2021 Global Payroll Complexity Index

Highlighting complexities in multi-country payroll

alight

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The Alight Global Payroll Complexity Index (GPCI) provides HR and payroll operations leaders with up-to-date insight into the challenges and complexities they face when processing payroll in one or more countries.

The 2021 report looks at how organizations are preparing for the future of payroll and steps that can improve efficiency. It also acknowledges the larger role payroll departments are playing as a strategic business partner.

Now in its fifth edition, this biennial survey has evolved over the past decade to discuss current trends in payroll and technology, as well as the social and economic impact of location and compensation of employees.

The findings compile the experiences of hundreds of payroll and HR professionals from around the world. These experts answered questions on strategy, service delivery, vendor management, and the intricacies of managing and compensating a workforce in fast-changing times. Most respondents had employees in more than one country.

2021 Global Payroll Complexity Index Top 40

Ranking the top 40 countries in order of payroll complexity — based on mandatory legislative, reporting, process and security regulations.

	2021	Country	2019	2017
→	1	France	1	1
→	2	Italy	2	2
→	3	Belgium	3	3
→	4	Germany	4	16
↑	5	Spain	6	8
↑	6	Poland	10	14
↑	7	Russia	11	10
↑	8	Switzerland	14	22
↓	9	Japan	5	5
↑	10	United States	21	15
↑	11	South Africa	12	N/A
↓	12	Denmark	8	6
↓	13	Venezuela	9	N/A
↓	14	China	7	20
↑	15	Mexico	19	27
↓	16	Netherlands	9	7
↓	17	Sweden	13	13
↑	18	Austria	30	N/A
↓	19	Brazil	16	9
→	20	Finland	20	N/A
↑	21	Australia	24	17
↑	22	Romania	29	N/A
↑	23	Argentina	12	23
↓	24	South Korea	15	N/A
↓	25	India	23	21
+	26	Slovakia	N/A	N/A
+	27	Czech Republic	N/A	N/A
+	28	Indonesia	N/A	N/A
↓	29	Malaysia	22	29
↓	30	Canada	29	24
↓	31	United Kingdom	28	19
↓	32	New Zealand	27	12
↓	33	Ireland	17	11
↑	34	Colombia	37	N/A
↑	35	Thailand	38	N/A
↓	36	Turkey	25	25
↓	37	Philippines	18	18
↓	38	Singapore	31	4
↓	39	Hong Kong	26	28
↓	40	United Arab Emirates	32	26

Today's payroll teams are expected to adapt with astonishing speed to global events, technology changes and the needs and demands of employees.

The world we're moving into is fast-paced, competitive and more complex than ever as all organizations strive to regroup, restructure and recuperate. Legacy payroll apps and processes can't support this complexity. They don't have the responsiveness required to react and innovate, often quickly.

Cloud payroll platforms and integrated data will be key to setting and achieving overall business objectives. Outsourcing some or all of the payroll risk and complexity is an option reported to be under increasing consideration. Poorly managed payroll can be costly — to your company's bottom line and reputation.

Demand for real time data to support judicious and timely business decisions is on the rise. So is the recognition that the integration of payroll data with that of other business functions, brings major operational and competitive advantages.

A single source of business intelligence is the quickest and most reliable way to get a real-time overview of the profitability and efficiency of an entire organization. This approach proved invaluable through the pandemic for firms with this capability.

Remote access is fast becoming a must-have. For many, payroll-process resilience became a major issue through the COVID-19 lockdowns. As in previous GPCI reports, data security continues to be front of mind.

The disruption of the pandemic, together with the need for regulator and process compliance, are clearly driving interest in Cloud, outsourced and managed payroll processes. For the first time, the 2021 GPCI report shows the use of Cloud payroll exceeding that of in-house processes.

This report presents the state of payroll complexity as it currently stands. It also outlines the many steps you can take to bring your in-country and multi-country payroll set-ups in line with the needs of a healthy business in an unpredictable world.

If you still have any questions after reading this report, let's talk."

Luca Saracino,
Executive Vice President,
Alight solutions

Top 40 summary

The 2021 GPCI Top 40 focused on 10 key factors essential to payroll compliance and accuracy:

1. Reporting frequency and requirements
2. Compliance: Taxation and social security deductions
3. Payroll regulations and legislation including regional and local variations and updates
4. Data security, usage and storage
5. Employee rights and benefits including minimum wage, overtime and shift allowances
6. Unionization and works councils
7. Deduction of optional allowances e.g. lunch allowance, flexible benefits and spot bonuses
8. Processes and reporting — number of employee fields, frequency, etc.
9. Day-to-day payroll management
10. Exceptions including COVID-driven changes

Top 10 countries

Ranking the top 10 countries in order of payroll complexity — based on mandatory legislative, reporting, process and security regulations.

> Europe continues to top the table for payroll complexity. Workforce legislation is notoriously rigorous and pro-employee. Organizations expanding into Europe need to be aware of this.

