

Competition, Cost Control & Compliance

Strategies to Navigate a Changing HR World



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Executive Summary

Companies seeking to compete in today's business climate face more intense pressure than in years past. Change is everywhere — from technology advances to regulatory and compliance demands — and companies must be able to adapt in order to survive.

For both small and mid-size businesses, talent is critical to success. Companies must operate as efficiently as possible while still maintaining compliance and the ability to attract and retain top talent.

Earlier this year, the ADP Research Institute, a specialized group within ADP, conducted a survey of more than 300 small (those with 10-49 employees) and mid-size businesses (50-999 employees). Survey respondents identified three essential strategies for maintaining a competitive edge in the face of today's challenges.

Managing overhead

58% of small companies and 38% of mid-size companies indicate that managing overhead is key to maintaining a competitive edge.

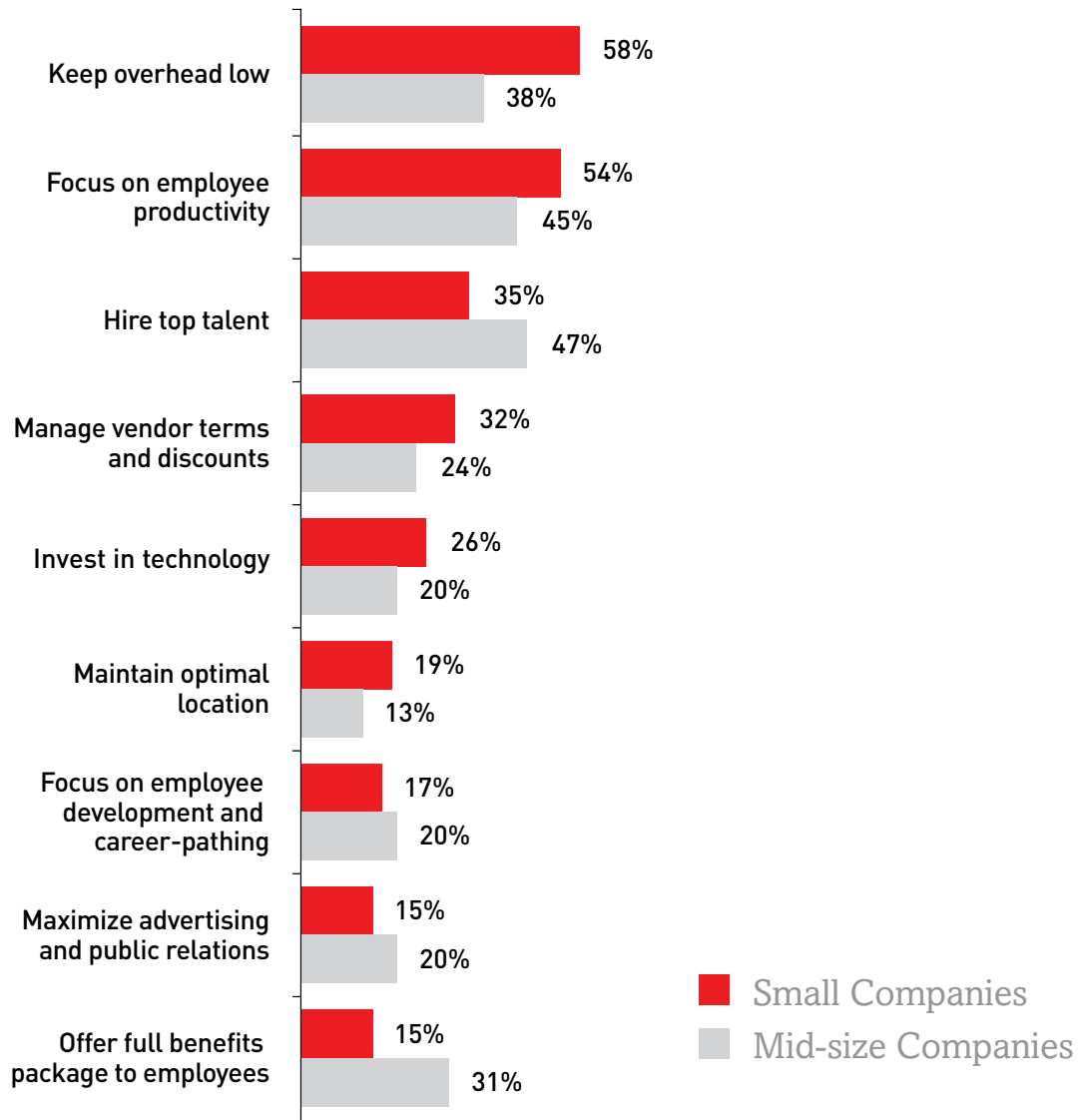
Maximizing productivity

54% of small businesses and 45% of mid-size businesses identify focusing on employee productivity as their top strategy for staying competitive.

Capitalizing on talent

While only 35% of small companies indicate this is among the top three competitive strategies, 47% of mid-size companies rank hiring top talent as their #1 competitive strategy.

