

2018

NATIONAL SMALL BUSINESS

Compliance Pulse

SURVEY



Executive Summary

Small businesses play a crucial role in the U.S. economy, acting as primary job creators. The Small Business Administration reports that there are approximately 30 million small businesses in the U.S., comprising 99.7% of all firms with paid employees, and that number is increasing.

What challenges and priorities rank high among small businesses? Consistently, repressive government regulations rate as a major concern. For small businesses, staying compliant — given the daunting maze of regulations and administrative requirements at federal, state and local levels — easily can detract from the entrepreneur’s focus on expanding growth or increasing revenue. And while, on the surface, the current focus on federal deregulation might be expected to improve these circumstances, the resulting increase in state and local regulatory activities can more than offset this benefit.

In its annual *National Small Business Compliance Pulse Survey*, ComplyRight surveyed owners, CEOs and others charged with handling HR responsibilities at 300 small businesses (five to 100 employees) across the U.S. The study identifies recurring trends, top concerns of business decision makers, perceptions about their own vulnerabilities, and varied internal responses to constantly changing employment laws.

The study revealed that the majority (73%) of small business employers agree that labor laws are necessary to ensure parity between smaller and larger employers; however, this belief declines substantially among one segment of small businesses — only 51% of owners and CEOs agreed with this statement.

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of owners and CEOs agreed with this statement.

In fact, owners and CEOs consistently expressed different opinions and attitudes from the other roles surveyed, including HR specialists, office managers and other administrative personnel. For example, owners/CEOs expressed much more skepticism both about the value of labor laws to employees and the ability of these regulations to “level the playing field” for small and large businesses. This segment also conveyed greater concern over the time spent on compliance (55%) as well as the perception that employment laws limits business growth (39%).

This study also indicated a prevalent belief among small business employers that labor laws have increased in complexities — 71% among all small businesses and 78% among owners/CEOs. As expected after considering these latter numbers, small businesses consistently expressed a sense of vulnerability to legal actions and fines:

- Fewer than half have confidence that they are fully aware of employment laws and regulations affecting their businesses at the federal (45%), state (48%) or city/county (49%) levels.
- More than one-third (35%) lack full confidence that their businesses are well-prepared to handle investigations or legal actions related to labor law compliance.
- Among owners and CEOs specifically, almost half (48%) lack full confidence in their readiness for potential labor law investigations or legal actions.

The study revealed that a primary obstacle to ensuring compliance to labor laws is reliance on questionable resources for information.

- 69% rely on lawyers, accountants and other business advisors for compliance information; however, most of these sources — because of the fast pace of regulatory changes at federal, state and local levels — only have limited knowledge of labor laws.
- 78% of small business employers depend on written notifications from federal and state agencies; however, these government agencies rarely provide these kinds of written notifications.
- 86% depend on colleagues and friends to stay current on labor laws; however, these non-experts have questionable levels of knowledge about current employment laws.

46%

of small business owners rely on pen, paper and sticky notes or other manual processes to manage employee-related administration.

In an environment of increasing complexities, constant change and often inadequate resources for information, how do small businesses manage employee-related administration? An unsettling statistic in the survey revealed that almost half of small business employers (46%) continue to rely on “pen, paper and sticky notes or other manual processes.” This number compares with only 17% who have invested in contemporary HR systems — technology that can manage HR-related information in one place with one program, but often is over-engineered and over-priced for the needs of the small business.

These latter numbers may have a correlation to another notable finding in the survey: Many companies don't cover critical and emerging workplace issues in their employee policies.

- 76% do not address political activities/discussions in the workplace.
- 47% do not address social media use.
- 44% do not address weapons in the workplace.

The study uncovers what appears to be a distressing trend among small employers — substantial potential for exposure to legal actions and fines. As economic and business trends continue to shift and evolve, smaller companies may be so absorbed with priorities such as revenue and growth that they neglect to build and develop processes that ensure compliance.

Omissions or oversight of compliance obligations can result in lawsuits, costly fines and in extreme cases, even collapse of the business. In 2017, the Equal Employment Opportunity Commission received more than 84,000 charges related to workplace discrimination — and employers targeted by these discrimination charges lost 90% of the lawsuits filed, resulting in almost \$400 million paid to victims.

The good news for small businesses: Many of these compliance landmines can be avoided.

What proactive measures can small business owners/CEOs, HR professionals and office managers take to manage complex regulations at federal, state and local levels?

- Take time to evaluate potential risks and determine whether the business has the right tools in place to mitigate these risks.
- Investigate current technology and processes — for example, web-based HR solutions that mitigate compliance risk while streamlining processes continue to evolve and become more affordable and practical for the true small business.
- Increase confidence by choosing compliance-minded vendors and partners who fully understand the intricacies of labor law regulations.
- Protect the company by regularly updating employee policies to cover and address new developments or cultural shifts that have a direct impact on the business and employees.

