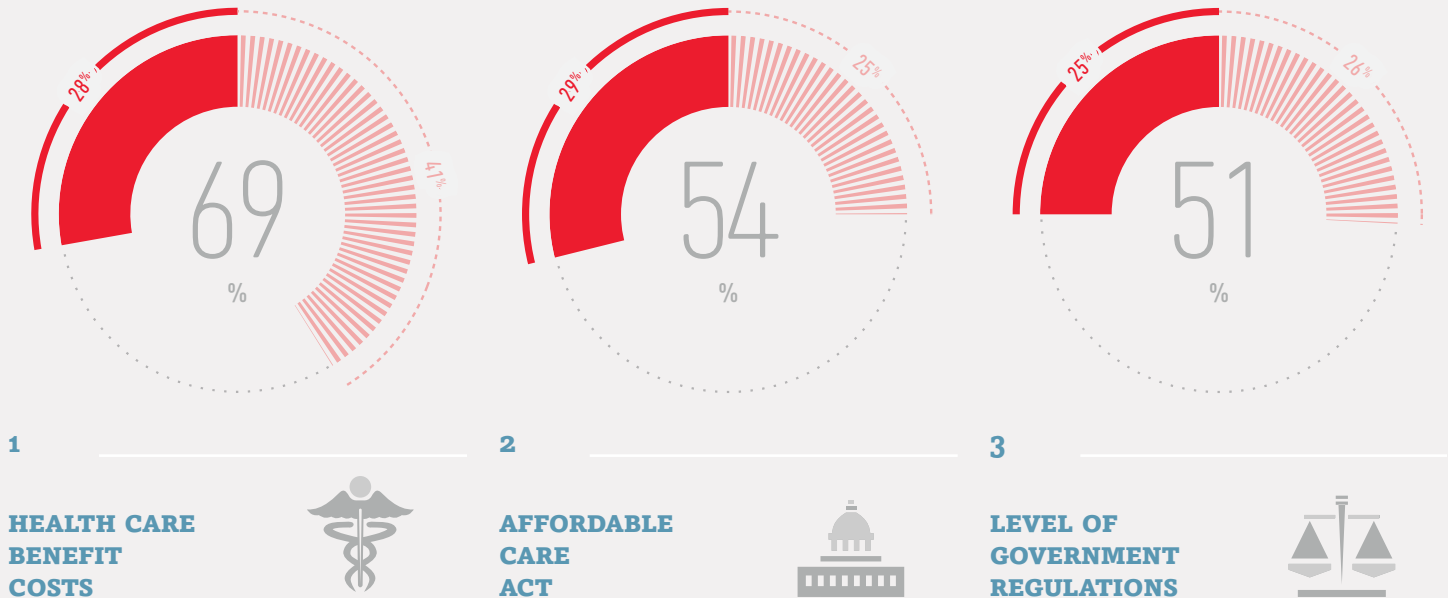


The
Struggle for
Confidence
Between
Main Street
& Wall Street

Top 3 concerns of mid-sized business owners.



■ extremely concerned |||| very concerned

Midsized businesses are proving grounds, where benefits costs, the Affordable Care Act (ACA), and the volume of government regulations are a constant concern. When it comes to their taxes, owners and executives sift through 10,000 different types of business taxes, and they're expected to track voluminous changes to tax rules, too—there were 19,000 proposed changes in 2013, alone.¹

In July and August 2014, the ADP Research Institute®, a specialized group within ADP®, conducted an online survey of more than 750 owners and executives at companies with 50-999 employees. The Midsized Business Owners Study is now in its third year.

Among other results that helped define this rugged landscape between Main Street and Wall Street, the study found that one third of midsized business owners say they have experienced fines and penalties for non-compliance with government regulations. And half of those owners cannot say how much they paid in penalties. They could not say how many fines they incurred, but on average in 2014, it was four.

¹ ADP Compliance Insights. "Taming the Payroll Tax Beast." August 11, 2014. <http://www.adpcomplianceinsights.com/taming-the-payroll-tax-beast/>

