction.
- **Commit to continuous innovation:** Regularly redesign payroll strategies to stay agile and responsive to evolving workforce needs and industry trends.

Challenges Faced by Today's Payroll Functions



Finding: Paying competitively is the biggest challenge to payroll strategy

The top challenge organizations face in their payroll strategy is paying competitively in today's market (47%), followed by staying updated on laws (42%) and managing economic trends like inflation and recession (38%).

These concerns reflect the pressure to offer competitive compensation while ensuring legal compliance and adapting to changing economic conditions. In fact, paying competitively has remained the top challenge to payroll strategy [over the last two years](#), while dealing with economic trends has remained in [the top 3](#).

"The top three goals of payroll strategy mirror the main objectives of the best CEOs: attracting and retaining top talent, mitigating risk, and maximizing revenue under any condition," says Skinner. "This alone should alert and inspire any transactional payroll function to embrace a transformative attitude."

Another key challenge is managing pay equity and transparency (38%), alongside maintaining an efficient payroll technology stack (36%). This underscores the growing emphasis on equitable compensation practices and the need for scalable, integrated payroll systems. To stay competitive and compliant, organizations must focus on regulatory updates, optimizing payroll technology, and addressing pay equity.

Differences based on organization size

The top challenge in small and midsize organizations is paying competitively in today's market while large organizations are most likely to grapple with managing geographical differences (e.g., global payroll).

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



Only about one in five respondents cite keeping payroll data secure as a challenge

Results of Chi-square test

A chi-square test of independence shows that transactional payroll functions are significantly more likely than transformative payroll functions to say their payroll strategy faces the listed challenges.

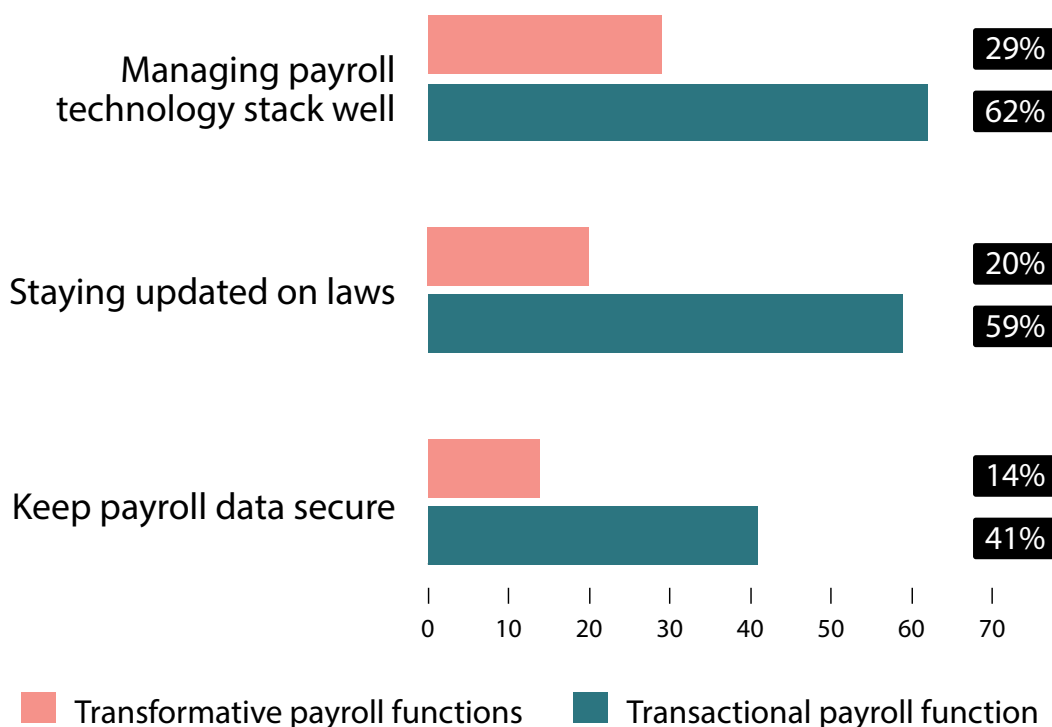
Finding: Transactional payroll functions face greater challenges than transformative payroll functions

Far more transactional payroll functions face significant challenges in areas such as data security (41%), staying updated on laws (59%), and managing payroll technology stack well (62%) compared to fewer number of transformative payroll functions.

“The typical transactional payroll function is more likely to face challenges that also happen to relegate it, in the eyes of organizational leadership, to being a cost center,” says Skinner.

These findings suggest that organizations with transactional payroll functions should focus on strengthening their security measures and keeping up with legal changes to mitigate risks with the help of suitable technology systems.

Which of the following are the top 5 challenges that your organization faces with regard to its current payroll strategy?





Finding: Technology integration and cost remain top challenges to payroll processes

The top challenges organizations face with payroll processes include a lack of technology integration (43%), the high cost of payroll technology systems (41%), and inconsistent or minimal automation (33%). The cost of payroll technologies and lack of technology integration have figured among the top challenges to payroll processes over the last two years.

Other top challenges are related to data management and reporting (31%) and inflexible payroll systems (31%).

“For all the grandstanding in the marketplace, it turns out that vendors may still have a long way to go in terms of delivering on the promise of modern software for payroll,” says Skinner. “It could instead be that most respondents’ systems are in need of replacement with something more modern. Regardless, for transformative payroll functions to increase in their numbers, payroll technology must be up to the task.”

These challenges suggest that organizations need to invest in integrated payroll technology, increase automation, and improve data management to streamline their processes and enhance efficiency. Addressing the cost of payroll systems and ensuring flexibility will help reduce inefficiencies while maintaining focus on compliance and tax-related issues remains important.

Differences based on organization size

Small and midsize organizations are most likely to cite the cost of payroll technology systems as their top challenge while large organizations are most likely to say lack of data management and reporting is their top challenge.

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



Only 12% say they face no payroll process-related challenges

Results of Chi-square test

A chi-square test of independence shows that transactional payroll functions are significantly more likely than transformative payroll functions to say their payroll processes faces the listed challenges.

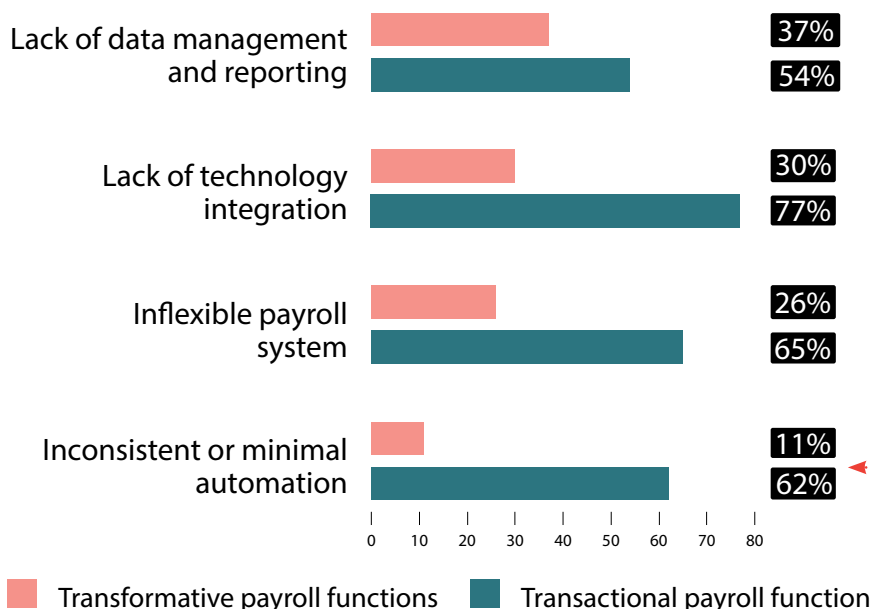
Finding: Transactional payroll functions are over twice as likely as transformative ones to face challenges due to a lack of technology integration

When compared with transformation payroll functions, transactional payroll functions face greater challenges in areas such as inconsistent or minimal automation (62%), inflexible payroll systems (65%), and lack of data management and reporting (54%). Transformative payroll functions report significantly lower percentages for these challenges, with only 11%, 26%, and 37% facing these issues, respectively.

Another difference is in the lack of technology integration, where 77% of transactional payroll functions identify this as a top challenge, compared to just 30% of transformative functions.

These findings suggest that transactional payroll functions deal with more foundational issues related to system flexibility, automation, and data management. Addressing these challenges will require a focus on modernizing systems, improving automation, and enhancing data management for transactional functions.

Which of the following are the top challenges your organization faces with regard to its current payroll processes?



Transactional payroll functions are almost six times more likely to face challenges due to inconsistent/minimal automation compared to transformative payroll functions

HRRI Strategic Recommendations

Based on our research, we have the following suggestions.

- **Improve data security and reporting measures:** Prioritize advanced security protocols and systems to address challenges in payroll data protection, enhance employee trust, and ensure accurate and timely data reporting.
- **Stay ahead of legal updates:** Develop mechanisms to track and implement changes in payroll-related laws, ensuring compliance and avoiding penalties.
- **Optimize payroll technology:** Invest in managing and upgrading payroll technology stacks to improve efficiency and scalability for strategic outcomes.
- **Enhance automation and integration:** Expand automation and integrate payroll with broader HR systems to streamline processes and improve reporting capabilities.
- **Adopt flexible systems:** Transition to flexible payroll solutions that adapt to organizational needs, reducing inefficiencies caused by rigid systems.
- **Address pay equity and transparency issues:** Ensure clear compensation frameworks and open communication to build trust and attract talent.

Employer of Record (EOR) Firms: A Growing Consideration



Finding: Almost three in 10 organizations are either currently using an EOR or might do so in future

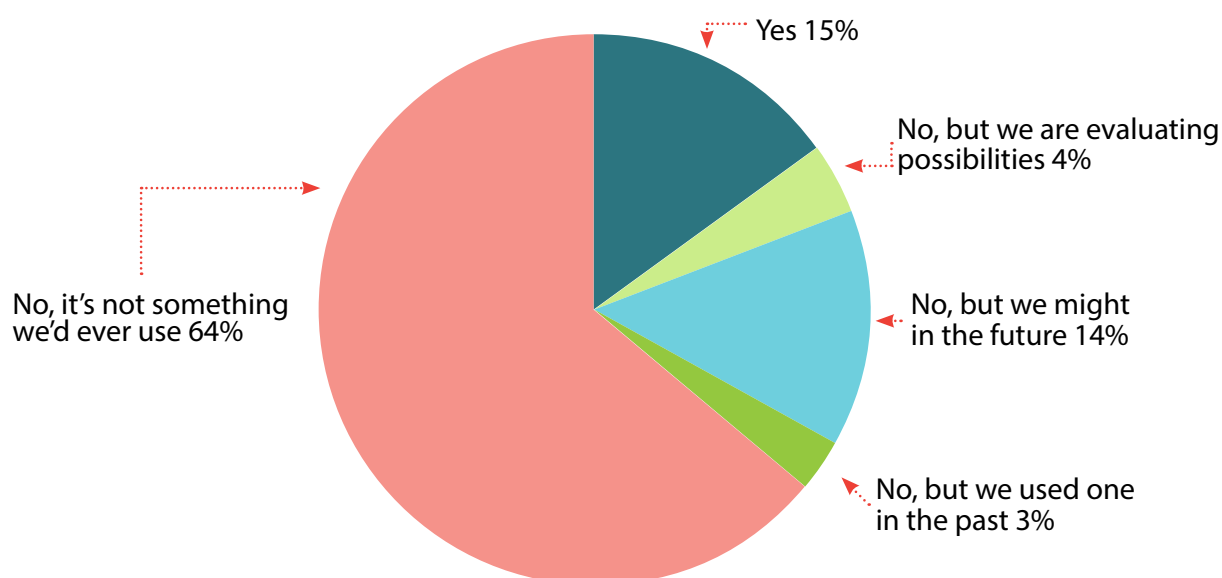
A global employer of record ([global EOR](#)) should be able to hire and pay employees nearly anywhere in the world, in full compliance with tax and labor laws. These are also sometimes known as professional employer organizations (global PEO solutions). Fifteen percent are currently using an EOR, 14% might consider it in the future, 4% are evaluating the possibility, and 3% have used one in the past.