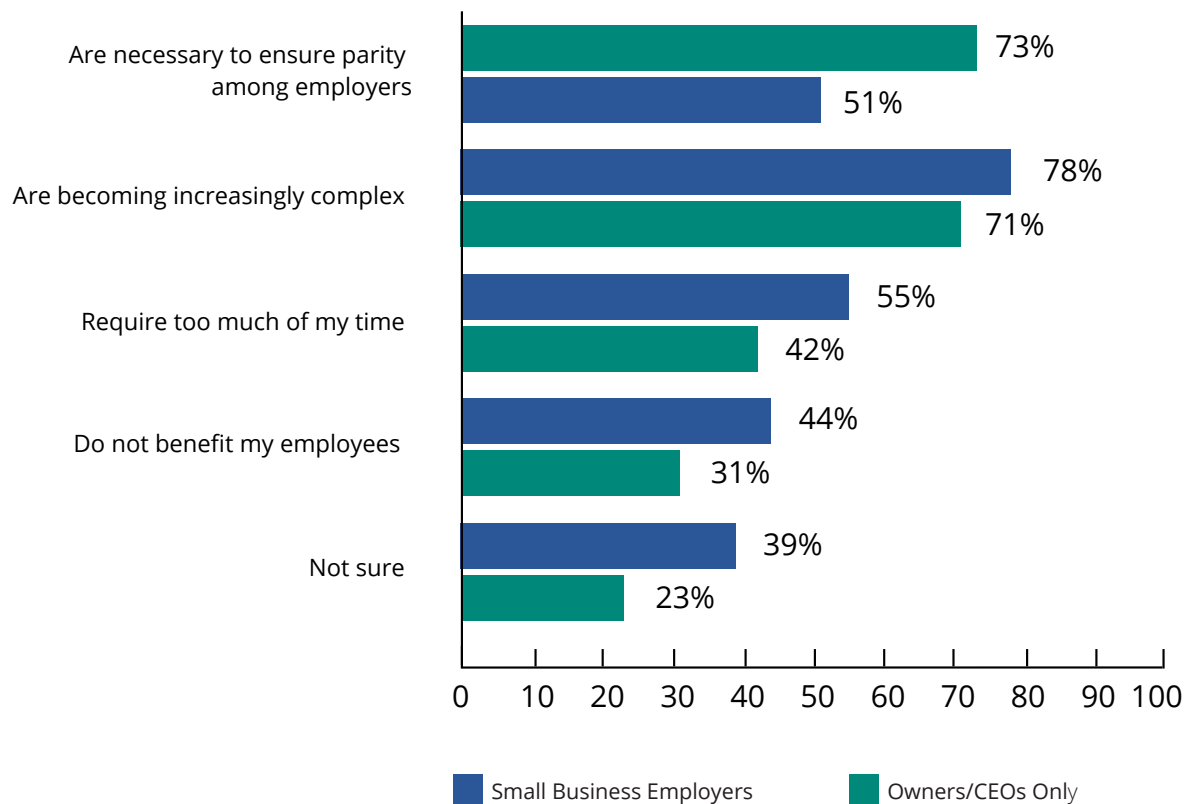
Compliance requirements will keep evolving, and the complexity of labor law regulations shows no signs of abating despite attempts to ease the burden at the federal level. However, when a small business takes the right actions to identify and implement practical measures for compliance, it can put full focus on revenue, growth and strategies — and ultimately bring a return on investment.

Small Businesses See Benefits from Employment Laws but Face Complex Challenges

Almost three-quarters (73%) of small businesses consider labor laws to be necessary to ensure parity among between large and small employers, but a similar quantity (71%) contend these laws are becoming increasingly complex. This apprehension about the complexities may explain why those stating labor laws “require too much of my time” increased significantly from 2017 (30%) to 2018 (42%).

The study also reveals that owners/CEOs measurably are more concerned about the time required to ensure compliance with labor laws (55%) and the negative impact on business growth (39%), and they are less convinced about the benefits to employees (44%). Owners/CEOs are also less likely to “agree” that labor laws are necessary to ensure parity between small and large employers.

Would you agree that labor laws:

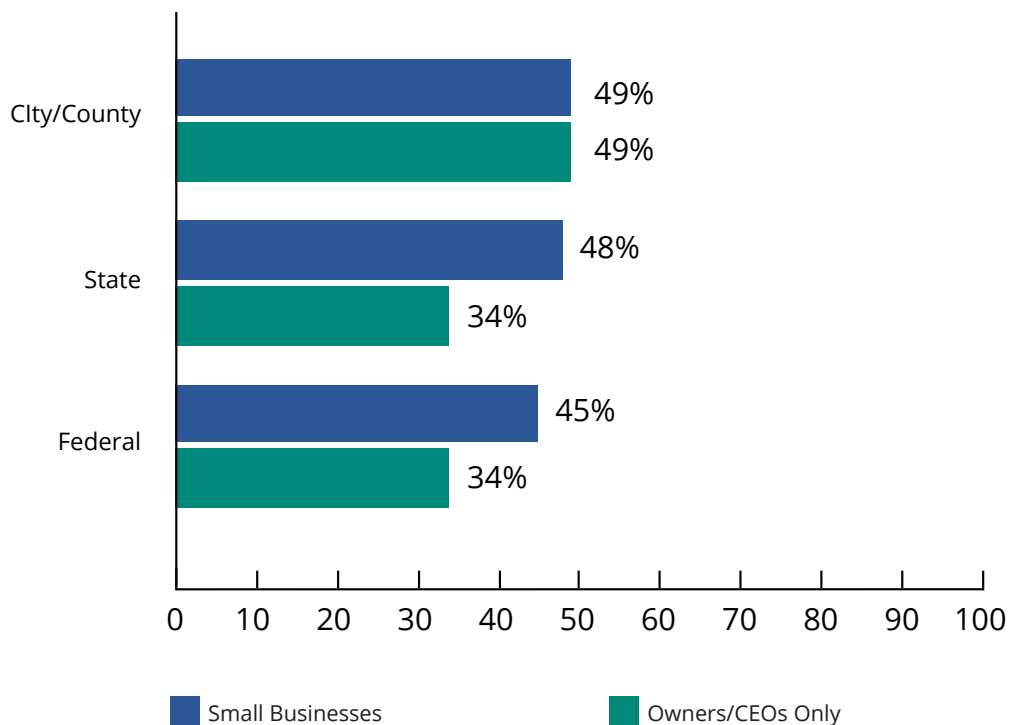


Many Employers Lack Full Understanding of Labor Laws, Yet Feel Prepared for Investigations or Legal Actions

Less than half of small businesses surveyed are “very confident” they are fully aware of all federal (45%), state (48%) and local labor laws (49%), suggesting that a majority may be vulnerable to legal actions and penalties. Compared to the total small businesses, owners/CEOs are among the least likely to perceive that their small businesses are adequately informed about labor laws at federal and state levels.