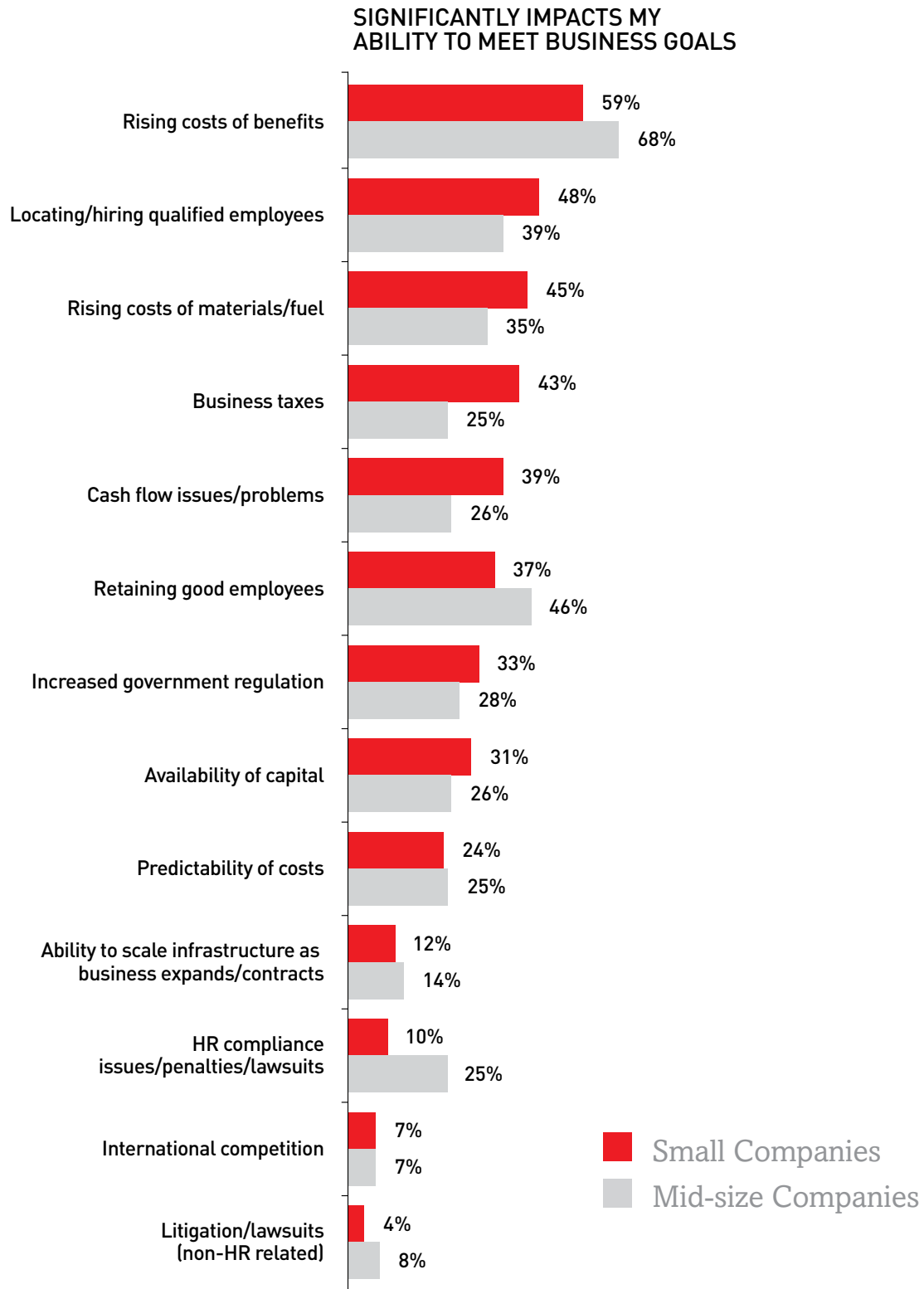
FIG. 1. TOP STRATEGIES FOR MAINTAINING A COMPETITIVE EDGE



The survey also notes respondents' greatest business concerns — issues that impact their ability to meet their goals and could prevent them from successfully executing their competitive strategies (p. 6). The three greatest business concerns are:

- Rising cost of benefits
- Locating/hiring qualified employees
- Rising costs of materials/fuel

FIG. 2. TOP BUSINESS CONCERNS

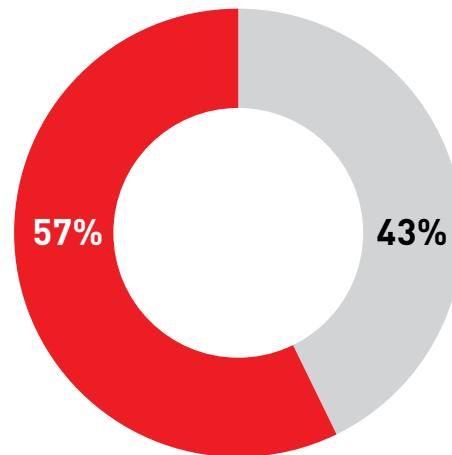


Base: Total Respondents (n=111 Small, 208 Mid-size respondents)

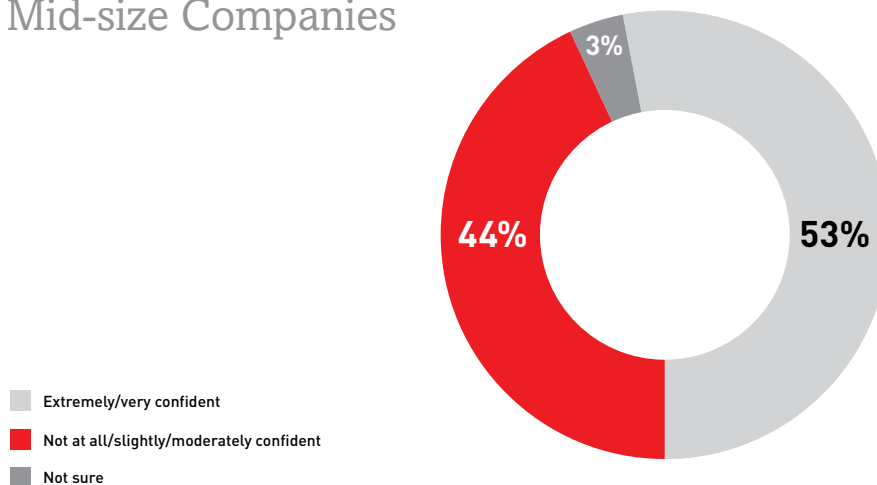
The importance of these particular findings is underscored by the fact that large numbers of respondents indicate they have only moderate or slight levels of confidence — or even no confidence at all — in their ability to comply with important HR and employment laws, rules and regulations. Overall, roughly half of responding businesses lack confidence that they'll be able to keep up with complex, ever-changing regulations.

