

WHITEPAPER

Payroll and HR in SA:
Rising to the challenges
of change

Sage payroll & HR research report



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About the research

With access to some of a business' most sensitive and valuable information, payroll and human resources (HR) professionals are sitting on a goldmine of insights that can enhance business strategy, streamline compliance, and attract and retain the best talent. But, without a specialist system, those insights remain buried under an ever-growing pile of admin.

Payroll and HR in SA: Rising to the challenges of change

Sage interviewed **600 small businesses** (under 99 employees) and **400 medium-sized businesses** (100 to 1,999 employees) during August 2021 to find out how they're navigating increasing complexity in payroll, while also dealing with new challenges around remote working and data security – often for the first time.

All respondents who completed the quantitative online survey hold some responsibility over their businesses' payroll and/or HR function.



Making room for payroll and HR at the decision-making table

A business' monthly pay run means different things to different people. Employees value the certainty that their money will appear in their bank accounts on time, every time. Employers must honour their contractual obligations to their employees while also adhering to an array of constantly changing legislation.

Throw in COVID-19 and the global shift to remote and hybrid working, and you get payroll and HR challenges with a level of complexity that many businesses have never faced before – and it's knocking professionals' confidence. What's more, with the enactment of the Protection of Personal Information Act (POPIA), payroll and HR professionals must also think about security risks like cyberattacks and data theft. For some, it's completely new territory.

As Sage, the market leader in integrated payroll and HR software in South Africa, we wanted to explore these significant shifts, and gain insight into how payroll and HR professionals were adjusting to the new challenges of hybrid working.

The only constant is change

Practitioners – both seasoned and young professionals – tell us that staying on top of constant changes in legislation is their biggest payroll challenge. This is especially true for businesses that still use manual or offline payroll systems.

As a result, payroll and HR professionals spend so much time on manual, repetitive tasks and maintaining employee data that they have little time to take advantage of Employment Tax Incentives or to position the company as a desirable employer for Generation Z, who are now entering the workforce.

Businesses that were already using specialist cloud-based payroll and HR systems had an easier time switching to hybrid working environments and managing change, than those using manual, offline systems. They also report having more time to focus on what makes a company a great place to work, such as strengthening organisational culture to create long-lasting team bonds in a hybrid environment, and paying attention to the social issues that matter most to Generation Z: social issues that matter most to Generation Z and the wider workforce.

The importance of these shifts cannot be understated. And the role of cloud technology in enabling these shifts cannot be ignored. We've entered a new era in payroll and HR management, and long-term trends are beginning to emerge.



The most successful businesses will be those that embrace specialised technology to free up time to focus on understanding employee expectations, grasping the cultural benefits that will attract the best talent, and putting in place the systems and processes necessary to engage and retain that talent.

Yolandi Esterhuizen

Registered Tax Practitioner & Director: Product Compliance, Sage Africa & Middle East



Part One

Rising payroll and HR complexity

Payroll and HR complexity increases just about every month and staying up to date with changing laws and regulations can be a full-time job.

In the past 18 months alone, the South African government¹:

- Amended the Disaster Management Tax Relief and Tax Relief Administration Acts
- Published the Taxation Laws Amendment Act, 2020, and the Tax Administration Laws Amendment Act, 2020
- Introduced, suspended, and reintroduced the COVID-19 Temporary Employee/Employer Relief Scheme (TERS)
- Enforced the Protection of Personal Information Act (POPIA)
- Introduced tax incentives for Solidarity Fund donations
- Increased the national minimum wage
- Increased the Unemployment Insurance Fund (UIF) contribution limit
- Extended the Employment Tax Incentive (ETI) – and amended the amounts



49% of payroll and HR professionals believe continuous changes in legislation and regulations drive payroll complexity

To remain compliant, payroll and HR professionals must understand the impact of legislative changes on processes and systems such as UIF and PAYE calculations, pension and medical aid fund contributions, and – a first for many in the profession – data security.

