

# Top Concerns of Business Leaders in the Post-2008 Economy



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# Executive Summary

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For better or worse, 2008 has become an economic marker, not unlike the Great Depression, the economic malaise of the 1970s, and Black Monday in 1987. The near meltdown of the U.S. economy in 2008, followed by years of high unemployment and ongoing global unease, continues to affect businesses of all sizes today. Any notion of a sustainable “recovery” is mixed at best.

Largely left out of the headlines and political debate are the unique effects this has had on mid-sized business owners. To gain insight into the specific concerns of mid-sized business owners today versus four years ago, and looking ahead, the ADP Research Institute, a specialized group within ADP, conducted an online survey in May 2012, in which 507 business owners, C-suite executives, and senior level executives in U.S. organizations with 50-999 employees shared their perceptions of the state of the economy, identified their top business concerns, and provided a glimpse of the key challenges mid-sized businesses face moving forward.

While half (52%) of these business owners and executives perceive that the economy has improved within the last four years, only 15% are confident that the economy will improve over the next 12 months. Despite this pessimism, nearly half of respondents express optimism when it comes to the economic state of their industry (47%) and budget or revenue growth for their individual businesses (48%). An additional indication of mid-sized business owner optimism was uncovered when it came to hiring, with 43% intending to increase headcount in the next year.

The top three concerns on the minds of these mid-sized business owners are the rising cost of health coverage and other benefits, slow economic growth, and the level/volume of government regulations.

In one key area – compliance – 80% of mid-sized business owners feel they are compliant with government regulations; however, a full 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 fines or penalties. This wide gap between perception and reality represents an area of cost leakage that mid-sized businesses can ill afford in these tough economic times.

In addition to dealing with rising health care costs, a sluggish economy, and an increasing volume of government regulations, mid-sized companies report facing increasing pressures from globalization, a subject that is no longer only on the minds of larger corporations.



# Perceptions of the U.S. Economy Since 2008

As marked in the media by the bankruptcy of Lehman Brothers, the “Big Three” U.S. automakers appearing before Congress, and the U.S. government’s intervention with AIG, 2008 represented unprecedented upheaval in the U.S. and global business systems. Four years later, the U.S. economic outlook is mixed:

“The pace of growth in the first half of the year (2012) totaled just 1.8%, the same as for all of 2011. In fact, looking back to 2010 – the first full year since the recession ended – with its growth of 2.4%, the three-year span will be the three slowest consecutive years of economic growth, outside of a recession or depression, back to 1930.”<sup>1</sup>

“To be sure, regulations as well as the uncertainty surrounding taxes and health care costs have played a role in keeping the U.S. economy from reaching ‘escape velocity.’ There is little arguing the fact that not knowing the true costs of labor has kept businesses from hiring.”<sup>2</sup>

“In January 2012, 56 percent of workers displaced from 2009-11 were reemployed, up by 7 percentage points from the prior survey in January 2010.”<sup>3</sup>

