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ADP RESEARCH INSTITUTE

Relieving the Pressure

The PEO Approach to Navigating Compliance
& Gaining a Competitive Advantage

HR. Payroll. Benefits.

The ADP Research Institute is a
specialized group within ADP

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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. Talent is critical to success. Companies must operate as efficiently as possible while still maintaining compliance and attracting and retaining top talent.

Earlier this year, the ADP Research Institute, a specialized group within ADP, conducted two surveys. The first survey assessed the most pressing business concerns, key competitive strategies, and confidence levels in terms of HR compliance of more than 250 small and mid-size businesses (those with 10-149 employees). For comparison, the ADP Research Institute also interviewed clients of ADP's PEO* solution, ADP TotalSourceSM, with 10-149 employees, to measure the impact their partnership with a PEO had on these topics.

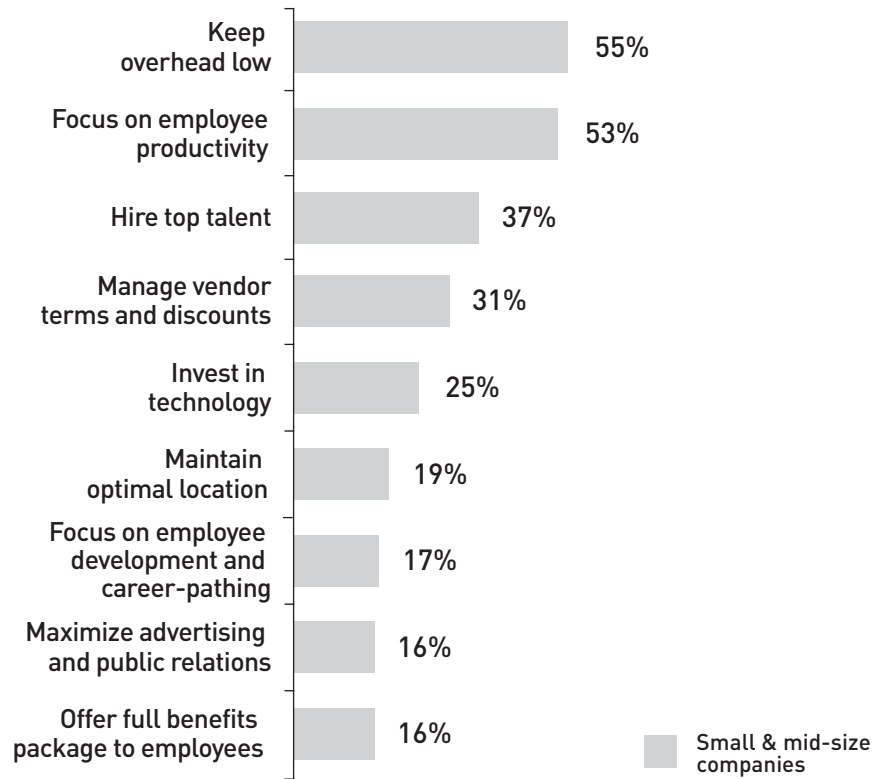
Respondents in the first survey identified three essential strategies for maintaining a competitive edge in the face of today's challenges:

- Hiring top talent
- Maximizing employee productivity
- Keeping overhead low

A strong majority of ADP TotalSourceSM clients indicate that TotalSource plays a role in their ability to focus on key strategies.

*Professional Employer Organizations (PEOs) enable clients to cost-effectively outsource the management of human resources, employee benefits, payroll and workers' compensation. PEO clients focus on their core competencies to maintain and grow their bottom line. Source: National Association of Professional Employer Organizations.

