

**ADP 2015 Mid-sized
Business Owners Study**
Engagement, Talent Rising



A more human resource.™

Executive Summary

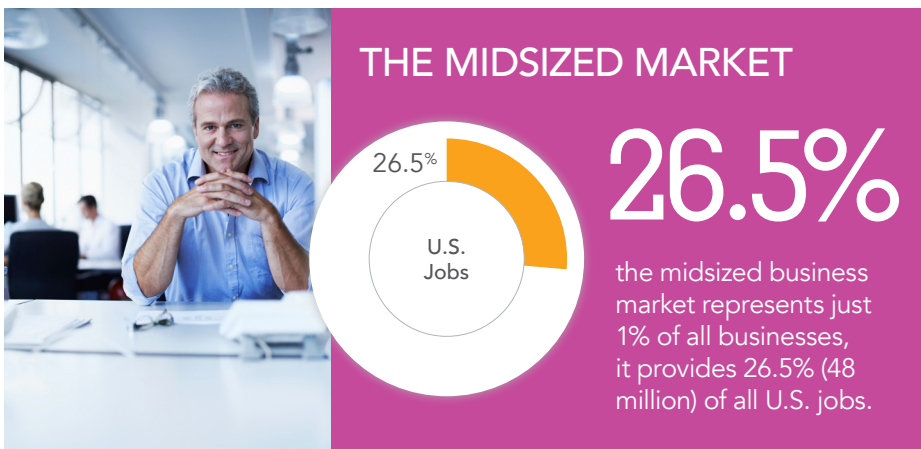
Midsized businesses play an important role in the recovering U.S. economy. The Association for Corporate Growth (ACG), for example, reports that while midsized businesses represent just 1% of all businesses, they provide 26.5% (48 million) of all U.S. jobs.

Deloitte, in its “2015 Report on America’s Economic engine: A mid-market perspectives report,” says that the past couple of years have seen the mid-market executives in its survey graduate from “cautious optimism” about the economy to “confidence.”

Yet, despite the U.S. economy’s recovery and their key role in that trend, midsized business owners and top executives still have concerns and face challenges. To gain insight into those specific issues, ADP conducted an online survey of 706 business owners, C-Suite executives and senior level executives from U.S. organizations with 50-999 employees in September, 2015 – the fourth such survey of midsized business decision makers since 2012.

Three key themes emerged in the study results - employee engagement, talent management, and compliance. Last year the primary challenge was around compliance alone, with concerns around the Affordable Care Act in full bloom. Now that there appears to be more focus on dealing with and managing ACA compliance, talent management and employee engagement are percolating for midsized business leaders.

In comparison, health care costs dominated midsized business concerns last year, primarily driven by the ACA. And while health care costs remained top of mind in 2015, for the first time since the ADP study’s inception in 2012, midsized business owners’ concerns about overall government regulations supersede those surrounding ACA compliance and health care costs.



Source: ADP 2015 Business Owner Study

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Engagement Has Its Coming Out Party

Employee engagement is a growing hot button issue among U.S. employers of all sizes and industries. In October 2015, for example, the percentage of U.S. workers that Gallup considered engaged in their jobs averaged only 32.1%. And in the past four years, since Gallup first began its survey, the number has never been higher than around one-third.

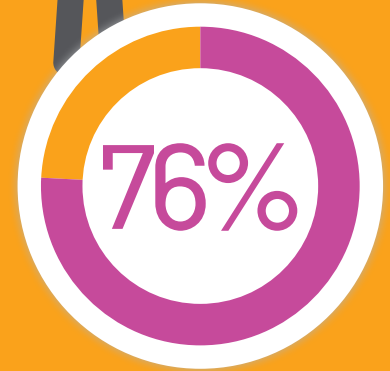
So, it's no surprise that ADP's survey found that the level of concern on this issue, which has remained flat since 2012, spiked 25% in 2015 with two out of five now expressing high levels of concern!

ADP defines employee engagement as a workplace approach designed to ensure that employees are committed to their organization's goals and values, motivated to contribute to organizational success, and are able at the same time to enhance their own sense of well-being.

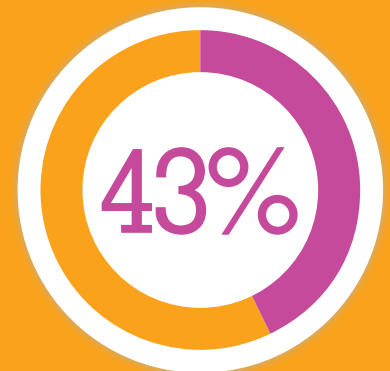
The 2015 survey found that the vast majority of participants believe engagement is important to an organization's success. However, only slightly more than half feel they currently have a good, repeatable process to facilitate it.