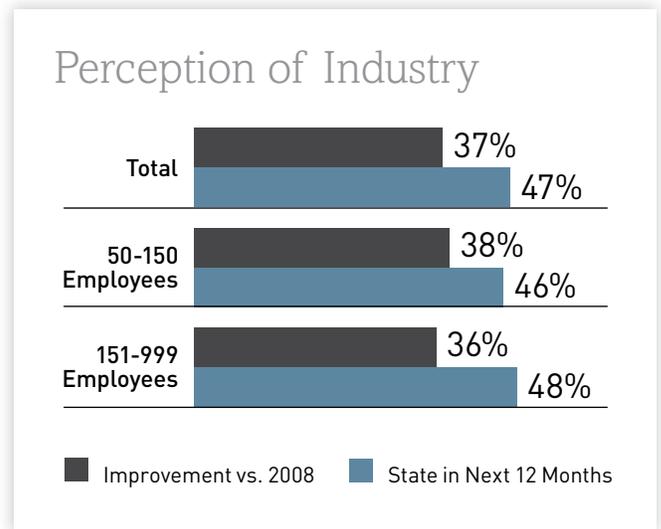
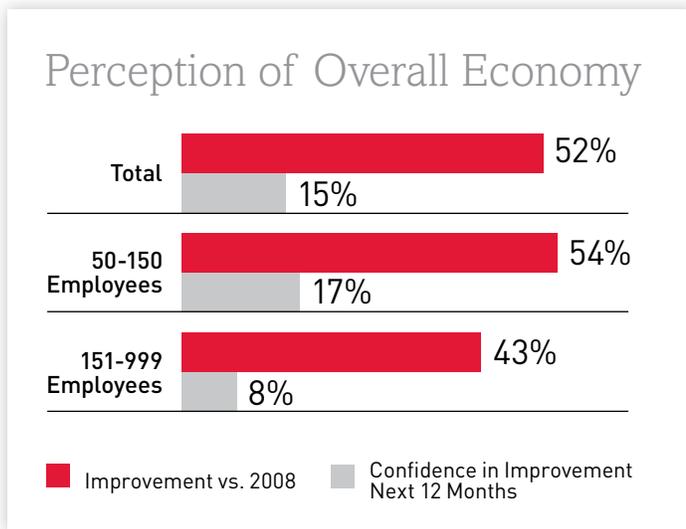
In light of this uncertainty, the mid-sized business owners and executives surveyed perceive that, while there has been an improvement in the overall U.S. economy within the past four years, few are confident that the economy will continue to improve over the next 12 months.

1 [www.kiplinger.com](http://www.kiplinger.com), *Economic Outlook, GDP*, last updated July 30, 2012.

2 [www.nasdaq.com](http://www.nasdaq.com), *Can the U.S. Economy Continue to Grow with the Eurozone in a Downward Spiral?*, David Moening, posted July 23, 2012.

3 *What’s New in Workforce Investment? Worker Displacement (2009-2011): Bureau of Labor Statistics Releases Analysis and Datasets*, August 24, 2012.

One half (52%) of mid-sized business owners and executives think the economy has improved [either significantly or slightly] in the last four years, but only 15% are extremely or very confident that the economy will continue to improve over the next 12 months.



It is interesting to note that smaller mid-sized organizations [those with 50-150 employees] are more than twice as likely to expect improvement over the next 12 months than their larger mid-sized counterparts [those with 151-999 employees]: 17% vs. 8%.