Previous top 5 countries*

2019

- France
- Italy
- Belgium
- Germany (+12 ‘17)
- Japan (-9 ‘21)

2017

- France
- Italy
- Belgium
- Singapore
- Japan

Top 5 movers

Moving up (increased complexity)

- Austria
- United States
- Romania
- Switzerland
- Poland

Moving down (reduced complexity)

- Philippines
- Ireland
- Hong Kong
- Turkey
- Argentina

* The algorithm for calculating payroll complexity has been updated for the 2021 GPCI, in line with wider changes in global payroll processing, compliance and regulations

Europe is the most complex continent for payroll

Nearly half of the top 40 sit in Europe. France, Italy, Belgium and Germany remain consistent in first to fourth. Japan was ousted from fifth by Spain in 2021. Workforce legislations in the top five countries are notoriously rigorous and pro-employee. Unions are strong and collective work agreements protect working relationships. Collective Bargaining Agreements (CBAs) decide the rules. For an agreement to be valid these are negotiated at national and regional levels, and often down to industry, company or plant level.

Members of the European Union (EU) must comply to workforce directives. Non-EU countries often set their own versions, GDPR being the perfect example. There are also language and cultural distinctions to factor in.

Recently, countries in Eastern Europe are increasingly regulated, hence many, including Poland and Romania are rising in complexity for the second report in a row. Nordic countries have remained mostly static, with Denmark decreasing.

Asia Pacific (APAC)

Sixty percent of the world population lives in APAC. Ten languages are spoken and exchange rate conversions are challenging. This said, as a region it reported the greatest fall in payroll complexity. Only Australia and Thailand increased.

China, Malaysia, Singapore and New Zealand ranked higher in the 2019 report. They were new entrants due to the need to match regulatory standards to the rest of the world. This was necessary to continue to attract western service-led organizations.

Many of the processes introduced are digital — standard practice for modern payroll solutions. However, technology is still unreliable in many countries, so the options are to outsource or employ high risk manual processes.

The propensity to outsource was also attributed to complex country-level security regulations, cultural sensitivities, and the need for specific country knowledge for processing and reporting.

North America

The U.S. rose sharply while Canada remained stable. The U.S. movement was attributed to rebalancing following displacement by new economies across Eastern Europe and Latin America in 2019.

Employment and payroll regulations in the U.S. are complex. They vary significantly between its 52 states and territories. Rules also vary between regions and cities. The priority for the rules to apply are not consistent. Penalties for non-compliance can be high.

As an example, in 2020 the U.S. government set the national minimum wage at $7.25 per hour. However, 29 states and the District of Columbia set their own higher minimum wage. In these cases, the higher rate takes precedence. Further, any hours worked over 40 per week are paid at least at 150% of the regular rate.

Tax deductions add challenges. There are seven bands, each making allowances for single people, married people filing separately, married people filing jointly, household highest earners, and widows and widowers. Some states also collect supplementary taxes.

The U.S. is alone with regards to annual holiday and leave entitlements. There is no federal law. All leave is at the employer's discretion and subject to contractual agreement. Payment for the 10 national holidays is also discretionary.

Businesses with a workforce in Canada face similar complexities.

Again, there are variations between federal, provincial, and territory laws and regulations. Rules change frequently. Most employees are protected by the laws of their province or territory. The remainder are protected by federal labor regulations. Since the last GPCI, a range of legislative changes were passed by Canada's federal parliament. These include pay transparency, a pay equity plan, and diversity — including equal and fair pay.

South America

The countries of South America caused the greatest shakeup in the 2019 GPCI. However, in 2021, complexity has leveled and / or fallen in all but Colombia.

This is largely due to the automation of payroll in countries where manual processes have been replaced. The inefficiencies and cost of failure were too great and consolidation is recognized as essential.

Many U.S. companies have set up HR and payroll shared service centers in Argentina and Brazil due to shared time zones and low start-up and employee costs. Data security and privacy has to be of the highest level and compliant with the Sarbanes-Oxley rulings.

Legislative changes continued to be frequent and irregular and the complexity of this has been offset to payroll specialists like Alight. The need for local knowledge is essential.

Middle East and Africa

United Arab Emirates was the only Middle Eastern country in the Top 40. Due to data being unavailable at the time of drafting, Africa was not represented in the 2021 GPCI.

Employment laws vary widely across this region. Employment contracts in Algeria, for example, can be written or verbal. In Egypt, contracts are written in Arabic and triplicate. Minimum wages vary and often set in line with the cost of living, but not always, adding even greater complexity. In many Middle Eastern countries minimum wage does not apply to the private sector.

Since the 2019 Index the UAE introduced data privacy laws based on GDPR to operate subsidiaries of European businesses. This is in addition to UAE National Cybersecurity Strategy. Bahrain has its own Personal Data Protection Law.

In Africa, most payroll is run by bureaus in South Africa. It is more regulated and stable than many neighboring African countries. Payroll is regulated by the South African Revenue Service (SARS). In 2019, South Africa held 12th place in the Index.

Top 10 payroll processing challenges in 2021

1 Controlling threats to data privacy, security, and legislation	2 Greater accuracy in the integration of payroll with HR and other business process data	3 Need for greater system flexibility	4 Management of technology evolution	5 Changes to pay and rewards, and work from home allowances
6 Need for data standardization for ease of workforce and process auditing for reporting and c-suite planning	7 Integration of new rewards and benefits methodologies (pay-as-you-earn, cryptocurrency)	8 Adjusting status-based employee benefits, compensation, bonus, and reward packages	9 Managing hybrid teams and business continuity planning for potential geographic, economic, and political disruptions	10 Shortage of payroll professionals

Build a leak-proof payroll system

27%

of employee data breaches in the past two years were the result of human error

€20M

In Europe, the fine cost 4% of annual revenue, up to €20 million

2%

Payroll leakage, the result of poor process management, averaged 2% of a company's total salary bill

$30M

Undetected, this could have and will continue to cost a 50,000-employee firm $30 million p.a.