TOP STRATEGIES FOR MAINTAINING A COMPETITIVE EDGE



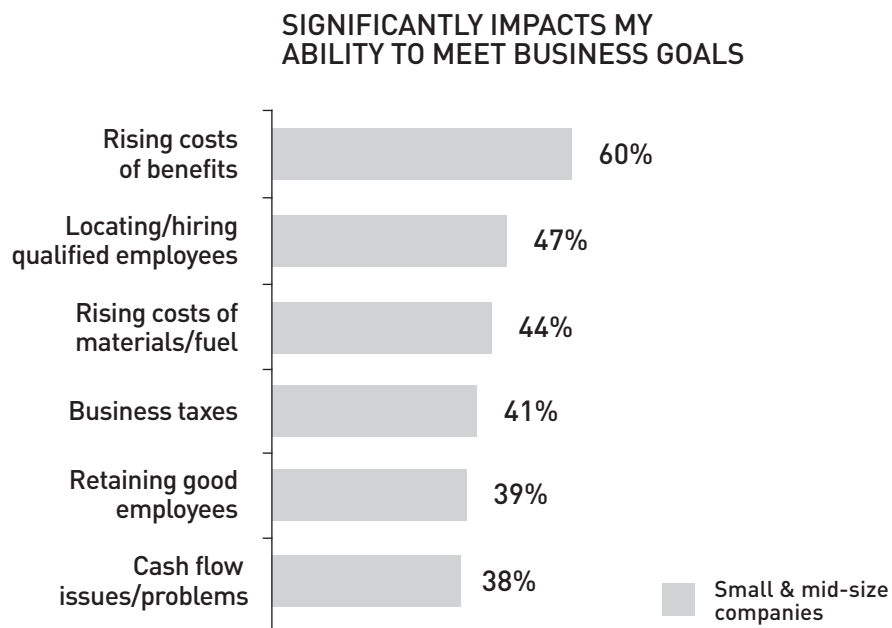
Source: ADPRI All-Market Compliance Survey (April 2011)

In addition to identifying key competitive strategies, the survey also noted respondents' greatest business concerns — issues that impact their ability to meet their goals and could prevent them from successfully executing their competitive strategies. The top three business concerns among small and mid-size businesses are:

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

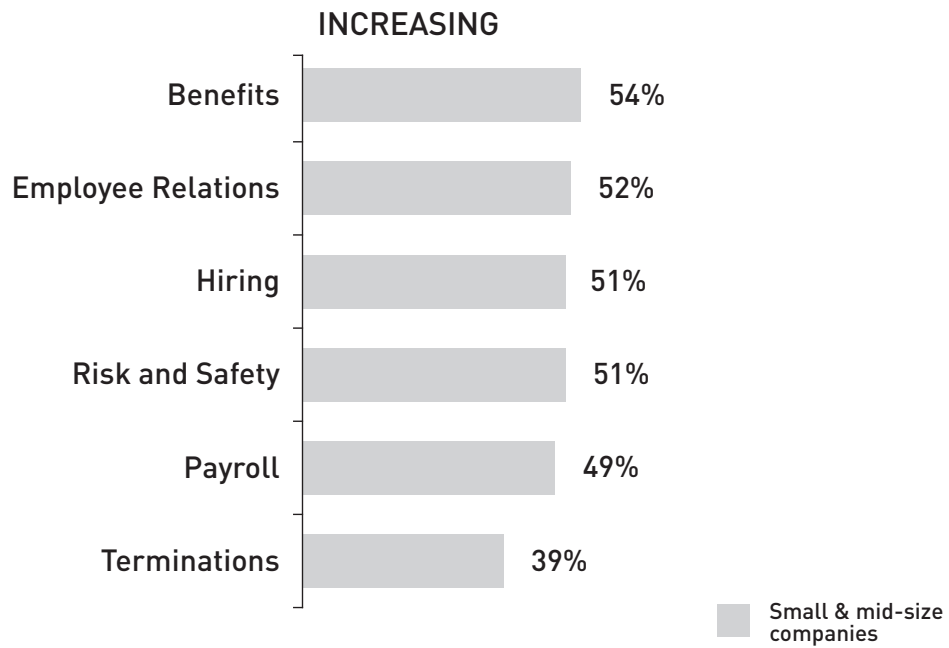
Most ADP TotalSource clients agree that TotalSource is a key partner in driving business success.

TOP BUSINESS CONCERNS



The importance of the survey's compliance-related findings is underscored by the fact that more than half of companies surveyed lack confidence in their ability to keep up with complex, ever-changing regulations — and see their HR compliance burden only increasing in the near term.