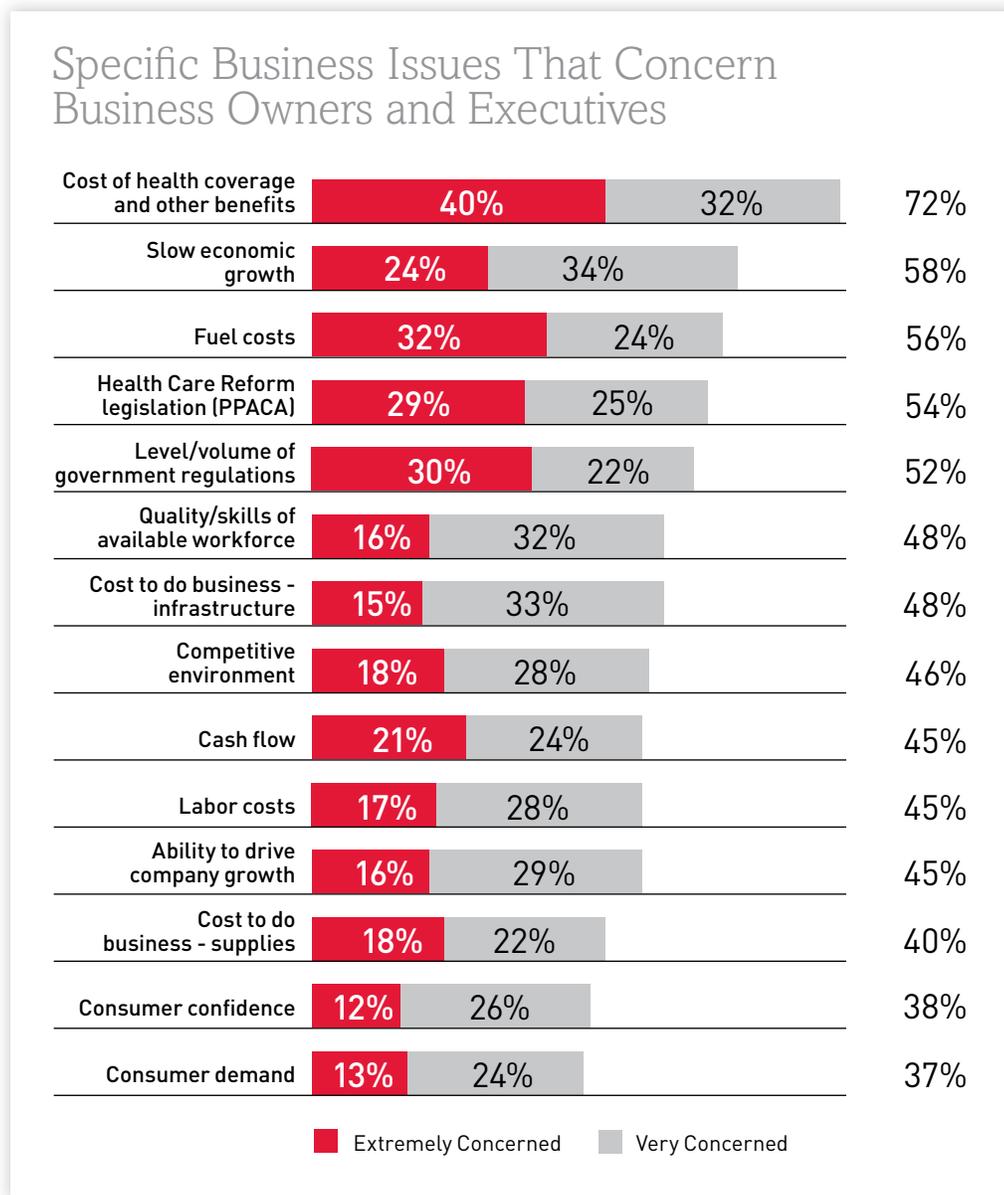
While respondents reported much less improvement within their industries in the past four years (37%) than in the economy as a whole (52%), they are much more optimistic about the outlook for their industry over the next 12 months, with nearly one half (47%) expecting improvement. When asked about their own businesses, a similar number (48%) expect their budgets or revenues to increase over the next 12 months.

These contrasting views of the past four years and next 12 months point to one of the key themes of the responses: The mid-sized business owners and executives surveyed are more comfortable addressing issues that are within their direct control, and more uncertain about macroeconomic drivers that reside outside of their control.

# Midsized Businesses' Top Concerns

When asked how concerned they are about specific **individual business issues** relating to their organizations, 72% of midsized business owners and executives reported that they are extremely or very concerned about the cost of health coverage and other benefits, with 54% concerned about the status of pending health care reform legislation.

Slow economic growth and fuel costs were second and third, respectively. Level/volume of government regulations rounds out the top five individual issues about which more than half the respondents are extremely or very concerned.



Faced with so much that is outside of their direct control, midsized business owners and executives may choose to focus their energies *within* their own organizations to identify opportunities for change, growth and risk mitigation.

Overall, the respondents corroborate what Aberdeen Group has already stated specific to 2012:

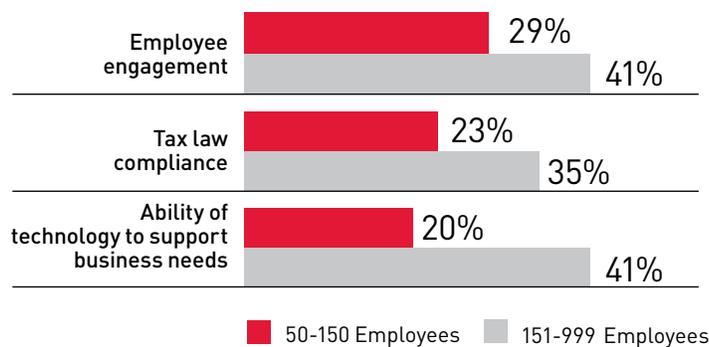
“Given high unemployment, financial regulations and escalating healthcare costs, the uncertain economy remains the number one driver behind Human Capital Management (HCM) efforts.”