Key findings from the 2021 Global Payroll Complexity Index

61%

PAYROLL OPERATIONS AND DELIVERY

61% of respondent companies have outsourced some or all of their payroll operations.

KEY DRIVERS FOR OUTSOURCING

Regulatory environment	Corporate strategy of outsourcing	Cost reduction	M&A activities
42%	39%	27%	15%

LEVEL AT WHICH PAYROLL DECISIONS ARE MADE

- **51%** at a country-level
- **24%** globally
- **13%** at a regional level
- **9%** have other governance models
- **64%** have a global payroll governance strategy

TECHNOLOGY INVESTMENT AND ADOPTION

- **51%** of companies use on-premise payroll technology
- **62%** use Cloud payroll technologies, a rise from 34.8% in 2019
- **40%** of companies still use spreadsheets
- **18%** use manual and paper-based activities as part of their payroll processing

Use of artificial intelligence (AI) has risen from 6.3% to **12.5%**

PAYROLL RISK

62% of companies with six or more payroll vendors incurred payroll-related fines in the past five years

only **27%** of firms with 1–5 vendors

EMPLOYEE BENEFITS AND INCENTIVES

Top 3 benefits offered by companies:

- **76%** Private health insurance
- **76%** Life insurance
- **74%** Pension plans

The number of companies offering work-from-home allowances rose from 36% to **59%**

Childcare benefits have increased from 29% to **40%**

Key challenges and risk summary

While COVID-19 lockdowns around the world forced major changes to how and where we work, the payroll function had no such luxury. It was legally and morally obligated to function "as normal" without break.

This was a major logistical and compliance challenge, especially for firms without remote access to the payroll process. This highlighted serious gaps in payroll process continuity and is reported to have fueled the significant rise in organizations investing in outsourced or digital payroll processes in the past two years.

Frequency of tax and legislative changes — the umbrella payroll challenge globally for the past three GPCI reports — was further tested with COVID-19 related legislative changes imposing often daily updates. This proved impossible to keep up with, so teams were forced to make changes manually, adding further risk to the overall payroll process.

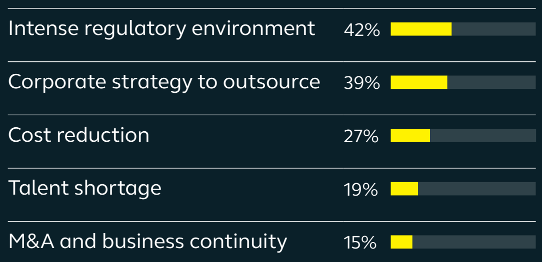
On the plus side, the pandemic changed widely accepted beliefs that the payroll process is purely a back-office function. The employee- and workforce-related data, a by-product of the payroll process, provided vital business intelligence to leadership teams.

Further to this, the social and business effects of not paying people were highlighted by the global media. Headlines proved that failure to run payroll correctly resulted in fines, correctional costs, and reputational damage, something no organization wanted to add to the cost and logistical challenge of the pandemic.

Legal and compliance

Payroll government reporting, legislation and compliance remain the biggest challenges for organizations. No matter the size of a company, if there's an employee there's a process to be followed. Each country's ranking in the GPCI closely correlates to its reporting challenges.

High regulatory risk drives outsourcing



In France, number one for the fourth consecutive report, the individual reporting for income tax comes with complex rules for employers withholding taxes. Sickness has complex calculations and admin processes. There are high numbers of worktime / overtime and absence types and these are frequently changing.

Protected events like maternity and disability, have complex criteria to be applied. Social Security contributions are split with different rules based on the different social purposes being funded e.g., social housing, extra-pension, unemployment, healthcare, or pension.

In Italy, again consistent in its ranking (second), payroll is complicated due to the fact that all activities involving a relationship with third parties, tax authorities, Social Security, funds, Labor office, and so on, have to be completed by authorized labor consultants. Dirigenti (director level employees), have a different set of rules for social security, taxation, and supplementary pension and health funds.

Also, most of the rules are the result of more than 800 different collective agreements. These are complex and ever-changing taxation has several layers in addition to national, regional, and city taxes. Further to this, a yearly declaration is required to report every employee's income, social security, and tax events of the year. The format and rule, delivered by the government and often at the last minute, change every year.

The US was one of this year's highest climbers, up to 10th from 21st in the 2019 report. Tax deduction and reporting is always a major legislative challenge, which was made more complex by changes to work locations during the lockdowns.

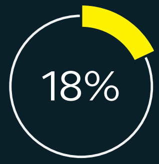
While Federal and OASDI/Medicare tax are straightforward, understanding taxation for state and local withholding is not. The pandemic has made this much more difficult as many employees move from working in an office to working from home. In many cases, this gave rise to changes in state and local tax set up.

Other forms of income are also a challenge including complex deferred compensation plans through handling bonus and long-term plans such as Restricted Stock Units or Stock Options. Added to this, a growing trend for Earned Wage Access was reported. This concept sees earned and accrued wage made accessible to employees earlier than the normal pay dates.

Almost all of the countries in the Asia Pacific region have workers unions in case of blue-collared employees. This creates an additional complexity, as does the fact that much reporting is not yet automated and requires in-person log-in at government offices.