ENGAGEMENT
BY THE
NUMBERS



76% - express some degree of concern about employee engagement being achieved.



43% - believe that one of the goals of HCM is to drive employee engagement.

Employee Engagement

And while a relatively small number of mid-sized business owners and executives believe they are managing their workforces poorly, only slightly more than half say their organization is doing “extremely” or “very” well at it. More than a third are not even sure how they are doing at all.

Finally, two out of five respondents reported that one of the goals of Human Capital Management (HCM) is to drive employee engagement. For the purpose of this study, Human Capital Management was defined as solutions and services to meet some or all of companies’ payroll, HR administration, employee benefit administration, talent management, and time and labor management needs. However, three-quarters of business owners and executives express some degree of concern about achieving this goal. How concerned? Two out of five are “extremely/very concerned” – a significant shift from prior ADP survey years.

ADP survey participants report performance management, compensation management and goal setting are rated as the most important strategies to promote and facilitate employee engagement – one of the emerging challenges mid-sized businesses face today.



PRO TIP:

USE SMART DATA TO IMPROVE ENGAGEMENT

Progressive companies are using data more and more to improve employee engagement. For example, benchmarking and analytics can help HR leaders cross-reference data, such as retention rates, turnover and compensation to determine overall health of a specific employee group or department.

Here are key steps HR leaders can take to put data to work when it comes to engaging employees:

- Clearly define which questions the organization hopes to answer with data analytics. By focusing on the specific business issues executives want to better understand and solve, HR leaders can more easily identify key data sources.
- Ensure the data collected is both accurate and relevant to the HR trends the organization wants to evaluate. A good place to start is to establish a talent benchmark that maps out all employees in the organization, their position, tenure and salary.
- Connect with colleagues in departments outside of HR, such as sales and finance, who can provide additional data. Collecting and combining as much information as possible will lead to deeper, actionable insights.



Time to Improve the Toolkit



While most companies attest that their most important resource is human talent, strategic acquisition and management of that talent remains a major challenge. About half of those surveyed are concerned about the available employee talent pool, and less than a fifth are confident in having the right tools to find, grow and retain talent – two key talent management challenges.

When it comes to the tools required to manage talent:

- Less than one-fifth report being “completely confident” they have effective tools to find the best talent. Many businesses say they lack the ability to post to multiple job boards in a single action, use tools to help find and track passive job seekers, and find internal talent for open positions.
- Less than a fifth are “completely confident” they have effective tools to keep and grow the best talent. Respondents cite the need for tools to



TALENT
MANAGEMENT
BY THE
NUMBERS



18% - Are completely confident they have the tools needed to effectively manage their workforce.



16% - Are “completely confident” they have effective tools to keep and grow the best talent.



15% - Are “completely confident” they have effective tools to find the best talent.

Talent Management

help create and maintain development plans for employees, and offer the ability to align goals to compensation decisions.

- Finally, less than a fifth report being confident they have the right tools to manage their workforce in general.

The study results seem to strongly indicate that midsized business owners and executives are in serious need of talent management help and direction, with relatively few reporting that they have the best, or right, tools to attract, retain and manage people.



PRO TIP:

USE SMART DATA TO INFORM TALENT MANAGEMENT DECISIONS

Data analytics can be most useful in helping to identify trends in recruiting, hiring, reporting, compensation and retention as well as competency gaps. While leveraging data to help benchmark compensation in a particular role or industry is a good start, if HR leaders feed even more information into the system, they can begin to uncover a deeper story.

Here are two ways to use smart data to inform your talent management decisions:

- Cross-reference information — such as company's retention rates, turnover, and compensation — to determine the overall health of a specific employee group or department. Focusing on the reasons for turnover provides a better understanding of what to do to improve employee engagement and retention. For example, if the organization is below the industry standard in a specific region, they may consider raising compensation or refining their benefits offerings to help retain top talent seeking non-financial rewards.
- Use data to identify the organization's greatest flight risks. For example, to retain staff in difficult-to-fill, highly skilled positions, use predictive models to pinpoint key employees most likely to leave based on their commute or a range of other factors. These insights empower organizations to offer specialized benefits or more flexible work arrangements to help keep those highly skilled employees engaged and satisfied.

midsized business owners and executives are in serious need of talent management help and direction



Reducing Risk Efficiently, Effectively

Complying with government regulations is a tough job, even for large organizations with the best resources. For mid-sized businesses with limited resources, facing compliance fueled by increasing layers of regulatory complexity can have a direct impact on profitability.