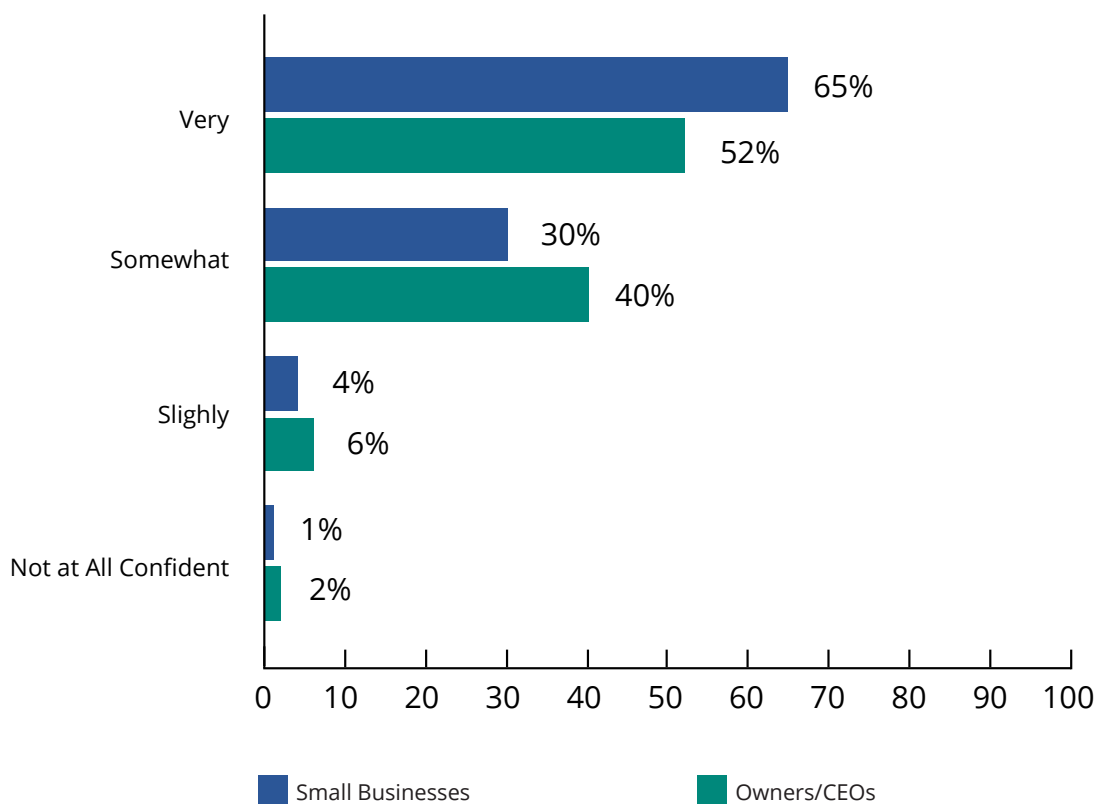
How confident are you that you are fully aware of employment laws and regulations affecting your business?

(Percent “very confident”)



Despite lacking full confidence in their awareness of labor laws, two-thirds (64%) of small businesses surveyed are “very confident” that they are well-prepared to handle an investigation or legal action related to labor law compliance. This number declines to almost one-half (52%) among owners/CEOs. Overall, the combination of those small businesses “very confident” or “somewhat confident” in their awareness of labor laws soars to 94%.

How confident are you that your business is well-prepared to handle an investigation, or legal action, related to labor law compliance?