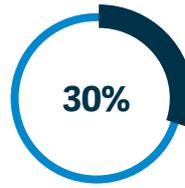
It's no wonder that **77% of respondents** in our *Payroll and HR in SA: Rising to the challenges of change* research say they struggle with the complexity of payroll taxes. In fact, **50% find it difficult to explain tax calculations to their employees.**

1. Non-exhaustive list. See <https://home.kpmg/xx/en/home/insights/2020/04/south-africa-government-and-institution-measures-in-response-to-covid.html> for more.





of respondents recognise the importance of keeping up to date with the latest tax- and labour-related legislation.



of respondents acknowledge that they find it difficult to stay up-to-date with legislative change.

This figure is even higher for:



42% of business owners, who are also responsible for payroll and HR



42% of younger professionals with under one year of experience



41% of users of non-specialist or manual payroll systems

There is an increasing demand for workplace flexibility, which complicates matters further. Employee expectations have shifted rapidly, and most employers now favour a **“hybrid”** model for their teams. While this is great for the employee experience, it can wreak havoc on payroll and HR processes. That’s because with increased complexity comes an increased risk of error, data loss, and noncompliance. It’s the fear of making these errors that’s shaking payroll professionals’ confidence and fuelling fears of job insecurity.



COVID confidence knock

Constantly changing legislation is not the only thing keeping payroll and HR professionals up at night.



73% of professionals agree that COVID-19 has added to payroll and HR complexity

Payroll and HR professionals with limited experience are more likely to say that COVID-19 has knocked their confidence than those with more experience (**44% versus 25%**).

Because of COVID-19, many payroll and HR professionals had to deal with new developments such as managing remote or hybrid workforces and ensuring the security and integrity of employee data – often for the first time.

As a result, most payroll and HR professionals (**83%**) spend a significant portion of their time on repetitive tasks, administration, and maintaining employee records.



35% of payroll and HR professionals spend **30%** or more of their daily time on tasks related to:

- Preparing and processing payroll, compensation, and benefits (**52%**)
- Maintaining employee records (**45%**)

This is especially true for users of non-specialist payroll and HR systems, **36%** of which feel less confident navigating COVID-19-related regulations, compared to **20%** of users of cloud-based systems.

That's likely because outdated, non-specialist systems make it challenging to remotely implement legislative changes and manage payroll. This leaves little time or bandwidth for payroll and HR professionals to analyse data, respond to changing workforce needs, or upskill their teams in future technology. The knock-on effects on the business include inconsistent data reporting, poor system integrations, and an inability to quickly adapt to change.



Only **31%** of respondents have time to track critical KPIs through HR data and people analytics. This increases to **44%** for users of cloud-based systems

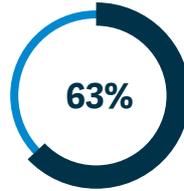
Unsurprisingly, **88%** of businesses that were already using cloud-based payroll and HR management systems were better able to adapt to remote or hybrid working arrangements.

New compliance and data security concerns

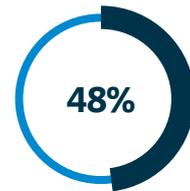
Payroll and HR involves a huge amount of sensitive information. How businesses store, use, and transfer this data is heavily regulated by data protection laws.



Although 91% of payroll and HR professionals say their organisations are fully compliant with POPIA and the General Data Protection Regulation (GDPR),