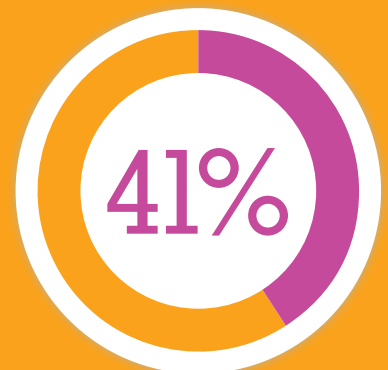
According to the ADP survey, in fact, when it comes to compliance, just under half of mid-sized business owners and executives worry most about managing the layers of government regulations – in 2014, only 30% ranked this as the top concern, compared to 41% in 2015.

And while the vast majority of mid-sized company executives report being confident in their compliance with payroll tax laws and other workforce regulations, there is a clear disconnect as more than one-third experienced unintended expenses as a result of non-compliance. Nearly half do not know how many fines they incur or how much it costs their organizations. The number of fines experienced has also continued to increase over the past four years – doubling since 2012.

Further, about a third expressed concern with compliance when it comes to wage and hour regulations – a marked increase from prior years.



79% - are confident they are compliant with government workforce regulations



41% - rank the level/volume of government regulations as their top concern



36% - were hit with unintended compliance penalties in 2015

Compliance

ACA Issues Have Levelled Off, But Remain a Concern

In a sign that mid-sized business owners and executives may be accepting the reality of the ACA, concern for the legislation and the cost of health coverage remains consistent since last year. Three out of five mid-sized business owners and executives are confident their companies will manage ACA compliance properly, and a majority are confident their organization will be compliant with all new ACA regulations.

Having said that:

- Less than half feel they are extremely or very prepared to effectively manage the complexities of eligibility and affordability requirements.
- Only about half expressed confidence in their payroll, HR and benefits systems working together to produce accurate data for ACA reporting.
- Only one-quarter are extremely confident their organizations understand all of the new ACA regulations, and only slightly more than one third are extremely confident their organizations will be compliant with all new ACA regulations.

Mid-sized businesses report that they continue to struggle with complex government regulations and requirements, both in health care and overall. And they often don't have the resources to meet those challenges. In fact, ADP's survey found the majority is currently handling ACA compliance tasks in-house, but very few have hired additional staff to help manage these tasks.



Only 1/4
[of mid-sized
businesses] are
extremely confident
their organizations
understand
all of the
new ACA
regulations



PRO TIP:

AVOID ISOLATION TO STAY AHEAD OF CHANGING GOVERNMENT POLICY

It's clear that change is constant when it comes to government regulations. Here are tips to help you stay ahead of all the change:

- Seek an expert. Work with a broker, CPA or financial advisor to stay on top of trends and emerging government regulation. They are certified and trained as experts in this area.
- Stay connected. Join a local chapter of a larger organization like Society of Human Resource Management (SHRM) that offer seminars and events on new and changing federal and state requirements. Some regulations will impact only certain industries. For example, restaurants may have different compliance requirements than construction companies.
- Build a bridge. Be sure you have fast and easy access to employee data by bridging any silos in your system, especially those caused by mergers and acquisitions. Harmonize transactions and record-keeping so systems can provide all impacted departments with relevant data for reporting and auditing purposes.



Conclusion

Seeking Solutions to Meet the Emerging Themes

As the U.S. economy remains on the mend, midsized businesses continue to play a key role in that ongoing recovery.

But the research also shows that despite some cautious optimism, midsized business owners and executives are still feeling the economic pressures that arise from issues fueled by the sense that critical employee engagement is stagnant, talent management tools and processes need improving, and growing government compliance (including the still evolving Affordable Care Act) is resulting in lost dollars in the form of unexpected fines.

Add it all up, and one gets a true sense of the HCM challenges midsized businesses face in 2016 and the years ahead. And, they are formidable.

In 2015, less than 20% of those surveyed expressed complete confidence in having effective tools to find the best talent, and the same low number believe they can keep and grow the talent they already have on board. These numbers suggest that while the economy is improving, midsized business owners and executives are still very concerned whether they have what it takes to succeed.

On the other hand, midsized businesses are actively seeking ways to increase their likelihood for success. They understand that innovation and breakthrough ideas can come from a variety of sources and solutions within the workforce, but above it all, employers focus most on that triad of challenges: boosting employee engagement, improving their talent management tools and, finally, meeting increasingly complex government compliance rules and regulations.

Those three objectives can be achieved, but it will take an improved strategy along with an investment in the right tools and technology to get there.



About ADP (NASDAQ-ADP)

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