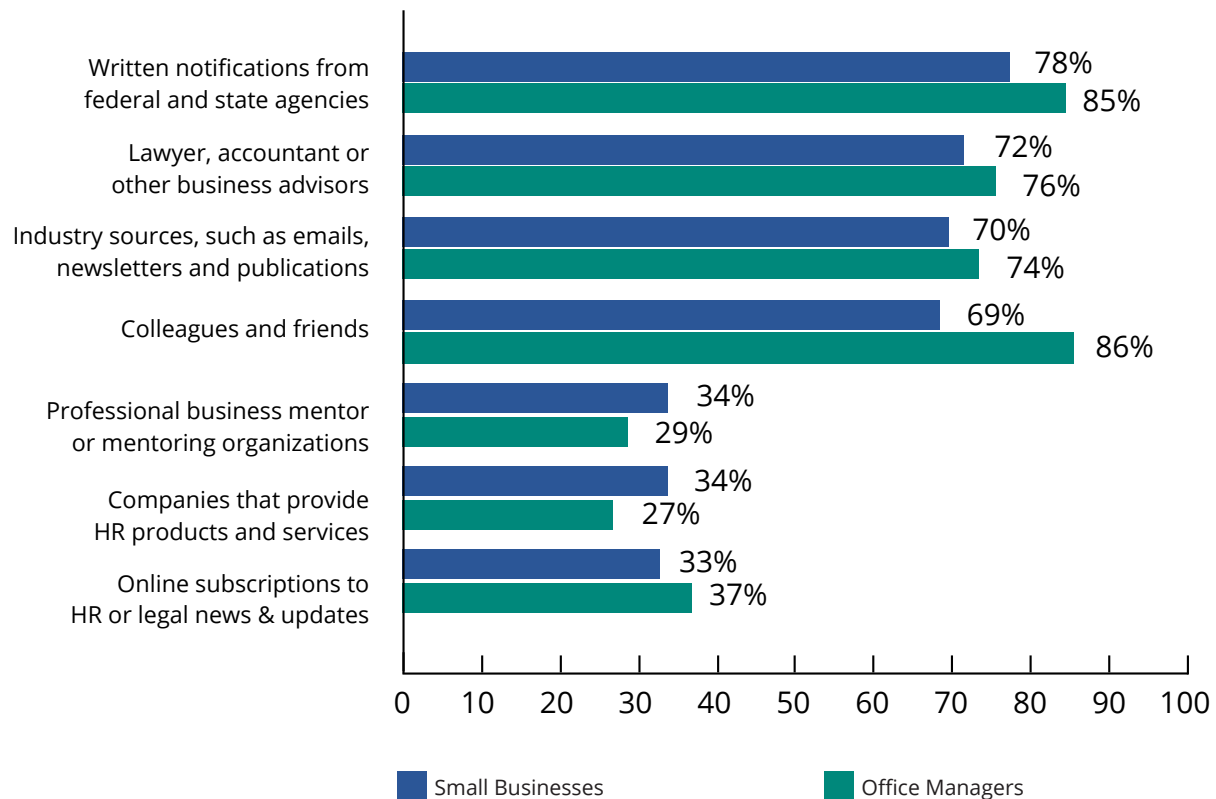


Many Small Businesses Turn to Questionable Sources for Labor Law Information

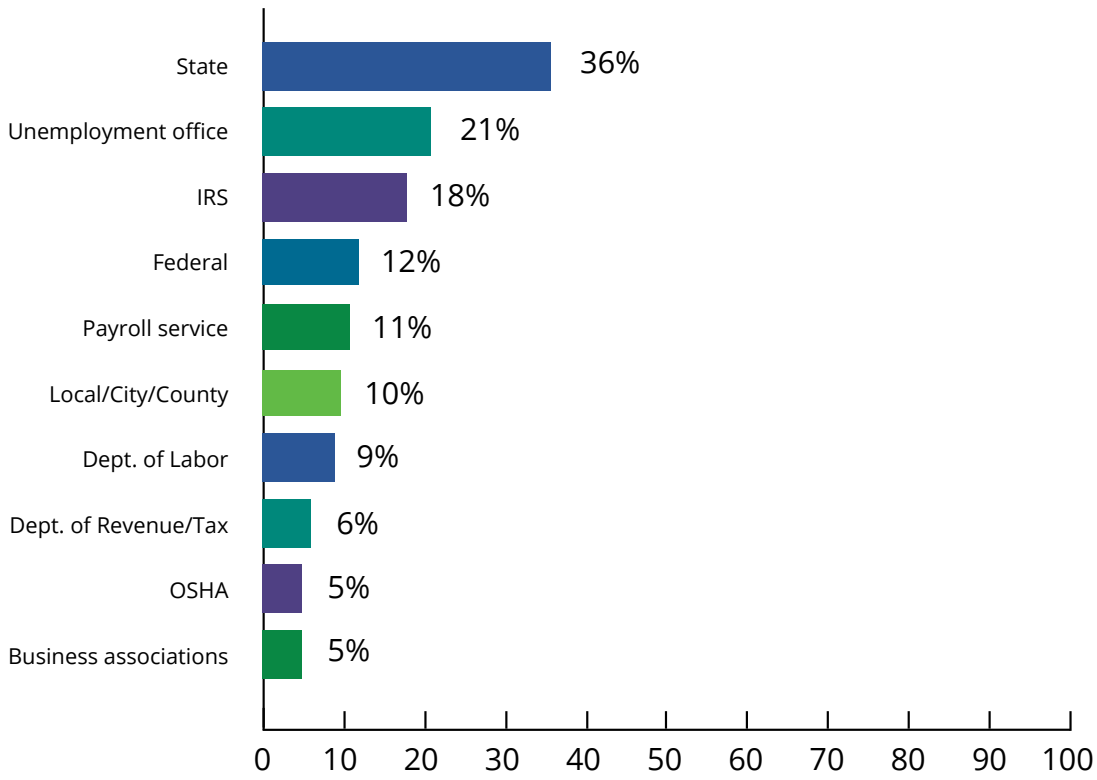
Three of the four more common sources for information used by small businesses to learn about changes in employment law might help explain the lack of confidence in their being fully aware of federal, state and local labor laws:

- Written notifications from federal and state agencies: The fact is that these agencies rarely provide such notifications.
- Lawyer, accountant or other business advisors: Many of these sources have limited knowledge of labor laws due to the fast pace of regulatory changes at federal, state, and local levels.
- Colleagues and friends: Many small businesses (69%) depend on these questionable sources of information about employment law changes, including 86% of all office managers.

Which of the following are useful sources of information to learn about changes in employment laws that affect your business?



Agencies from Which Written Notifications Are Received



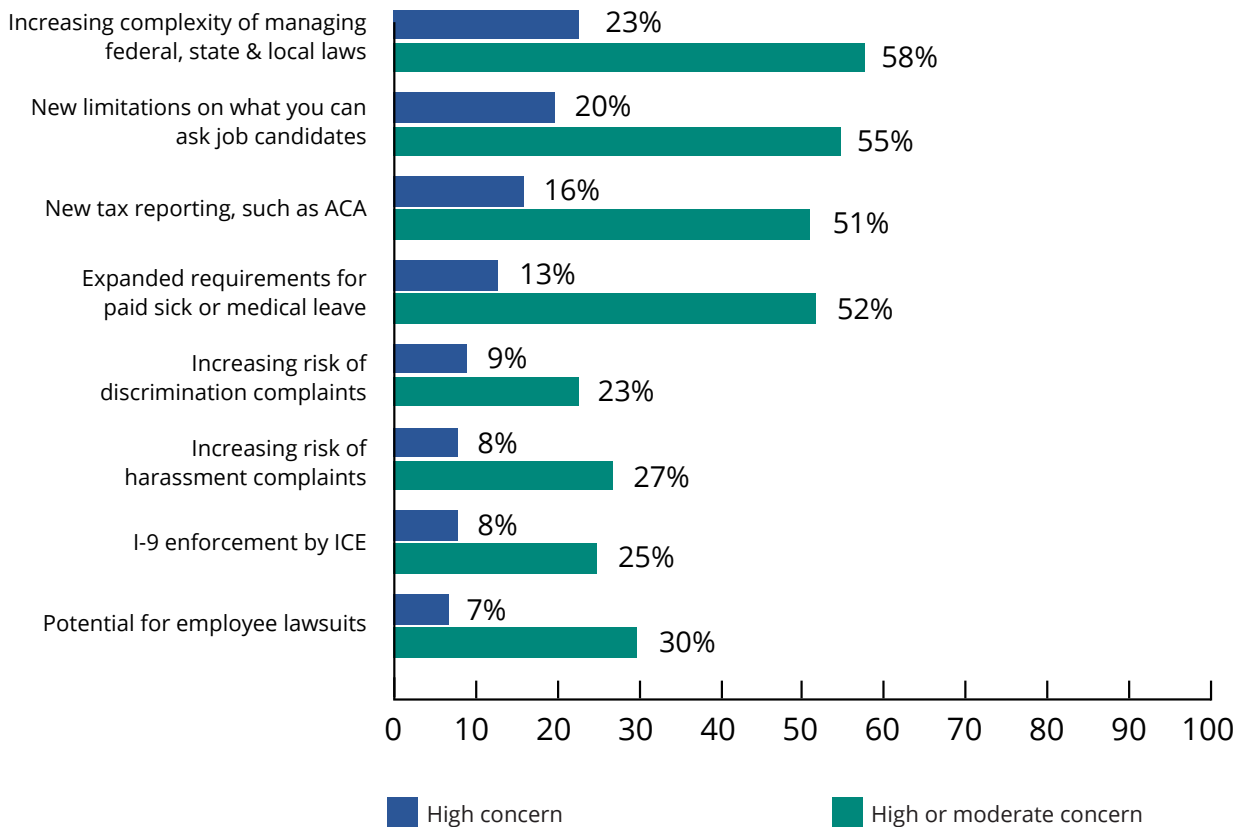
*Most popular mentions only/totals more than 100% due to multiple mentions

While states, unemployment offices and the IRS provide some types of employment regulation notices, these are relatively rare. The assumption that these agencies are alerting businesses to employment law changes, and that no notice means no change, is a dangerous one.