FIG. 3. CONFIDENCE KEEPING UP WITH CHANGING HR AND EMPLOYMENT LAWS

Small Companies



Mid-size Companies



Extremely/very confident
Not at all/slightly/moderately confident
Not sure

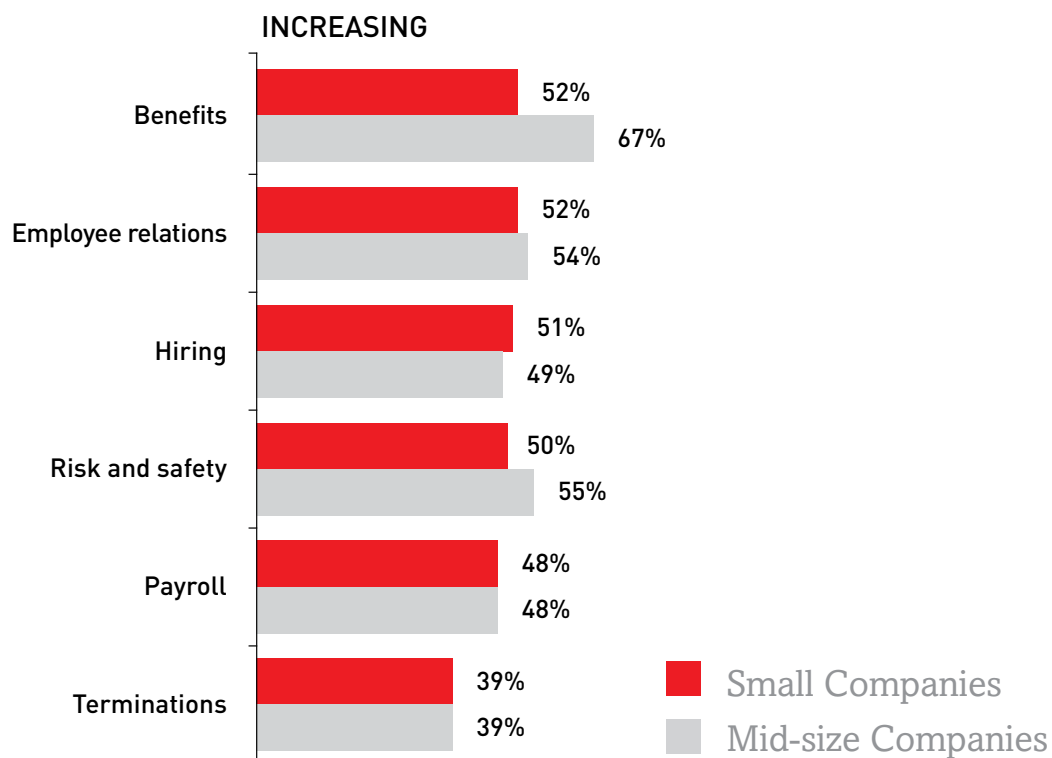
Base: Total Respondents (n=111 Small, 208 Mid-size respondents)

At the same time, half or more of the responding companies see the compliance landscape becoming even more challenging. A notable 67% of mid-size businesses expect the burden of benefits laws and regulations to increase within the next three years; more than half of small businesses agree. Fewer than 10% believe that the overall compliance burden will decrease.

This is particularly noteworthy for small companies, where 64% of HR decision makers have other responsibilities and lack the time and resources to confront increasingly challenging compliance requirements.

Approximately half of all respondents see their compliance burden increasing in hiring, employee relations, and risk and safety.

FIG. 4. STATE OF HR COMPLIANCE BURDEN IN THE NEXT 1-3 YEARS



Base: Total Respondents (n=111 Small, 208 Mid-size respondents)

The research went into depth about respondents' confidence levels regarding compliance in the six areas shown at left. It found that large numbers of respondents are only moderately confident — or less — in several of these key areas.

Against this backdrop, the survey also looked at the types of support companies use to address HR compliance issues. Results show that the vast majority seek professional advice, and would consider outsourcing their HR function entirely.

In addition, the survey examined the incidence of HR-related complaints, charges and lawsuits recently experienced. Actual incidence may be the most accurate bottom line measure of a company's compliance effectiveness.

52% of
mid-size companies
report at least one
recent incident of
HR-related complaints,
charges or lawsuits.

Talent is Critical to Competitive Success

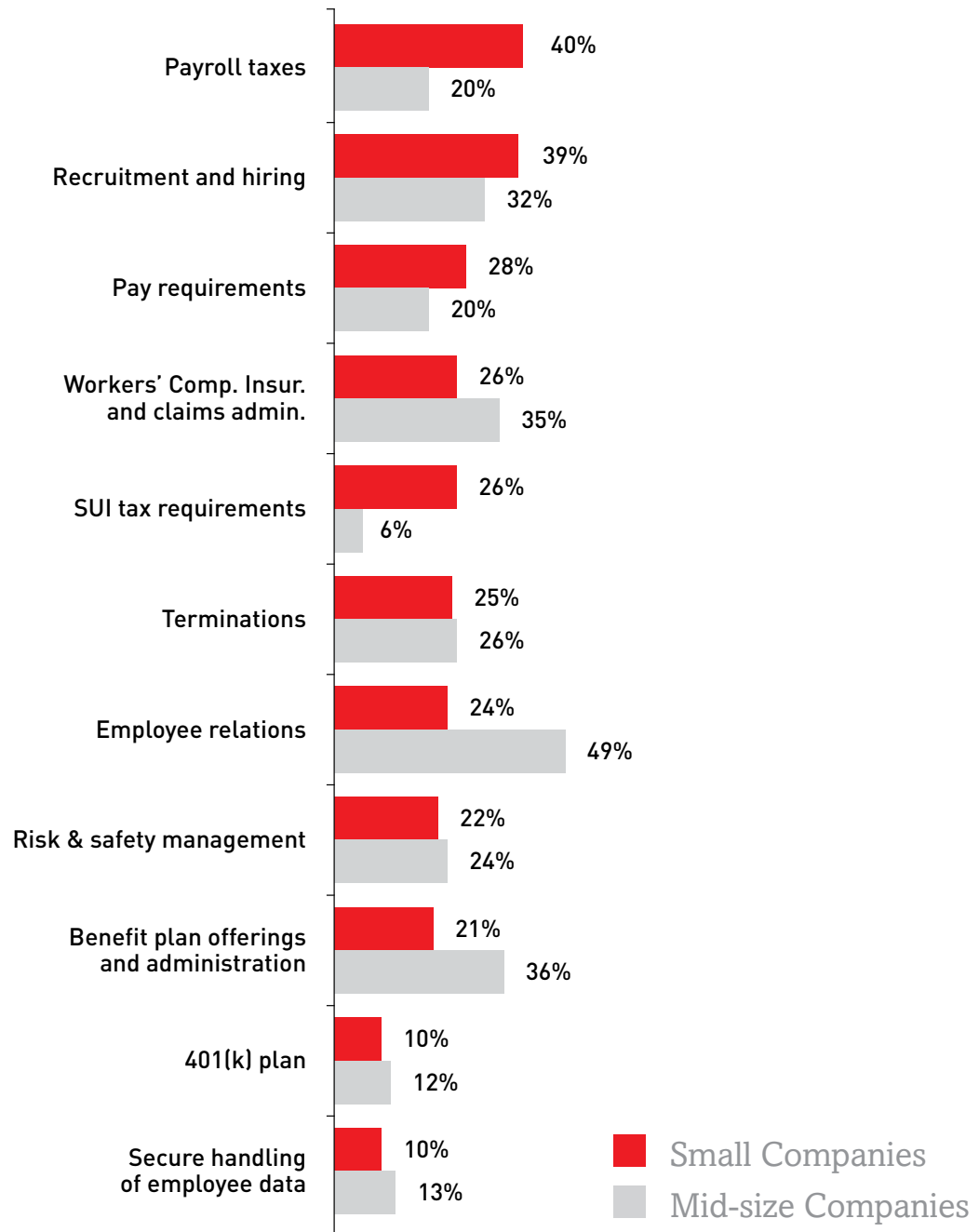
Nearly half of small and mid-size companies say they expect to grow in the next 12 months. While it's not the intent of this paper to predict economic trends, it is worth considering respondents' positive outlook in terms of the interest in talent management issues, including concerns about employee engagement and productivity.

