

# Baseline

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## Midsize Businesses Face Economic Challenges

**A NEW ADP REPORT OFFERS INSIGHTS INTO HOW MIDSIZE-BUSINESS OWNERS ARE ADAPTING TO THE ONGOING ECONOMIC MALAISE.**

By Samuel Greengard

It's certainly not news that the U.S. economy has undergone one of the toughest stretches in history. Since the Great Recession emerged in 2008, businesses from a wide swath of industries have struggled to stay afloat and adapt to a new normal that includes higher costs and slower economic growth.

A recent study conducted by ADP Research Institute, "Top Concerns of Business Leaders in the Post-2008 Economy," polled 507 owners of midsize companies to identify their biggest concerns. While 52 percent of these business owners and executives believe the economy has improved within the last four years, a mere 15 percent are confident that the economy will improve during the next 12 months.

"Organizations face a number of key challenges," said Jessica Saperstein, division vice president of strategy and business development at ADP. Overall, 47 percent of the respondents expressed optimism regarding the economic state of their industry, and 48 percent displayed positive sentiment related to budget or revenue growth for their individual businesses. In addition, 43 percent intend to increase headcount during the next year.

The top three concerns for midsize-

business owners, ADP reports, are the rising cost of health care coverage and other employee benefits, slow economic growth, and the level and volume of government regulations. Seventy-two percent cited the cost of benefits as a major concern; 58 percent were worried about slow economic growth; and 52 percent said government regulations are a primary issue.

By contrast, 46 percent cited today's competitive environment as an issue, 45 percent had concerns about cash flow and 45 percent are focused on labor costs. ADP found that globalization affects how midsize firms do business and how they respond to competition within their industries. This includes offshoring and outsourcing, as well as how a global customer and supply chain base impact markets and sales.

Not surprisingly, compliance is a major sticking point. "There's a wide gap between perception and reality in terms of regulatory compliance," Saperstein notes.

Although four out of five business owners said they are compliant with government regulations, one-third reported having been fined or penalized in the last 12 months due to noncompliance. Of those that were fined or penalized, each received an average of 6.4

finer penalties. "That's a huge cost leakage midsize businesses simply can't afford in these tough economic times," she added.

Finally, ADP examined human capital issues that lie within the control of executives and business owners. Despite a growing reliance on IT systems and automation, 53 percent said they are spending more time today on back-office administration than four years ago, and 52 percent are able to generate the workforce data and analytics needed to drive company strategy and goals.

However, many firms aren't entirely confident about their ability to succeed in today's high-octane business environment.

Overall, 49 percent are confident that their organization has effective tools to find, keep and grow the best talent. Only 47 percent are inclined to allow managers and employees to have remote access (via smartphones, tablets and other mobile devices) to HR and payroll information and tasks.

"The key takeaway," Saperstein said, "is that in light of comparatively slow economic growth and increasing competition, midsize employers must focus even more sharply on their core business than they did four years ago to gain a competitive edge."

*Samuel Greengard is a freelance writer for Baseline.*