Aberdeen Group, *Human Capital Management Trends 2012: Managing Talent to Lead Organizational Growth*

Business owners and executives in the larger companies surveyed [those with 151-999 employees] are much more concerned than their smaller company counterparts about such issues as employee engagement, tax law compliance, and the ability of technology to support business needs.

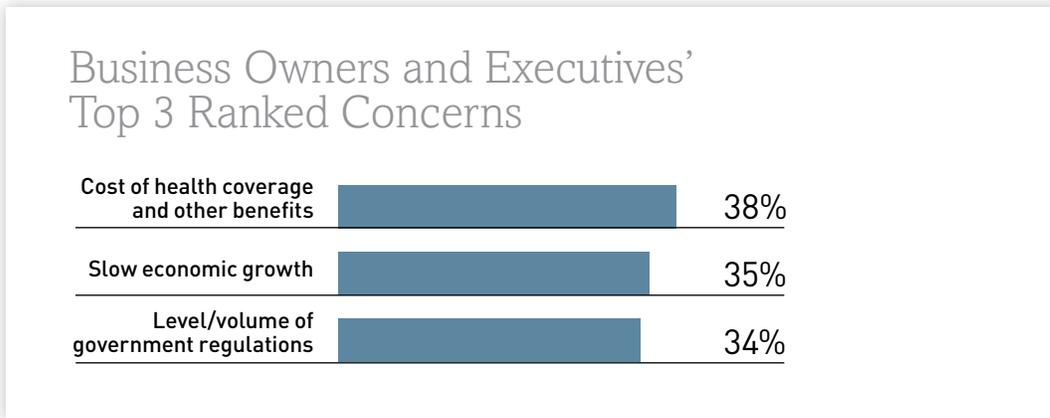
### Specific Business Issues That Concern\*

Business Owners and Executives



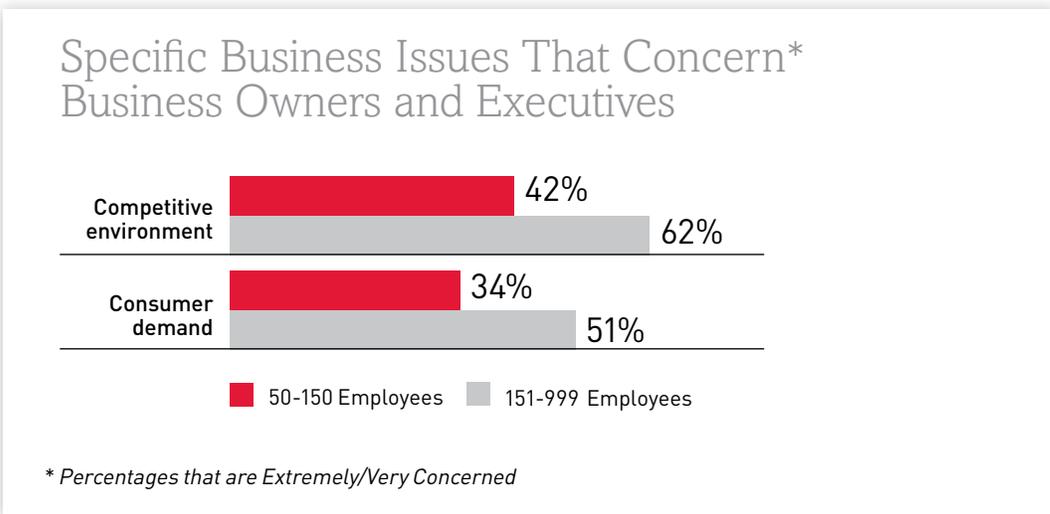
\* Percentages that are Extremely/Very Concerned

When asked **to rank their top three business concerns**, these business owners, C-suite executives, and senior level executives identified issues that are largely outside of their control: the cost of health coverage and other benefits, slow economic growth, and the level/volume of government regulations.



