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Introduction

Small business owners are by nature a generally optimistic group — or they probably wouldn’t have taken on the challenge of launching a business in the first place. But just how are these optimists feeling about the direction in which the economy, their industry and their business is moving?

In 2014, ADP surveyed small business owners and executives on their economic and industry perceptions, biggest concerns, growth plans and confidence in their ability to manage their people effectively. Results were then compared and contrasted with responses from 2013 to help uncover a unique perspective.

From HR and compliance to the Affordable Care Act (ACA), the study looked at the concerns of small businesses in two segments — those with 1-9 full-time employees or the equivalent and those with 10-49 employees — and compared their year-over-year responses.

Key findings include cautious optimism regarding continued economic improvement, a feeling of greater industry competition, and no plans to increase headcount for the vast majority of businesses responding to the study. Some highlights in three key areas:

**Compliance**
A fifth of small businesses surveyed expressed concern over wage and hour laws, even though 78% are confident in their compliance with government workforce regulations.

**Economic and industry conditions**
Nearly half of respondents saw improvement in the economy in the past year.

**Cost of health care**
About 2/3 of companies surveyed still view the cost of providing health insurance as a barrier to achieving their business goals.

The following pages dissect the study results in further detail, and present some food for thought on reconciling perception and reality to stimulate business growth.

All data cited in this Small Business Optimism Report comes from the research survey conducted by ADP in August 2014.
Economic Improvements: Perception vs. Reality

Results of the study suggest that a positive business outlook has a lot to do with the size of the business in question.

As small business optimism continues to rise overall, companies with 10-49 employees appear to be experiencing a more robust level of economic improvement.

Though small businesses overall continue to ride the wave of an improving economy, there are still a number of areas in which they see significant challenges to their growth and prosperity.

Nearly half of small business owners believe that industry and economic issues are equally challenging to their organizations. But among those who viewed the economy as more of a hurdle, respondents pointed to contributing factors like these:

- Low consumer confidence
- Product demand
- Tighter consumer credit and spending
- Laws and regulations

Survey Results

44% of small business owners surveyed rated cash flow among their top concerns.

### STATE OF THE ECONOMY

Significant/slight improvement over past year

<table>
<thead>
<tr>
<th>Category</th>
<th>All Respondents</th>
<th>1-9 employees</th>
<th>10-49 employees</th>
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<tbody>
<tr>
<td>Significant/slight improvement</td>
<td>45%</td>
<td>43%</td>
<td>57%</td>
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</tbody>
</table>

### STATE OF INDUSTRY

Significant/slight improvement over past year

<table>
<thead>
<tr>
<th>Category</th>
<th>All Respondents</th>
<th>1-9 employees</th>
<th>10-49 employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant/slight improvement</td>
<td>34%</td>
<td>32%</td>
<td>46%</td>
</tr>
</tbody>
</table>
Top Concerns: Looking Back, Looking Ahead

Compared to ADP’s 2013 small business owners survey, owners of companies with less than 10 employees indicate they are more weighed down by concerns over consumer demand (+10%) and cash flow (+9%).

In contrast, anxiety over the cost of health care and benefits dropped by 13%. Why? It may be due to a clearer understanding of ACA, streamlined benefits offerings or an increase in employees’ contributions. Regardless, this growing comfort with the changing health care landscape could help alleviate heightened cash flow concerns moving forward.

For businesses with 10-49 employees, pressing business concerns include the cost of health coverage (37%), cash flow (27%) and quality of available workers (27%).
Workforce Growth: Staying the Course
The current findings indicate that small business headcounts are holding steady. Ninety percent of companies surveyed either maintained or increased their staff in 2013. Moving forward, 89% see no reason to change the course they took last year in terms of hiring.

Among the companies surveyed planning to add staff, the average number of new hires is five.

Who’s hiring?
The hiring pattern among small businesses seems to support anticipated growth. These departments lead the list in hiring:

1. Sales 43%
2. Operations 40%
3. Service 35%
Compliance: An Ongoing Dilemma

More than half of small business owners surveyed are confident they are in compliance with local, state and federal labor laws and regulations, even though they don’t believe they have the tools needed to effectively manage their people.

Indeed, a surprising number of businesses continue to learn the hard way that non-compliance with minimum wage, overtime pay, recordkeeping and youth employment standards, along with other government workforce laws and regulations, can mean significant penalties.

About one in five companies with less than 50 employees have experienced unintended expenses in the past 12 months due to non-compliance with government regulations. Among those that have taken a financial hit, over 40% say they don’t know how many fines their organization has incurred; half don’t know the impact to their bottom line.

Clearly, small businesses need to up their compliance game — either by bringing in experienced HR help or outsourcing workforce and benefits management tasks to a trusted third party.