For example, hiring top talent is ranked as the #1 strategy for maintaining a competitive edge by mid-size companies. However, respondents also project that top talent may soon become more difficult to attract. Among small companies, fully 48% express concern about their ability to locate and hire good employees, second only to benefit costs in their ranking of chief concerns. Locating, hiring and retaining employees also is becoming a major concern for mid-size businesses (p.6).

Given the focus on hiring, it's important to note that many respondents are not fully confident in many of their hiring practices. In fact, recruitment and hiring is one compliance area in which respondents in both small and mid-size companies express concern.

48% of
small businesses
are concerned about
finding and hiring
good employees.

FIG. 5. HR COMPLIANCE ISSUES OF MOST CONCERN



For companies seeking to attract, hire and retain quality employees, employee relations is a key issue. It's therefore worth noting that, among mid-size companies, this area is their HR compliance issue of greatest concern.

Base: Total Respondents (n=111 Small, 208 Mid-size respondents)

Productivity Takes Center Stage

As companies take steps toward attracting and retaining talent, issues such as employee engagement and productivity are high priorities.

As shown in the chart on page 5, of the nine possible strategies to maintain a competitive edge, employee productivity ranks second — ahead of such traditional strategies as investing in technology or maintaining an optimal business location.

According to the survey, there is a very high level of agreement among HR decision-makers regarding how best to improve productivity. Training and development was the clear preference among 88% of mid-size businesses and 82% of small businesses.

Current research demonstrates the correlation between employee

engagement and productivity — and an average of 12% higher profits for companies with highly engaged employees.¹

Companies with growth on their minds know that investments in training and other tools are the first step to a more engaged workforce.

According to Gallup research, companies with highly engaged employees enjoy an average of 12% higher profits.

¹ *Employee Engagement: What's Your Engagement Ratio?* Gallup Consulting 2008.

Cost Control Remains a Vital Factor

While recruitment/retention-related concerns are prominent in the survey and productivity is a significant focus, the ongoing importance of overhead costs cannot be ignored.

Controlling overhead is ranked by all respondents among their top three business strategies for maintaining a competitive edge (p. 5).

In addition, when asked to identify the issues having the greatest impact on their business, both mid-size and small companies list the rising cost of benefits first.

Small businesses also indicate that rising costs for materials, fuel and business taxes are top concerns, while mid-size businesses give those issues a lower level of emphasis.