While 64% of organizations do not think they will use an Employer of Record (EOR), it must be noted that there has been a steady decline in the proportion of organizations saying they would not use an EOR, from 80% in 2023 to 70% in 2024 and 64% in 2025. In short, there might be an uptick in EOR usage among today's organizations.

Differences based on organization size

Large (20%) and small (17%) organizations are more likely to use EOR compared to midsize organizations (5%).

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?



Editor's note: Those responding "don't know" accounting for 21% of respondents were removed from the data set.



Finding: Compliance with laws/regulations is the top consideration while choosing EOR firms

For organizations that are currently using an EOR or have done so in the past, the top criteria for selecting an Employer of Record (EOR) firm include compliance with laws and regulations in the countries where the organization operates (84%), followed by financial transaction security, privacy, and reliability (47%). These have remained the top 2 considerations over the past three years.

Other factors include a portfolio of global benefits offerings, the ability to integrate technology with existing applications (e.g., HRIS), and the availability of a team of global HR experts (42% each). These findings show that organizations prioritize legal compliance and financial security when evaluating EORs, ensuring they can operate across borders while adhering to local regulations and protecting sensitive data. The availability of additional global HR services and technological integration also influences their decision.

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



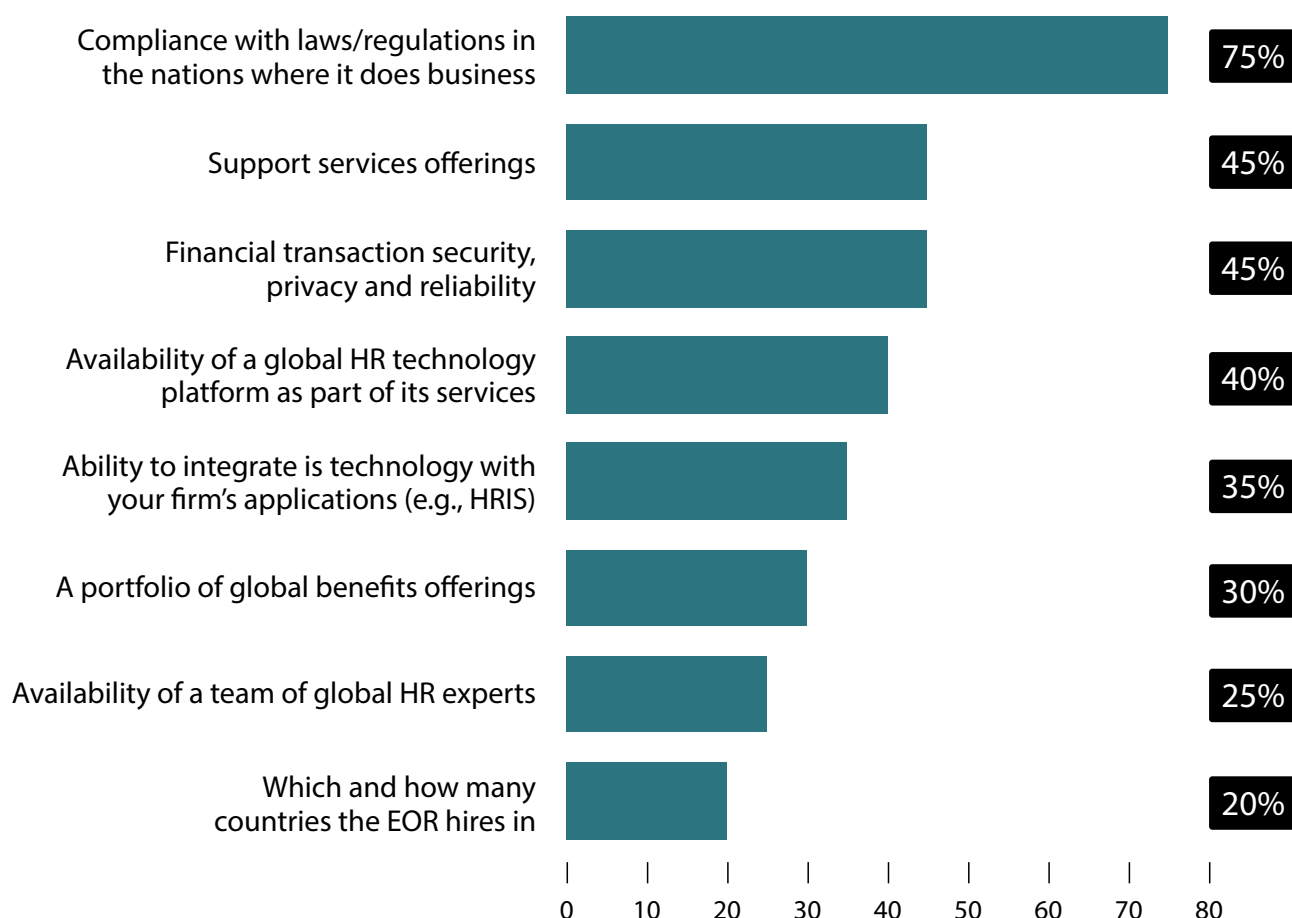
42% of the organizations that use an EOR firm considered the availability of a global team of HR experts when they were selecting a vendor



Finding: Among those organizations that are considering or might consider using an employee of record firm, the most common need is compliance with the host nation's laws and regulations

We asked those organizations that are considering or might consider using an employee of record (EOR) firm in future what criteria they will use to evaluate and select a vendor. The key criteria organizations use (or would use) in selecting an Employer of Record (EOR) firm include compliance with laws and regulations in the countries where they do business (75%). Other important considerations include financial transaction security, privacy, and reliability (45%) and support services offerings (45%).

What criteria is your organization using (or would it use if necessary) in the evaluation and selection of an EOR firm? (select all that apply)



HRR Strategic Recommendations

Based on our research, please consider these suggestions.

- **Ensure strong legal compliance:** Partner with EOR providers that demonstrate expertise in adhering to international laws and regulations to reduce risks.
- **Adopt advanced HR technology:** Leverage global HR platforms and benefit offerings to streamline operations and enhance employee support.
- **Prioritize financial security:** Choose EOR solutions that ensure secure and reliable financial transactions to protect payroll processes.
- **Invest in robust support services:** Focus on providers with comprehensive support services to address operational challenges effectively.
- **Improve system integration:** Ensure the ability of EOR to integrate HR technology with internal systems to drive efficiency and operational synergy.



Insights into Compensation Strategies and Trends



Finding: Organizations primarily use payroll systems and government sources to collect salary data

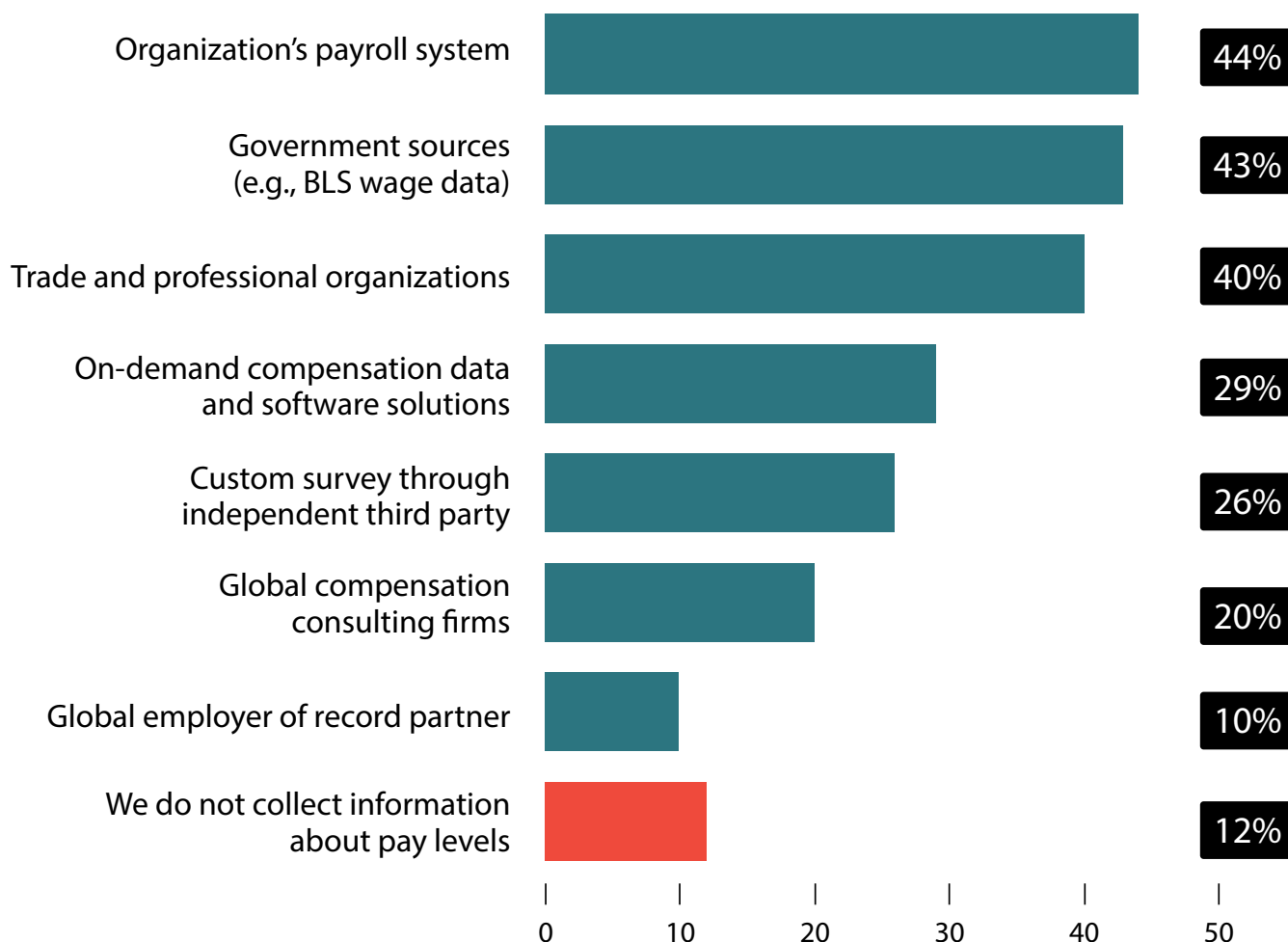
The top sources organizations use to collect information about pay levels are the organization's payroll system (44%) and government sources (43%). These have remained the top choices for pay-level information over the last two years that HRRI has conducted this survey. Other notable sources include trade and professional organizations (40%) and on-demand compensation data and software solutions (29%).