**UNINTENDED EXPENSES**

<table>
<thead>
<tr>
<th>Unintended Expenses in Past 12 Months</th>
<th>Average # of Penalties/Fines</th>
<th>Average Cost of Penalties/Fines</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unintended Expenses in Past 12 Months</strong></td>
<td><strong>Average # of Penalties/Fines</strong></td>
<td><strong>Average Cost of Penalties/Fines</strong></td>
</tr>
<tr>
<td>18% Yes</td>
<td>44% Can answer</td>
<td>50%</td>
</tr>
<tr>
<td>82% No</td>
<td>56% Don’t know</td>
<td>50%</td>
</tr>
</tbody>
</table>

Larger companies are 2x more likely to be fined as smaller ones.
Getting a Handle on the ACA
In the last year, small business owners have grown more comfortable with Health Care Reform. A variety of ACA-related actions have had significant impact on companies and their workforces. For example, while more than half of employers surveyed say they will not downsize due to the ACA, a quarter are likely to defer rolling out new voluntary employee benefits plans.

Seeking Expert Benefits Administration Advice
As a result of expanding ACA-related compliance responsibilities, more than four in 10 small business owners surveyed believe that benefits administration has become more complex. One in seven indicate they are more likely to outsource benefits administration to help protect their organization from costly penalties.

While accountants are an expected resource for information and advice regarding the ACA, companies with 10-49 employees are just as likely to turn to a benefits broker or attorney, while smaller businesses conduct online research.

The takeaway: Small businesses of all sizes can’t afford to ignore the impact of ACA. If you’ve got growth on your mind, having the right compliance processes in place now can help save you time and money later.

Making changes to help control health care costs
Small businesses are implementing changes like these to help control health care costs:

- Reducing the number of plan options offered to employees 30%
- Freezing headcounts 25%
- Sponsoring wellness programs 24%
Finding plenty of reasons to stay positive, small business owners’ optimism is reflected in both their current views and their expectations for the future.

Hiring in areas such as sales, operations and service could be viewed as preparation for anticipated growth. But as the majority of small business owners forge ahead, their optimism must be tempered by the reality of uncertain economic trends.

**Conclusion**

More than 50% of employers surveyed say they will not downsize due to new ACA regulations.

Over 50% of small business owners are confident they are compliant with local, state and federal labor laws and regulations.

90% of companies maintained/increased staff in 2013 and 89% see no reason to change course.
Looking Ahead

The reality of increased government regulation, including ACA, is likely to continue contributing to an attitude of uncertainty among small businesses. So, how can forward-thinking business owners turn that uncertainty into opportunity?

STAY THE COURSE. Companies with 10–49 employees are feeling good about where their industry and the overall economy is heading — an optimism that seems to serve them well, considering that the typical Inc. 5000 company has grown 468 percent over the past three years, according to Inc. magazine. By continuing to think strategically about investments to improve cash flow, reduce risk and enhance productivity, this group can hopefully maintain its growth trajectory.

INVEST IN GOOD PEOPLE. Companies that choose to maintain the status quo may miss significant opportunities to fill skill gaps by hiring or developing existing employees. With better visibility into labor costs and workforce management, small businesses can make more informed decisions about the people and skill sets they need to drive smart growth.

HELP CUT YOUR COMPLIANCE RISK. Small business owners seem to be in denial when it comes to compliance with tax laws and other government workforce regulations. Half of those surveyed can’t begin to calculate the number of penalties they’ve been assessed and the resulting impact on their profitability. Take steps to put processes in place that help ensure transparency and compliance.

TAKE LESSONS FROM YOUR PEERS. Businesses that have grown to 10–49 employees haven’t done it alone. They turn to trusted advisors and partners for insights on assessing and controlling risk, managing cash flow and maximizing workforce productivity. Small businesses that aspire to break the 10-person threshold should consider what they might achieve given the time and resources to focus on strategic initiatives rather than business administration.

KEEP CHANGING REGULATIONS ON YOUR RADAR. Business owners should keep close tabs on regulations, especially new requirements that relate to workforce size. Using the ACA as an example, for businesses nearing the 50 employee threshold, it’s important to monitor the number of full time equivalent (FTE) employees because different ACA requirements would then apply.

By taking steps like these, small businesses will be firmly positioned to take advantage of continued industry and economic improvements — and to maintain their well-earned reputation as drivers of innovation and economic growth.

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Research Methodology

ADP conducted the ADP Business Owners Study in July and August 2014 among 1,041 business owners, C-suite executives, and senior-level executives in U.S. small organizations. The study universe included representative samples of all categories of U.S. enterprises with 1-49 employees, except state/federal government and public education.

A statistically projectable sample of 1,041 respondents in midsized businesses was interviewed, split between two size groups: enterprises with 1-9 and 10-49 total U.S. employees. The resulting data achieved statistical reliability at the 95% confidence level both overall and in each of the size groups.

ADP does not provide legal or tax advice. Consult your legal or tax professional for specific facts related to your business.

About ADP®

Employers around the world rely on ADP® (NASDAQ: ADP) for cloud-based solutions and services to help manage their most important asset – their people. From human resources and payroll to talent management to benefits administration, ADP brings unmatched depth and expertise in helping clients build a better workforce. A pioneer in Human Capital Management (HCM) and business process outsourcing, ADP serves more than 610,000 clients in 100 countries.