Complex macroeconomic uncertainties like these are a major contributing factor to the cautious views the respondents express specific to the future growth of the overall U.S. economy.

Executives in larger mid-sized businesses are especially aware of certain business drivers that are beyond their control, including the competitive environment and consumer demand.



# Overconfidence about Compliance

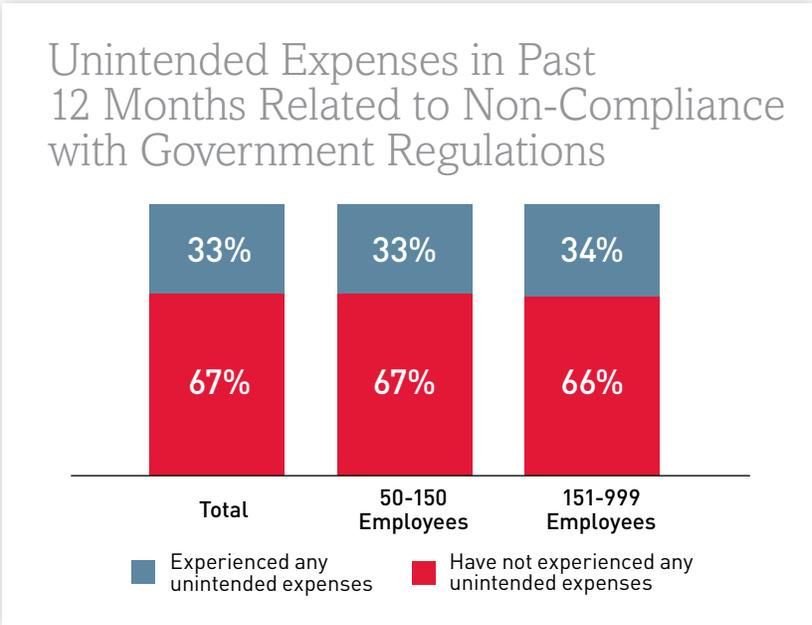
The survey results identify one specific area with which these mid-sized business owners and executives may need to be more concerned. In the area of compliance, there appears to be a lack of alignment between the perceptions and experience of these owners and executives.

When asked to indicate their agreement or disagreement with a series of different statements, the vast majority expressed confidence in their organization’s compliance with tax laws and other government regulations.



The mid-sized companies’ actual experience (below) tells a different story, one that suggests that compliance is an area that merits greater attention from these executives. Plus, their experience specific to compliance is made more challenging by the fact that the mid-sized businesses surveyed have an average of five locations, in 2.1 states and 4.5 tax jurisdictions.

When asked about unintended expenses within the past 12 months, “such as fines, penalties or lawsuits as a result of non-compliance with government regulations (federal, state or local),” one third of respondents reported such expenses. Of those that were fined or penalized, each received an average of 6.4 fines or penalties. The survey also found that organizations that process payroll in-house received nearly three times as many fines or penalties as organizations that outsource their payroll.



