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Guide

AI in HCM

The research, the reality, and the right solution



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What leaders like you expect



Let's be honest: AI is everywhere right now.

It's in the headlines, in the boardroom, and probably in multiple meetings you sat through last week. And if you lead an HR, Finance, or IT team, you've likely felt the pressure to figure out what it all means for your people, processes, and bottom line.

AI is no longer something leaders can afford to treat as a future consideration. The question isn't whether AI belongs in your technology strategy. It's how to use it in a way that supports the work you're already doing: helping people do high-quality work faster, reducing complexity, improving accuracy, and maintaining control.

That's exactly what this guide is for. It'll touch on what HR, Finance, and IT leaders expect from AI in their human capital management (HCM) software, what's standing in the way of its adoption, and how to spot HCM AI tools that deliver real outcomes. Along the way, we'll highlight fresh research to ground the discussion in what leaders are actually experiencing and expecting.

By the end, you'll know:

- **Where AI in HCM stands today** and why leaders already expect it.
- **How to move past the barriers** that slow most organizations down.
- **What to look for in a solution** that fits your teams.

Because AI touches functions across the business, the expectations around it do, too. HR, Finance, IT, and executive leaders may approach it from different angles, but they share the same goal: to leverage practical technology that helps teams move faster and make more informed decisions.

To understand what leaders should expect, it helps to start with the current state of AI in HCM.



02

Why AI in HCM matters now

We see it in the numbers.

In a recent Paylocity study of more than 500 HR and business decision-makers[1], 90% agree AI features are important in today's HCM software. That's not a slim majority: It's near-unanimous agreement AI belongs in the tools you use to run your workforce and a sign the conversation has shifted from "should we?" to "how do we do this well?"

Doing it well, though, isn't about handing everything over to AI. It's about keeping your people front and center. The right AI is built to support your team, not replace them. It automates the repetitive busywork so your people can focus on the work that actually needs their expertise. In fact, **88% of leaders believe AI can help teams focus on higher-value work.**

That's a mindset shift worth holding onto: AI should be part of the work, not separate from it. When it's woven into the tools your teams already use — rather than bolted on as a separate layer they have to learn and manage — it helps them move faster without piling on complexity.

Quick takeaway:

AI in HCM isn't a future consideration. Leaders already expect it, and they expect it to help their people get more done. So the real question becomes: Where does adoption actually stand today? Let's take a look.

The current state of AI in HCM

If it feels like everyone around you is talking about AI, that's because they're already using it.

Nearly two-thirds of decision-makers are actively using AI in their HCM solutions right now. Enterprise organizations lead slightly (66%) compared to large businesses (58%), but adoption is widespread across company sizes. And here's the part that tends to surprise people: Not a single study respondent said they were uninterested in adopting AI. Not one.

Adoption isn't slowing down, either. **More than half are actively looking for new AI solutions to stay innovative, and more than 40% want new AI applications to help them remain competitive.** The pattern is hard to miss: Once teams see what AI can do, they want more of it.

2/3 **of decision-makers are already actively using AI in their HCM solutions.**





From fragmented data to confident action

So what's driving all this interest? When you dig into the "why," one answer rises to the top: **Leaders want better data and better outcomes from it.**

51% **say improving data accuracy across HR, Finance, and IT is a top driver for AI investment.**

46% **point to increasing operational efficiency.**

35% **want to boost employee engagement and connectivity.**

Different priorities, same underlying frustration: too much scattered information, not enough clarity.

And when that data is scattered across systems, it doesn't just slow your team down. It makes it harder for people to get the information they need, causing delays, inconsistent answers, and a day-to-day experience that feels disjointed. Over time, that can leave people feeling less supported, and in turn, less connected and engaged.

That's the real value of AI powered by connected data. When your HR, payroll, and finance data live in one place, your team can access the full picture and act with more confidence. And because AI can read across all the data at once, it can surface real-time insights and highlight what needs attention. That means less time guessing and more time seeing what matters.