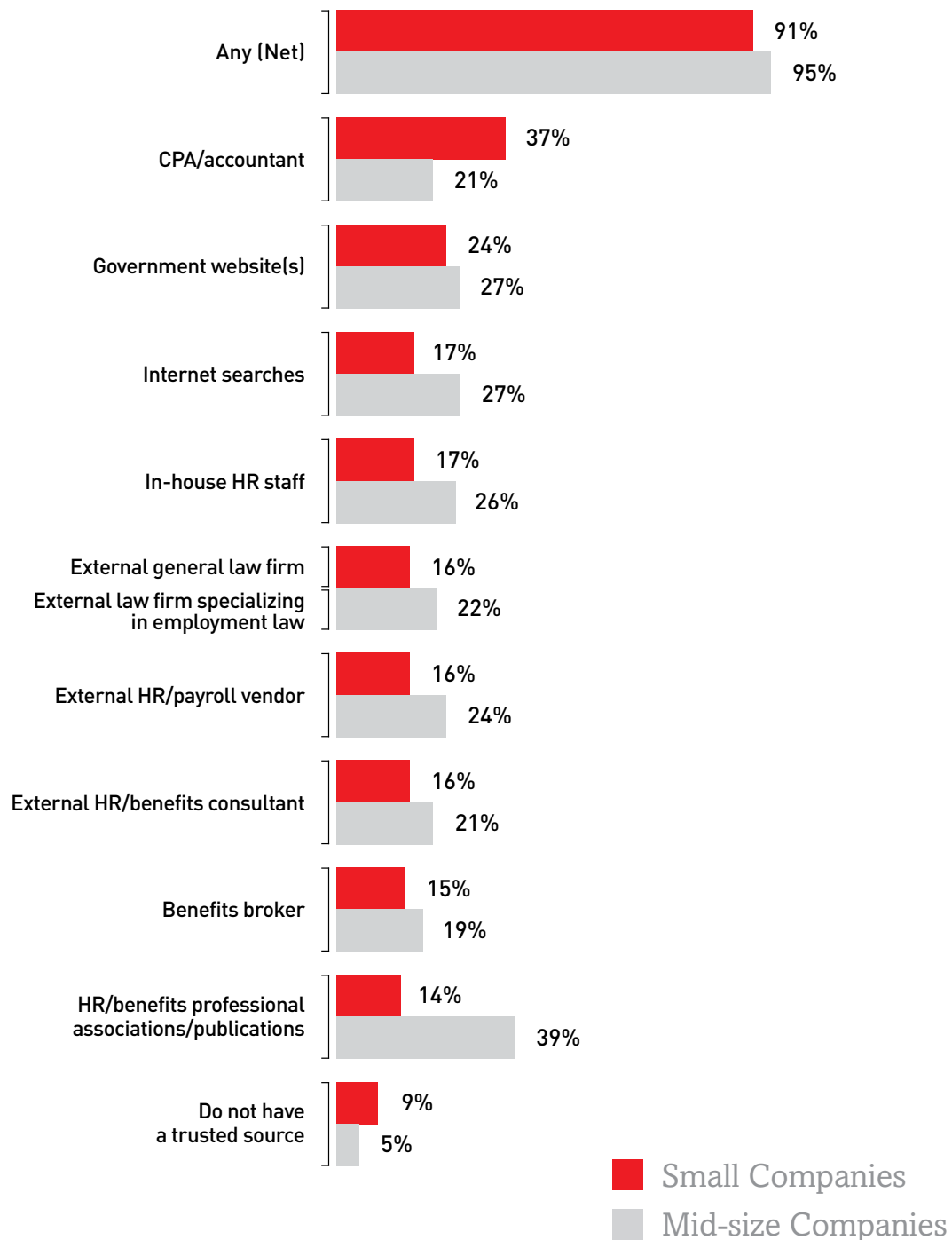
Compliance is a Continuing Challenge

One of the survey's most notable findings is the overall level of discomfort companies have regarding HR and employment laws and regulations. The chart on page 7 shows that 57% of small companies and 44% of mid-size companies are not extremely or very confident that they can keep up with these rules.

One indicator of concern is the fact that virtually all surveyed companies feel the need to consult with advisors regarding HR compliance issues. The survey found that more than 90% of companies rely on professional advisors — ranging from CPAs, attorneys and in-house HR staff to websites and professional associations — to help them stay current with changes in compliance laws and with HR rules and regulations in general.

More than **90%**
of companies surveyed —
regardless of size — seek
advice on compliance.

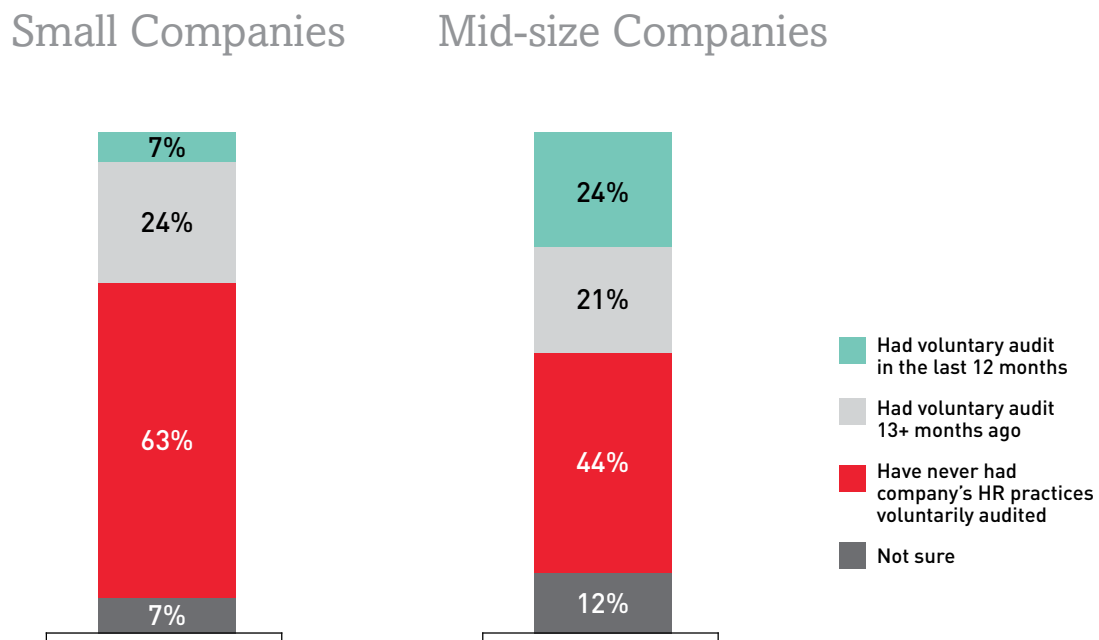
FIG. 6. TRUSTED HR COMPLIANCE ADVISORS



Base: Total Respondents (n=111 Small, 208 Mid-size respondents)

While companies clearly seek professional guidance because they see compliance as being important, many companies don't go as far as they could in managing their HR-related practices. It's worth noting that 63% of small businesses have never conducted a voluntary HR audit, compared with less than half of mid-size companies.

FIG. 7. VOLUNTARY THIRD-PARTY AUDIT



Base: Total Respondents (n=111 Small, 208 Mid-size respondents)

Exploring the Range of Compliance Concerns

The survey investigated the following six compliance categories:

- Payroll
- Benefits
- Risk & safety
- Hiring
- Employee relations
- Terminations

On the positive side, the results* show that respondents across the board are confident that they can comply with laws and regulations in the payroll and benefits areas.

However, in general, businesses of all sizes are not extremely/very confident that they can accomplish a number of important tasks.

For example, a quarter or more of HR decision-makers are not extremely/very confident that their companies are in compliance with most hiring tasks.