**Allen
Gruenhut**

Senior Director of
Compensation & Benefits

SAFE HORIZON

*a crime and abuse victims'
services agency in New York*

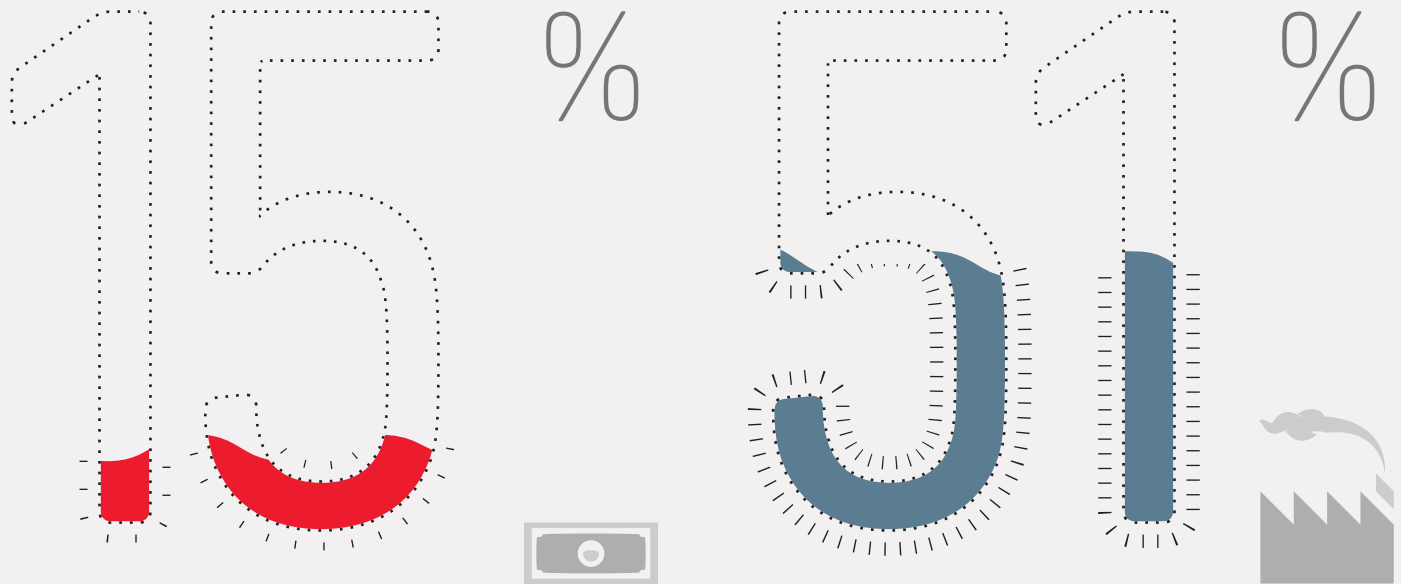
One thousand one events will occur during the course of a day, a week, a month, that make the job continually challenging and unexpected.

Business owners and executives at mid-sized businesses are expected to operate with the agility of smaller businesses but abide by many of the same regulations that govern larger enterprises. Plus, at the mid-sized level, owners and executives manage a larger workforce than they did in the startup phase, and the decisions they make affect more employees. A changing landscape, coupled with heightened responsibility, can take a toll on the confidence of mid-sized business owners. In 2014, they seem to be struggling to find it.

Owners and executives in our study continue to be concerned about the same top issues: the cost of health care and other benefits; the complexities of the ACA; and the volume and level of government regulations. But concern is down. It appears they're getting used to these challenges. They continue to hire and grow at steady rates, according to our study. But when their persistent challenges are paired with their dip in confidence (to near 2012 lows) in an economic recovery, a far less optimistic picture emerges. Our study finds, for example, half of mid-sized business owners expect their industries to become healthier in the next 12 months, but only 15% expected the economy to improve in the same time period.



Gap In Confidence.



are confident that the **ECONOMY** will improve in the next 12 months.

are confident that their **INDUSTRY** will improve in the next 12 months.

Business owners are making some efforts to rise to these challenges. More started wellness programs to help mitigate costs and changes in health care regulations. But they're still mostly in defense mode. Two years after the U.S. Supreme Court upheld the constitutionality of the ACA, more than half of mid-sized businesses still don't have plans in place to manage it.

Owners and executives say it's still incredibly hard to keep up with the range of issues coming at them. The burden of managing a workforce, even at the lower end of the mid-sized spectrum (50-150 employees), gets compounded

at a place like Safe Horizon, says Allen Gruenhut, Safe Horizon's Senior Director of Compensation and Benefits. "Because we're dealing with day-to-day crises with our clients, it's not unusual for us to be facing crises in how we manage our staff." Some owners and executives at the mid-sized level stick to what worked at the startup level: solving problems within their own walls. Small, heroic teams often field incredibly broad sets of issues.