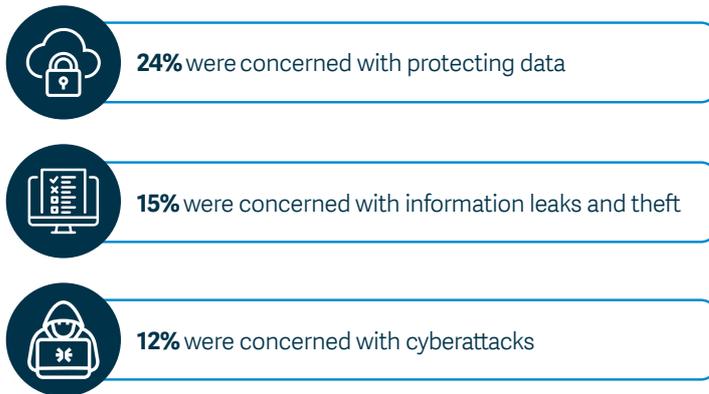
63% worry about securely sharing personal employee information



and 48% still worry about compliance



Top 3 compliance concerns among payroll and HR professionals:



As custodians of some of the business' most sensitive information, **31%** of payroll and HR professionals – especially those using cloud systems – focus more on cyber-security than they did a year ago.

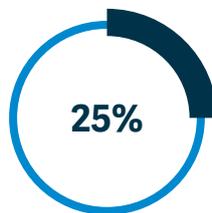
While this is good from a digital ethics perspective, keeping up with compliance requirements leaves little time to take advantage of business-benefitting legislation, such as Employment Tax Incentives (ETIs) and the Skills Development Levy. As a result, the business loses out on an opportunity to lower its hiring costs through reduced PAYE contributions.

In fact, only 52% of SMEs currently take advantage of ETIs.

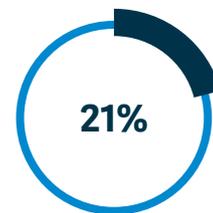
What's stopping the rest?



A general lack of awareness of ETI



Fear of claiming ETI incorrectly



Concerns surrounding the increase of administrative burden



Part Two

Redefining success in a hybrid working world

Payroll and HR professionals sit on a goldmine of organisational and employee data, but few use it to support business decisions and meet candidate and employee demand for greater flexibility, competitive benefits, and easier access to HR data and information.

Since the work that payroll and HR professionals do impacts everything from tax and labour law compliance to employee satisfaction and culture in hybrid working set-ups, it's no wonder that:

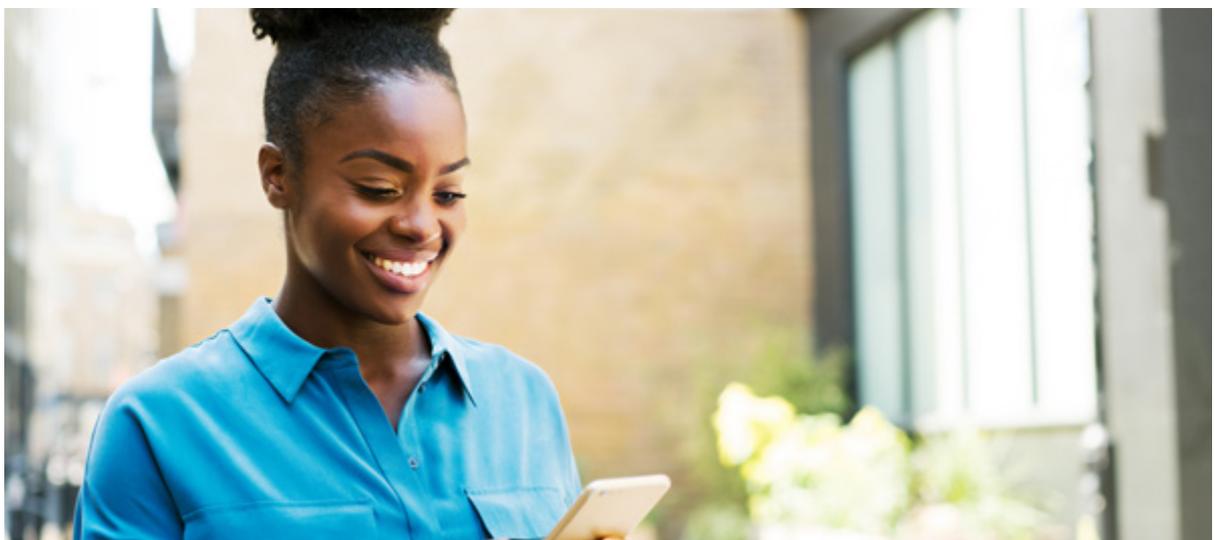


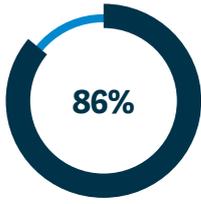
85% of respondents agree that payroll and HR professionals need a seat at the decision-making table