Small Businesses Have a Diverse Mix of Concerns and Risks

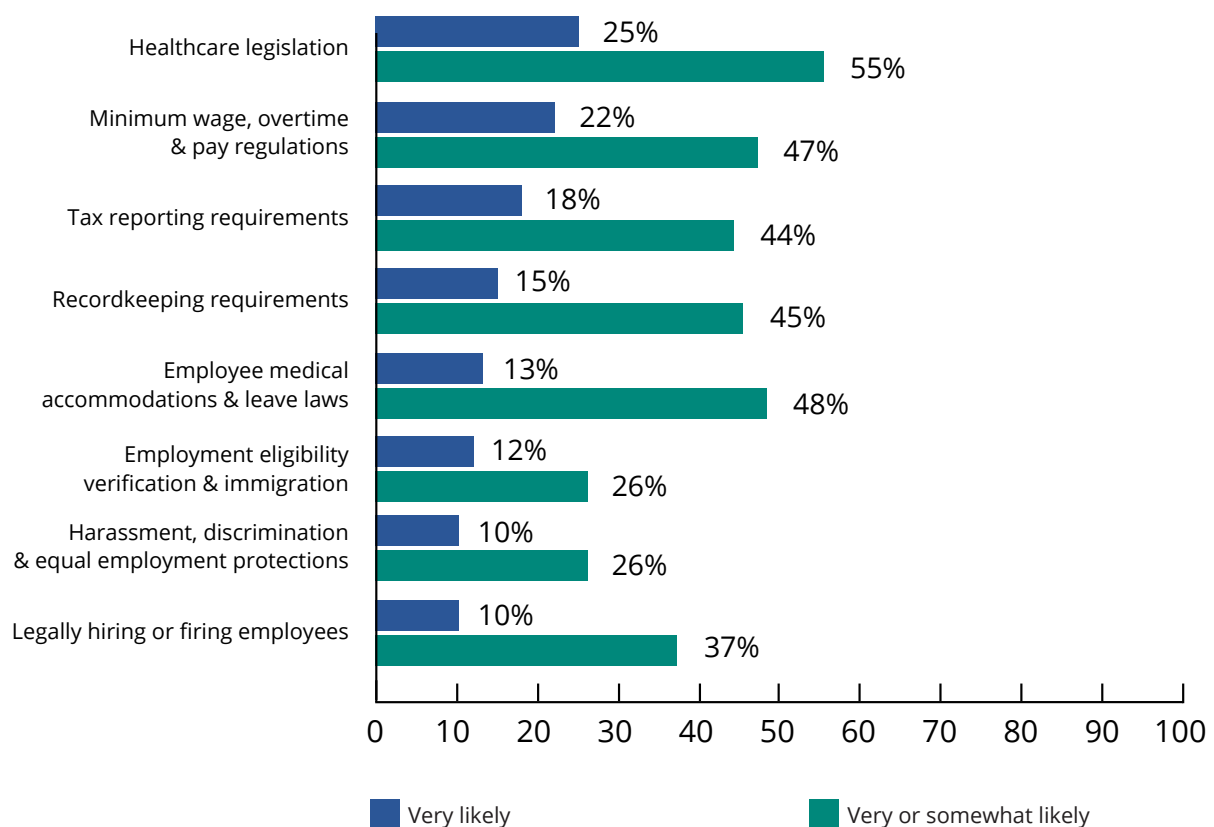
In addition to increasing complexity (58%), at least half of small businesses surveyed report either “high” or “moderate” concerns about new limitations on what they can ask job candidates (55%), expanded requirements for paid sick or medical leave (52%), and new tax reporting, such as reports for the Affordable Care Act (51%). This number compares with measurably lower levels of concerns about the risk of discrimination complaints, harassment complaints, I-9 enforcement by ICE and the potential for employee lawsuits.

What is your level of concern about the following employment law issues?



Broad-based exposure to employment laws that could have a negative impact on small businesses is shown below. Specifically, nearly half of small businesses surveyed consider it at least “somewhat likely” that their businesses will be impacted negatively by healthcare legislation (55%), minimum wage, overtime and pay regulations (47%), tax reporting requirements (44%), recordkeeping requirements (45%), and employee medical accommodations and leave laws (48%).

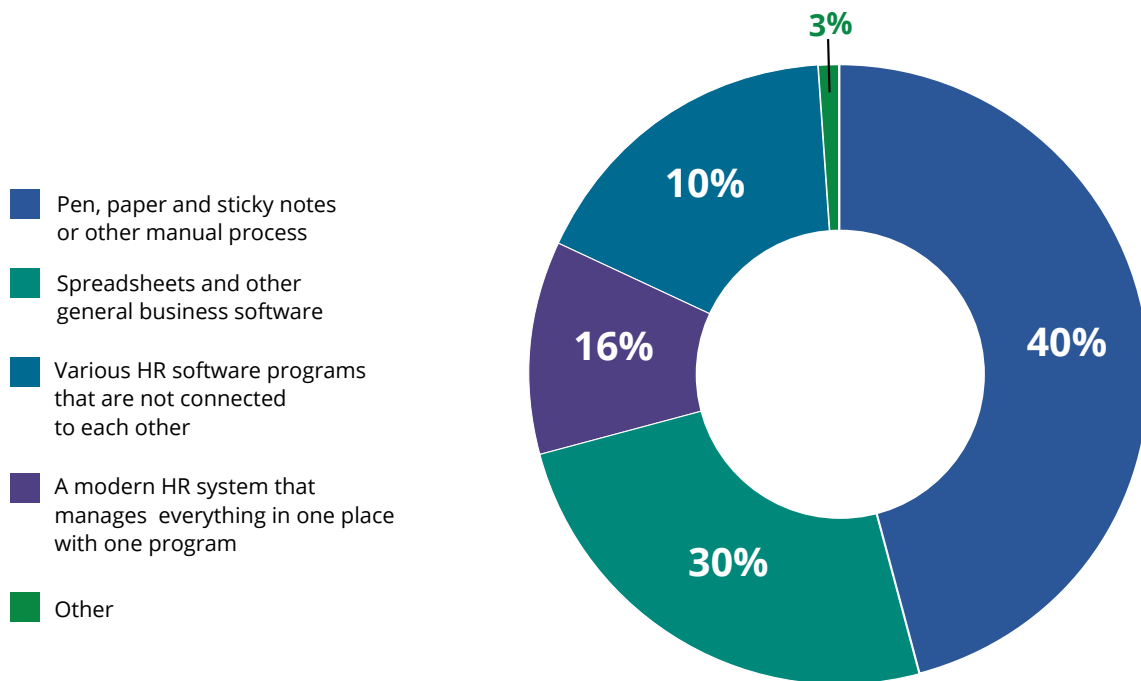
How likely is it that each of the following will have a negative impact on your business?