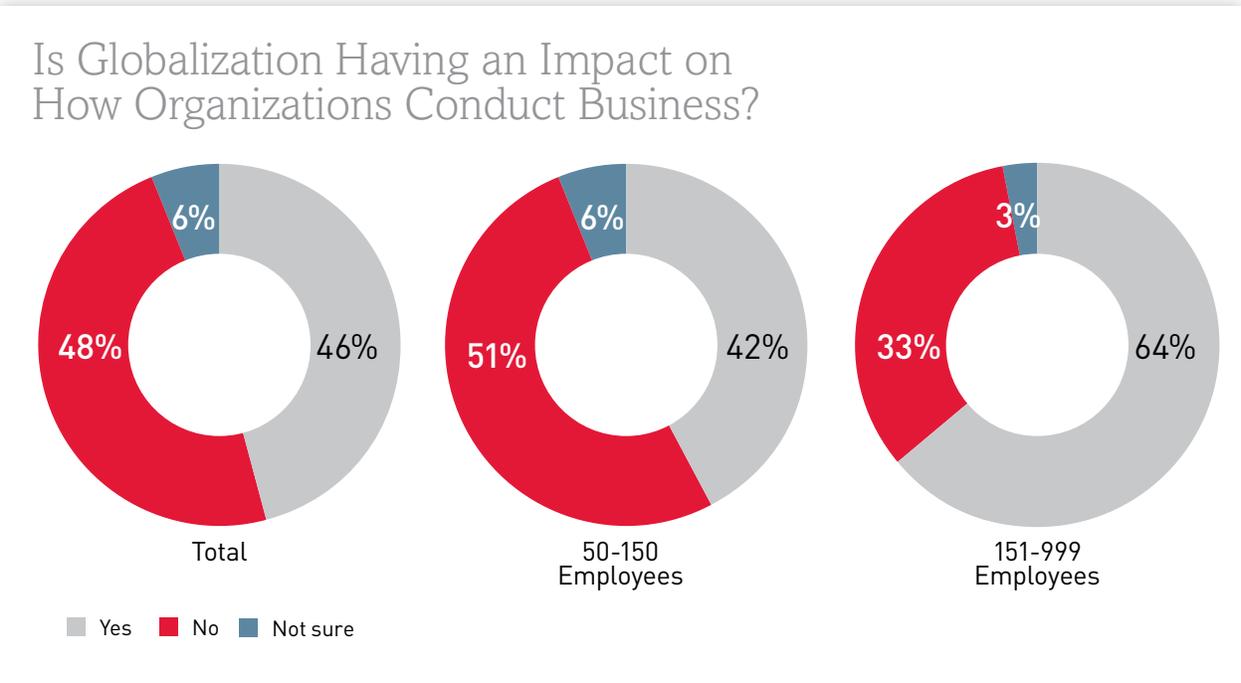
Given that the level/volume of government regulations is one of their top three ranked concerns, these mid-sized business owners and executives must remain vigilant in the area of compliance, especially as regulations change and multiply.

# Competition and Pressures from Globalization

In addition to ongoing uncertainty in the economy – not only within the U.S. but also around the globe – mid-sized companies face increasing pressures from globalization, a subject that is no longer only on the minds of larger corporations.

Consumers who can shop globally at the click of a button are bringing the world to the door of mid-sized businesses. Globalization is affecting nearly half of all mid-sized businesses and 64% of those with 151-999 employees.

Overall, one in ten of these mid-sized businesses has offices outside of the United States, with larger companies [151-999 employees] nearly three times as likely as smaller companies [50-150 employees]: 26% vs. 9%.



This increasing globalization trend is felt not only in terms of how individual mid-sized companies do business, but also how they respond to competition within their industries.

When survey respondents were asked to describe how globalization has affected the way organizations in their industry conduct day-to-day business, individual respondents cited:

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- the economic impact of outsourcing and off-shoring, specifically the effect on the pricing/costs of products and services, as well as the financial impact on companies,
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- the increase in competition, both domestically and internationally, and
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- the effect on sales/demand, specifically new market opportunities and additional markets for products and services, more global reach/visibility, and an increase in their customer base.
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Looking at their specific industries, 54% of total respondents say that there has been an increase in the level of competition within their industry in the last 12 months, especially in the larger companies [151-999 employees: 61%].