**Tatiana
Cass**

Payroll and Benefits Manager

DIAMOND PARKING

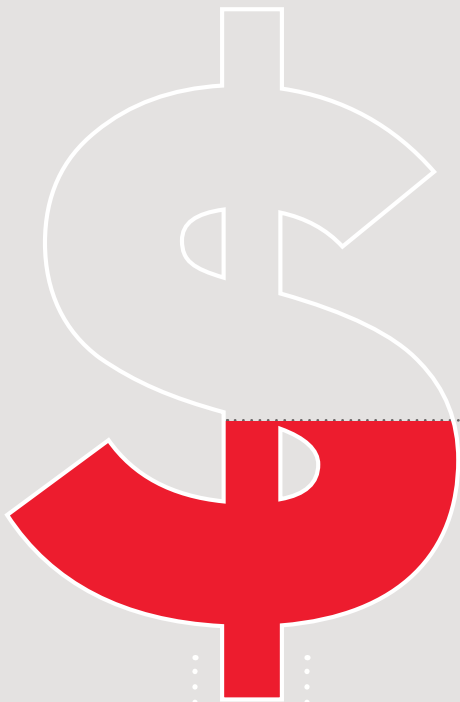
*world's oldest family owned
and operated parking
company, with 1,000
employees and 17 locations in
the U.S. and Canada*

We're a small team of experts. As the payroll and benefits department, we're not just dealing with California or with Oregon alone. We're trying to equalize everybody. We have to provide expertise on many different levels—to all of the managers to allow them to work better.

Increases in the volume of government regulations can cut to the core of owners' and executives' missions. "Meeting standards of these requirements means spending less time on patient care, which bothers me as an administrator," says Mike Milligan, CFO of the Oklahoma Children's Center Rehabilitation Hospital, a 120-bed private nonprofit hospital with approximately 500 employees. Patients, often children, spend an average of two years in the facility and often come from rural areas with limited health

care access. “We are spending more and more resources on compliance reports you have to put out there, which means we sometimes have fewer resources to take care of our patients,” Milligan says. The hospital has had to spend valuable time and money keeping up with changing electronic medical record (EMR) and Labor Department requirements. “Things are changing dramatically as far as compliance reports you have to put out there,” Milligan says. “It concerns me how it continues to increase.”

Midsized businesses drive the economy.



1/3

U.S. PRIVATE
SECTOR GDP

=

45.6

MILLION
JOBS

It's important to track how midsized business owners are dealing with these issues and not only for the sake of providing context for their peers, but because, in many ways, midsized business owners are the heroes of the economy. They contribute more than one third of all U.S. jobs. Additionally, they're particularly resilient, having added more than half as many employees as big business lost in the wake of the financial crisis of 2008. More than four out of five midsized businesses survived that crisis and continued to grow as other business segments suffered. Furthermore, midsized businesses represent as much as one third of U.S. private sector GDP, in some estimates.² And yet, most of the sources that track midsized businesses agree that it is a segment that is not studied enough³. The 2014 Midsized Business Owners Study found a prolonged concern among midsized company owners and executives, who are now tasked with solving problems of business beyond the startup.

² 2Q 2014 Middle Market Indicator. National Center for the Middle Market <http://www.middlemarketcenter.org/performance-data-on-the-middle-market> GE Capital 2011 National Middle Market Summit <http://bit.ly/1tigUp0>

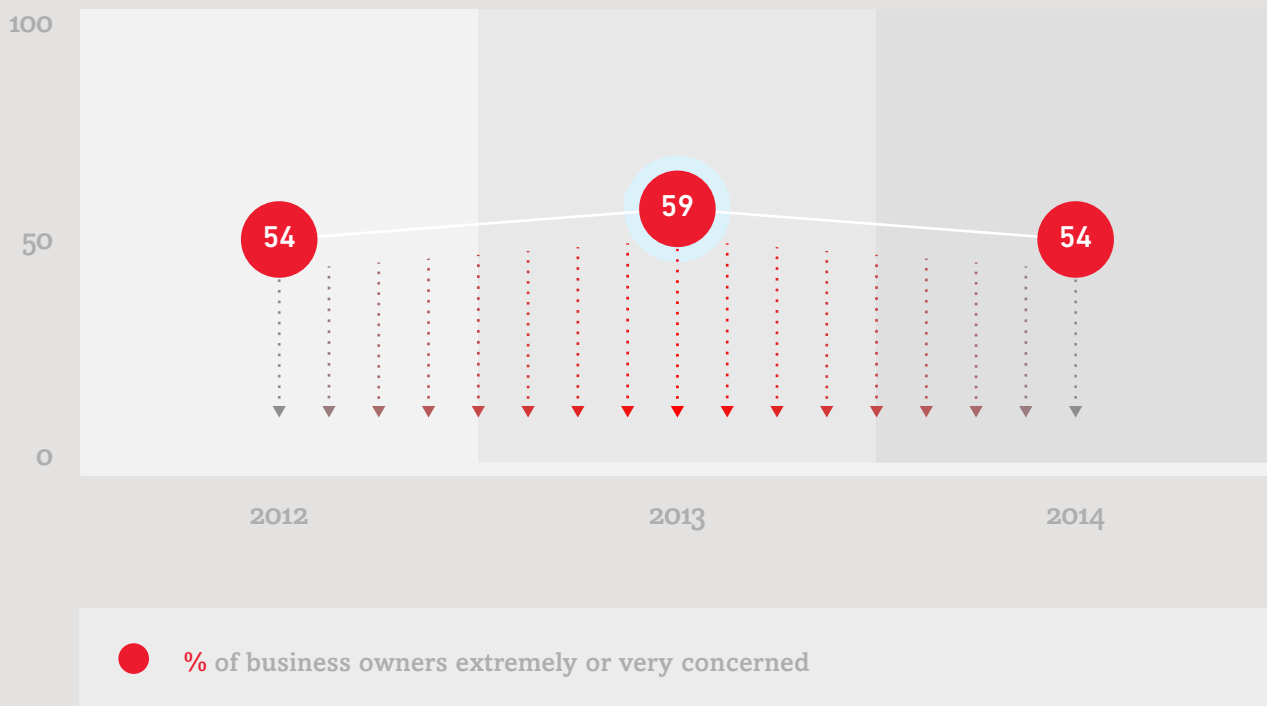
³ Sherin, Keith and Makhija, Dr. Anil. "Mid-Sized Firms Defy Economic Growth Odds." The Exchange. Yahoo Finance. October 29, 2013. <http://finance.yahoo.com/blogs/the-exchange/mid-sized-firms-defy-economic-growth-odds-172618797.html>