Differences based on organization size

The top source of information on pay levels for small and midsize organizations are government sources while large organizations primarily rely on their payroll systems.



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



Only one-fifth of respondents look to global consulting firms for information about pay levels

Results of Chi-square test

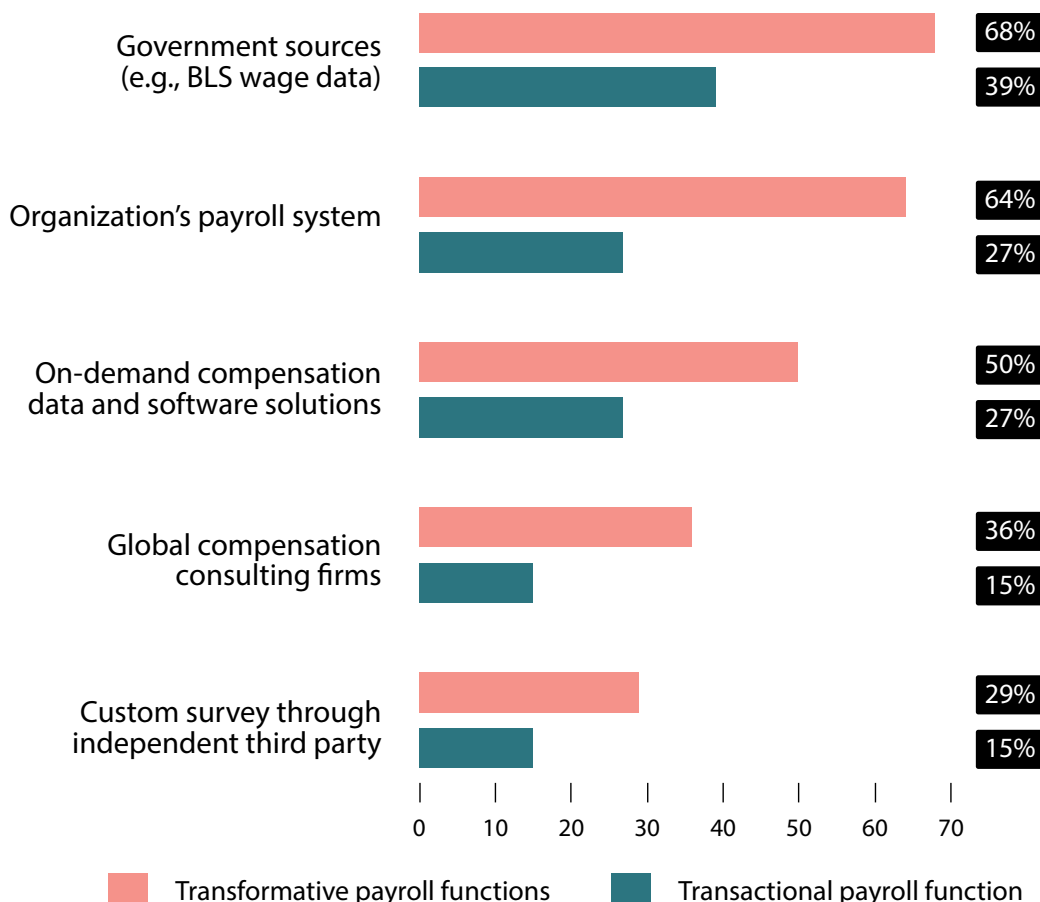
A chi-square test of independence shows that transformative payroll functions are significantly more likely than transactional payroll functions to use the listed sources of information about pay levels.

Finding: Transformative payroll functions depend on a variety of data sources to gather information on pay levels compared to transactional payroll functions

Compared with their more transactional counterparts, transformational payroll functions tend to gather more salary data from a variety of sources.

Transformative payroll functions primarily use their organization's payroll system (64%), government sources (69%), and on-demand compensation data and software solutions (50%) to collect salary data. In contrast, transactional payroll functions utilize these resources to a much lesser degree.

Which salary data sources do you use to collect information about pay levels?



Transformative payroll functions are over twice as likely as transactional payroll functions to use their organization's payroll system to collect information about pay levels



Finding: Organizations are using benefits and bonuses to hire and retain key talent

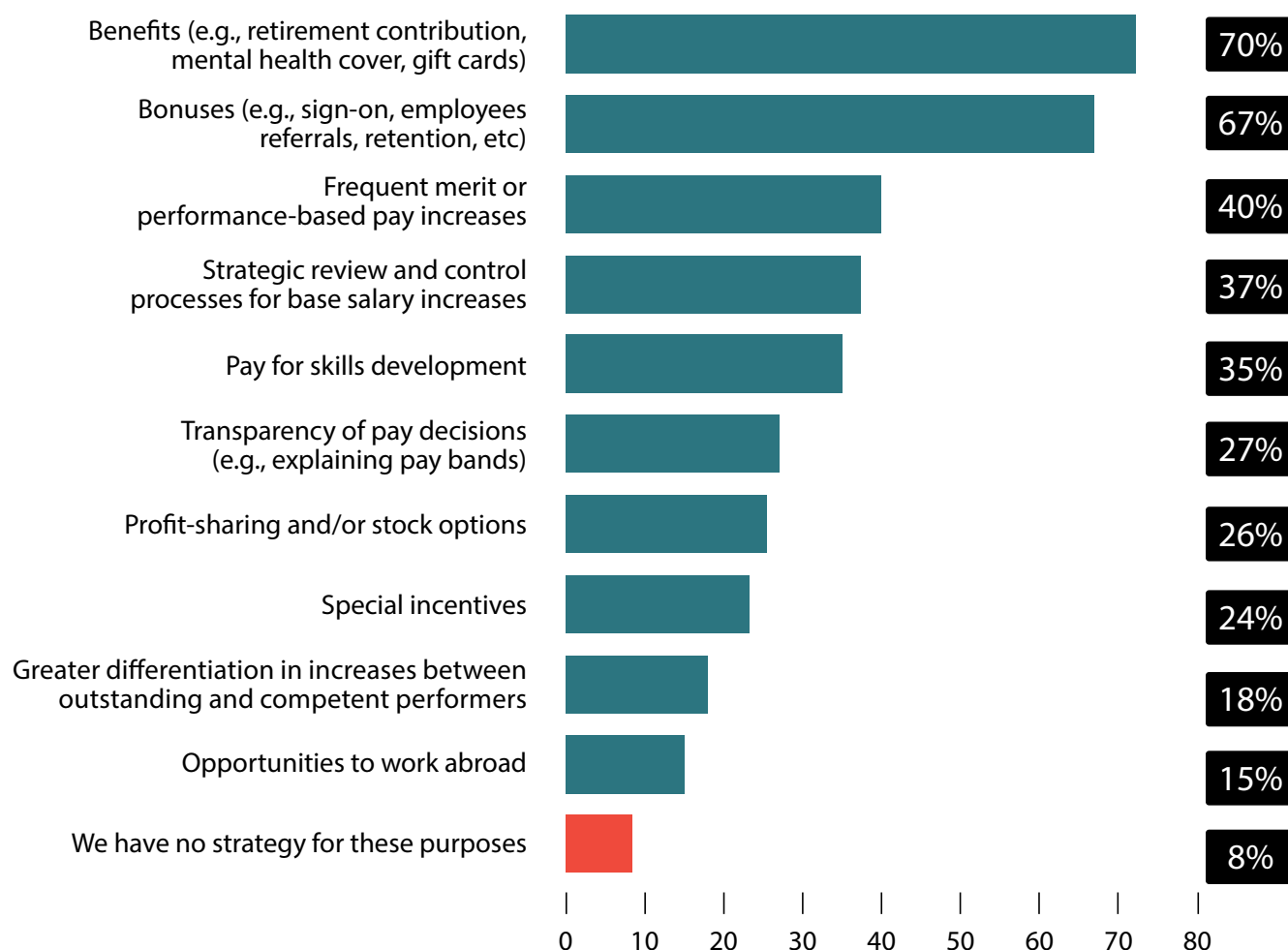
Organizations rely on benefits (70%) and bonuses (67%) as key strategies for hiring and retaining talent. These have remained the top strategies over the last two years. Other common strategies include offering frequent merit or performance-based pay increases (40%) and strategic review and control processes for base salary increases (37%).

These findings highlight that benefits and bonuses are central to talent management strategies, while other approaches like pay for skills development, transparency of pay decisions, and profit-sharing are also important for retaining key employees.

“Payroll is ground zero for the employee experience, as their pay is the one essential pillar underpinning why most employees work in the first place,” says Skinner. “Beyond the straight number for salary or hourly rate, it only makes sense that smart organizations would begin to look at remuneration holistically.”



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



Only a few respondents say they do not have a compensation strategy for hiring and retaining key talent