Intense regulatory environments were the greatest drivers for outsourcing in the past two years, with 42.4% of firms opting for this lower-risk option. To the contrary, 39.6% of organizations globally still use spreadsheets in some or all countries and 17.7% continued to use largely non-compliant manual and paper-based activities in their payroll processes, despite the sharp rise in GDPR-like data security laws.

Respondents to the 2021 GPCI survey stated that in the past five years, 27% of payroll data breaches were the result of human error. In Europe, fines per incident cost up to 4% of annual revenues, to a maximum €20 million.

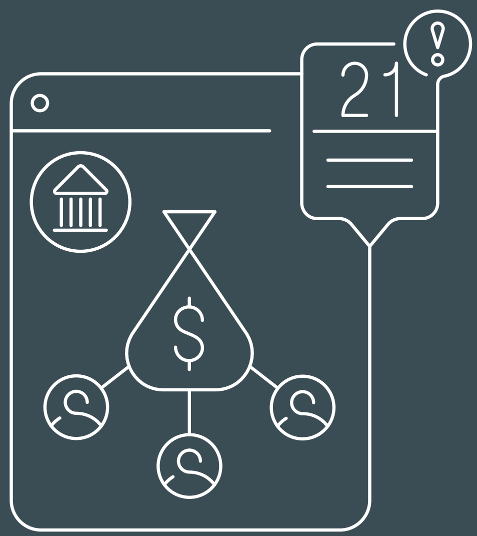


“**18%** of firms around the world still use largely non-compliant manual and paper-based processes in payroll, despite sharp rise in GDPR-like data security laws.”

Payroll service and operational delivery

More than ever, firms need to balance risks and opportunities to achieve growth. There is constant pressure from stakeholders to cut costs and increase efficiencies.

In parallel, changing legislations, trends, and workforce agreements (including working from home), digitization, personalization, and agility, are putting huge pressures on the payroll department to prove and build the business case for payroll process modernization. Much of this can’t be achieved using existing operational models.



As of May 2021, 60.6% of respondent companies has outsourced some or all of their payroll operations. Key drivers included intense regulatory environments (42.4%), an overall corporate strategy for outsourcing non-strategic activities (39.0%), cost reduction (27.1%), and M&A activities (15.3%).

Another risk element firms took into consideration is the global shortage of payroll talent. One-in-five respondents said this had been a factor in the move to outsourced payroll. The struggle to find and retain talent has impacted payroll continuity in several cases and this talent gap is an ongoing concern for nearly all respondents.

According to the 2021 GPCI, hybrid service delivery models are increasingly being used (60.6%). The components may include in-house, outsourced, managed, or shared services.

However, nearly 40% of multi-nationals continue to manage payroll in-house. This number had started to rise in previous reports, but it will be interesting to see whether the lack of access to in-house resources during the COVID-19 pandemic will change this.

Crucial also is the service delivery model. This tends to be set at a regional or country level but left unmanaged, can result in inefficiencies — for example, where there is one vendor that could provide unified and local language payroll services for more than one country. This continuity lowers the overall risk and, to a degree, the complexity of the payroll process.

In the last two reports, there was a slight increase in the number of companies taking payroll back in-house (39.4%), essentially acting as a 'single global payroll services provider'. However, the risks are high and there is no one to mitigate these to.

Talent acquisition, retention and the continual upskilling challenge is possibly greater than it is for a specialist payroll services company. And, as the COVID-19 pandemic highlighted, there is little or no resource back-up or means for third parties to access processes and data without extensive intervention, in the event of a major business disruption. Cloud processes slightly lower this risk, but only marginally.

The greatest dissatisfaction came when vendor partnerships resulted in poor service levels and increased costs. With a global vendor management governance model, it is far easier to form a trusted working partnership with clear SLAs set up front and aligned to the cost model. This approach is largely found to offer better economies of scale and higher overall service satisfaction.

> **Defined operating and delivery policies provide a solid foundation for the payroll function. The data created in these, more so when integrated with other business processes, provides vital intelligence to business leaders. This proved critical during COVID-19 when fast decisions had to be made.**

Vendor governance

The number of firms adopting global payroll governance models is up nearly 30% over the last two years: 51% of international businesses continued to make payroll decisions at a country level, 13.0% at a regional level, and 8.7% reported other governance models including hybrid and decisions made at business unit level.

Fewer than two-thirds of respondents (64.3%) had a global governance strategy and fewer than a third (32.1%) a global payroll function, making their overall payroll processes higher cost and risk than more centralized models. The firms with country-level payroll models were twice as likely to have more than 30 payroll vendors.

The greater the number of vendors, the more complex the management and the higher the risk of failure. However, reliance on a single payroll partner requires in-depth due diligence.

Sixty-two percent of companies with just six or more vendors had incurred vendor-related fines in the past five years. This compared with 27.0% of those with consolidated vendor environments of one to five.

If the decision is to spread the risk across more than one vendor, it makes sense to have one as the primary partner to manage the others on your behalf, creating an efficient single point of contact for payroll services.

> **In 2021, 60.6% of companies outsource some or all their payroll operations. The remaining 39.4% manage the process in-house. Of all, just 66.3% have a global payroll governance strategy, fewer than 30% a global payroll process and under a third a global payroll function. The net result is high risk and high-cost payroll.**

Technology investment and adoption

The competition for payroll technology investment is fierce. However, there is an appetite for investment. Success often depends on the strength of the business case, and the investment planning model put forward.