**Robert
Sher**
Midsized Business
Consultant
FORBES

Midsized businesses with the practices of a startup cannot thrive. Even firms with solid products and services often feel they can continue growing without much change in process because of past successes. But my experience and research show they will hit a plateau at some point—operations will melt down, quality will suffer, or the sales activities needed to drive growth will fail—and then it will be difficult to regain momentum.

TRIAGING HEALTH CARE COSTS & ACA

While concern over ACA is down slightly since 2013, understanding still remains low.



On one hand, concern over the ACA is down among mid-sized business owners and executives in 2014. On the other hand, according to our study, less than a quarter of them are confident that they have the tools and information needed to make the decisions about the best health and benefits strategies for their companies.

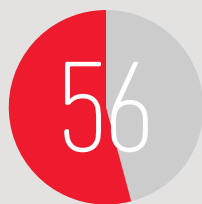
More than three quarters of mid-sized business owners lack confidence that their organizations understand all new ACA regulations, according to our 2014 study. Perhaps that's because the ACA creates an environment where mid-sized businesses often need to modify or adopt workforce management standards that can trigger wholesale changes in corporate culture. Confusion extends beyond the walls of their businesses, too. More than six in 10 Americans, on the whole, said they do not have the information necessary to understand the changes that come with the ACA.⁴ And even a pair of federal appellate judges issued contradictory rulings on how to interpret an ACA provision called the Premium Tax Credit Availability for Federal Exchange Participants.⁵

Relatively small percentages of businesses have strategies for managing the ACA.



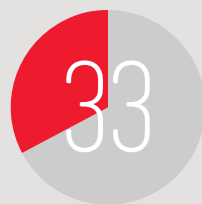
Outsource Benefits Administration

% who say they'll outsource their benefits administration.



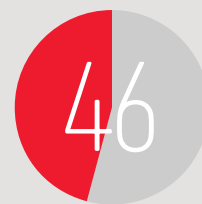
Cut Costs of Medical Insurance

% who say that their company has put together a plan to control or lower the cost of providing medical insurance to employees.



Reduce Number of Plans

% who say they have or definitely will reduce the number of plan options offered to employees.



Offer Wellness Programs

% who say they already offered or are in the process of offering or definitely will offer wellness programs to employees as a result of ACA.

More business owners now than in years past are trying to mitigate increased costs of health care coverage, but their level of action doesn't match their concern. Perhaps as a result of their lack of confidence and understanding of the changes brought about by the ACA, mid-sized business owners often

⁴ Somashekhar, Sandhya. "Many Americans confused about health-care law, poll finds." Washington Post, September 20, 2013. http://www.washingtonpost.com/national/health-science/many-americans-confused-about-health-care-law-poll-finds/2013/09/19/e986346c-2139-11e3-a358-1144dee636dd_story.html