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



The concern of a growing compliance burden is particularly noteworthy. The HR point person in a smaller enterprise likely lacks the time and resources to confront increasingly complex HR compliance issues, especially when an estimated 45% of his/her time is spent on administrative tasks.¹

The research went into depth about confidence levels regarding compliance, finding significant numbers of respondents who are less than extremely/very confident across these key areas:

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

ADP TotalSource
clients view their
TotalSource HR
Business Partner as
a trusted consultant.

Against this backdrop of HR compliance confidence, researchers examined the types of support companies use to address their compliance issues.

Results show that the vast majority of small and mid-size businesses seek professional compliance guidance. Many turn to outside sources (or plan to) for HR compliance help, in areas including payroll (65%), benefits (53%), and risk & safety (40%).

In addition, the survey examined the incidence of HR-related complaints, charges and lawsuits that companies have recently experienced. One in five companies surveyed report at least one recent incident of HR-related complaints, charges or lawsuits.

When examining the detailed research results on the following pages, a clear picture emerges of the challenges represented by the “moving target” of HR compliance. Businesses that want to compete and grow have no choice but to decipher which regulations apply, and the best way to comply. Anything less than in-depth understanding can become a significant barrier to success.

¹ *HR Outsourcing Redefined: Options for Workforce Management*, ADP, January 2009.

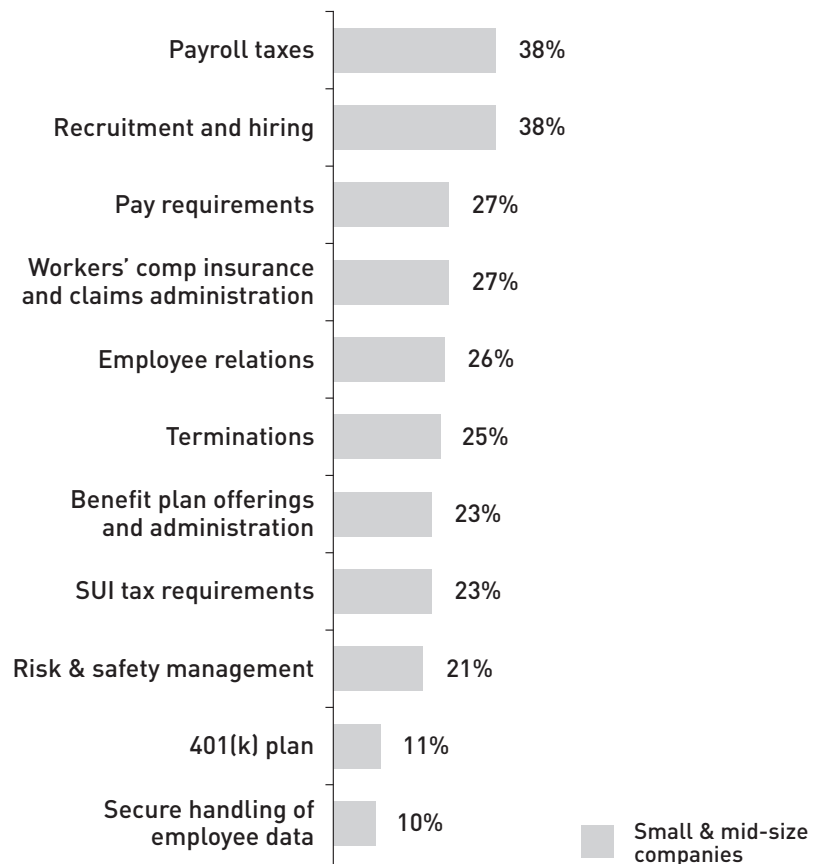
Talent is Critical to Competitive Success

Nearly half of all respondents indicate that they expect to grow in the next 12 months — a sentiment reflected in respondents' ranking finding and keeping good people among their top three competitive strategies.

However, respondents also project that top talent may soon become more difficult to attract; 47% express concern about their ability to locate and hire good employees, second only to benefit costs in their ranking of chief concerns (see chart on page 6).

Given the focus on hiring, it's important to note that many small and mid-size businesses seem equally concerned about their ability to comply across a number of HR compliance areas.

HR COMPLIANCE ISSUES OF MOST CONCERN



Productivity Takes Center Stage

In addition to attracting and retaining top talent, employee engagement and productivity are high priorities.