For the first time ever, the use of Cloud payroll processes exceeds that of on-premise. At 61.5%, this is a rise from 34.8% in 2019. However, there was a tendency to mitigate risk by maintaining an element of on-premise technology.

Four in 10 Cloud movers still use on-premise processes to support or compliment their digital investment. Respondents also stated this “hybrid approach” was part of a phased migration or replacing end-of-life technologies. This said, more than half, (51%) were still processing payrolls in-house, many using spreadsheets (39.6%) and non GPDR compliant manual and paper-based systems (17.7%).

Cloud payroll was an option for both staged payroll modernization and delivery. Key to the business case being signed off was the agility to add new locations, to integrate with other digitized business functions, but also keep up to date with new workforce trends and expectations on the payroll function as firms move into the future.

With the agility of a Cloud platform and the flexibility to address bespoke requirements, business objectives can be met with minimal investment in technology. Through its standardized delivery model, the system can be used in any location. It can also generate a highly valuable single view source of business intelligence.

The nature of the technology also ensures the payroll function is future-proofed, with updates and maintenance options either included or available as add-ons.

> **“Cloud payroll is also an option for rapid and staged payroll modernization and delivery. It enables new locations and features and functions to be added easily. It is also relatively straightforward to integrate with other business systems.”**

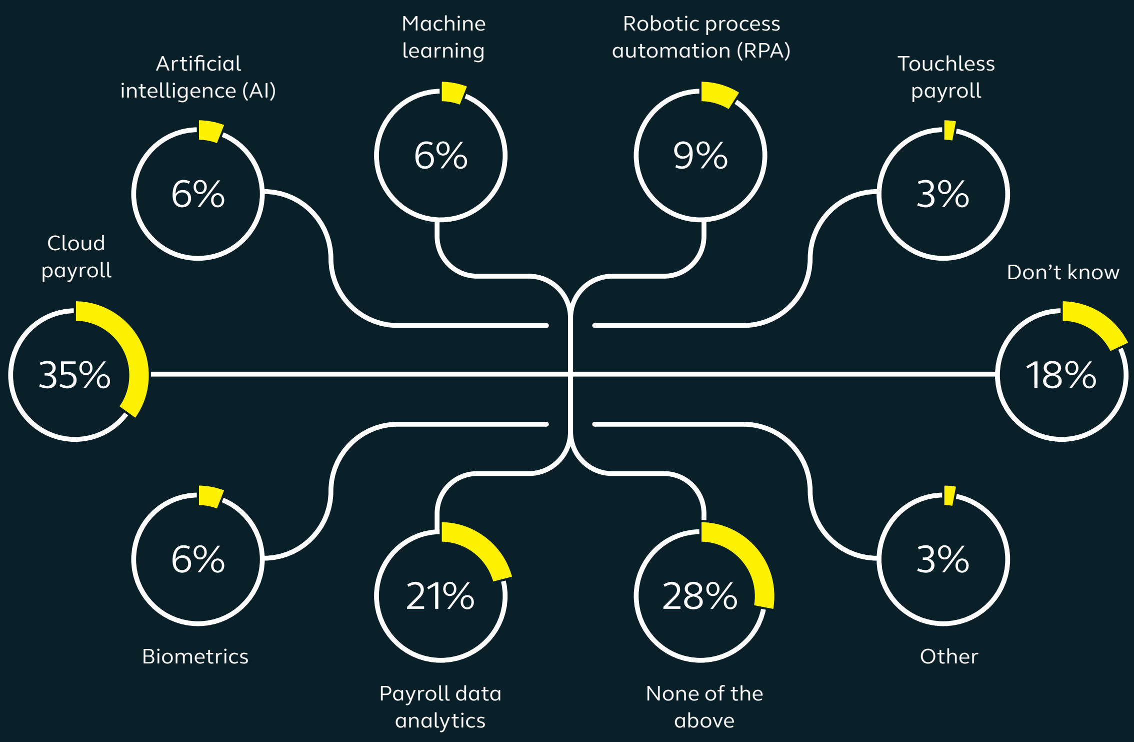
Adoption of artificial intelligence (AI) and robotics was still low. Much of the increase (6.3% to 12.5%), can be correlated to the increase in Cloud payroll and the integration of chatbots and other tools to improve employee self-service, as well as driving analytics to deliver a better employee experience.

Robotic process automation (RPA), beyond that as standard in Cloud payroll HCMs, increased to 17.0% from 9.2% in 2019. Those that had invested reported greater speed, accuracy and improvements in the quality and efficiency of payroll processing.

Integrated employee data analytics saw the greatest growth in investment, up to 35.2% from 20.8% in 2019. This was thought to be in some ways attributed to the proven business, wellbeing, and operational needs for people data through the pandemic.

Analytics was also being used to look at potential skills shortages and pay gaps. For example, in October 2021, firms had to report their UK gender pay gaps for 2020. There is suggestion that diversity pay gap reporting is to be introduced. Both are extremely challenging to execute without a digitized process.

Investments in next-gen payroll innovations since 2019



KPIs used to measure payroll performance in 2021

- **72%** Payroll accuracy
- **59%** Payroll timeliness
- **34%** Payroll query resolution
- **16%** Number of overpayments
- **14%** Number of off-cycle payments
- **11%** Don't know

Payroll key performance indicators

The pandemic was the greatest stress test payroll processes have ever been under. Nearly all respondents suggested that one or more KPIs were missed on at least one occasion. The greatest challenge was for firms unable to access their payroll processes remotely.