Maintaining a healthy company culture in dispersed working environments

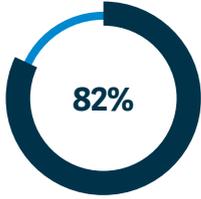
Payroll and HR professionals have accepted that remote and hybrid working is here to stay.

This shift has been the main reason why **64%** of medium-sized businesses and **50%** of small businesses have increased their use of payroll and HR technology in the past year.

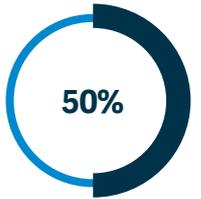




of payroll and HR professionals link the increased use of cloud technology to their organisations' ability to operate in a remote or hybrid environment



of surveyed businesses switched to fully remote or hybrid working environments in the past year



started hiring, training, and managing employees in a remote or hybrid environment in the past year

Cloud technology can automate mundane tasks, improve reporting and compliance accuracy, support data security, and free up time to focus on things that make a real difference in the business, such as maximising ETI benefits to develop in-house skills, empower the youth, and position the company as a desirable employer.

This is becoming increasingly important as Generation Z enters the workforce. Born between 1997 and 2015, these digital natives have very different expectations of work, as well as how and where they do it. Importantly, they are beginning their careers at a time when work as we know it is evolving. This puts the payroll and HR function in an advantageous position to structure their cultures and ways of working to attract the best young talent.



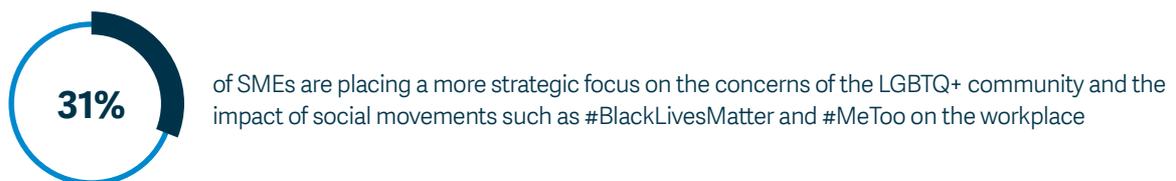
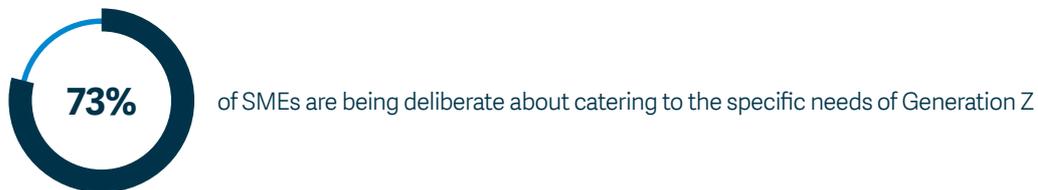
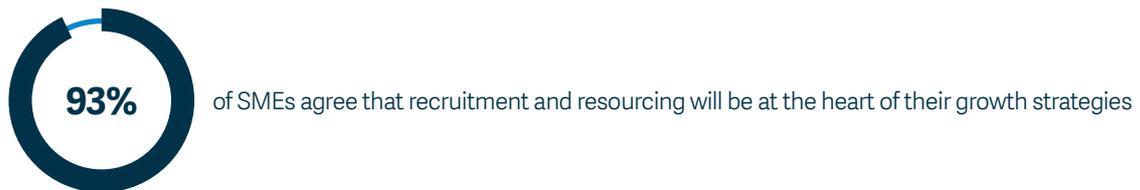
Meeting the needs of Gen Z

Generation Z are redefining what it means to be loyal to a brand and what they expect from their employer.