As shown in the chart on page 5, of the nine competitive strategies provided to respondents, employee productivity ranks second, ahead of such traditional strategies as investing in technology or managing vendor terms and discounts.

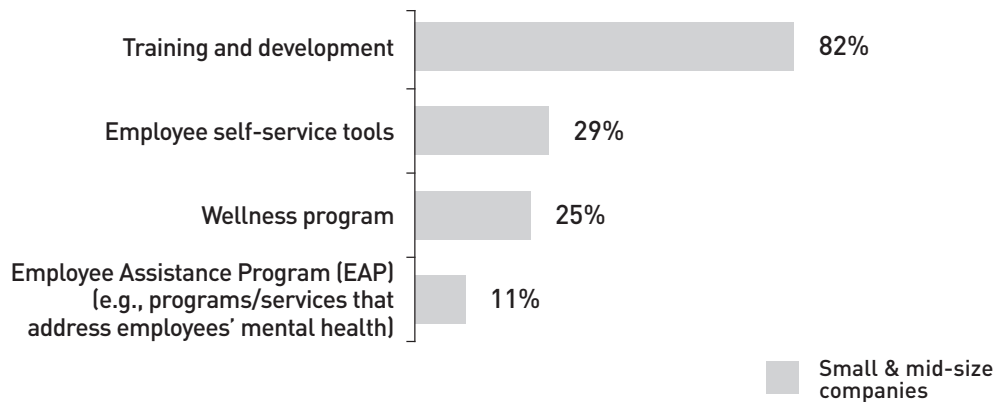
According to the research, there is a very high level of agreement among HR decision-makers regarding how best to improve productivity.

Current research demonstrates the correlation between employee engagement and productivity — and an average of 12% higher profits for companies with highly engaged employees.² Companies with growth on

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

A majority of ADP TotalSource clients who rank training and employee assistance programs as productivity boosters say that their TotalSource partnership allows them to offer each.

PROGRAMS THAT INCREASE EMPLOYEE PRODUCTIVITY



² Employee Engagement: What's Your Engagement Ratio? Gallup Consulting 2008.

Cost Control Remains a Vital Factor

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

Keeping overhead low is ranked by more than half of respondents as their top business strategy for maintaining a competitive edge (see chart on page 5).

In addition, several financial issues rank among top business concerns, including the rising cost of benefits, materials/fuel costs, business taxes, and cash flow (see chart page 6).

56% of ADP
TotalSource clients
indicate that they
chose TotalSource to
stabilize their costs.