For those with outsourced payroll, the resilience was only as great as that of the vendors, calling into view the need to reassess how, where and who processes a firm's payroll. As mentioned previously, the higher the number of payroll vendors used, the greater the risk.

One in five companies have more than 30 payroll partnerships. Sixty-two percent of firms with more than six partners incurred fines in the past five years. These companies spend a significant amount of time managing contract and service level agreements, plus navigating different ways of working. For internal and external reporting, all the pieces of this puzzle must be put together to provide visibility into people costs versus efficiencies and goals.

Exposing payroll to local vendors, where much is still manual, and the sharing of personal identifiable data over unencrypted email increases the risk of data security incidents. The risk is amplified when sharing data through unsecure channels with multiple vendors around the world.

According to Thomson Reuters, the average cost of a data breach is $3.9 million and 27% of incidents are caused by human error. The incorrect handling of personal data in the European Union can results in fines of up to $20 million.

While the importance of payroll accuracy was widely recognized — It was the number one payroll key performance indicator (KPI) reported — just 15.5% of companies said they measure and track overpayments. Payroll leakage amounts to approximately two percent of a company's total people cost. Most goes undetected. For an organization with 50,000 people this could mean $30 million every year.

Payroll timeliness, which has much to do with compliance and avoidance of fines, was tracked by 58.8% of companies. Thirty-four percent of firms said they measure the time it takes to resolve payroll inquiries, highlighting and increased leaning to employee experience.

Other popular payroll KPIs include the number of off-cycle payments (14.4%), which is an indication of how well the payroll process is managed and the volume on underpayments. This refers to situations where an employee is not paid the full amount they have earned, e.g., where overtime or merit payments have not been processed in time. This can have a negative impact on employees, especially if recurring.

Employee benefits

In additional research by Alight, we noticed a significant decline across all categories of emotional, social, physical, career and financial wellbeing during the past 18 months. This is resulting in higher stress levels and changing expectations on what perks and benefits an organization must offer.

In 2021, there's an increase in companies offering work-from-home allowances – from 36.0% to 59.0% of companies. Childcare is up to 40% from 20%, public and eco-transport rose six percent, health and fitness benefits by three percent, as were meal benefits.

The top five benefits offered by companies globally in 2021 remained similar to 2019:

Private health insurance	76%
Life insurance	76%
Technology	74%
Pension plans	74%
Parking	69%

The COVID-19 pandemic gave people time to reflect. The result: Many organizations had to rethink their workforce, workplace, and operating models. In a bid to attract and retain the best talent, responses to the GPCI research suggest many employers felt under pressure to revise their rewards and benefits structures.

Yet equally, firms felt challenged to remain conscious that their reward and performance framework is aligned to strategy and continually reviewed against overall business performance.

We expect the 2023 report to show benefits that reflect changes in the time, place and location people work following post-pandemic restructuring.

Payroll talent

Finding and retaining the right payroll talent is reported to be increasingly tough. Due to the complex and highly regulated nature of payroll processing trained talent is vital.

Each payroll specialist requires:

- Local payroll knowledge
- Process and technology experience
- Language proficiency
- Dexterity to adapt to changes in business operational requirements

The skills gap is greater in some countries, but the rise in remote payroll processing potentially widens the talent pool.

Given the increase in global payroll ecosystems, looking for payroll talent at a global level starts to make more sese. It can also influence choice of payroll partners and / or the decision to set-up or seek shared service center support.

The digitization and automation of routine payroll and admin naturally addresses resource capacity issues. It can also help with the decision to either invest in payroll as a capital cost (CAPEX) or to outsource as an operational cost (OPEX).

It will be interesting to see how the payroll organizational structure evolves in the period between now and the next GPCI report in 2023. This is not a parameter that we have yet measured but will be included to reflect the rise of the payroll function from an ‘invisible’ process to a strategic business intelligence tool.

Payroll and data security

The greatest challenge of remote access to payroll systems since the 2019 report was the need to adhere to government regulations relating to the COVID-19 pandemic, on top of standard updates. The challenge remains as job retention programs and exceptional leaves continue in most countries.

Those with Cloud technologies and vendor partnerships in place reported fewer challenges. Respondents with legacy and manual processes reported error rates had escalated in the past two years. Instances of internal fraud were also reported. Moving forward, most firms said they will review payroll governance.

Investment protection

All payroll modernization investments need to flex with the business. They also need to understand and reflect the needs and expectations of all stakeholders. A value management project as part of the planning stage is essential and should include at least the following:

1. Projected costs must be based on actual supplier provided estimates, whether internal or external service providers.
2. Potential increases must also be calculated and presented as 'worst case' project costs.
3. Continuity plans must be built in to protect against the unknown including global crises, vendor collapse and potential business growth or retention.
4. Potential increases based on a number of agreed variables. These must be agreed before work is calculated during the planning phase of a project and must be approved before work begins.

What's next for payroll investment?

We are on the cusp of change. In the next 24 months, 62.5% of companies that outsource payroll expect to go through a digital transformation project versus 16.7% of those that run payroll in-house.

The group of companies that outsource their payroll process expect to see more changes related to M&A activities, divestments and new business lines. Any one of these can be a headache and risk for business continuity if not managed well.

Forty percent of multinationals believe their organization will expand into new countries in the next 24 months and 46.7% foresee M&A activity in the near future.