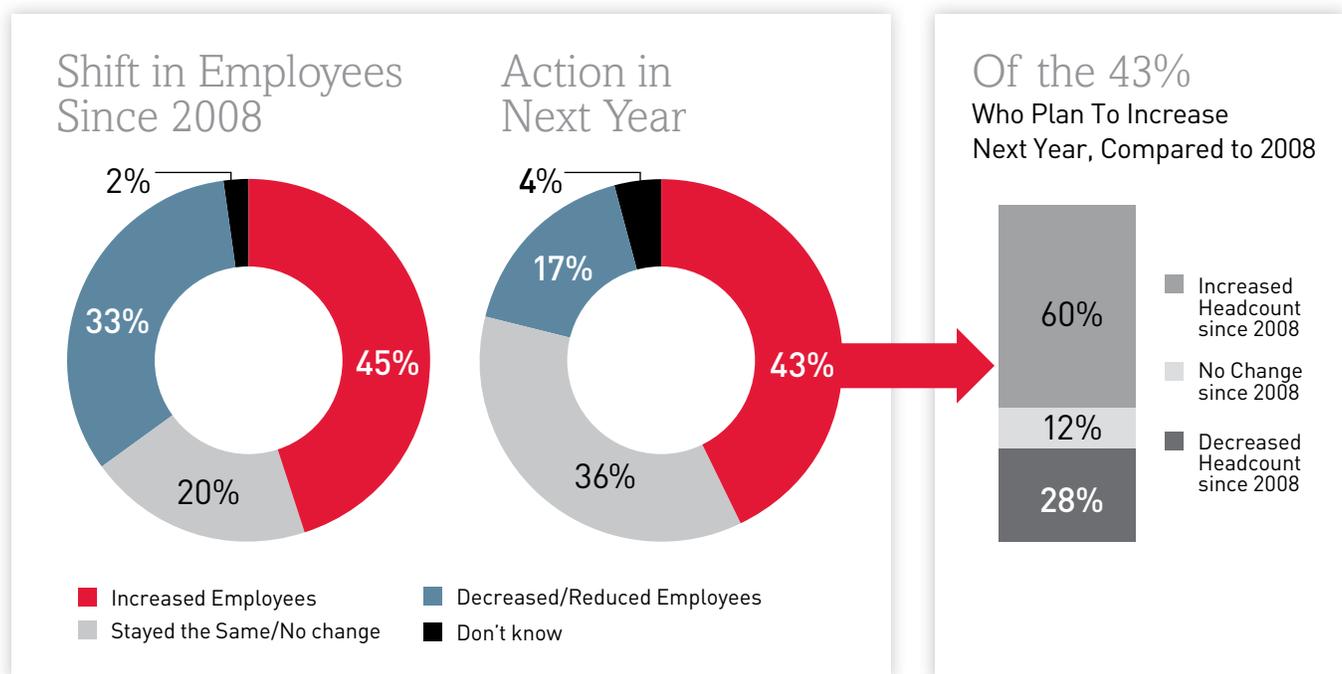
# The Way Forward

Considering the context of an uncertain economic recovery and a national health care agenda that is still in play, what are the right steps for organizations to take in response to these challenges?

One of the best places to start is with the individual organization's ability to find, keep and grow great people to support their business goals.

## Assessing Growth and Hiring

Despite their concerns regarding both the recent past and the near future of the U.S. economy, more than two out of five respondents saw an increase in their number of employees within the last four years and 43% anticipate a continued increase in the next year.



The 43% of respondents who plan on increasing their number of employees within the next year expect to hire an average of 18 new employees [larger companies, 45; smaller companies, 13] – primarily in operations roles.