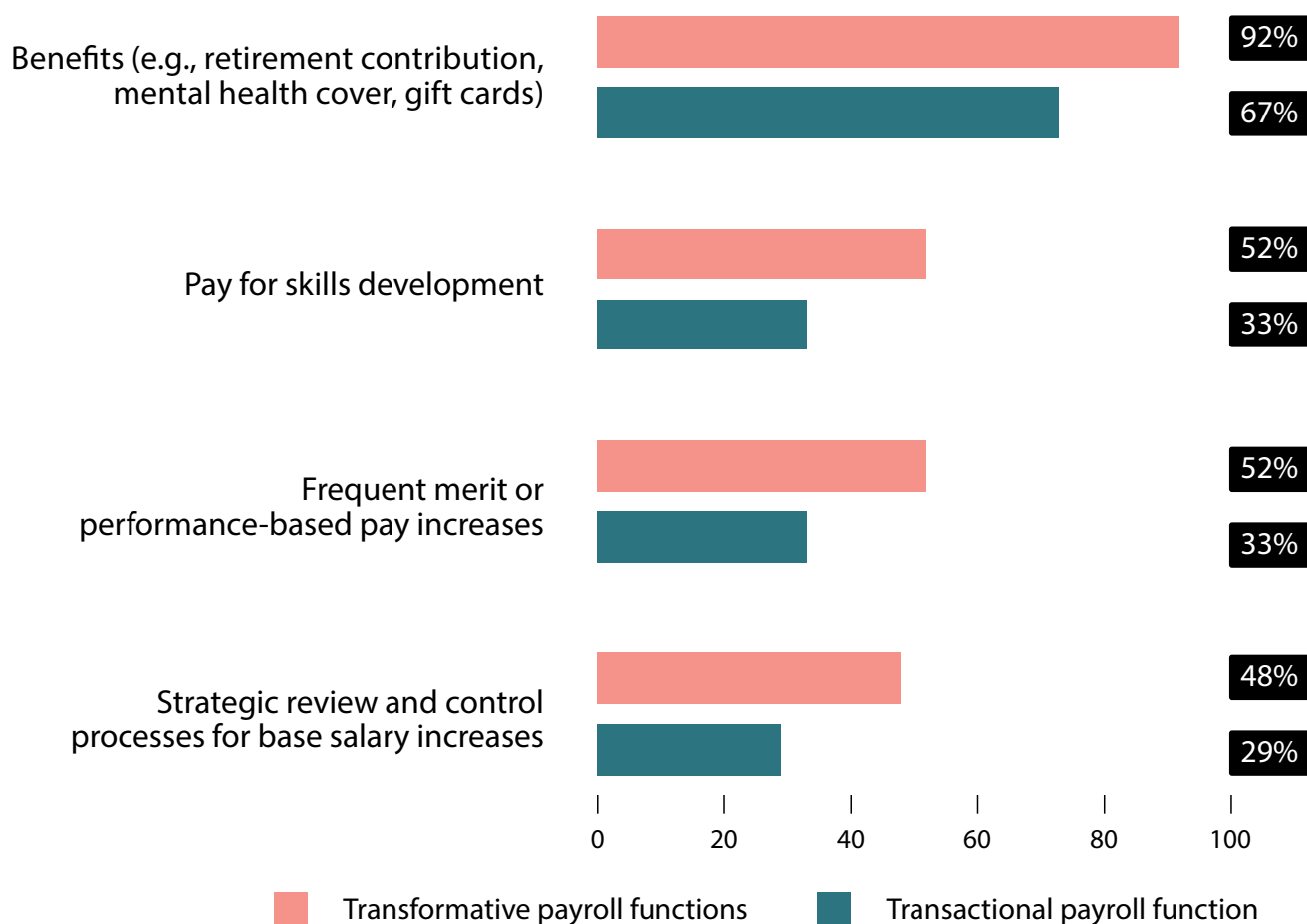
Results of Chi-square test

A chi-square test of independence shows that transformative payroll functions are significantly more likely than transactional payroll to use listed strategies to hire and retain key talent.

Finding: Transformative payroll functions focus more on benefits and performance-based pay increases than do transactional payroll functions

Transformative payroll functions are more likely to align compensation with organizational goals. For instance, 52% of organizations with transformative payroll functions provide pay for skills developments, compared to 33% in transactional functions.

Which of the following pay and/or compensation strategies does your organization follow to hire and retain key talent?



Transformative payroll functions are 1.5 times more likely than transactional ones to pay for skills development to hire and retain key talent



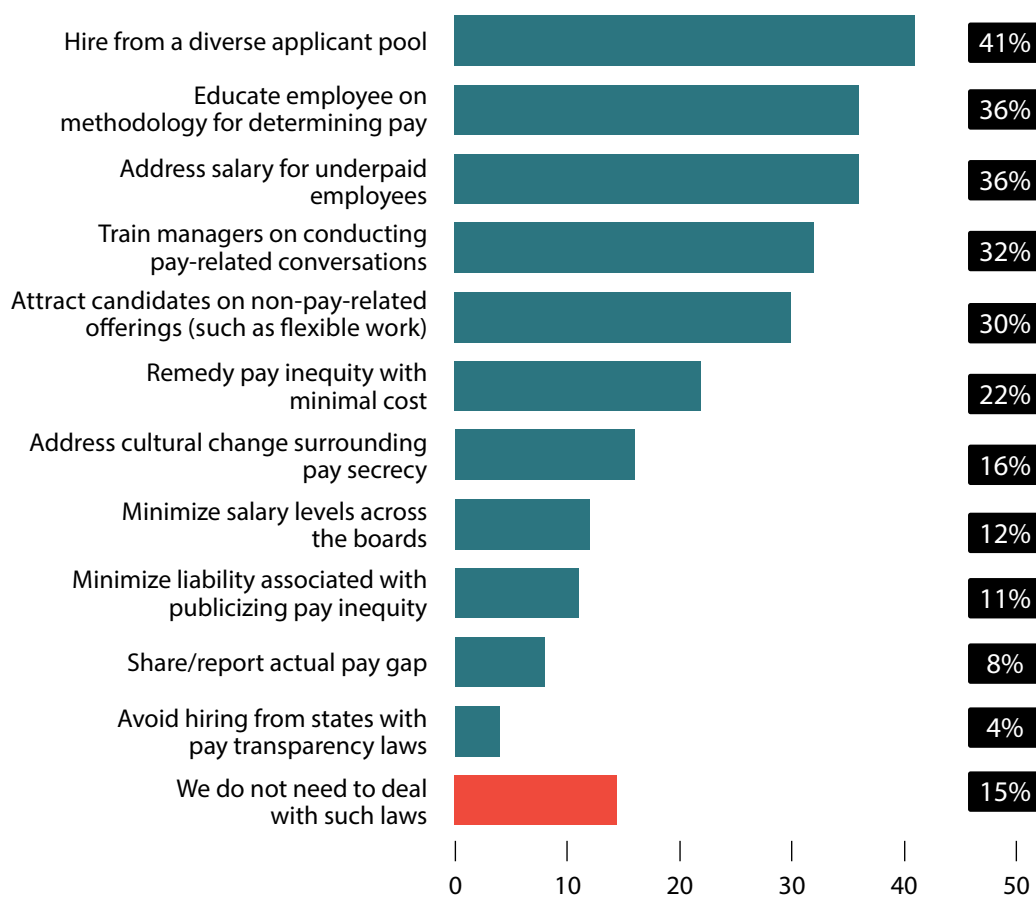
Finding: Organizations focus on diversity and education in response to pay transparency laws

In response to pay transparency laws, organizations primarily focus on hiring from a diverse applicant pool (41%), educating employees on methodology for determining pay (36%), and addressing salary issues for underpaid employees (36%). These have remained the top approaches over the past two years.

Differences based on organization size

Large organizations (59%) are more likely than small (35%) and midsize (30%) organizations to hire from a diverse applicant pool in response to pay transparency laws.

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



Only a few organizations (4%) say they will avoid hiring from states with pay transparency laws

Results of Chi-square test

A chi-square test of independence shows that transformative payroll functions are significantly more likely than transactional payroll to address salary for underpaid employees and hire from diverse applicant pool in response to pay transparency laws.

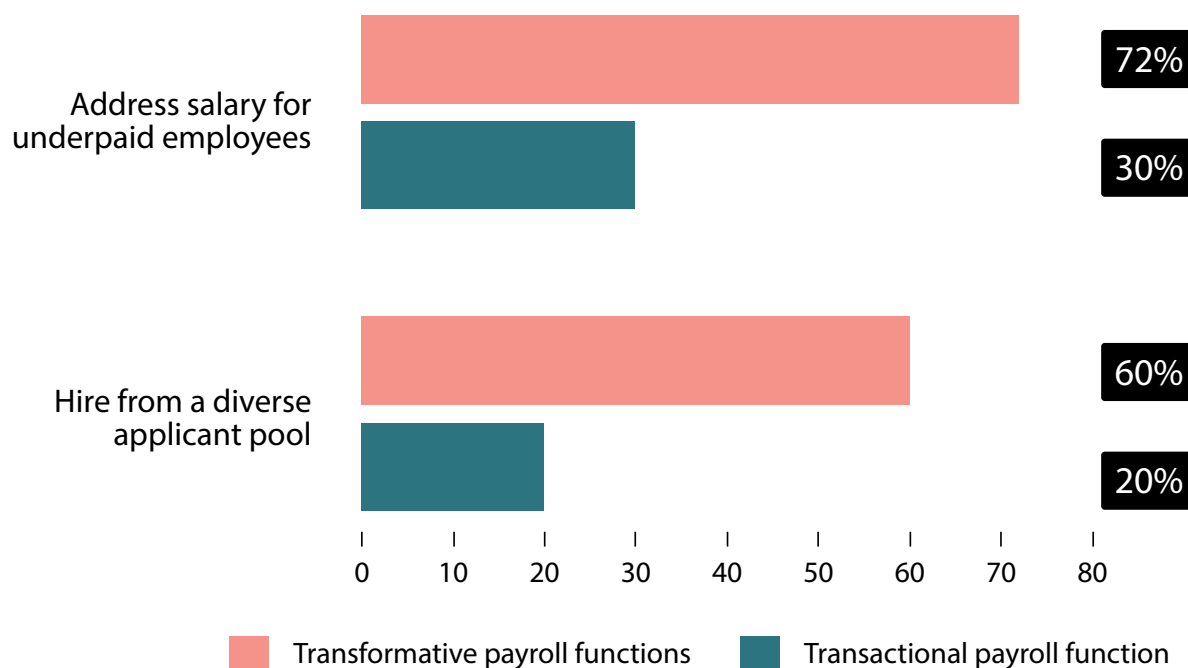
Finding: Transformative payroll functions are more likely than transactional payroll functions to prioritize addressing underpaid employees and diversity

Transformative payroll functions place a stronger emphasis on addressing salary issues for underpaid employees (72%) compared to transactional functions (30%). Additionally, they focus more on hiring from a diverse applicant pool (60%) compared to what their counterparts do (20%).

“One reason transformative payroll functions can prioritize a focus on higher-level efforts such as these is because their greater efficiency allows them to spend more time and attention on these issues,” says Skinner.

These findings indicate that transformative payroll functions are more proactive in tackling pay inequity and fostering diversity in response to pay transparency laws.

What are the major approaches your organization follows in response to pay transparency laws? Increased focus to:



HRRI Strategic Recommendations

Based on our research, please consider these suggestions.

- **Adopt advanced data solutions:** Integrate on-demand compensation tools and software to provide real-time insights and improve pay strategy flexibility.
- **Focus on employee-centric strategies:** Align benefits and pay practices with employee expectations to build a loyal and motivated workforce.
- **Promote total rewards transparency:** Clearly communicate the value of benefits and performance rewards to highlight your organization's commitment to employee well-being.
- **Adapt to workforce needs:** Continuously assess and evolve your benefits and pay strategies to remain competitive in attracting and retaining key talent.
- **Prioritize pay equity:** Regularly review and adjust salaries for underpaid employees to ensure fairness and build trust within the workforce.
- **Embed transparency in culture:** Foster an organizational culture where pay structures and decision-making processes are open and inclusive.
- **Use data to drive decisions:** Leverage data analytics to identify and address pay gaps, reinforcing your commitment to equitable compensation.