The effect of the global pandemic on payroll initiatives was quite surprizing. More than 26% of companies have actually accelerated their payroll projects, whereas just 6.1% have postponed or halted their investment. The majority (53.1%) reported little or no impact from the pandemic on intended spend, while 10.2% are exploring options for change.

When asked about their plans for outsourcing, 19.6% of payrolls currently running payroll mostly in-house said they have plans to outsource at least some parts of their payroll process in the next 24 months. And 6.5% are already in the process of doing this. Conversely, 63% have no plans to outsource, at least not before 2023. Nearly 11% didn't know.

Business events in the next 24 months

Which of the following events do you forsee in the next 24 months for your organization?

	Overall	Companies managing payroll in-house	Companies that have outsourced payroll	Multi-nationals	Single country
Digital transformation project	**40%**	17%	63%	53%	17%
Divestment or carve out	**19%**	17%	21%	20%	17%
Don't know	**13%**	21%	4%	7%	22%
Expansion to new country	**27%**	29%	25%	40%	6%
Merger / acquisition	**46%**	42%	50%	47%	44%
New business line	**19%**	17%	21%	27%	6%
Other	**6%**	4%	8%	3%	11%

Executive perspective

> **The extraordinary political, economic and social disruption of the past two-years will shape how companies define their business strategies.**

Senior business leaders have been struck by the realization that people are core to not just the success of an organization, but the societies that support it, either as employees, customers or investors.

Trends reflected in the 2021 GPCI findings point towards a need to address the previous lack of investment in payroll modernization. However, competition for budget will be fierce and a well-defined business case will be essential.

Understanding stakeholder needs for payroll investment is key. This will enable you to:

— Formalize the global payroll strategy

— Update payroll operating models

— Make payroll intrinsic to strategic business planning

— Address the lack of investment in digital payroll processes and additional integrations

It's not a straightforward re-evaluation. There are multiple stakeholders invested in the payroll processes. These will range from those being paid, to people managing the processes, and to those needing it to be an efficient, low risk, low-cost invisible process. In addition, authorities expect it to be fully compliant and reported. All must be equally satisfied.

For the purposes of this research, payroll was divided into the following components:

— Organizational structure

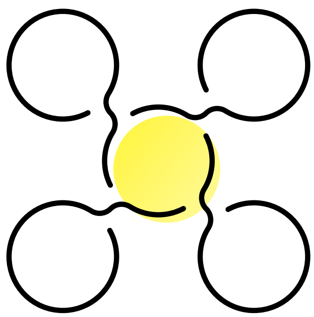
— Technology and automation

— Vendor governance and management

— Employee experience

— Data and security

— Cost management and investment protection (costs)



Organizational structure

The overall findings point to a need for organizations to review how payroll is to be structured moving forward. With few exceptions, firms were found to have major gaps in the agility of their current payroll process policies.

To ensure future payroll compliance and best practice, organizations need to know:

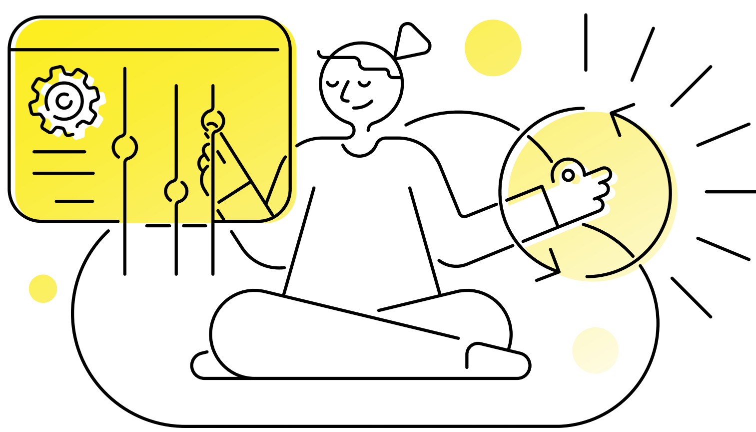
1. How payroll is structured
2. Who is ultimately responsible for global, local, and in-country delivery of payroll
3. What happens in the event of business continuity failure
4. What happens if you can't attract, retain, and futureproof the skills of your talent

Technology and automation

The findings point largely to underinvestment in payroll modernization to date. Cloud, automation and artificial intelligence technologies are no longer developmental, but proved to deliver results.

Largely these are integrated into the latest digital HCMs.

1. Which technologies enable best practice payroll operations and compliance?
2. Should artificial intelligence and robotic process automation be added?



Vendor governance and management

The consensus is that the greater the number of payroll vendors, the higher the overall payroll risk is. Often vendors are inherited via a merger or acquisition, or in the case that there is no umbrella payroll governance model. Moving forward firms need to:

1. Align vendor model to overall payroll strategy
2. Assess which providers meet your criteria e.g., global, regional, local
3. Set KPI metrics, tracking and monitoring processes to determine effectiveness
4. Establish working partnership between in-house and vendor payroll personnel

Employee experience

The pandemic highlighted just how vital people are to the continuity of a business and to the wider economy. For many brands, this has refocused how all employees are recognized and rewarded. To ensure an optimal employee experience companies need to:

1. Match the payroll process to the overall employee value model
2. Deploy technologies to make self-service payroll straightforward and an option for all employees
3. Evaluate models such as pay-as-you earn and cryptocurrency
4. Review rewards and benefits based on renewed working models, cultural shifts and evolved personal priorities

10-step payroll resilience model

For many firms the pandemic highlighted that business continuity plans failed to factor in payroll durability if no sites could be accessed.