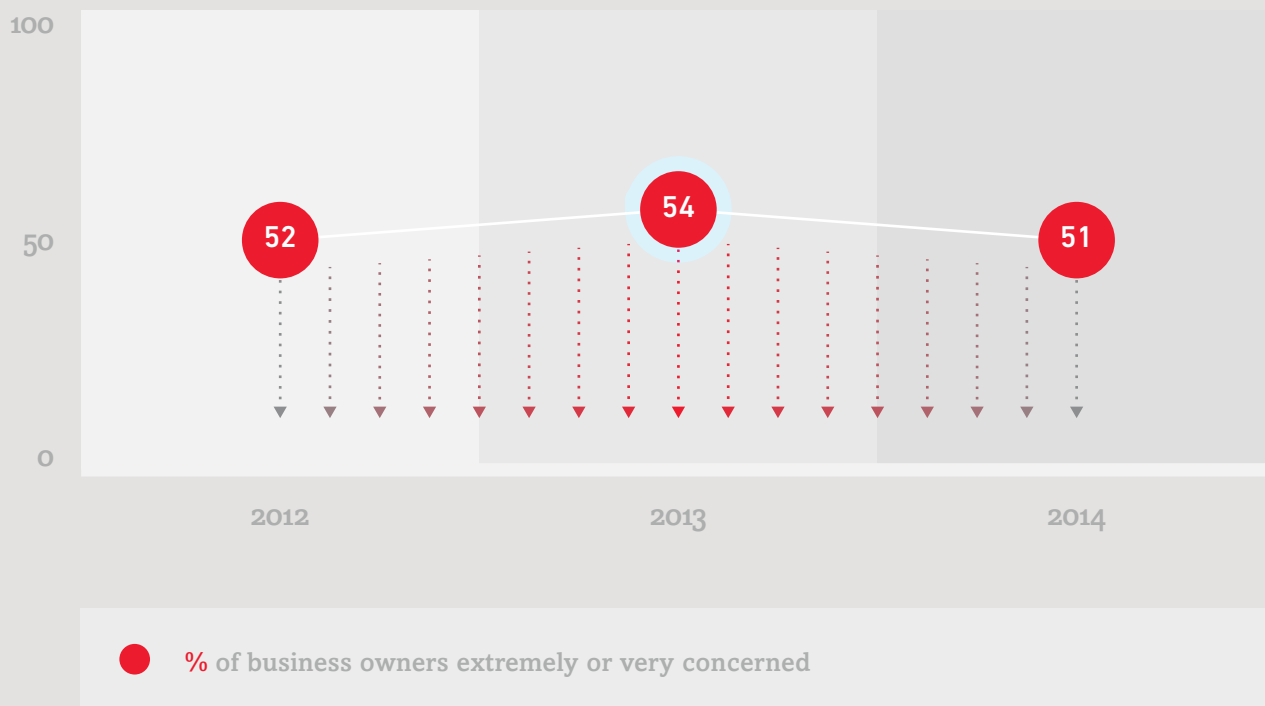
⁵ Eye on Washington. "Supreme court bound? Circuit Courts Split On Important ACA Provision." July 23, 2014 <http://www.adp.com/tools-and-resources/adp-research-institute/insights/insight-item-detail.aspx?id=D1A2955C-CAB7-4962-A13D-27BE-7109FEA5>

revert to the tactics of smaller business. Only half of them, for example, said that they are offering or will offer wellness programs to employees as a result of ACA. And just over half say that their company has put together a plan to help control or lower the cost of providing medical insurance to employees. (Just a third of midsized businesses say they have or definitely will reduce the number of plan options offered to employees.) When they are exploring changes to benefits strategies, most business owners do not know how they will administer the changes. Four out of five are still planning to handle it in-house, the same way smaller businesses do.



THE COMPLIANCE CONUNDRUM

Midsized businesses are struggling with compliance.



In 2014, midsized business owners reported less concern with government regulation. But their confidence is not justified by their actual experience.