Compliance is a Continuing Challenge

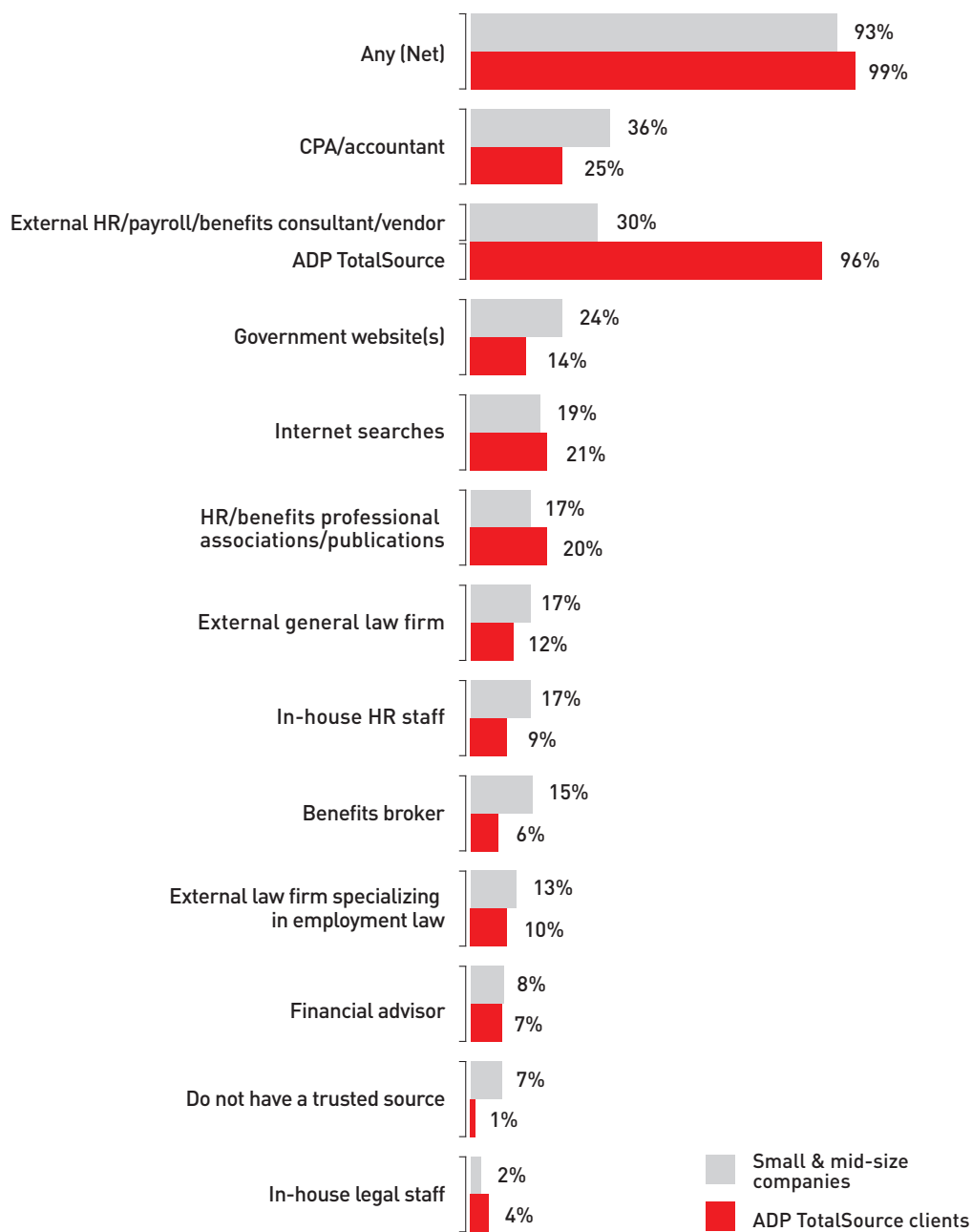
One of the survey's most notable findings is the overall amount of discomfort companies have regarding HR laws and regulations. The chart on page 15 shows that more than half of companies responding to the survey rate themselves less than extremely/very confident that they can keep up with these requirements.

One indicator of concern is the fact that virtually all companies feel the need to consult with advisors regarding HR compliance issues. The survey found that more than 90% of these 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.

While companies clearly see compliance as important, many don't go as far as they could in managing their HR-related practices. It's worth noting that 61% of respondents have never conducted a voluntary HR audit.

96% of ADP
TotalSource clients
turn to TotalSource
as their trusted advisor.

TRUSTED HR COMPLIANCE ADVISORS



Exploring the Range of Compliance Concerns

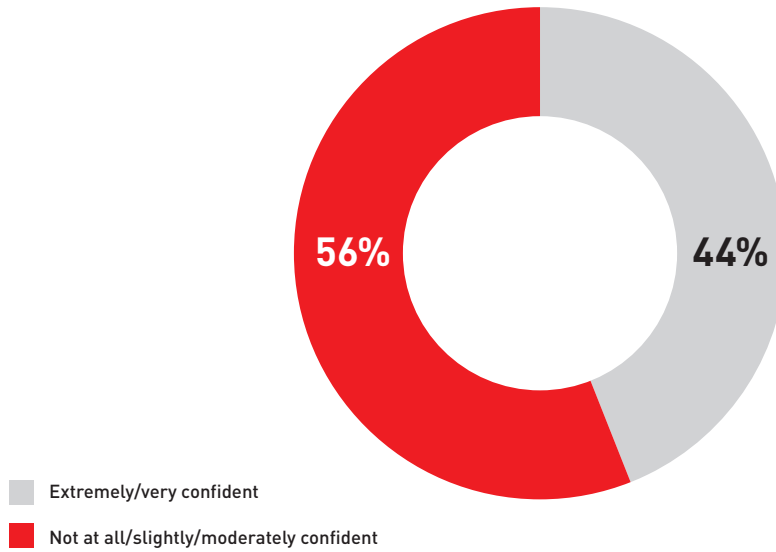
In general, just 44% of small and mid-size respondents rank themselves extremely or very confident in their ability to keep up with HR compliance. And with data suggesting that 70% or more of employers are not fully compliant with the Fair Labor Standards Act (FLSA)³, those feeling less than confident have cause to be concerned.