Working Without Current Systems and Processes to Address Employment Law Challenges

Despite the risks of inadequate recordkeeping and careless errors resulting in legal actions and fines, most small businesses surveyed use outdated methods for managing employee-related tasks. Nearly one-half (46%) only use pens, paper and sticky notes, compared to 17% with current or contemporary HR systems. Beyond legal and financial vulnerabilities to the business, relying on outmoded processes when managing these complex tasks can translate into stress, dissatisfaction and reduced productivity among the employees who are managing compliance.

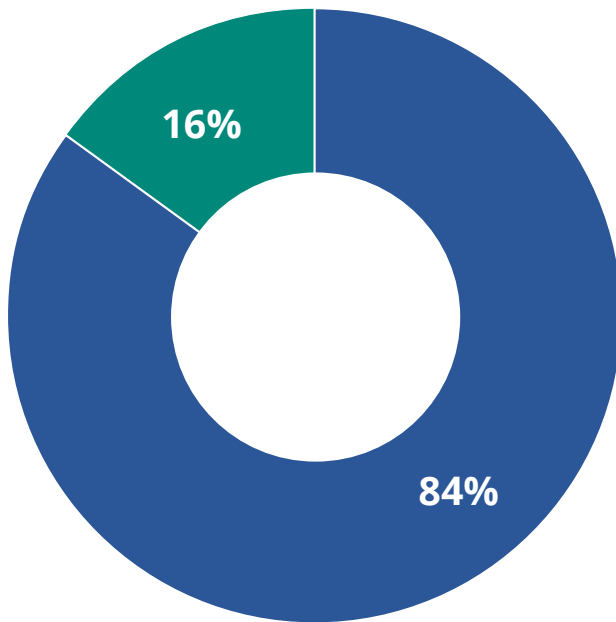
Which of the following best describes how you manage employee-related administrative tasks?



Written Employee Policies Widely Used, Though Often Exclude Key Topics

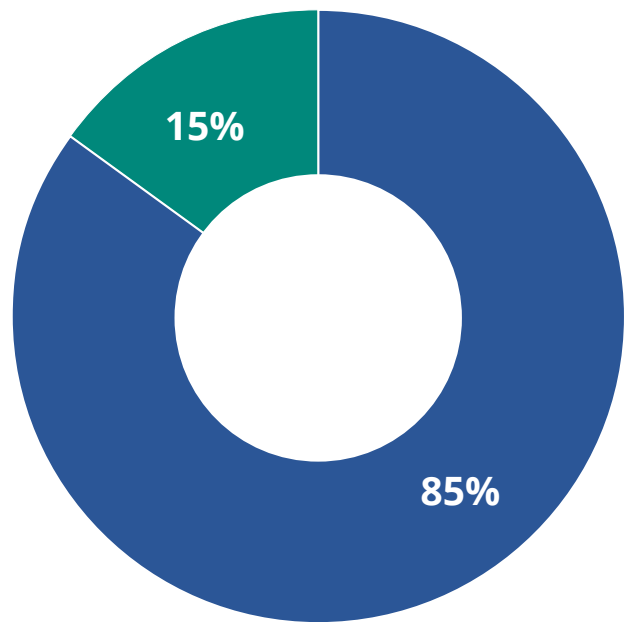
Promising news is that the vast majority of small businesses (84%) have an employee handbook or formal written policies, and 85% require employees to acknowledge receipt of these policies. The vast majority (88%) have a printed handbook, compared to 22% who provide online access.

Does company have an employee handbook or formal written policies?



■ Yes ■ No

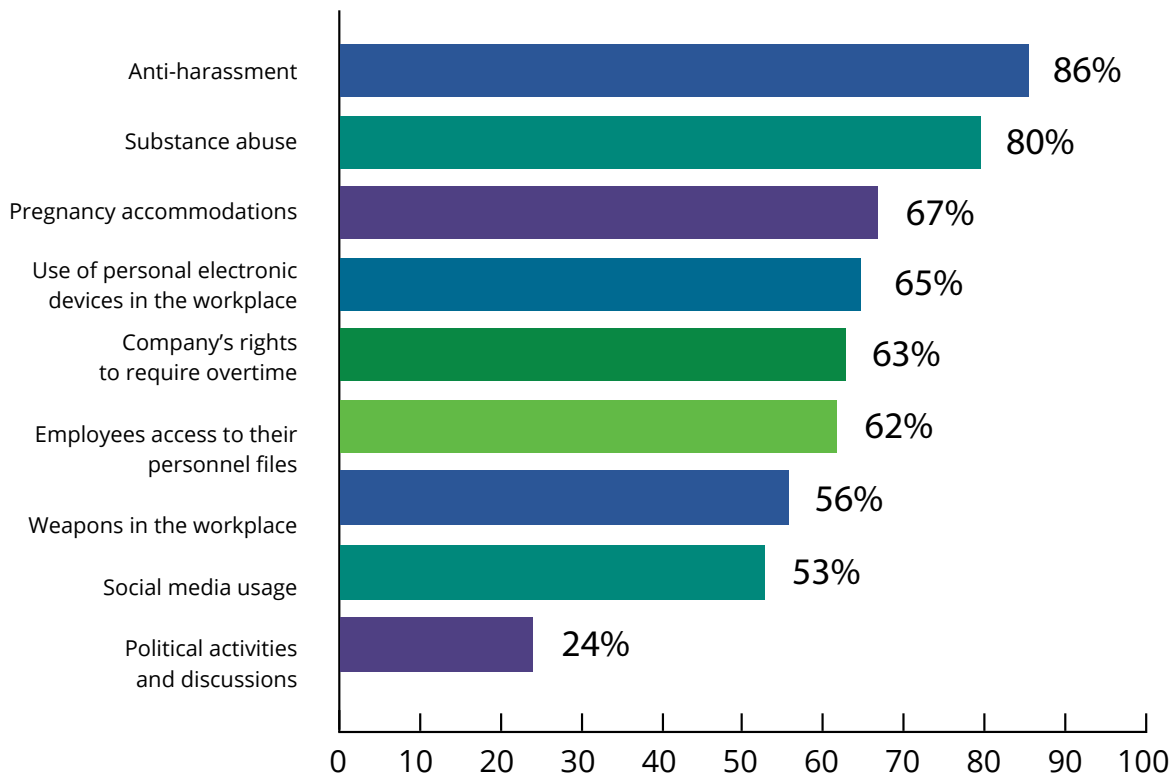
Does company require employees to confirm in writing receipt and review of company policies?