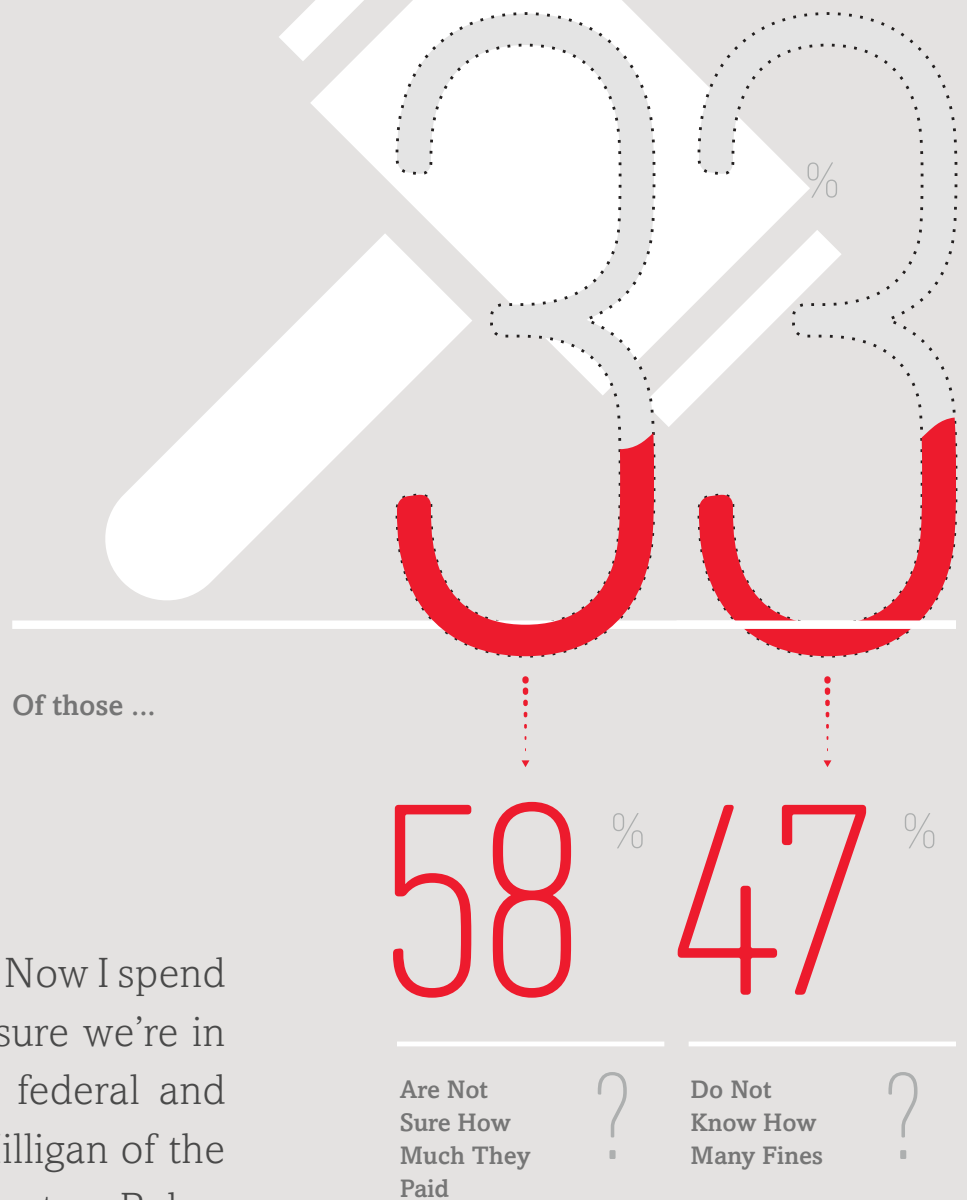
A third of owners said they have experienced unintended expenses in the past year because of non-compliance with government regulations. Of those, almost half of owners are not clear on how many fines they paid, even though the average is four, according to our study findings.

And more than half of mid-sized business owners did not know total costs of fines and fees.

Many mid-sized businesses also underestimate the time and money it takes to comply with government regulations while maintaining a healthy, happy modern workforce.

“I started in this position seven years ago and spent 25% of my time on regulations. Now I spend 50% of my time making sure we’re in compliance with various federal and state regulations,” says Milligan of the Oklahoma Children’s Center Rehabilitation Hospital, which has had to direct members of its workforce to spend valuable time and money keeping up with changing electronic medical record (EMR) and Labor Department requirements. “It’s a combination of different things having to do with changing regulations and the hospital’s growth,” Milligan says.

A third of mid-sized business owners faced fines for noncompliance.



GLOBALIZATION AFFECTS MIDSIZED BUSINESSES



Once a consideration of much larger businesses, globalization today is an issue confronting mid-sized business owners. And it's not always an opportunity.

Mid-sized businesses are expanding globally and feeling pressure from other businesses tapping into global markets. Two-thirds of mid-sized businesses generated at least some revenue from international markets.⁵ And one in 10 mid-sized companies plan to expand internationally in the next two years, according to our report. But when it comes to actually managing a global workforce, the story breaks down, revealing a tension between aspirations and understanding that is unique to mid-sized organizations.

Among those that are planning to expand, only 23% feel they have the tools they need to manage a global workforce, our study shows. The results might suggest more owners and executives would expand if they were equipped to do so. Overall the types of challenges associated with expanding globally are international compliance and talent management.

As mid-sized businesses grow, they see globalization in different ways. Most companies, regardless of size, see globalization as a mix of goods and services, labor, capital and finance, culture, and technology and ideas.