The confidence of ADP TotalSource clients in their ability to keep up with changing laws is nearly **2x** that of other small/mid-size companies.

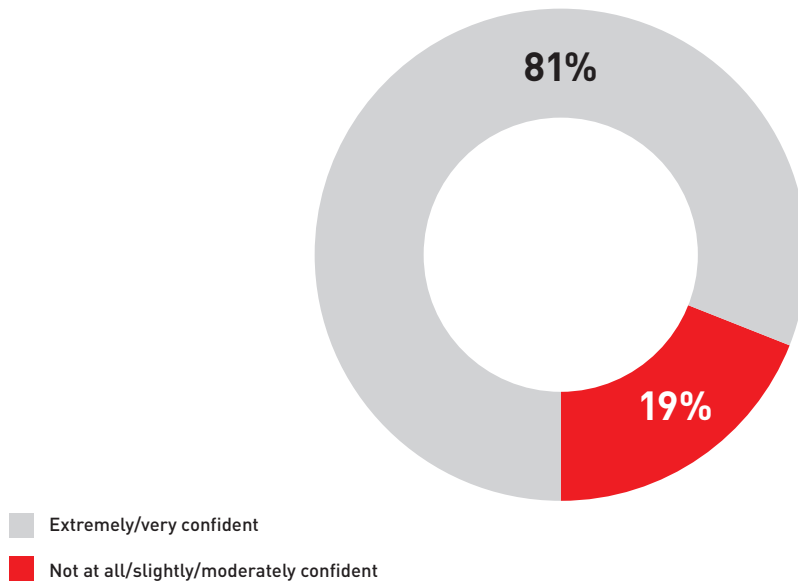
³ ADP Report, *Trends in Wage and Hour Litigation Over Unpaid Work Time and the Precautions Employers Should Take*, 2011. Laurent Badoux. Littler Mendelson, P.C.

CONFIDENCE KEEPING UP WITH CHANGING HR AND EMPLOYMENT LAWS

Small & Mid-Size Companies



ADP TotalSource Clients



Among HR decision makers who think the law in each area surveyed applies to their company, PEO clients outdistance their counterparts when it comes to many areas of compliance confidence.

HIRING

PEO clients are 51% more extremely/very confident in conducting background checks.

RISK & SAFETY

PEO clients are more confident in all areas surveyed: providing safety training (34%); performing drug tests (38%); and maintaining OSHA logs (28%).

PAYROLL

PEO clients are 23% more extremely/very confident in withholding and remitting wage garnishments.

EMPLOYEE RELATIONS

PEO clients are 37% more confident regarding non-FMLA leaves, and 38% more confident conducting harassment prevention.

ADP TotalSource
clients with 50-149
employees are

4X

less likely to experience
wage & hour complaints
(3% vs. 13%) and

11X less likely
to experience charges/
investigations (1% vs. 11%).

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 generally have fewer resources to manage the growing burden of compliance. For example, 64% of small and mid-size businesses indicate that their HR decision makers also handle other responsibilities.

Given the lack of confidence the companies surveyed express in areas such as risk and safety, hiring, and employee relations, the reported incidence of HR-related complaints, agency charges and investigations, and lawsuits is not surprising.

