BUILDING THE FUTURE OF WORK

HOW HR LEADERS FROM MIDSIZE BUSINESSES CAN LEVERAGE THE LESSONS OF DISRUPTION

Introduction

The COVID-19 pandemic has had a leveling effect in much of the business world. Organizations across sectors, of all sizes, are facing similar challenges around protecting their employees, stabilizing operations and finances, and planning for ongoing change in 2021 and beyond.

But the negative effects of the pandemic on midsize businesses—which make up a vitally important part of economies around the world—could last longer and be more consequential. In the US alone, up to 2.1 million small businesses were expected to shut down permanently due to the effects of the pandemic; small and midsize businesses in Europe, Latin America, and parts of Asia are facing similar issues, with many putting strategic projects on hold and vying for government support to stay afloat.[1]

Recent research from Oxford Economics, the Society for Human Resource Management (SHRM), and SAP SuccessFactors underscores the sometimes-wrenching transformation required of midsize companies—defined in this report as organizations with fewer than 5,000 employees—as they focus on survival and recovery. The study, built on surveys of Human Resources professionals in 10 countries[2] in late 2020, sheds light on the sweeping operational, workforce, and technology changes made to date, as well as expectations for the year ahead.

1 https://www.mckinsey.com/business-functions/risk/our-insights/covid-19-implications-for-business
2 Australia, Brazil, Canada, China, Germany, India, Mexico, Spain, United Kingdom, United States

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Key findings from our analysis of midsize companies include the following:

- Some organizations are underinvesting in long-term talent strategies that are critical to growth and success in the future—less than 40% of global respondents say they are investing in learning and reskilling programs, and even fewer North American respondents say they are investing in this area. Short-term needs understandably are taking precedence, but this imbalance will ultimately prove unsustainable.
- Over three-quarters of respondents say they have the technology they need to respond to the pandemic, but investment numbers around specific technologies suggest that smaller organizations may need to be more aggressive about digital adoption in the coming years to remain competitive with their peers and larger competitors.

Midsize companies play a unique and important role in their communities and larger economies. These organizations—especially those owned by minorities and women—face daunting challenges in the months and years ahead.[3] Their ability to recover from the pandemic will have an enormous impact on millions of business owners, employees, and customers.

3 https://about.fb.com/wp-content/uploads/2020/07/Global_State_of_Small_Business_Report.pdf