The Alight payroll resilience model consolidates the 10 key needs highlighted in the report — in-house or payroll service provider:

Conclusion

The means to present the business benefits of real-time business intelligence from integrated workforce and finance processes is proving vital in the race for budget. Added to this are the bottom line and employee retention advantages of increased payroll processes efficiencies, minimized payroll leakage and compliance breaches.

While all cases for HR and payroll technology renewal have and will continue to be competing with multiple departments' demands on post-COVID budgets, the overriding conclusion of the 2021 GPCI is that process risk levels were tested more than before in 2020 and 2021, so the business case for payroll modernization is as great as it's ever been.

In many instances the physical limitations of business continuity plans, including for payroll, were made abundantly clear. With buildings forced to close, there may have been difficultly in maintaining on-premise only payroll software. For many, there was no way to log on to vital payroll processes and data, and so no means to pay employees. Legacy system payroll partners had the same restriction.

For many companies, the need to address remote access to payroll processes is a high priority. The impact of any payroll failure has been proven to have negative impacts on performance, profitability, employee retention and customer loyalty. Lessons have been learned and 26.5% of companies accelerated payroll project investment on the back of the COVID-19 pandemic.

The period since the 2019 report was published has possibly been the most challenging ever for the payroll industry and this is reflected in the 2021 findings. So too is the push to use learnings from the past two years to fill the resilience gaps that became evident through the pandemic in payroll processes, moving forward.

> **"Digital payroll data proved vital to business leaders through the COVID-19 pandemic. Anything relating to employees could be pulled in real-time from source and used in emergency and strategic planning."**

About the Global Payroll Complexity Index

The biennial Alight Solutions Global Payroll Complexity Index (GPCI) benchmarking survey is an in-depth, deep-dive into the elements that add complexity and risk to the management and legal processing of payroll for an organization in one or more countries.

Payroll professionals around the world have relied on the GPCI for nearly a decade to provide actual intelligence for use in payroll operational planning, process modernization, and the adoption of new technologies.

The GPCI is a comprehensive study of the parameters that must be adhered to in the processing of payroll in a country. The 40 identified as being most challenging are published in the biennial Index. Movement from the previous two reports (four years) are indicated.

The data used to create the index is drawn from our own country payroll specialists. Published ahead of the full GPCI report, the intelligence for the index is pooled from the responses to a comprehensive survey of payroll professionals around the world in the weeks ahead of the report publication.

The resulting report provides payroll professionals with an up-to-date deep dive into the challenges, changes and trends that impact, and potentially threaten, the compliance and accuracy of each payroll run.

About the Company Payroll Complexity Assessment

For the first time, companies are invited to take an Alight Company Payroll Complexity Assessment (CPCA). This provides a payroll risk score specific to the organization. The calculation is based on the associated risks of the five largest country payrolls of the organization.

The risk score is immediately available following completion of an **online questionnaire**.

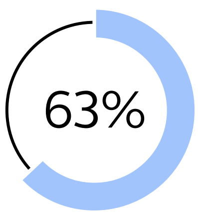
The basic CPCA can lead to the comprehensive Payroll Maturity Assessment. This highlights the very real financial and process risks of your existing payroll set-up.

Research demographics

Respondent demographics

147

companies from across the globe have shared their views



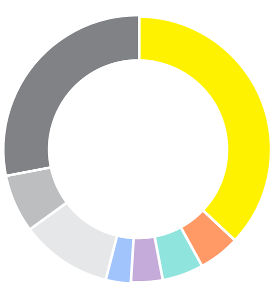
of respondent companies are multinationals, with 35% operating across over 10 countries

Top 10 **operating countries** of the respondent companies are the U.S., United Kingdom, Germany, Italy, France, India, Canada, China, Mexico, and Spain

Country	% of comanies
United States of Americe	34%
United Kingdom	28%
Germany	23%
Italy	15%
France	14%
India	14%
Canada	12%
China	12%
Mexico	10%
Spain	10%
Poland	9%
Netherlands	9%
Belgium	8%
Japan	5%
Singapore	5%

Number of countries

147 responses



37%	1
5%	2
5%	3
4%	4
3%	5
11%	6–10
7%	11–20
28%	Over 20

Top 5 **industries** are professional and business services (17% of companies), manufacturing (10%), high tech (8%), banking and finance (8%) and retail (7%).

9% of respondents are C-level, while the majority (57%) are managers, directors or vice presidents overseeing the HR and payroll functions. 18% of respondents have other roles in the payroll department of their company.

The Alight GPCI difference

Alight is the leading global payroll and HR services, solutions and advisory company. In 2019, the company acquired NGA Human Resources, creating an unrivaled HR and payroll knowledge base. Through the GPCI, and other regularly published reports, we provide business leaders and their teams with the insights, advice and facts needed to maintain and build successful organizations.

What sets us apart is the breadth of our knowledge and our application for organizations in almost every country in the world. We combine global reach with local knowledge.

For nearly a decade, the GPCI has provided the intelligence that triggered business leaders to realize there's a better way to manage payroll. It is not a back-end administrative process, but one of the keys to turning maximum profits.

We hope you find the results of this year's survey useful. If you have any questions regarding the survey or specific payroll operations or tax challenges, please don't hesitate to reach out to the payroll and employment tax specialists.

LET'S TALK