According to the survey, one in five 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

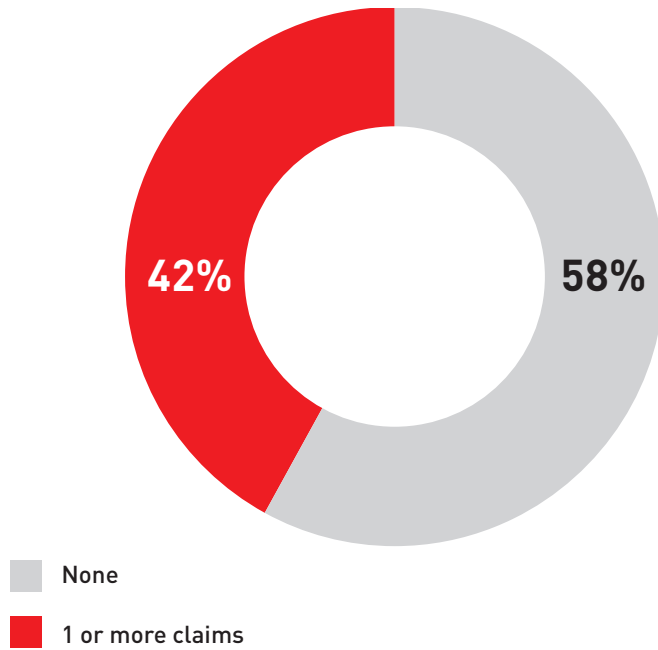
Twenty-six percent of survey respondents believe an outside expert could have prevented or reduced such HR-related incidents. A majority of PEO clients (58%) indicate that their partnership with ADP TotalSource has either prevented or made these costly incidents less likely to occur in their organization.

Forty-two percent of respondents had one or more unemployment claims in 2010; 25% reported one or more workers' compensation claims.

A majority of ADP TotalSource clients who experienced any incidents attribute a better outcome to their TotalSource partnership.

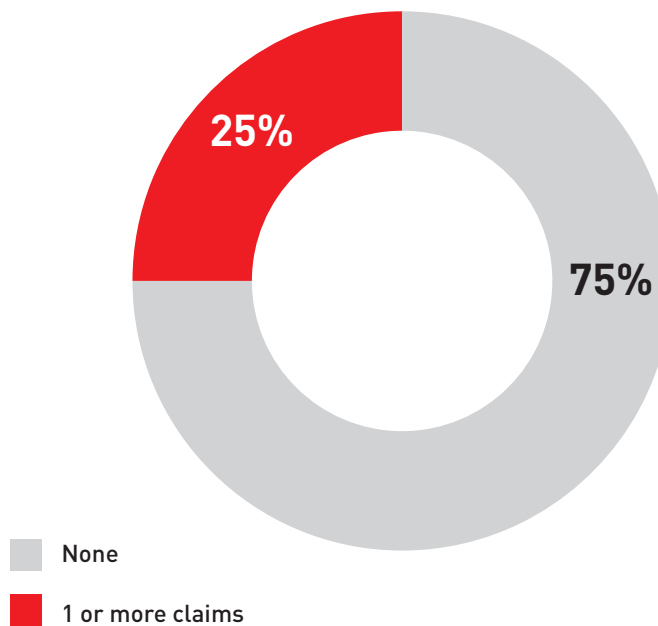
⁴ *Employers' Responsibilities When Making Settlements in Employment-Related Claims*, Bloomberg Law Reports, 2009.