Small businesses are at troubling levels of confidence in some areas. For example, more than half are not extremely/very confident conducting:

- Compensation analyses
- Background checks
- Pre-employment drug tests

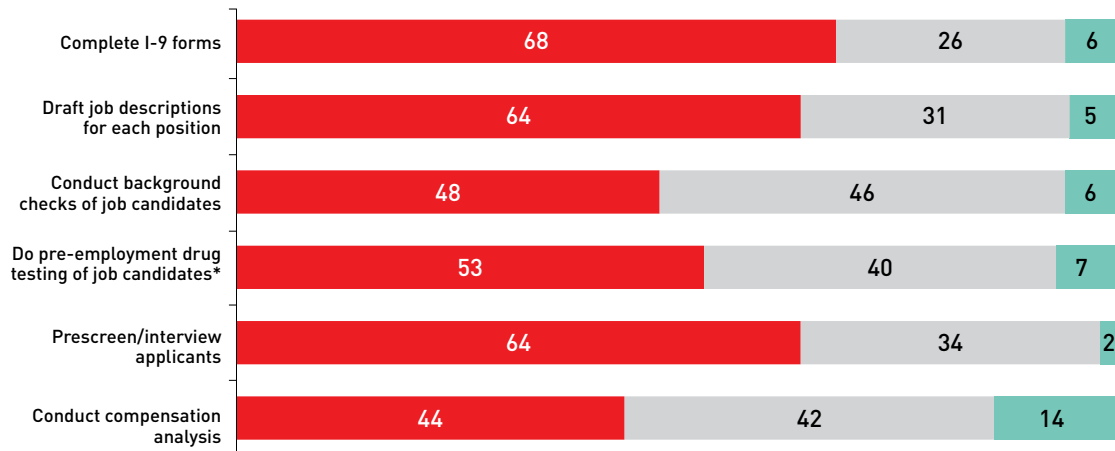
With data suggesting that 70% or more of employers are not fully compliant with the Fair Labor Standards Act (FLSA)², those feeling less than confident have cause to be concerned.

* Among companies who say that the laws and regulations apply to them.

² ADP Report, *Trends in Wage and Hour Litigation Over Unpaid Work Time and the Precautions Employers Should Take*, 2011. Laurent Badoux. Littler Mendelson, P.C.

FIG. 8. COMPLIANCE CONFIDENCE: HIRING PROCESS

Small Companies (%)



Mid-size Companies (%)



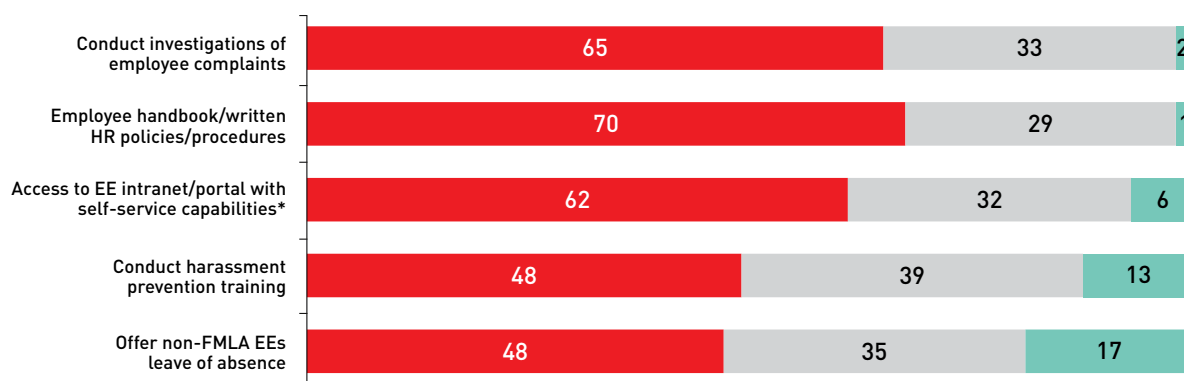
Extremely confident Moderately confident Not sure of confidence level

Base: Indicated that law applies. *Small base; use qualitatively.

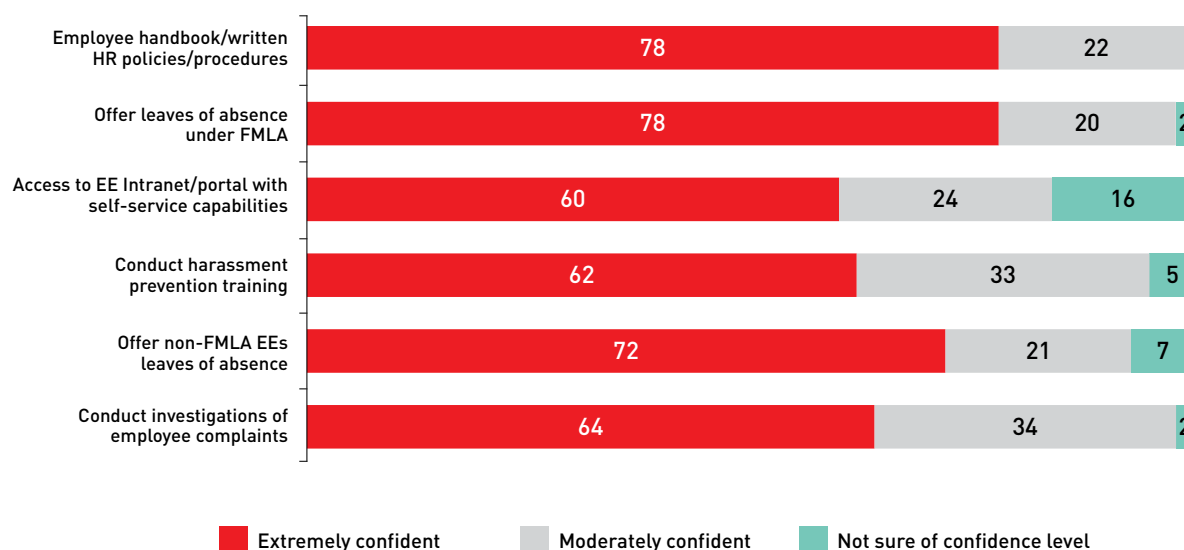
Small and mid-size companies also lack confidence in noteworthy aspects of employee relations. A third or more of respondents are not extremely/very confident that their companies are in compliance regarding most employee relations tasks. At the same time, a third of mid-size companies are not extremely/very confident that they can conduct harassment prevention training or investigations of employee complaints.

FIG. 9. COMPLIANCE CONFIDENCE: EMPLOYEE RELATIONS

Small Companies (%)



Mid-size Companies (%)



Base: Indicated that law applies. *Small base; use qualitatively.