Payroll Automation and Strategic Enhancements



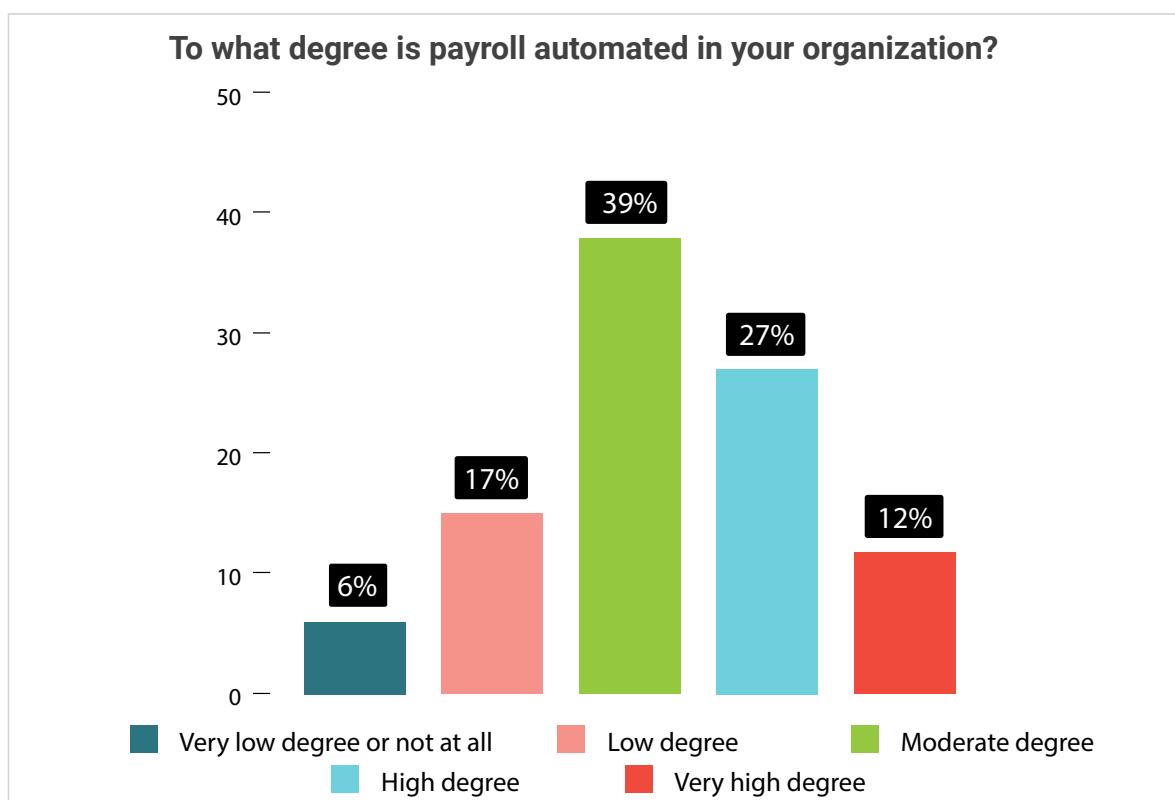
Finding: Only 39% of organizations say their payroll functions are automated to a high or very high extent

Only about two-fifths of organizations say their payroll functions are automated to a high or very high extent, though another 39% say their functions are automated to a moderate extent.

These findings suggest that while most organizations have some degree of payroll automation, there is room for growth in achieving higher levels of automation to improve efficiency and reduce manual errors.

Differences based on organization size

Large organizations (49%) are more likely to have high/very high degree of payroll automation compared to midsize and small organizations (34% each).



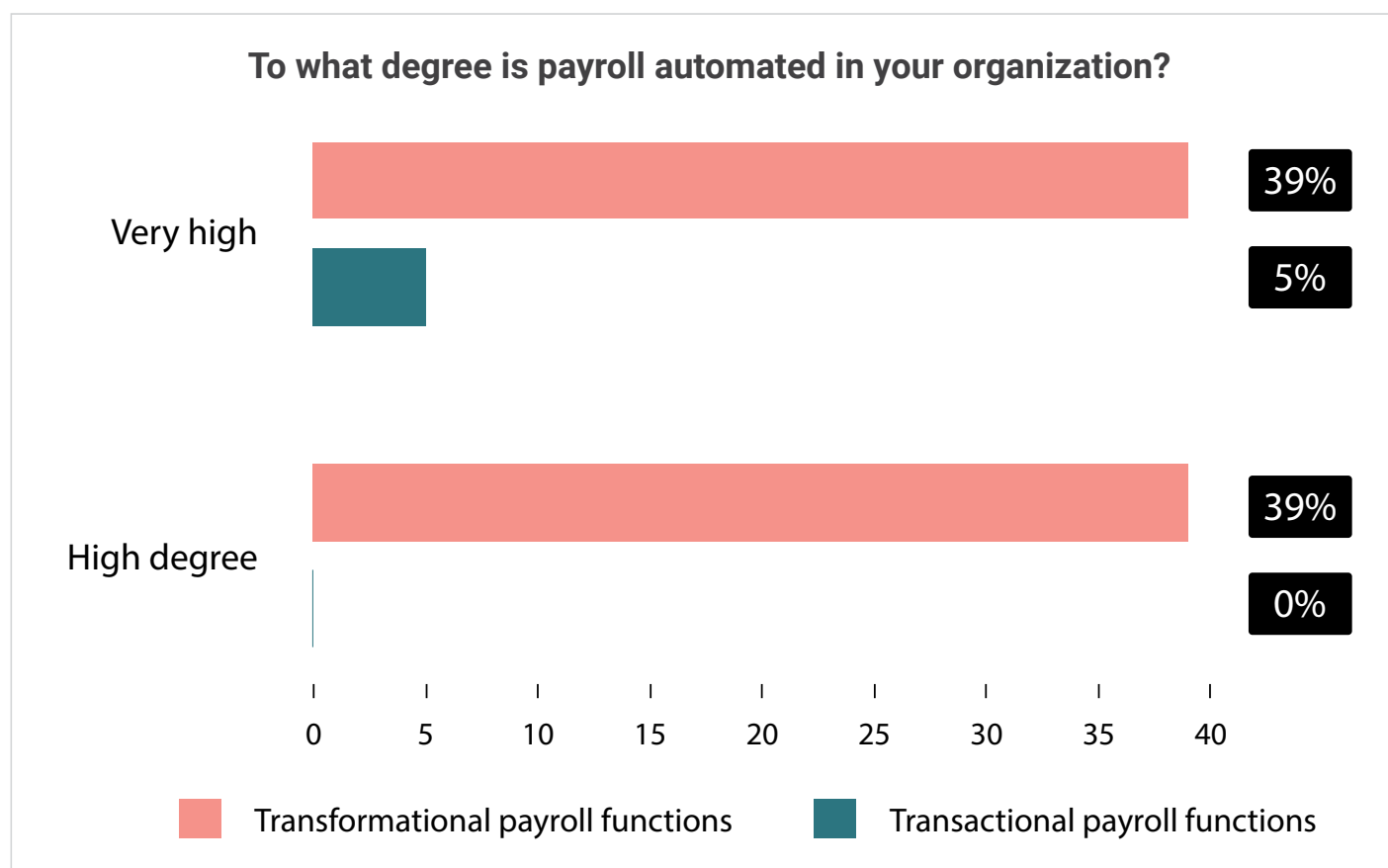
Results of Chi-square test

A chi-square test of independence shows that transformative payroll functions are significantly more likely than transactional payroll to say payroll is automated to a high/very high.

Finding: Transformative payroll functions are over seven times as likely as transactional payroll functions to be automated to a very high degree

One clear difference between transformative and transactional payroll functions is the degree of automation. Transformative payroll functions are over fifteen times as likely as transactional payroll functions to be automated to a high/very high degree. In fact, most transformative payroll functions (78%) are automated to a high or very high degree compared to just 5% of transactional payroll functions.

“You simply cannot be transformative with payroll without first neutralizing the heavy administrative burden that comes with a lack of automation in payroll,” says Skinner. “Remove this impediment to efficiency, and aspiring payroll leaders naturally stand to become strategic.”



Differences based on organization size

Large (34%) and midsize organizations (46%) are most likely to want customization in their payroll software systems while small organizations prefer integration with accounting software (44%).

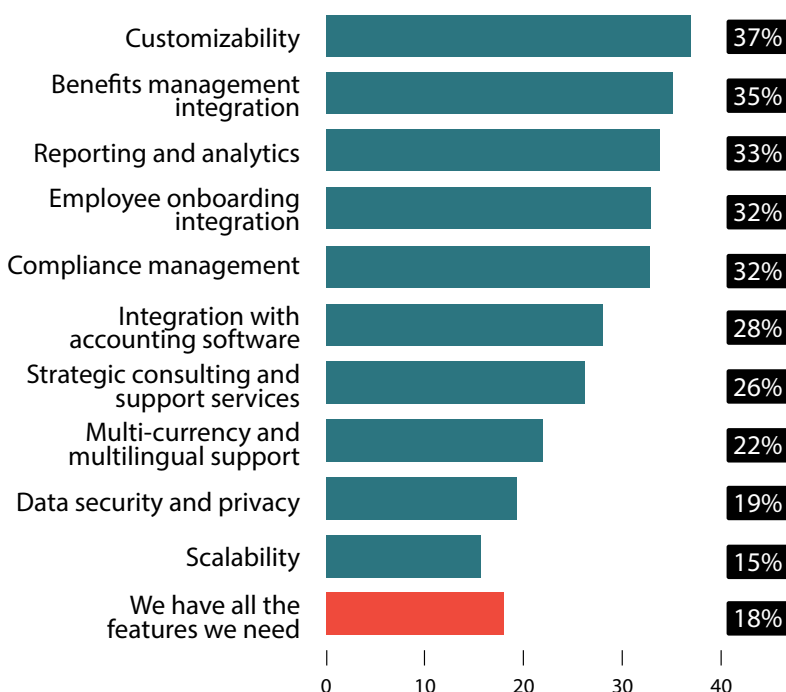
Finding: Customizability remains the top feature sought by organizations in their payroll software system

The most desired features in payroll software include customizability (41%), benefits management integration (35%), and reporting and analytics (33%). Additionally, 32% of organizations want employee onboarding integration and compliance management.

These findings highlight a need for more flexible and integrated payroll systems to better align with organizational goals and improve operational efficiency. Customizability has remained among the top responses for desired payroll software features over the past two years. Reporting and analytics has dropped somewhat in the rankings, possibly because more software systems already include this feature.

“With the introduction of cloud-based software came a farewell to the endless customizability of on-premises solutions for payroll (and the rest of HCM, for that matter),” says Skinner. “Since then, configurability has come a long way but still falls short of the customizations found in old systems—which often had disadvantages outweighing advantages, of course. Employers should probably focus on requesting and leveraging enhanced configurability.”

What features would you like to be included in your organizational payroll software system that the system does not currently have? (select all that apply)



HRRRI Strategic Recommendations

Based on our research, please consider these suggestions.