UNEMPLOYMENT CLAIMS IN 2010



Among those who could give a numeric response. Base = 202

WORKERS' COMPENSATION CLAIMS IN 2010



Among those who could give a numeric response. Base = 231

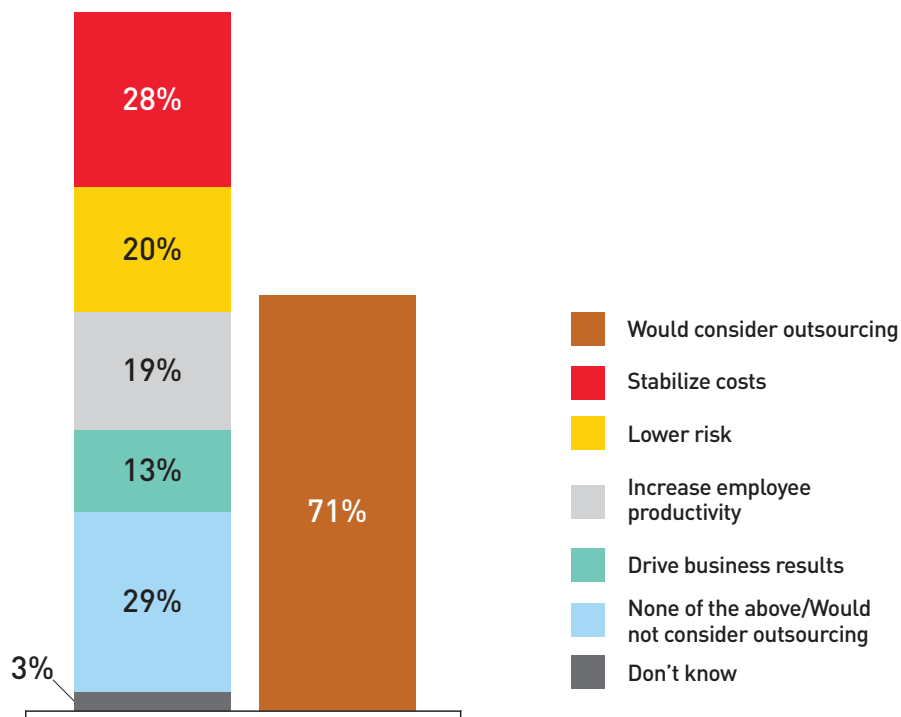
Considering Outside HR Support

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

Given this reality, it makes sense that the survey found many businesses are willing to consider outsourcing aspects of their HR function, for reasons ranging from cost stabilization to driving overall business results.

In fact, the majority of survey respondents (71%) would consider outsourcing their HR function entirely.

MOST COMPELLING REASONS FOR SMALL AND MID-SIZE COMPANIES TO CONSIDER OUTSOURCING ENTIRE HR FUNCTION



Multiple responses permitted.

Conclusion

The preceding research illustrates that the strategies companies employ to maintain a competitive edge are closely correlated to the challenges impacting their ability to succeed — increasing and unpredictable costs, employee productivity and engagement challenges, the rapidly evolving regulatory environment, and attracting and retaining top talent.

Partnering with a PEO can help stabilize costs, enhance employee productivity and engagement, and improve the ability to maintain compliance. According to a recent issue of Quality Magazine, a key benefit of a PEO is access to the human resources and compliance expertise necessary to manage critical HR responsibilities and risks, and to stay ahead of the compliance curve.⁵

With 82% of small and mid-size companies that currently work with a PEO recommending this model to their peers,⁶ it's clear that PEOs are becoming a tool of choice to relieve compliance and competitive pressures.

⁵ Quality Magazine, *The Outsourcing of HR*, David Imbrogno, December 2010

⁶ *PEO: Taking Outsourcing a Step Beyond Pays Off for Small and Mid-Sized Companies*, Aberdeen Group, August 2011

About the Survey

The ADP Research Institute conducted the *ADP All-Market Compliance Survey* in April 2011. This online 20-minute survey of 257 small and mid-size businesses (10-149 employees) nationwide looked broadly at current business issues, and then examined levels of confidence related to HR compliance. ADP was not identified as the survey sponsor. Respondents were HR decision-makers responsible for overseeing HR compliance within their organizations. Eighty percent were C-suite executives; the remainder had primary responsibilities in administrative, financial, executive, operational or other areas. The resulting data achieved statistical reliability at the 95% confidence level.

For comparison, in June 2011 the ADP Research Institute surveyed PEO clients (10-149 employees) who had been with ADP TotalSource for at least a year. ADP was identified as the survey sponsor. Respondents were HR decision-makers responsible for overseeing HR compliance within their organizations. Thirty-four percent were C-suite executives; 36% had financial titles; the remainder had primary responsibilities in administrative, executive, operational or other areas. The resulting data achieved statistical reliability at the 95% confidence level.

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 TotalSourceSM

ADP TotalSource provides employers with a comprehensive human resources outsourcing solution that helps reduce the costs and complexities related to employment and human resources management. For companies and HR departments that seek to return the focus to their core processes, TotalSource removes administrative and regulatory burdens, allowing more effort to be expended on strategic initiatives. Our affordable outsourcing opportunities have the ability to significantly reduce operating costs and streamline business operations, paving the way for growth and competitive gains.

To learn more about how TotalSource can help your business, call **1-800-HIRE-ADP** (800-447-3237) or visit us online at www.ADPTotalSource.com.

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.