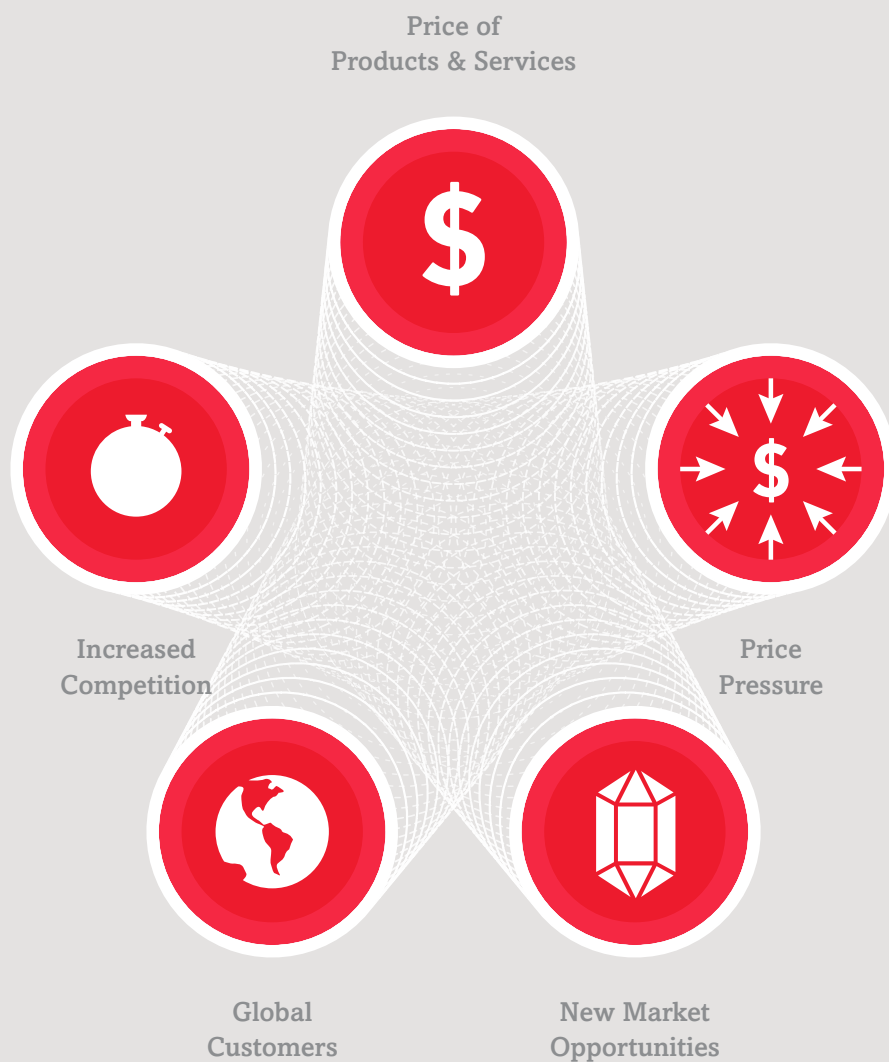
But mid-sized business owners don't have to be planning overseas offices to

⁵ Deloitte. "Mid-market perspectives: 2014 report on America's economic engine." Spring, 2014.
http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_dges_AEE_Spring_2014_report_050914.pdf

feel the impacts of globalization. Two in five mid-sized business owners and executives surveyed say globalization influences their business, especially when it comes to technology.

Underscoring all of this, our study suggests, is the widespread feeling that organizations are not prepared and don't have the confidence to take advantage of international opportunities. Compliance and talent management issues could stymie their plans for expansion beyond the United States market. Regulations regarding the handling and sharing of employee data across countries or regions are particularly complex, too.

How globalization affects mid-sized businesses.



The trade association the International Federation of Accountants found that while communications technologies such as Skype and cloud services made

it much easier for American small and mid-sized business owners to operate across borders, those same business owners are frequently overwhelmed by compliance issues that come up in overseas markets, according to our study.

Less than a quarter of mid-sized businesses believe they have the tools and information needed to manage a global workforce. Part of the reason could be that regulatory environments—which are already a top concern at home—can vary from country to country, and many local requirements or circumstances can seem unusual to American mid-sized business.

When it comes to globalization issues, mid-sized business owners are not sure where to turn for help. Just a third of them say they turn to attorneys for information or advice, according to our study. The next most common sources are business associates and colleagues, business associations, and accountants. It's another example of the rocky road ahead for mid-sized businesses that are managing globalization more and more.

Did You Know?

In **FRANCE** there were more than 58 changes in legislation about payroll in 2011; in **BRAZIL** there were over 100.

In **CHINA** there are 32 provinces and 288 cities, each with its own payroll recording requirements.