What's holding teams back

Adoption is high, but let's not pretend it's frictionless. Do some of these barriers sound familiar?

1

Security and privacy concerns

This is the big one. Nearly half of respondents rank data security and privacy as the top barrier to AI adoption, and two-thirds feel cautious about the privacy implications of AI in HR processes. ***More on how to address this in a bit.***

2

Lack of expertise

More than one-third cite a knowledge gap as their second major barrier. Plenty of teams simply aren't sure where to start.

3

Resistance to change

Some worry about disruption, and 38% even worry AI could eliminate roles.

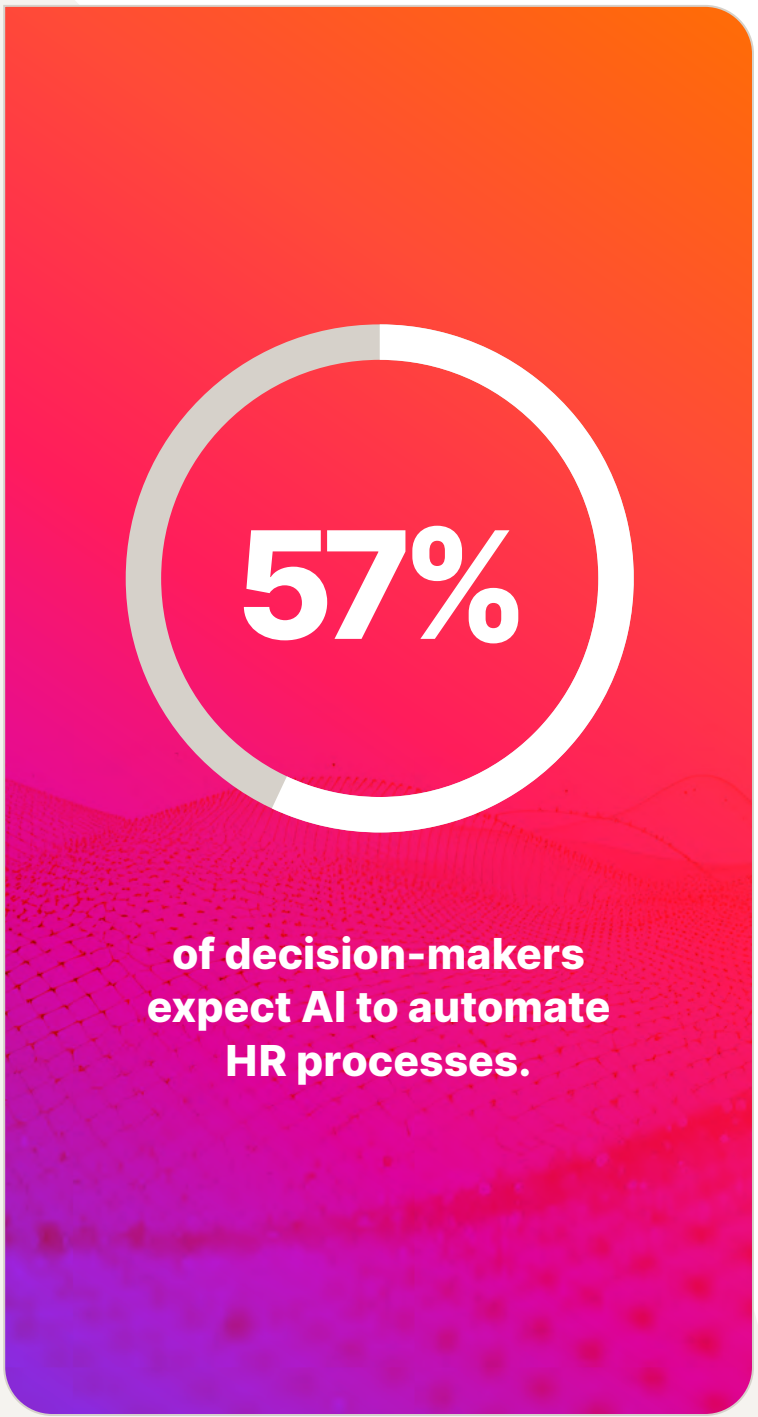
None of these are deal breakers.