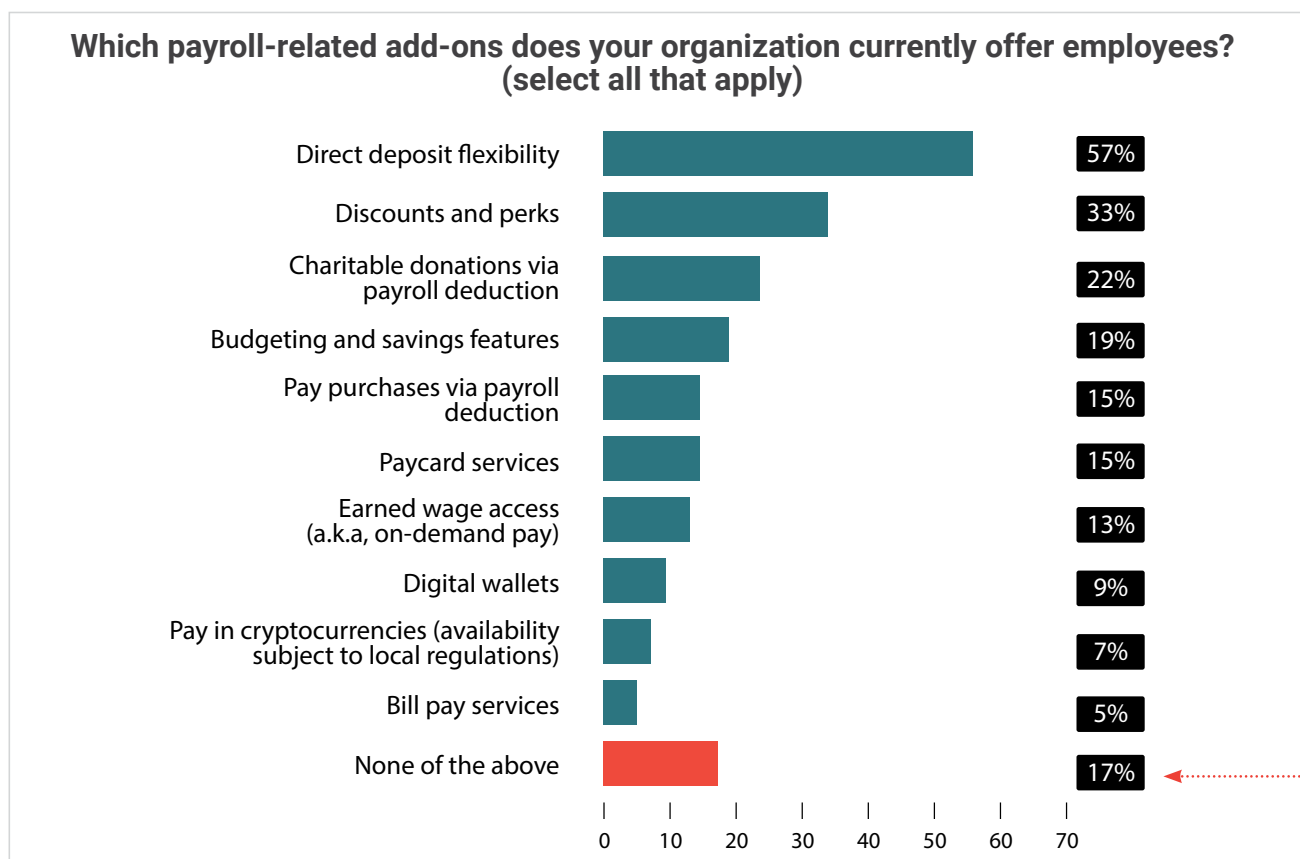
- **Configure or customize for specific needs:** Choose payroll software that can be at least somewhat configured for your organization's unique requirements.
- **Look for an integration option:** When possible, opt for software that integrates with benefits and onboarding systems to streamline HR processes.
- **Prioritize compliance and security:** Ensure the software meets legal standards and protects sensitive data.
- **Use data for insights:** Leverage reporting and analytics to drive informed HR decision-making.
- **Plan for growth:** Select scalable software to support future expansion and diverse employee needs.
- **Focus on strategic payroll automation:** Prioritize automation in areas like compensation analysis and reporting to drive data-driven decision-making.
- **Leverage technology for efficiency:** Use automation to streamline processes, improve accuracy, and reduce administrative burden.

Payroll Add-ons, Technology and Employee Experience



Finding: The most common payroll-related "add-on" is direct deposit flexibility

Although we used the word "add-ons" to describe the response items in the chart below, we should note that some of them could be classified into other categories such as benefits, features or services. For example, the most cited answer, "direct deposit flexibility," is often viewed as a core payroll feature. "Budgeting and savings features," which are offered by 19%, could be viewed as an add-on or a financial wellness service. Other items such as "earned wage access" (selected by 13%) are more likely to be considered add-ons by most organizations.



17% offer none of the listed payroll-related add-ons

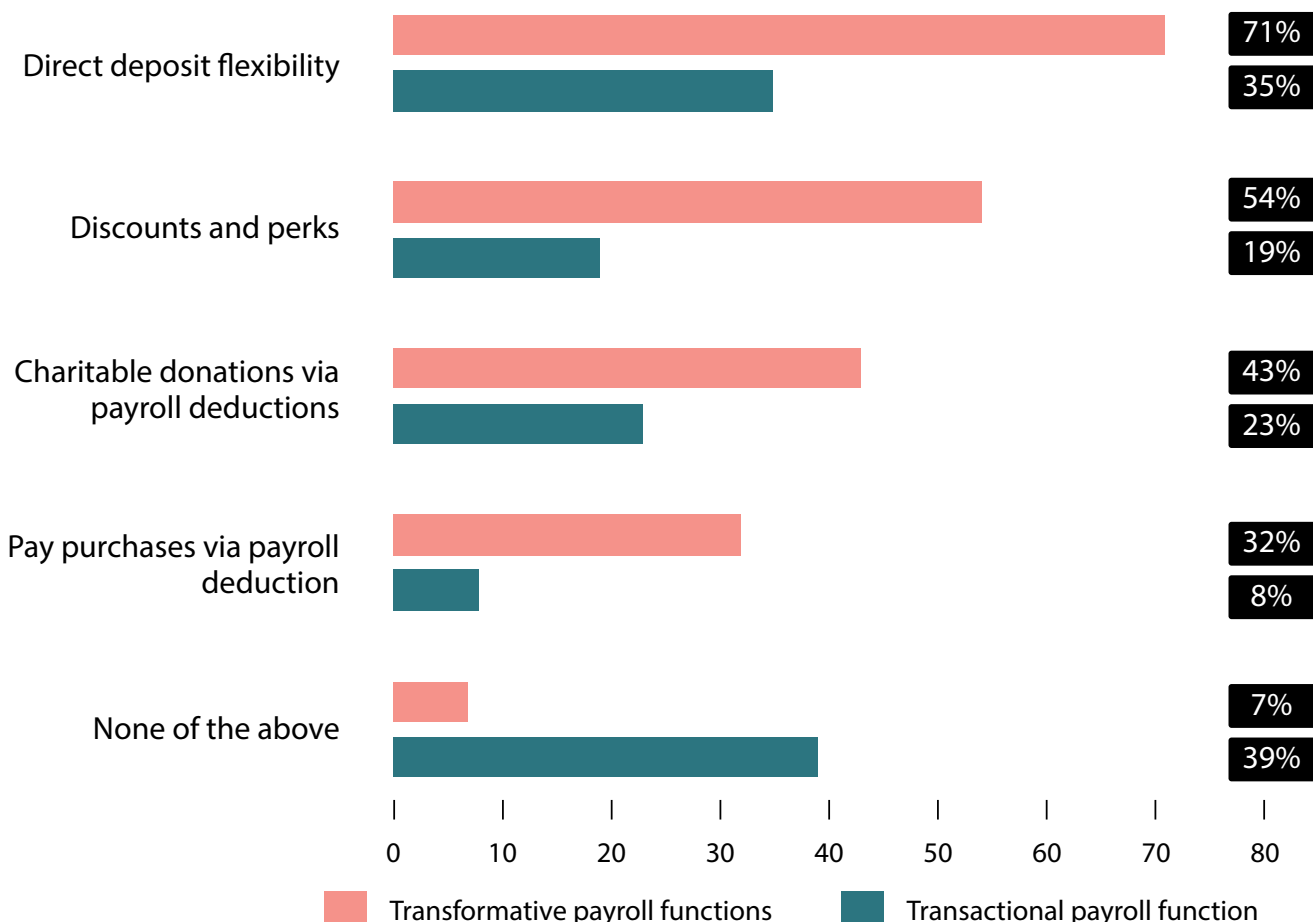
Results of Chi-square test

A chi-square test of independence shows that transformative payroll functions are significantly more likely than transactional payroll functions to offer the listed payroll-related add-ons.

Finding: Compared to transactional functions, transformative payroll functions offer payroll-related add-ons to a greater extent

Organizations with transformative payroll functions offer a wider range of payroll-related add-ons, such as direct deposit flexibility (71%), charitable donations via payroll deduction (43%) and discounts and perks (54%), compared to transactional functions (35%, 23% and 19%, respectively). So, transformative payroll functions are more likely to implement various options beyond basic payroll services.

Which payroll-related add-ons does your organization currently offer employees?



Transformative payroll functions are four times as likely than transactional payroll functions to offer pay purchases via payroll deduction



Finding: Most respondents say technology has improved employee self-service

Technology has greatly impacted payroll processes across organizations. The most impactful changes include improved employee self-service (58%) and automation of pay and compliance (49%), which streamline operations and ensure regulatory adherence. Employee self-service and automation have remained the top benefits of technology in payroll over the last three years.

Payroll management dashboards (38%) and improved data collection (37%) enhance decision-making and transparency. Additionally, improved pay communications (31%) improve efficiency and employee trust.

There is also a growing focus on cybersecurity (26%) and audit functions (26%), ensuring data protection and accountability. The use of AI in pay strategy (12%) remains limited but may increase in the future. Only a small portion (6%) report no significant impact of technology on their payroll processes.



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



31% say technology has improved pay communications to employees

Results of Chi-square test

A chi-square test of independence shows that transformative payroll functions are significantly more likely than transactional payroll functions to benefit from the use of technology in the design and implementation of payroll in their organizations.