With specialist technology taking care of the mundane tasks, payroll and HR professionals are shifting their focus to the things that make a company a great place to work, such as:



This shift in focus for payroll professionals complements the work being done by their colleagues in HR to drive business growth through talent management, employee engagement and satisfaction, and showing sensitivity towards social issues that are important to **Generation Z**.



Part Three

The great cloud shift



62% of payroll and HR professionals say that embracing technology and analytics should be a top priority for leaders.

When used correctly, payroll and HR data can result in faster recruitment, lower staff turnover, and higher employee competency and engagement across the employee lifecycle. It also supports and improves decisions about recruitment, employee satisfaction, compensation, and skills development.

Over half (**56%**) of respondents agree that digitising payroll and HR data and employee information could save them time and effort.

They also agree that digitisation will help to:

- Improve data security,
- Optimise the use of payroll and employee information,
- Reduce the administrative burden, and
- Provide real-time insights.

What's more, **96%** of respondents agree that specialist payroll and HR systems should be:

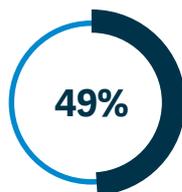
- Integrated with accounting software,
- Accessible from anywhere, anytime,
- Intuitive to use, and
- Offer online support.

Who's making the switch?

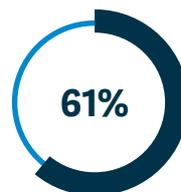
70% of payroll and HR professionals intend to switch from manual and offline systems to cloud software in the next year.



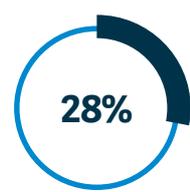
intend to purchase cloud software in the next 12 months



of respondents currently use offline payroll and HR systems



intend to purchase cloud software in the next 12 months



of respondents currently use manual payroll and HR systems

Why are they making the switch?

Data security, time management, and a shift to remote and hybrid working models are the main reasons why **70% of SMEs** would switch from manual to cloud-based systems.

Other reasons include (respondents were able to select multiple options):



62% improve productivity



61% enable access to information anywhere, anytime



56% the ability to integrate payroll, HR, and accounting software



50% increased document security through access restrictions



50% reduced costs



47% access to higher quality data to make more accurate forecasts



44% free up HR's time to advise executives



40% easily manage decentralised teams in different time zones



90% of payroll and HR professionals say they need more efficient and simplified technology to ensure their success in the workplace.

Respondents say payroll technology can be simplified through:



Automated tax calculations **(70%)**



Digitised payroll and employee data **(56%)**



Integrated payroll, time management, and HR systems **(56%)**



Centralised records using cloud-based systems **(46%)**



Giving employees ownership of their data **(34%)**



Conclusion

As payroll and HR complexities continue to increase, businesses need better reporting analytics to inform strategy and planning, faster reporting to provide timely information, tighter data security to improve compliance, and a streamlined payroll process to reduce errors, cut costs, and increase employee satisfaction.

Specialist cloud payroll and HR systems offer all this, as well as ease of integration, online support, access from anywhere, automated tax calculations, and direct links to banks and tax authorities.

The most successful businesses will be those that embrace specialist payroll and HR technology to free up time to focus on understanding employee expectations, grasping the cultural benefits that will attract the best talent, and putting in place the necessary systems and processes to engage and retain that talent.

About Sage

Sage is the global market leader for technology that provides small and medium businesses with the visibility, flexibility and efficiency to manage finances, operations and people. With our partners, Sage is trusted by millions of customers worldwide to deliver the best cloud technology and support. Our years of experience mean that our colleagues and partners understand how to serve our customers and communities through the good, and more challenging times. We are here to help, with practical advice, solutions, expertise and insight.

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