In fact, they're useful signals about what to look for in a solution: clear use cases, accessible training, strong security with the right visibility and controls, and a vendor who'll actually guide you through it. We'll come back to each of these as we go.

Quick takeaway:

AI adoption is already the norm, fueled by a real need for accurate, connected data. The leaders who get the most out of it are the ones who tackle security, skills, and change head-on instead of hoping they'll sort themselves out.





What decision-makers expect from AI

Knowing AI matters is one thing. Knowing what to actually look for is another. Let's get specific about where leaders are setting the bar.

Take the routine work off your plate

The clearest expectation? Get repetitive work done faster, so people can spend their time where their input matters most.

57% expect AI to automate HR processes, and **53% value automation of repetitive tasks along with payroll processing and error detection.** Payroll is a standout here. Nearly half are extremely interested in AI tools that proactively alert and act on payroll errors, so teams can catch and fix issues before processing closes. Leaders also want solutions that scale, with more than one-third looking for better automation across multiple systems and integrations.

Why does this matter so much?

Because payroll and compliance errors are expensive, stressful, and frankly, avoidable. For regulated industries especially, **AI that surfaces risks early while your team makes the final call isn't a luxury. It's protection.**

Work smarter, not just faster

Faster routine work is the baseline.
The next tier of expectation is insight: AI that helps you see what's coming, not just handle what's on your plate today.

1 in 4

Leaders want tools that flag potential turnover risks or engagement issues before good people walk out the door.

That's a leader thinking ahead — and wishing their tools would, too.

1 in 5

Leaders in recruiting want smarter tools for screening and candidate matching, surfacing the right people for both the role and your culture.

Instead of sorting through hundreds of applications by hand, your team gets a shortlist worth their attention

Example: Picture a recruiter filling five roles at once. AI screens incoming résumés against the job requirements set by the recruiter and surfaces the strongest matches. The recruiter spends their time on interviews and relationships — not data entry — and still makes the final call on who moves forward. That's support and insight working together, exactly the way they should.

Quick takeaway:

Leaders expect AI to ease the administrative load first, then layer on insights for retention and recruiting with people firmly in the decision seat.

When you evaluate options, look for both.

"I'd like more proactive insights, like AI flagging potential turnover risks or engagement issues before they become problems."

– Survey respondent

More than

1 in 3

of decision-makers want stronger predictive insight and earlier visibility into workforce trends.

Quick takeaway:

Proactive insight is the next frontier — earlier visibility into trends and risks, available right inside the work your teams are already doing. Choose a platform built to grow into this future, not one patching its way toward it.

Where AI in HCM is headed next

Here's where things get interesting and where a lot of current tools quietly fall short.

When we asked decision-makers what their current vendor lacks, more than a third pointed to more proactive insight into workforce trends and planning needs. They don't just want AI to react after the fact. They want it to surface what's coming. Where are engagement and coverage gaps starting to show? Which locations have the highest turnover? Which shifts are prone to overtime?

That need points to a broader shift in what organizations expect from AI in HCM. The next wave is tools that connect the dots and surface the trends, gaps, and anomalies that matter, so teams can identify areas that need attention earlier.

A few things will separate the leaders from the followers:

- **Continuous learning and upskilling:** The teams that invest in helping people use AI well will see the biggest returns. AI works best as support for your people, not a black box they're told to trust.
- **Seamless, real-time insights:** Future tools won't make you go hunting for answers. They'll bring what matters to you, when it matters, right inside the work you're already doing.
- **Proactive engagement:** Spotting turnover risk and engagement dips early gives your team the chance to act before a resignation letter ever lands on a desk.