Finding: Technology has a greater impact on transformative payroll functions than on transactional payroll functions

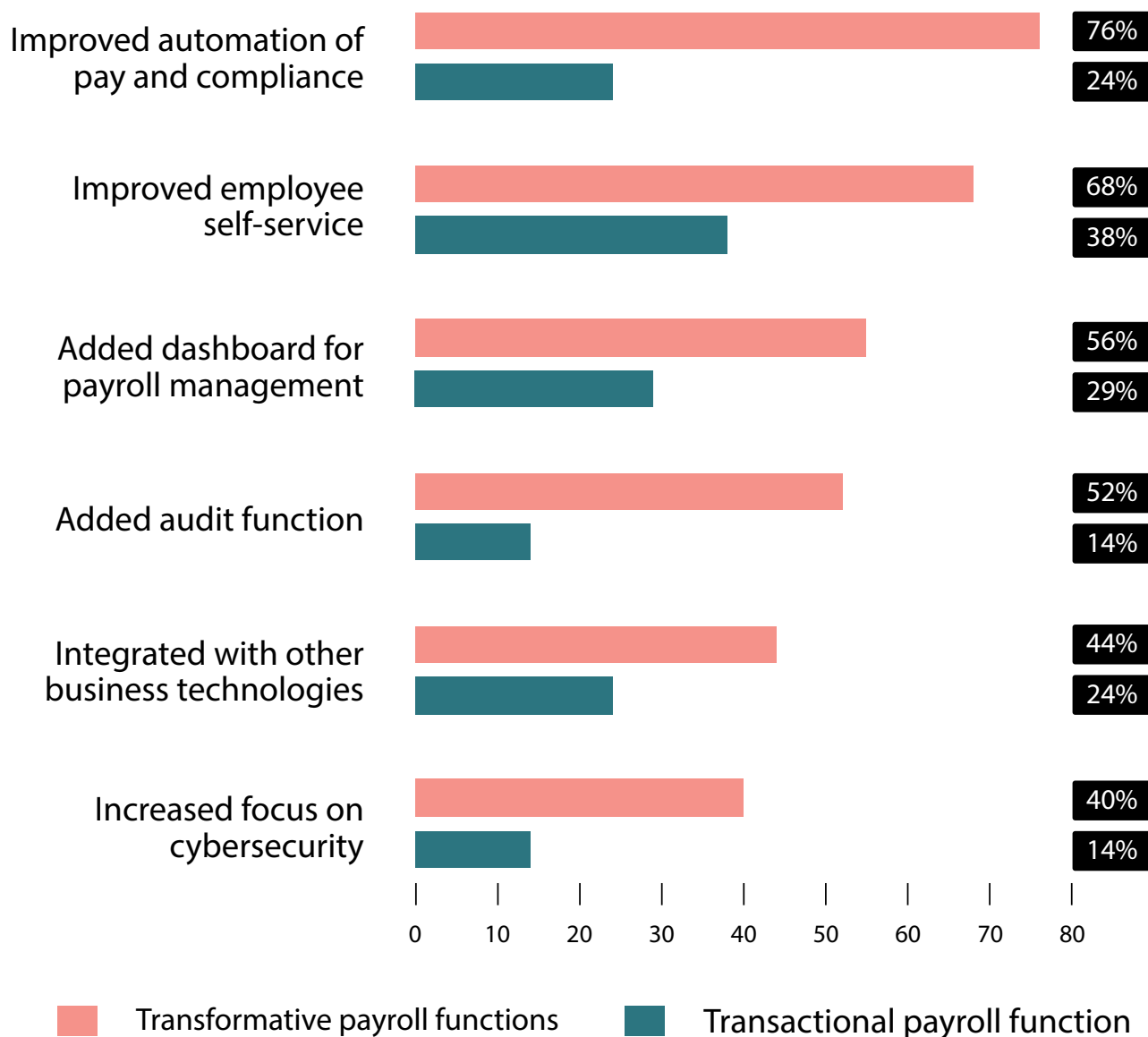
Technology has a more profound influence on transformative payroll functions. For instance, 76% of respondents in transformative payroll functions noted improvements in automation of pay and compliance, compared to 24% in transactional payroll functions. Similarly, improvements in employee self-service (68% vs. 38%) and the addition of audit functions (52% vs. 14%) are more evident in transformative functions.

This suggests that organizations are prioritizing advanced technological tools for their transformative payroll functions, likely due to the greater need for efficiency and alignment with broader organizational goals. Transactional payroll functions, while still benefiting from technology, may not yet leverage these advancements to the same extent, possibly due to operational focus on routine tasks.

“Professionals in this space stand to gain much from becoming payroll technologists, so to speak,” says Skinner. “Modern technology for payroll won’t imbue payroll professionals with a strategic mindset, but acting on transformative, strategic inclinations in payroll is next to impossible when they struggle with old, slow, error-prone software to process employees’ pay.”



In which of the following ways has technology influenced the design and implementation of payroll in your organization?



Transformative payroll functions are nearly twice as likely as transactional payroll functions to benefit from a dashboard for payroll management

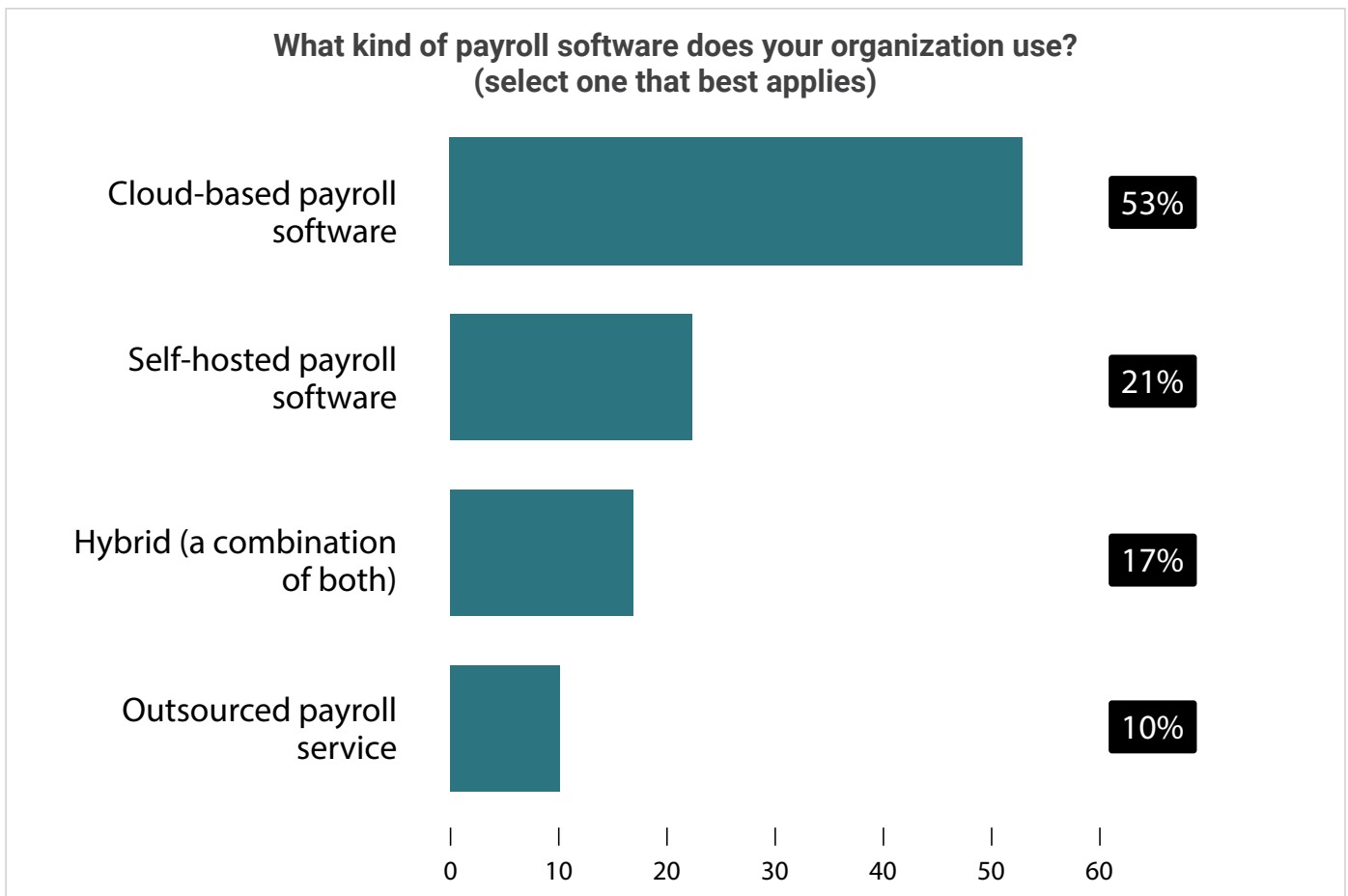


Finding: Over half of organizations use cloud-based payroll software

Cloud-based payroll software is the preferred choice for over half of organizations (53%). This reflects the growing preference for solutions that offer accessibility, scalability, and reduced IT infrastructure requirements. In contrast, self-hosted payroll software is used by 21% of organizations, suggesting that a notable portion still values on-premise control and customization. The hybrid approach, utilized by 17% of organizations, highlights the demand for flexibility in combining the benefits of both cloud and self-hosted solutions. Only 10% of organizations outsource their payroll services.

Differences based on organization size

Large organizations (26%) are more likely to have a hybrid payroll software compared to small and midsize organizations (10% each).



HRRRI Strategic Recommendations

Based on our research, please consider these suggestions.

- **Enhance payment flexibility:** Offer options like direct deposit flexibility and pay card services to provide employees with convenient, secure payment methods.
- **Promote employee engagement:** Integrate perks and discounts into payroll offerings to boost morale and retention.
- **Consider leveraging strategic payroll add-ons:** Prioritize add-ons that align with your organization's values and employee needs to strengthen employer-employee relationships.
- **Enhance compliance and audit functions:** Leverage advanced audit features to improve payroll accuracy and ensure compliance, reducing the risk of errors and legal issues.
- **Consider integrating payroll with other technologies:** Integrate it with other business systems (e.g., HRIS, accounting) to streamline workflows and reduce data silos, supporting both transactional and strategic functions.
- **Invest in employee self-service:** Provide employees with more control over their payroll information through self-service portals, enhancing transparency and engagement.
- **Prioritize cloud-based solutions:** Leverage cloud-based payroll software for its scalability, real-time updates, and accessibility from anywhere, streamlining payroll processes.
- **Optimize hybrid systems:** If using a hybrid payroll approach, ensure seamless integration between outsourced services and in-house software for greater efficiency and control.

Payroll Security



Finding: Fourteen percent of organizations have suffered a payroll system security breach in the past two years

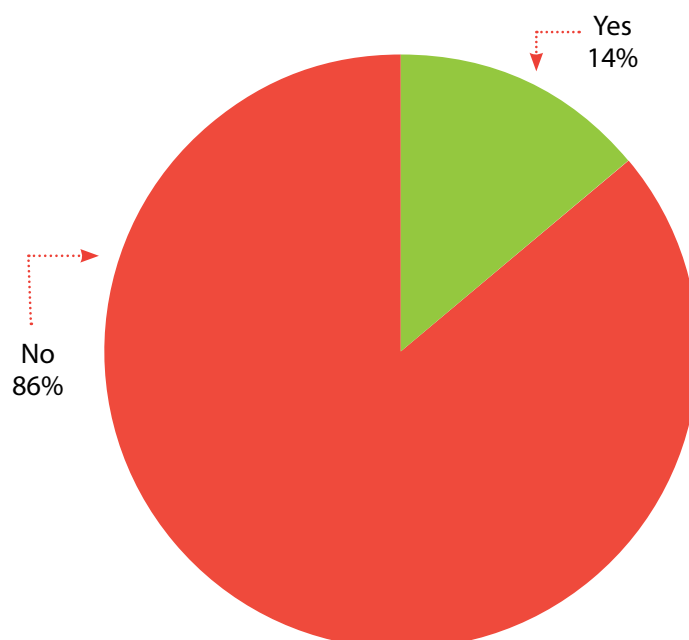
Payroll professionals are well aware of the need for cybersecurity, and the data shows that most have been successful in protecting their systems over the last two years. Nonetheless, 14% of surveyed organizations have suffered a payroll system security breach in the past two years.

The current level of successful protection from security breaches should not lead payroll professionals to be complacent. Attackers are constantly developing new methods for breaching security, so payroll professionals must be ever vigilant in keeping their security top-notch.

Differences based on organization size

Large organizations (34%) are more likely to have faced a payroll system security breach compared to midsize (6%) and small organizations (4%).