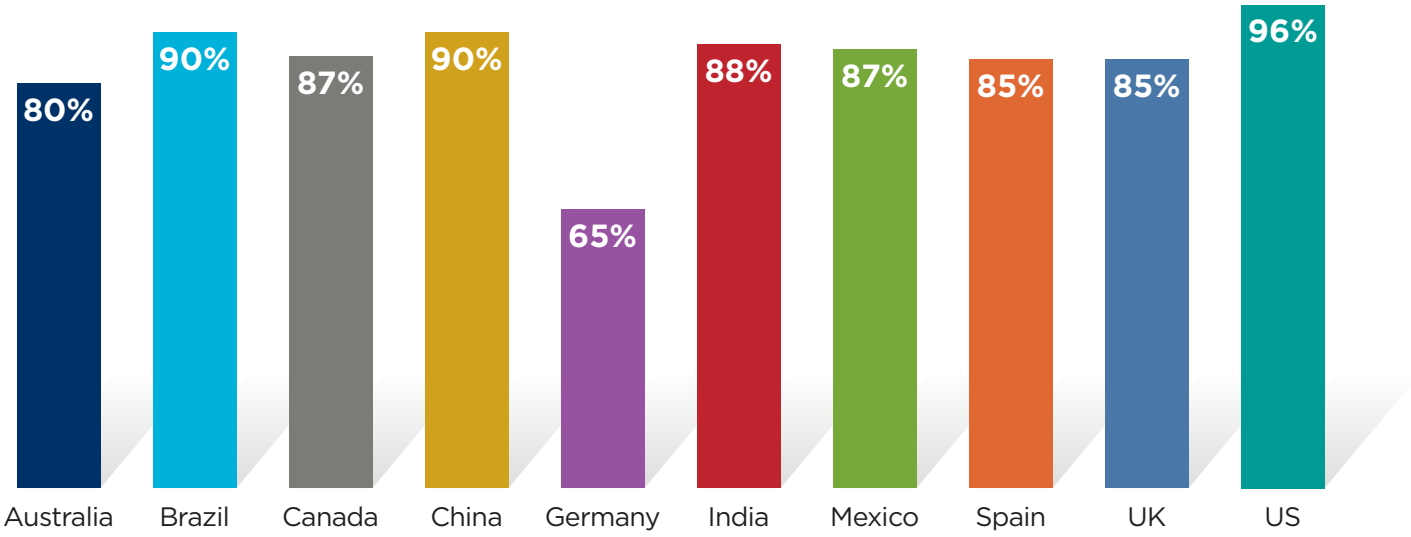
Redefining the way we work

Many of the new ways of working developed quickly during the pandemic are now turning into meaningful long-term changes.

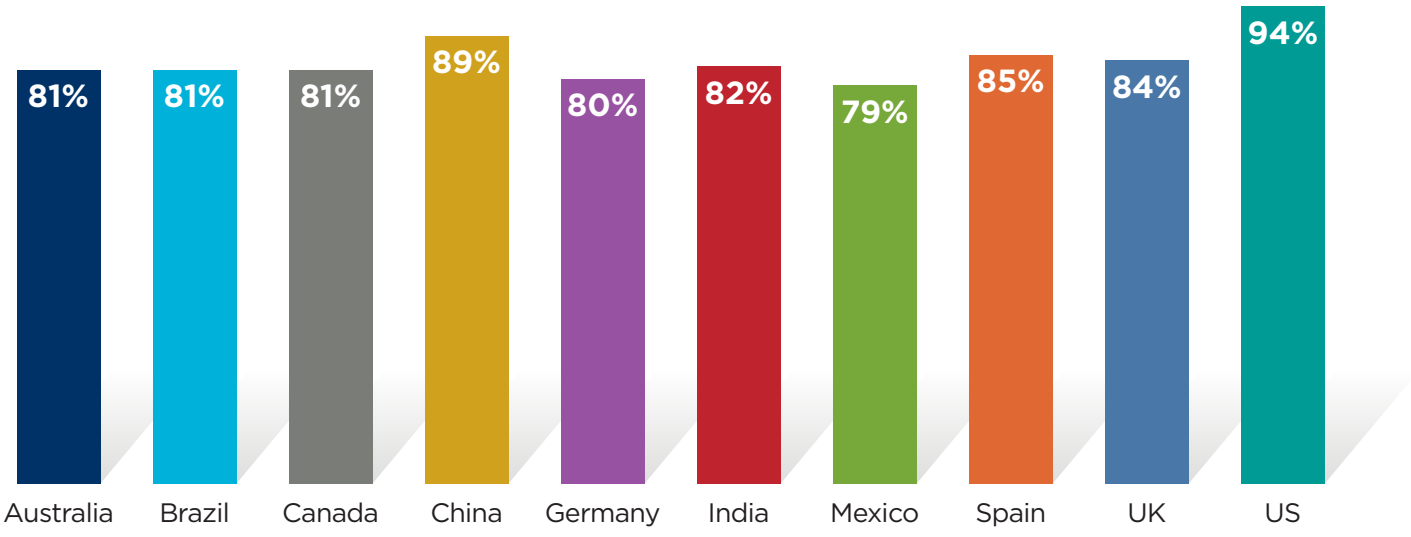
The midsize companies we surveyed are relatively confident in their ability to cope with evolving workplace and workforce needs: More than eight in 10 HR leaders around the world—and even more in the US—say their organization has effectively handled new ways of working, and that most employees have adjusted well to the new processes (Fig. 1).