The direction is clear: AI is shifting from simply speeding up tasks to delivering the insights that guide decisions — while keeping people in control. The sooner your tools can do both, the better positioned you'll be.

Common mistakes to avoid with AI in HCM

Before you move forward, here are a few common traps to avoid:

Assuming any AI tool works for HCM

Having to copy and paste information outside your HCM into a separate AI tool becomes clunky, less trustworthy, and less likely to stick. It also risks exposing sensitive data outside the secure platform where it belongs.

Focusing on AI features without fully vetting security

Privacy concerns aren't going away, and for many organizations, they start with vendor trust. Look closely at how a vendor manages AI governance, access controls, visibility, and human oversight before you commit.

Skipping enablement

A knowledge gap holds back at least a third of teams.

Build training and support into your rollout, not after it.

Chasing hype over outcomes

The goal isn't adopting AI just to say you did. It's using it to make everyday work more effective.

Buying point solutions

Bolting on disconnected tools fragments your data, and fragmented data limits what AI can do. Prioritize a unified platform that centralizes data and brings AI right into cross-functional work.



The Paylocity advantage

Now that you know what to watch out for, let's look at how to put all this into practice.

Just like people, AI is only as useful as the information it can actually see. When your HR, payroll, time, and finance data live on one platform, your AI tools work from the full picture, giving you earlier visibility into risks and trends, smarter recommendations, and faster automation.

That's Paylocity's foundation: one platform, built on unified data across HR, Finance, and IT, making more of an impact across every team.

Paylocity's AI works where your teams already work, not as one more separate tool to manage. It connects across payroll, HR, time and labor, benefits, recruiting, scheduling, and more, so everyday processes keep moving, no matter which team you're on.

- **AI Assist** answers questions, surfaces data insights, and helps guide next steps right where your teams work. It's already handled over 1.2 million questions and generated more than 1.2 billion recommendations.
- **AI Search** helps you find what you need fast, turning scattered information into quick, clear answers.
- **AI Agents** move complex work forward by guiding handoffs, approvals, and next steps based on how your business actually runs and what you delegate to AI.

The payoff is practical and shows up in everyday work. For finance teams, for example, 70% of automated expense reports are approved without a single edit: just one example of how Paylocity's embedded AI gives time back for higher-value work.