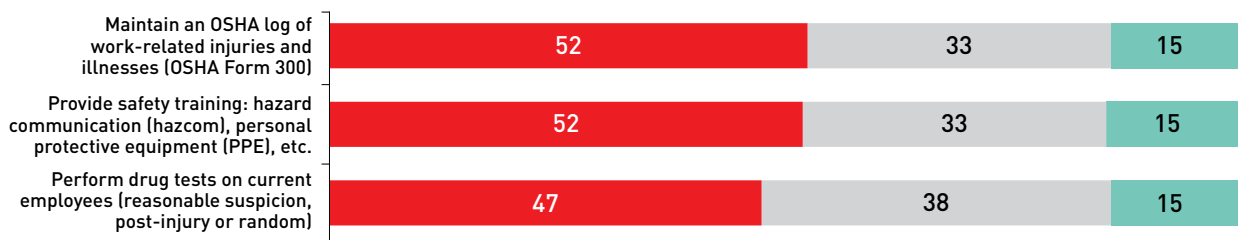
Risk and safety is another area of concern, because it can impact costs in a significant way. While mid-size companies are more confident than small businesses that they can effectively manage laws and regulations in this area, confidence levels are less than they should be across the board when it comes to:

- Maintaining an OSHA log
- Providing safety training
- Performing drug tests on current employees

Risk and safety is a compliance concern, especially among small businesses.

FIG. 10. COMPLIANCE CONFIDENCE: RISK AND SAFETY

Small Companies (%)



Mid-size Companies (%)



■ Extremely confident
 ■ Moderately confident
 ■ Not sure of confidence level

Base: Indicated that law applies.

Managing the Growing Compliance Burden

Given concerns over costs and the negative financial consequences of non-compliance, it's important that companies take steps to address compliance-related issues. This may be especially challenging for small businesses that likely lack the time and resources to confront increasingly complex compliance issues, especially when an estimated 45% of time is spent on administrative tasks.³

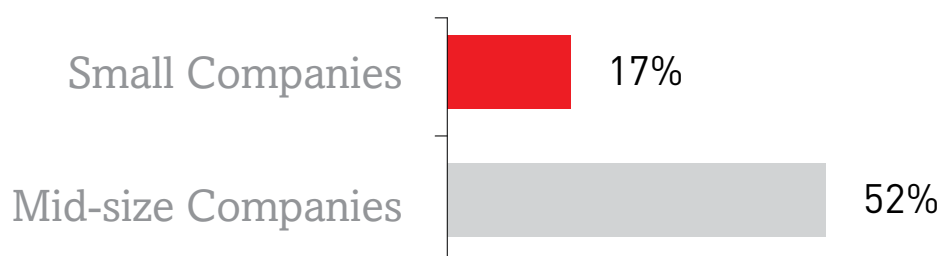
The lack of confidence companies express is especially troubling when viewed in the context of HR-related complaints, agency charges and investigations, and lawsuits. According to the survey, nearly one in five small businesses and more than half of mid-size businesses have experienced at least one such incident in the past three years.

With employee litigation — and compensatory awards — on the rise,

companies face major potential legal liabilities. Statistics compiled by Jury Verdict Research show that employment lawsuits have risen 400% in the last 20 years, with the average compensatory award in federal employment cases now exceeding \$490,000 (not including punitive damages or attorneys' fees).⁴

More than half of mid-size businesses had an HR-related incident in the past three years.

FIG. 11. INCIDENCE OF HR-RELATED INTERNAL COMPLAINTS, AGENCY CHARGES/INVESTIGATIONS, OR LAWSUITS IN THE LAST 3 YEARS



Base: Total Respondents (n=111 Small, 208 Mid-size respondents)

3 *HR Outsourcing Redefined: Options for Workforce Management*, ADP, January 2009.

4 *Employers' Responsibilities When Making Settlements in Employment-Related Claims*, Bloomberg Law Reports, 2009.

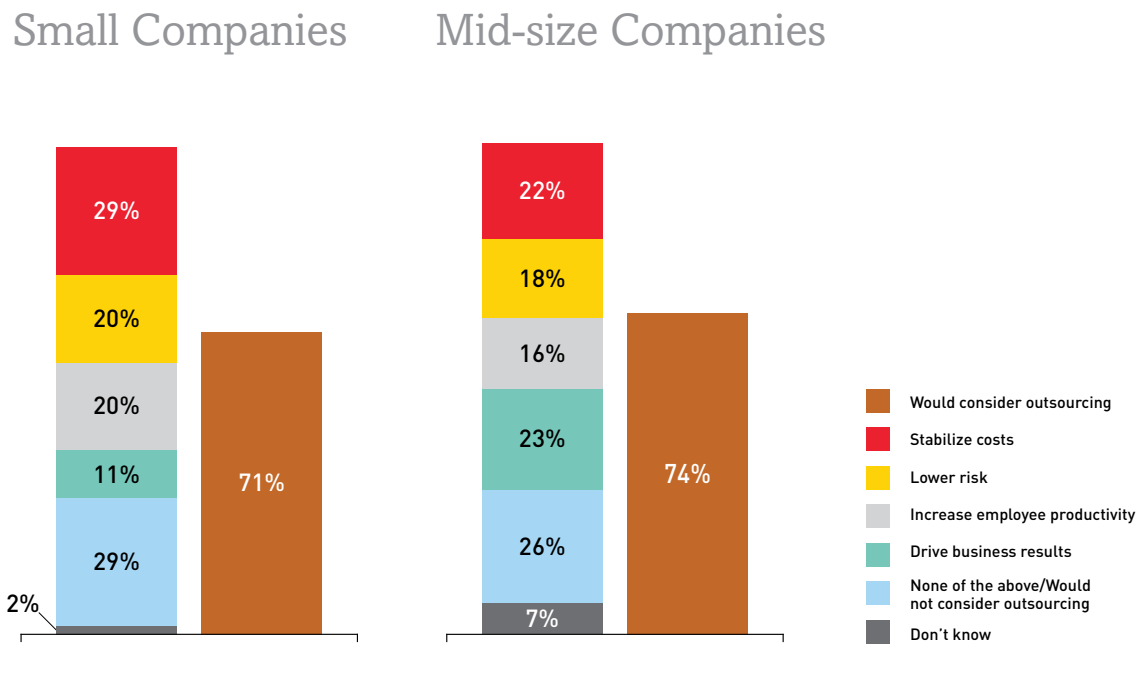
Considering Outside HR Support

It's no surprise that human resources departments are stretched thin in the current environment. In addition, many companies don't actually have a formal HR department, or have one person who is often called on to handle a variety of additional responsibilities.

Given this reality, it makes sense that the survey found that many businesses are willing to consider outsourcing aspects of their HR function. In fact, a significant majority of companies, regardless of size, indicate that they would consider outsourcing their HR function entirely.