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



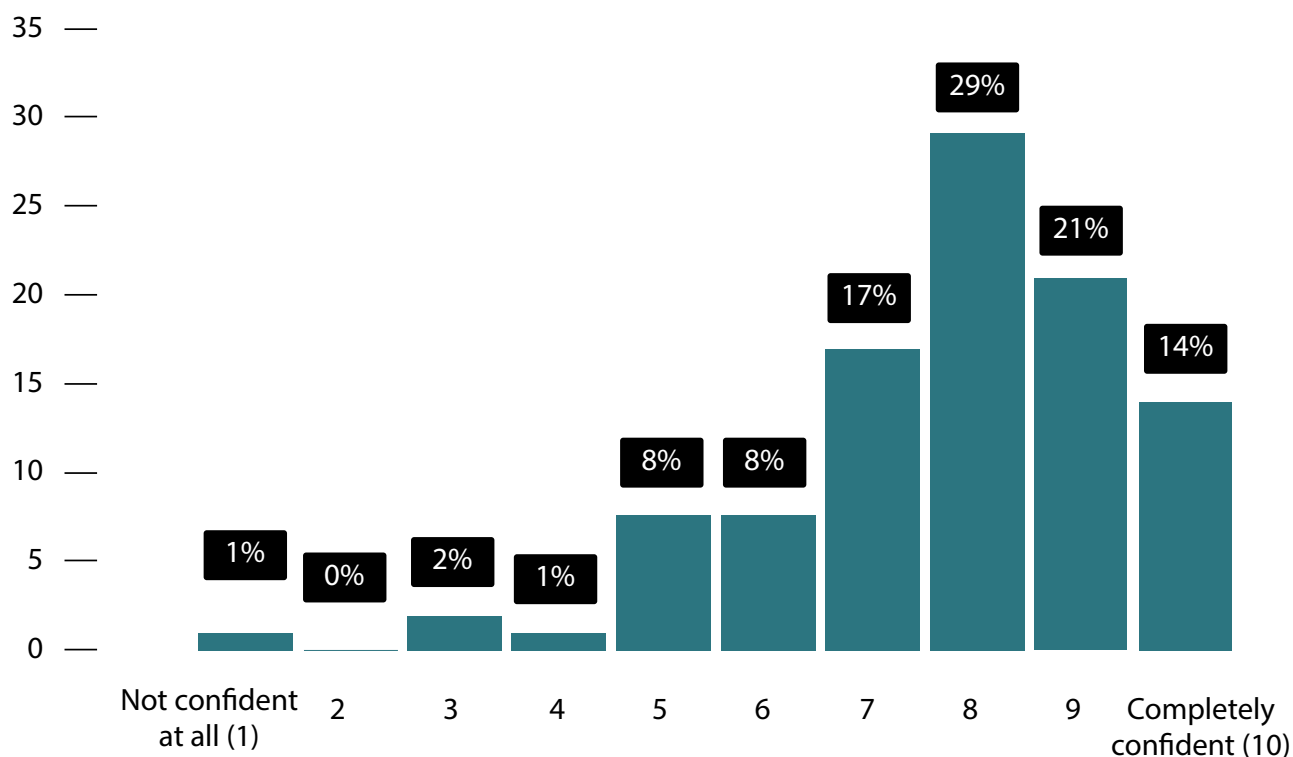
Editor's note: Those responding "don't know" accounting for 17% of respondents were removed from the data set.



Finding: Most respondents are confident (scoring at least eight out of 10) in their organization's payroll security practices

Most respondents (64%) are quite confident (scoring at least eight out of 10) in their organization's payroll security practices. Assuming this confidence is based on good evidence, that is a reassuring finding. The worrying finding is that 20% lack confidence (scoring between one and six out of 10) in their payroll security. Given the sensitivity of payroll data, those lacking confidence should consider carefully bringing their concerns to the attention of top leadership with an explanation of why they lack confidence and what a specific plan for improving security would look like.

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



HRRRI Strategic Recommendations

Based on our research, please consider these suggestions.

- **Implement strong access controls:** Limit access to payroll data to authorized personnel only, ensuring sensitive information is protected from unauthorized exposure or breaches.
- **Regularly update security systems:** Stay proactive by updating software and applying security patches to protect payroll data from evolving cybersecurity threats.
- **Consider encrypting payroll data:** This entails using encryption for payroll data storage and transmission to safeguard against data breaches and ensure compliance with privacy regulations.
- **Conduct routine audits:** Perform regular internal audits to identify vulnerabilities in the payroll system and address potential security risks.
- **Train employees on security best practices:** Educate payroll staff and other relevant employees on the importance of security protocols and safe data handling to prevent accidental breaches.

The Near-term Future of Payroll



Finding: Increased integration of payroll, HR, and attendance systems is seen as the top trend shaping payroll in the next two years

A majority of organizations (55%) view the integration of payroll, HR, and attendance systems as the top trends shaping payroll in the next two years. This reflects a growing need for unified platforms that streamline processes and enhance operational efficiency. Digitalization and automation follow closely, with 43% of organizations highlighting their importance in modernizing payroll operations. Pay transparency, cited by 35%, is becoming increasingly vital due to employee expectations and regulatory pressures. Only 10% of respondents believe no trends will impact their payroll.



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



31% predict that payroll will be shaped by an increased need for data security over the next two years



Finding: Over two-thirds of organizations believe AI will improve payroll in its automation and analytics areas

The respondents who believe AI will shape the future of payroll were asked to elaborate on specific areas where this impact will be seen. The majority (75%) expect AI to improve payroll automation, streamlining repetitive tasks. Analytics and forecasting follow at 72%, enabling data-driven decisions, while 63% anticipate enhanced employee self-service tools. These were also the top three most selected areas when asked the same question last year.

Personalization (53%) and fraud detection (50%) are also key areas, reflecting the need for tailored solutions and security.

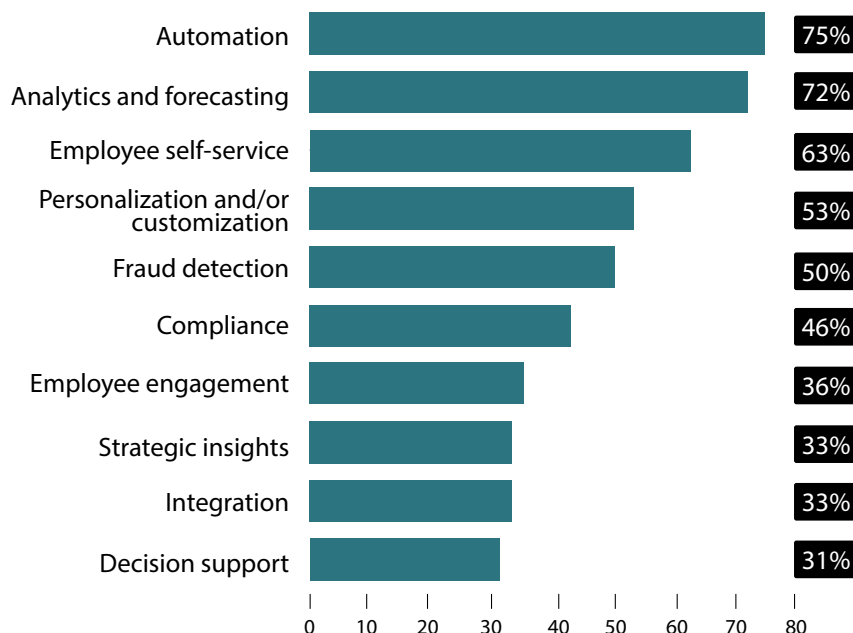
“We may yet be a long way off from so-called autonomous payroll, when AI on its own will handle payroll from beginning to end every pay period,” says Skinner, “but today’s breakneck pace of innovation in AI means plenty of profound changes to payroll are already here. Smart payroll professionals anticipate the outcomes of these changes and plan accordingly.”

Differences based on organization size

Large organizations primarily expect AI to drive automation (87%), small organizations focus on analytics and forecasting (89%), while midsize organizations see equal potential in both (64%).



In what areas do you expect AI to improve your payroll system and/or strategy over the next two years? (select all that apply)



53% of respondents think AI will impact payroll by improving personalization and/or customization

HRRI Strategic Recommendations

Based on our research, please consider these suggestions.

- **Explore AI features but adopt them carefully:** As new AI features emerge in payroll technologies, review them carefully and implement the ones you're sure will best meet the needs of your organization.
- **Embrace automation and digitalization:** Focus on automating payroll processes to enhance efficiency, reduce errors, and streamline operations, aligning with the digitalization trend.
- **Consider leveraging AI for strategic insights:** Increasingly in the future, organizations are likely to be able to leverage AI-powered payroll systems for data-driven insights, better decision support, fraud detection, and enhanced compliance management.
- **Determine the role AI might play in self-service:** Consider implementing AI-driven self-service options, empowering employees to access and manage their payroll information, boosting engagement and reducing administrative workload.
- **Consider leveraging AI for personalization:** Address the growing need for pay transparency and personalization by using AI to tailor payroll offerings and provide more individualized compensation strategies.



Key Takeaways

Key Takeaway 1

Assess the maturity of your payroll function.

- Evaluate where your payroll function stands and identify opportunities to move from basic compliance to a more strategic role.
- Focus on continuous improvement to enhance payroll capabilities and deliver greater value to the organization.

Key Takeaway 2

Stay updated on compliance and regulatory requirements.

- Ensure payroll processes remain compliant with changing legal and regulatory requirements.
- Be prepared to manage payroll for employees in various geographies, ensuring compliance with local laws.

Key Takeaway 3

Regularly review and update your compensation strategy.

- Benchmark compensation to ensure it is competitive and aligned with industry standards.
- Stay informed about economic trends that could affect pay rates and adjust your strategies accordingly.

Key Takeaway 4

Create fair pay structures.

- Focus on promoting pay equity and creating fair compensation structures across the organization.
- Develop clear, open communication around pay policies to foster trust and meet regulatory demands.

Key Takeaway 5

Continuously evaluate and refresh your payroll strategy.

- Periodically review your payroll strategy and make necessary adjustments to align with the organization's evolving goals.
- Align payroll practices with business priorities, including employee retention and cost control.

Key Takeaway 6

Increase the use of technology and automation in payroll.

- Leverage technology to automate payroll processes, minimizing errors and improving efficiency.
- Consider integrating payroll with other HR systems, such as HRIS or attendance management, to streamline operations.

Key Takeaway 7

Strengthen payroll security measures.

- Implement robust security measures to protect payroll data and prevent breaches.
- Proactively manage data protection and ensure compliance with data protection regulations.

Key Takeaway 8

Consider using AI to drive payroll insights and automation.

- Evaluate AI tools to improve payroll forecasting and data-driven decision-making.
- Consider automating routine payroll tasks using AI to free up resources for more strategic initiatives.

Key Takeaway 9

Empower employees through self-service and improved communication.

- Provide self-service options that allow employees to easily access and manage their payroll information.
- Improve communication around payroll processes to enhance the overall employee experience.

Key Takeaway 10

Align payroll practices with broader HR strategies.

- Ensure payroll processes are integrated with broader HR strategies to attract and retain top talent.
- Regularly monitor payroll performance metrics to assess effectiveness and identify areas for improvement.



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