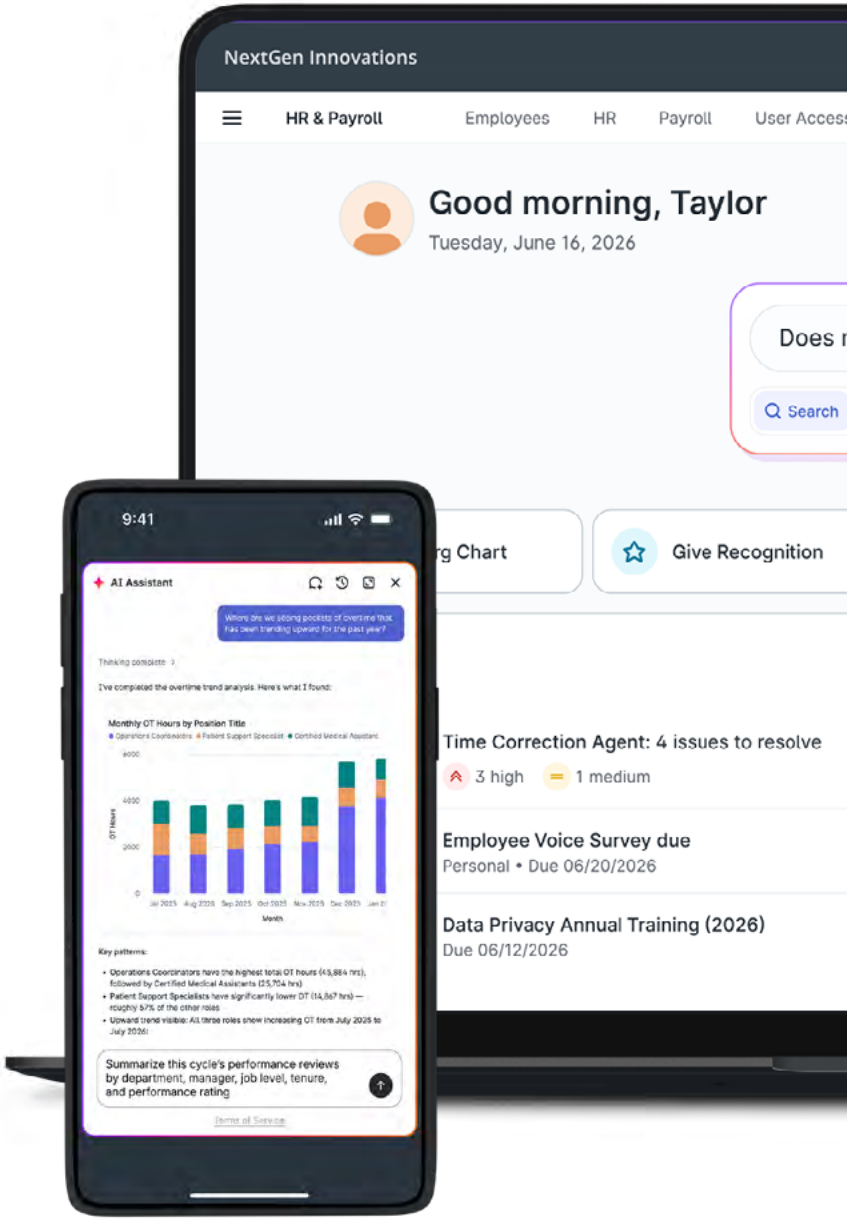
Built on trust and responsibility

Remember that top barrier: security and privacy? It's front and center here, not an afterthought.

Paylocity's AI is built on transparency, control, explainability, and accountability. You get smarter automation with human checkpoints, strong governance, and clear visibility into where AI is acting and why. Your teams always know what was flagged and where people make the final call. The principle is simple: AI surfaces, flags, assists, and executes, while people stay in control.

Built for what's next

Paylocity covers the foundation leaders expect today — faster routine work and earlier error detection — while delivering the proactive insights so many say their current vendor lacks: earlier visibility into turnover risks, engagement issues, coverage gaps, and anomalies, surfaced right inside the work your teams are already doing. Practical support and proactive intelligence, in one place, designed to grow right alongside you.



You've seen what leaders expect and what practical AI looks like inside real workflows. Now it's time to discover it for yourself.

Request a demo

1 All statistics featured in this guide are sourced from a commissioned study of 504 HR, Finance, and IT decision-makers and leaders, conducted by Qualtrics on behalf of Paylocity, March 2026.

Quick Recap

If you take nothing else from this guide, take these tips:

AI in HCM
is now an expectation, not an extra: 90% of leaders say it matters.

Adoption
is already the norm, with more than two-thirds of teams seeking even more.

Leaders
want AI to speed up routine work first (57%), then add insights for retention and recruiting, with people staying in control.

Proactive insight
is the biggest gap in the market (more than one-third want earlier visibility into workforce risks and needs but can't get it).

Security, expertise, and change resistance
are real barriers but solvable with the right partner and solution.

Paylocity
unifies your data and connects AI across every workflow, built on trust, visibility, and control.





Headquartered in Schaumburg, IL, Paylocity (NASDAQ: PCTY) is an award-winning provider of HCM, Finance, and IT software solutions. Paylocity offers one unified, easy-to-use platform that helps businesses across HR, Finance, and IT streamline operations, manage spend and talent, and build culture and connection — with AI embedded directly into everyday workflows to save time, reduce manual effort, and support better decisions. Known for its unique culture and consistently recognized as one of the best places to work, Paylocity accompanies its clients on the journey to create great workplaces and help all employees achieve their best. For more information, visit www.paylocity.com.

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