■ Yes ■ No

However, a notable discovery is that these written materials often exclude crucial topics that can lead to complaints related to workplace harassment and other business risks. Almost half (47%) do not include policies on social media use, and a significant majority (76%) have no formal policies on political discussions. Surprisingly, perhaps as a means of avoiding sensitive topics, there has been a significant decline in having formal policies on weapons in the workplace (declined from 67% to 56%) and political activities/discussions (33% to 24%).

Topics for which companies “do have” formal written policies

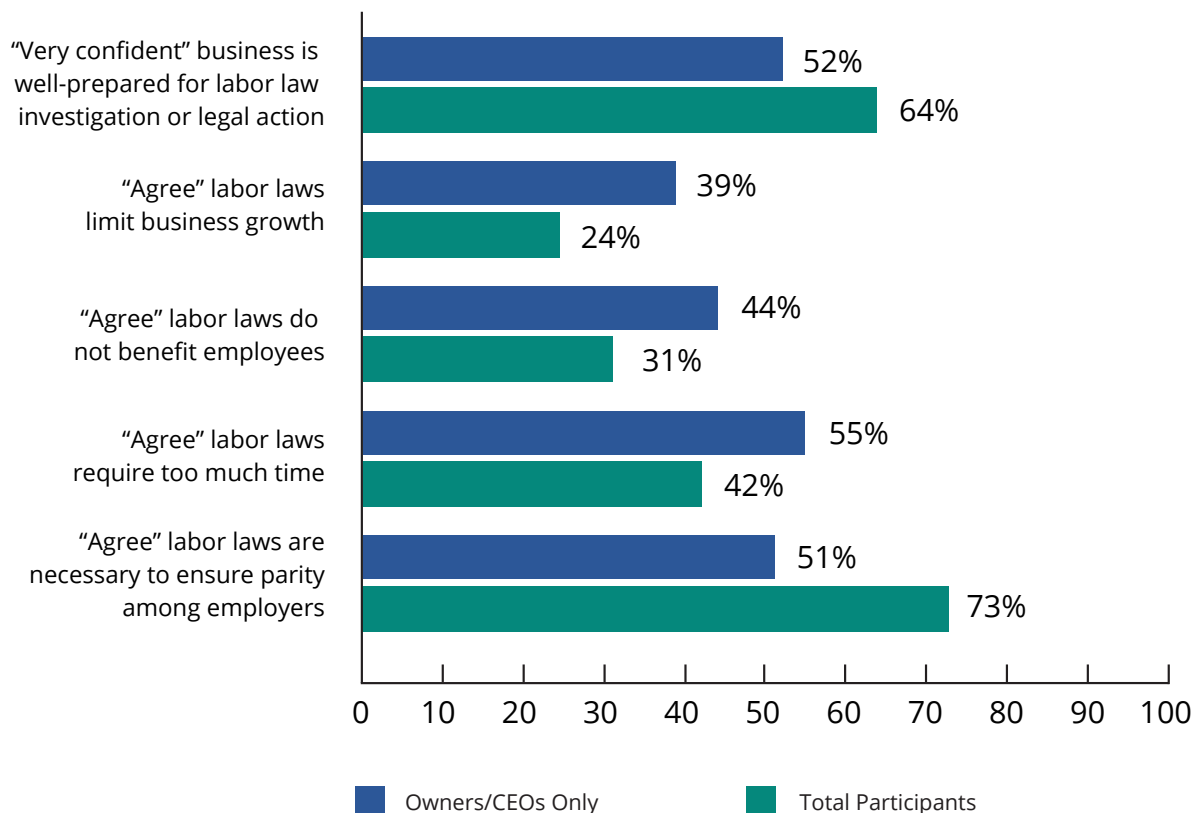


Sentiment Among Owners/CEOs vs. Others Charged with Labor Law Compliance

There is little doubt that owners/CEOs surveyed are acutely aware of the challenges posed by the labor law environment, especially when compared with the awareness of office managers, general managers and others charged with employee-related administrative tasks. Owners/CEOs are consistently among the most likely to view their businesses as vulnerable to the negative impacts of labor laws, questioning the necessity to ensure parity between small and large employers as well as questioning the value or benefits to employees.