A strong majority of businesses are willing to consider outsourcing their entire HR function.

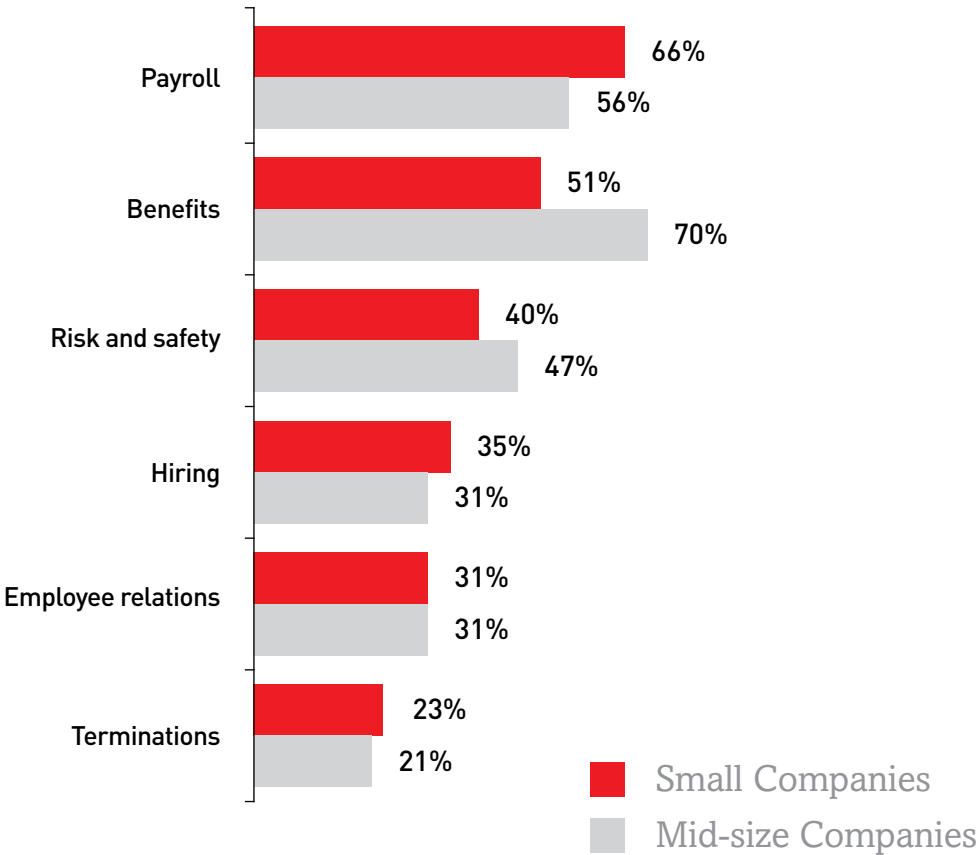
FIG. 12. MOST COMPELLING REASON TO CONSIDER OUTSOURCING ENTIRE HR FUNCTION



Base: Total Respondents (n=111 Small, 208 Mid-size respondents). Multiple responses permitted.

Half or more of small and mid-size companies indicate that they already use or plan to use outside sources to help them with HR compliance in the payroll and benefits areas within the next three years. Nearly half of mid-size companies also plan to bring in outside help in the risk and safety area.

FIG. 13. USE OF OUTSIDE HR RESOURCES IN NEXT 1-3 YEARS



Companies indicate that a primary reason to consider HR outsourcing is to stabilize costs. Other reasons would include lowering risk, increasing employee productivity, and driving business results via scalability of solutions and access to resources and top talent.

27% of respondents believe an outside expert could have prevented or reduced HR-related incidents.

Base: Total Respondents (n=111 Small, 208 Mid-size respondents)

Conclusion

By definition, any survey of business concerns is a snapshot because the environment is fluid. This white paper presents results from a survey, conducted in 2011, showing that while cost management remains important, HR decision-makers are paying increasing attention to recruitment, retention, productivity and other employee-focused issues. The reason for this may be a sense that competition in the marketplace is fierce and that the highest quality talent will be needed to fight the competitive battles ahead.

At the same time, the survey finds that businesses are recognizing the challenges of complying with highly complex, ever-changing HR and employment laws, rules and regulations. Nearly every company currently has access to — and is already using — various sources of compliance-related expertise and information.

However, in a highly competitive economy, shortcomings in key areas of compliance can also put a business at a significant disadvantage. It therefore only makes sense for companies of all sizes to use the many effective tools available to become compliant. Only by doing so can today's businesses reach their full potential in the coming years.

About the Survey

The ADP Research Institute conducted the *ADP All-Market Compliance Survey* in April 2011. It was an in-depth survey of 319 small and mid-size businesses nationwide that looked broadly at current business issues and then examined levels of confidence related to compliance in six HR-related areas: hiring, payroll, benefits, employee relations, risk and safety and employee terminations.

The survey defined small businesses as those with 10-49 employees and mid-size companies as those with 50-999 employees. The resulting data achieved statistical reliability at the 95% confidence level in three size groups: companies with 10-49, 50-99, and 100-999 employees.

Respondents were HR decision-makers responsible for overseeing HR compliance within their organizations. In the small business segment, 84% were C-level and other top executives. In the mid-size segment, 36% were HR officials while the remainder had primary responsibilities in administrative, financial, executive, operational or other areas.

About the ADP Research Institute

The *ADP All-Market Compliance Survey* was published by the ADP Research Institute, a specialized group within ADP that conducts studies on topics of current interest to human resources and payroll professionals.

About ADP

Automatic Data Processing, Inc. (Nasdaq: ADP), with about \$10 billion in revenues and approximately 570,000 clients, is one of the world's largest providers of business outsourcing solutions. Leveraging over 60 years of experience, ADP offers a wide range of human resource, payroll, tax and benefits administration solutions from a single source. ADP's easy-to-use solutions for employers provide superior value to companies of all types and sizes. ADP is also a leading provider of integrated computing solutions to auto, truck, motorcycle, marine, recreational vehicle, and heavy equipment dealers throughout the world. For more information about ADP or to contact a local ADP sales office, reach us at **1.800.225.5237** or visit the company's Web site at **www.ADP.com**.



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