INDIA is a federal union comprised of 28 states, each with its own labor laws.⁶

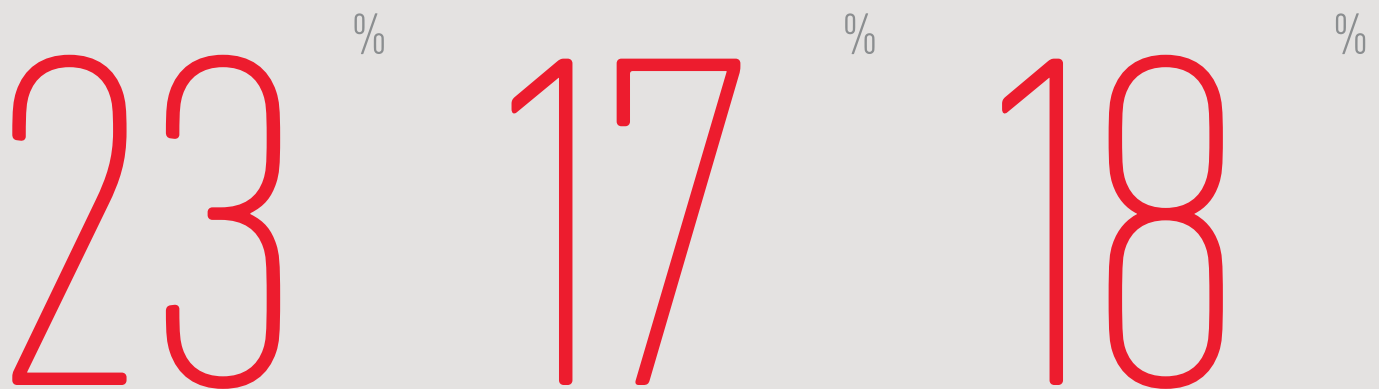
FURTHER FACTORS ERODING CONFIDENCE



In addition to study findings that suggest mid-sized business owners, on the whole, have lost confidence in the economic recovery, they continue to grapple with some of the same challenges they've confronted for years. They anticipate challenges, but they are not always sure how to incorporate solutions into their strategy.

TALENT CONCERNS FOR LARGE MID-SIZED BUSINESSES

In our study, two out of five mid-sized business owners say they're concerned about the talent pool. Only one in 10 are completely confident that they have the tools for effective talent management. Large mid-sized companies in particular cited three talent-related reasons for decline in growth:



Disengaged
Employees

Unable
To Retain
Key Talent

Inability
To Attract
Qualified Talent

**SKITTISHNESS
OVER
REVENUE
GROWTH.**

We have found that mid-sized business owners typically underestimate growth for the coming year. When we surveyed them the next year, we found that their pessimism faded—they reported higher than expected growth for the previous year. The gap is significantly greater this year, suggesting pessimism when it comes to the direction of their businesses. Owners' budgets grew significantly more than expected when they looked back on 2013. But they didn't adjust their predictions for 2014 accordingly in our study—only about two in five owners say they expected growth in budgets or revenues in the coming year, about the same number who predicted growth in 2013.

Our study suggested that mid-sized business owners felt their industries were healthy, too. One in 10 cited company expansion as a reason for company growth, but almost a quarter cited industry growth, suggesting a deeper bond among a larger set of peers.

Finally, more than half of the companies that did well in the last year expected to keep doing so—a third cite expanded customer bases and increased product demand. The numbers are mostly unchanged from last year's study, though, and against the backdrop of feelings about the larger economy and ongoing top concerns they're hardly optimistic.



*As
companies
move beyond
the startup,*

business strategy and goals. At the same time, they are still figuring out where to go for help or how to deal with challenges that can't be contained within their company walls. As we march into 2015, companies continue to adapt to their most concerning issues.

they seem to grasp the reality of life under the ACA and their place in an environment where regulations concerning health care benefits and compliance costs are a constant distraction from their

the focus now is

how.



RESEARCH METHODOLOGY

The ADP Research Institute® conducted the ADP Mid-sized Business Owners Study in July and August 2014 among 756 business owners, C-suite executives, and senior-level executives in U.S. mid-sized organizations. The study universe included representative samples of all categories of U.S. enterprises with 50-999 employees, except state/federal government and public education.

A statistically projectable sample of 756 respondents in mid-sized businesses was interviewed, split between two size groups: enterprises with 50-150 and 151-999 total U.S. employees. The resulting data achieved statistical reliability at the 95% confidence level both overall and in each of the size groups.

Respondents

BUSINESS OWNERS

Partner
Principal
Owner

C-SUITE EXECUTIVES

President
CEO
CFO
COO

SENIOR LEVEL EXECUTIVES

Executive VP
Senior VP
VP Assistant
VP Controller
Assistant
Controller

General MGR.
SR. Director
SR. DEPT. Director
DEPT. Head


About the ADP Research Institute®

The ADP Research Institute provides insights to leaders in both the private and public sectors regarding issues in human capital management, employment trends, and workforce strategy.

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. ADP.com.





ADP does not give legal advice as part of its services. This document provides general information regarding its subject matter and should not be construed as providing legal advice. This material is made available for informational purposes only and is not a substitute for legal advice or your professional judgment. You should review applicable law in your jurisdiction and consult experienced counsel for legal or tax advice.

The ADP Logo, ADP, and ADP Research Institute are registered trademarks of ADP, LLC. All other trademarks and service marks are the property of their respective owners. Copyright © 2014 ADP, LLC. ALL RIGHTS RESERVED.