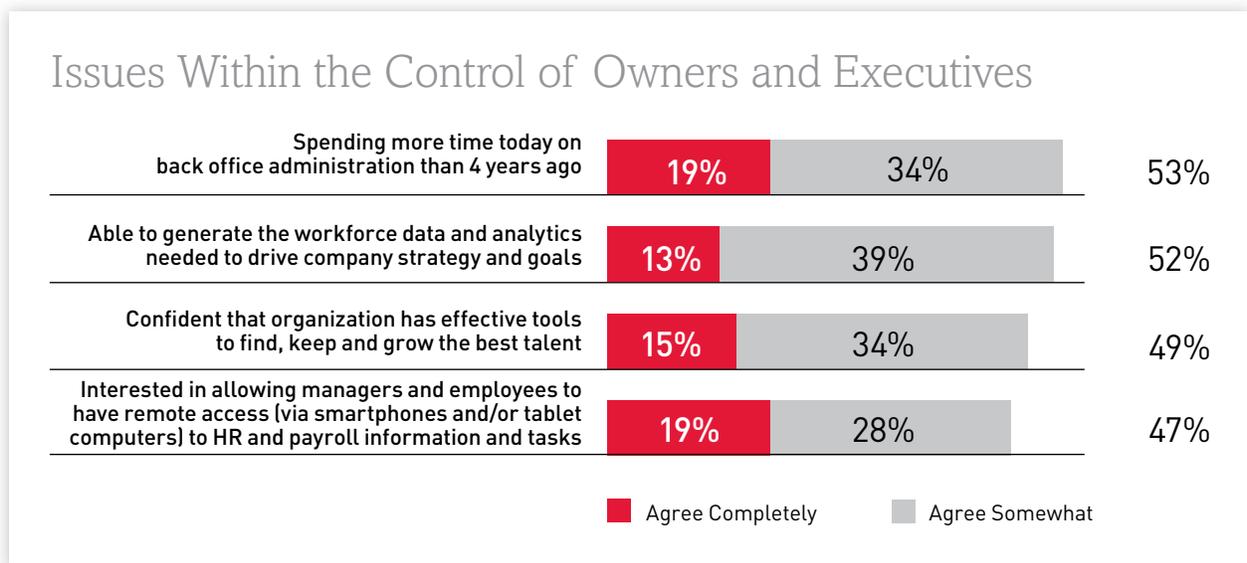
## Focusing on Effective Human Capital Management

Human capital management today operates within an ever-changing environment of technological innovation that affects how companies of all sizes will:

- manage their day-to-day workforce demands,
- plan for their largest expense [labor], and
- engage their employees,

to help ensure their organizations' success even amid challenges and realities largely outside of their control.

The mid-sized business owners and executives surveyed identified several issues that reside both within their control and within the sphere of human capital management as it is practiced today.



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“Every HR organization and every business will require a specific combination of human capital investments to make the leap ahead and drive breakthrough performance.”

*Deloitte, Human Capital Trends – 2012 Leap ahead*

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If only half of the respondents are able to generate required data and analytics, or are confident that they have the talent management tools they need, clearly there is room for improvement.

Effective human capital management is not a “one size fits all” strategy. Business owners and executives of larger midsize organizations show a much greater interest in allowing managers and employees remote access to human resources related information and tasks: 60%, compared to 44% for the smaller companies.

Midsize companies – whether they have 50 employees or hundreds of employees – have access to the full range of tools they need to take control of their individual destinies.

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### **In Conclusion**

Midsize businesses have a unique and important perspective on the current business environment. They are actively looking for ways to increase their likelihood for success despite uncertain times. The innovations and breakthrough thinking that helps them achieve their goals may help to pave the path to a stronger recovery across all U.S. businesses.



# Research Methodology

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The ADP Research Institute conducted the ADP Business Owner Study in May 2012 among 507 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 507 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 had to be business owners [Partner, Principal, Owner], C-suite executives [President, CEO, CFO, COO] or senior level executives [Executive VP, Senior VP, VP, Assistant VP; Controller/Assistant Controller; General Manager; Director/Senior Director/Department Head].

## About ADP

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Automatic Data Processing, Inc. (NASDAQ: ADP), with more than \$10 billion in revenues and approximately 600,000 clients, is one of the world's largest providers of business outsourcing solutions. Leveraging over 60 years of experience, ADP offers a wide range of human resource, payroll, tax and benefits administration solutions from a single source. ADP's easy-to-use solutions for employers provide superior value to companies of all types and sizes. ADP is also a leading provider of integrated computing solutions to auto, truck, motorcycle, marine, recreational vehicle, and heavy equipment dealers throughout the world. For more information about ADP or to contact a local ADP sales office, reach us at 1.800.225.5237 or visit the company's website at [www.ADP.com](http://www.ADP.com).

## About ADP Research Institute

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

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