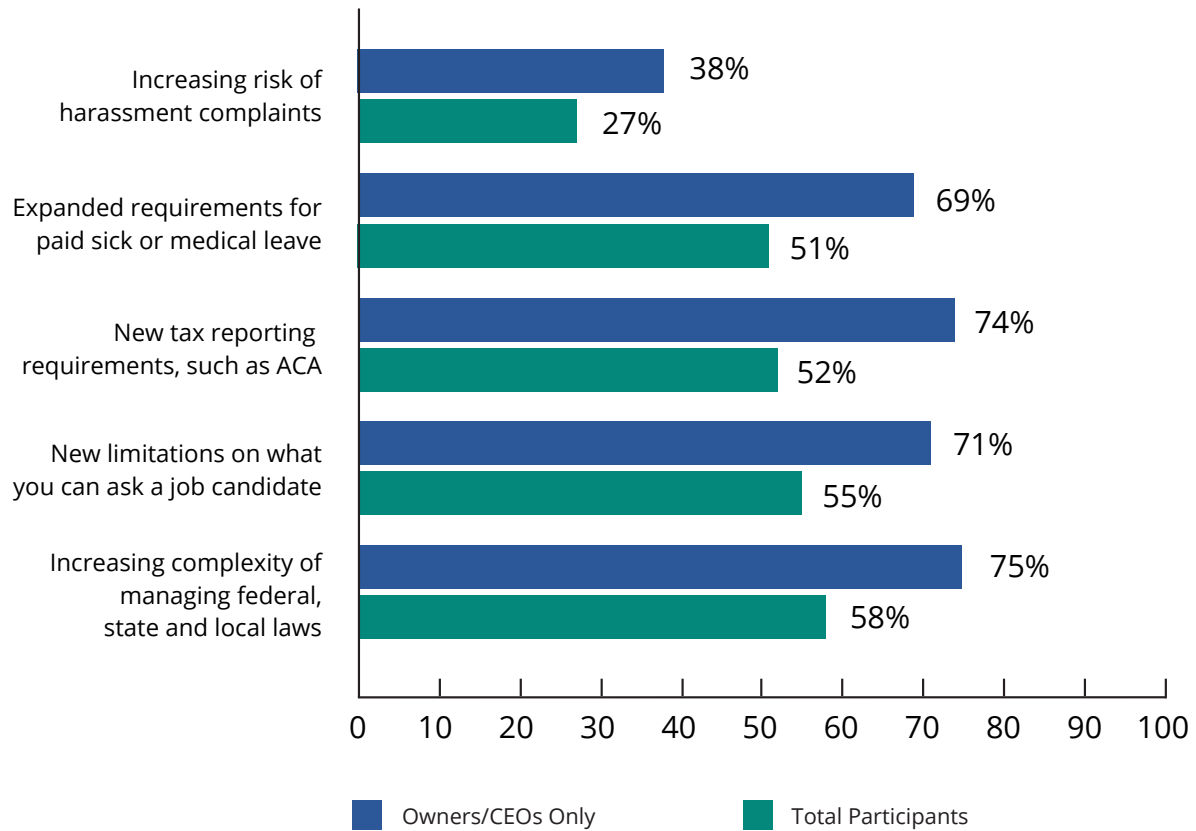
Owners/CEOs Are Often the Least Supportive of Employment Laws and the Most Concerned About the Negative Impact on the Business

Consider these significant variances in attitudes toward employment laws when comparing owners/CEOs to the total small businesses:



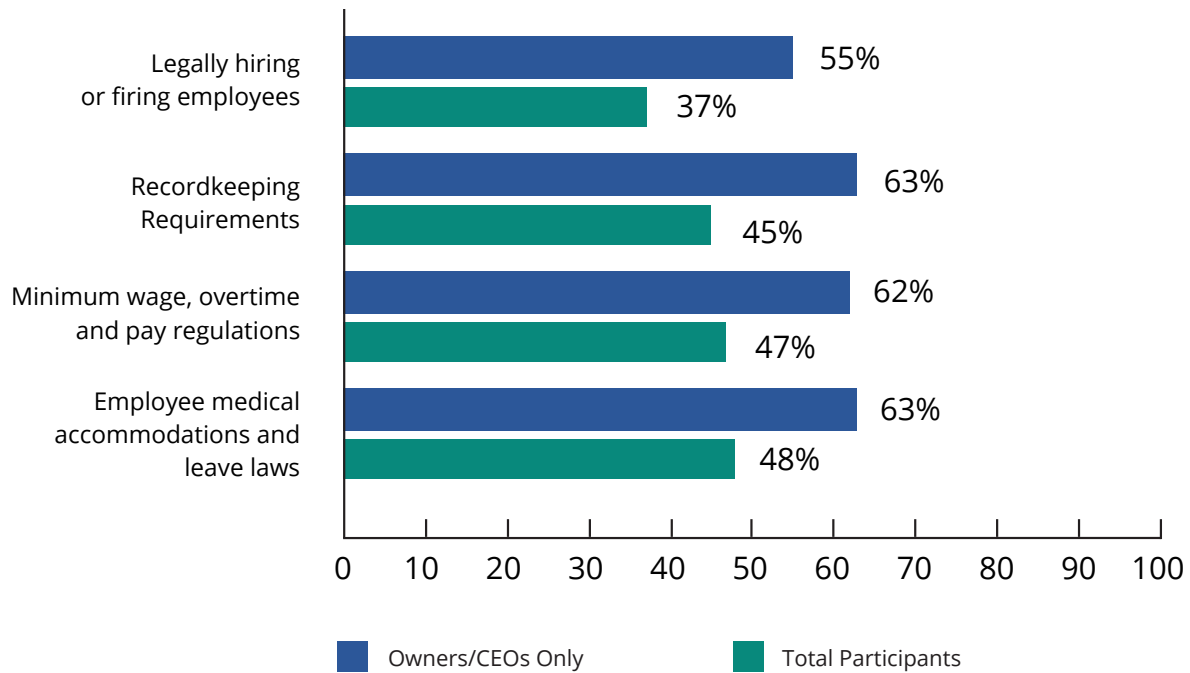
Owners/CEOs are also significantly more likely to express either “high or moderate concern” about:

Have “High or Moderate” Concern about Labor Laws



Owners/CEOs also have significantly more concerns about the negative impact each of these factors could have on their businesses (i.e., “very/somewhat likely” to occur):

Negative Impact of Labor Laws “Very or Somewhat” Likely to Occur



Survey Methodology

The 2018 National Small Business Compliance Pulse Survey, sponsored by ComplyRight, Inc., was first initiated in 2017. The study is managed by Market Measurement, Inc., a national market research consulting firm. A total of 300 telephone interviews were conducted each year with individuals responsible for employee recordkeeping and HR tasks. All participating companies had from five to 100 employees.

About ComplyRight

ComplyRight, Inc., (www.complyright.com) creates practical, affordable products and services to help small-business employers streamline essential HR tasks. The company's mission is to free employers from the burden of complying with federal, state and local labor laws so they can stay focused on growing their businesses. From hiring and training, to time tracking and recordkeeping, to labor law posting and tax information reporting, ComplyRight products and services address the real-world challenges employers face every day.

Media Inquiries

Interested in speaking with a ComplyRight expert about this survey?

Contact our media specialists at
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