Fig. 1: Midsize organizations are confident in their response to COVID-19

Percentage of respondents who agree their organization has effectively handled new ways of working in response to COVID-19



Percentage of respondents who agree that most of thier employees have adjusted well to new ways of working



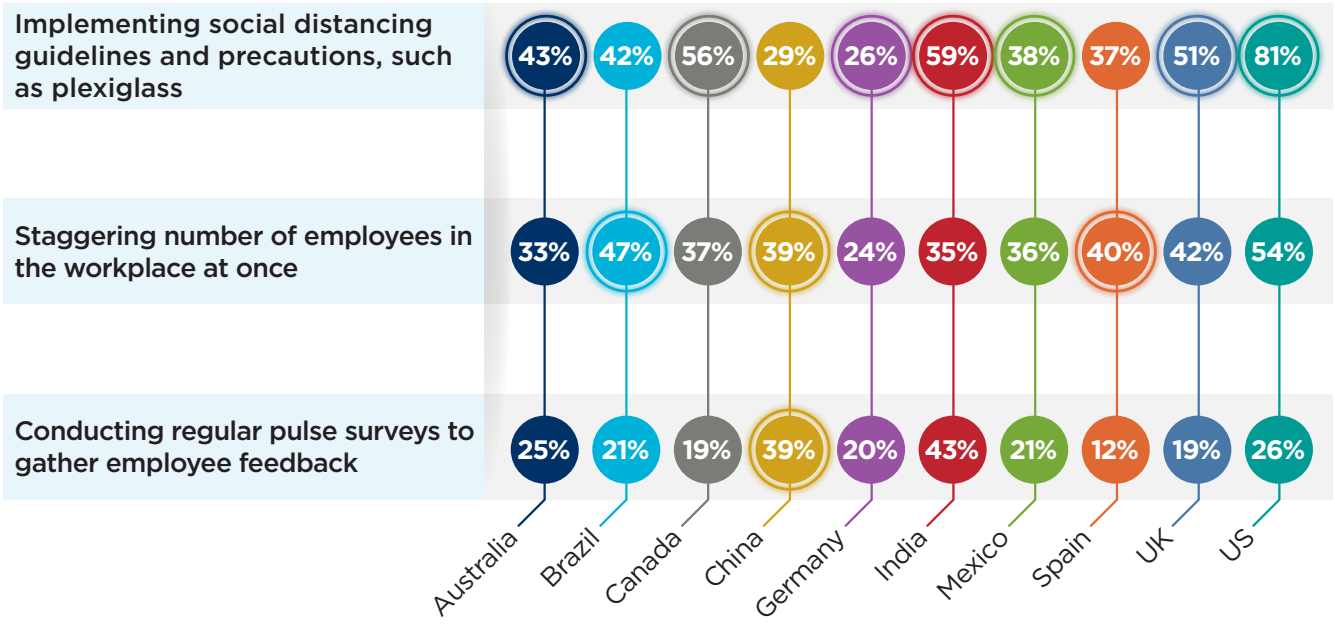
These changes are sweeping in nature. According to another large-scale study conducted by Oxford Economics and SAP in 2020, midsize businesses around the world responded quickly to the challenges of COVID-19. Beyond adjustments to safety protocols, a large majority made meaningful changes to communications processes with customers and employees, investments in IT and collaboration, and finance and accounting practices.[4]

This year is expected to see ongoing operational changes like increased sanitation, training on workplace safety protocols, and increased communication with employees. These strategies have changed over the past year and will likely evolve as companies learn more about the virus spread and how best to keep employees safe.

Health and safety precautions vary based on workforce composition—including the mix of on-site vs. remote workers, geography, and other factors. For example, respondents in the US, where the virus was not well contained, are more likely to be making on-site workplace changes, such as implementing social distancing guidelines and precautions (Fig. 2).

Fig. 2: Widespread workplace changes are planned or in process

Q: What actions are you taking or planning to take to keep your employees safe and engaged at work or as they return to work in your facilities? *Respondents could select all that apply*



4 https://www.oxfordeconomics.com/recent-releases/Digital-Resilient-and-Experience-Driven

Addressing the skills gap

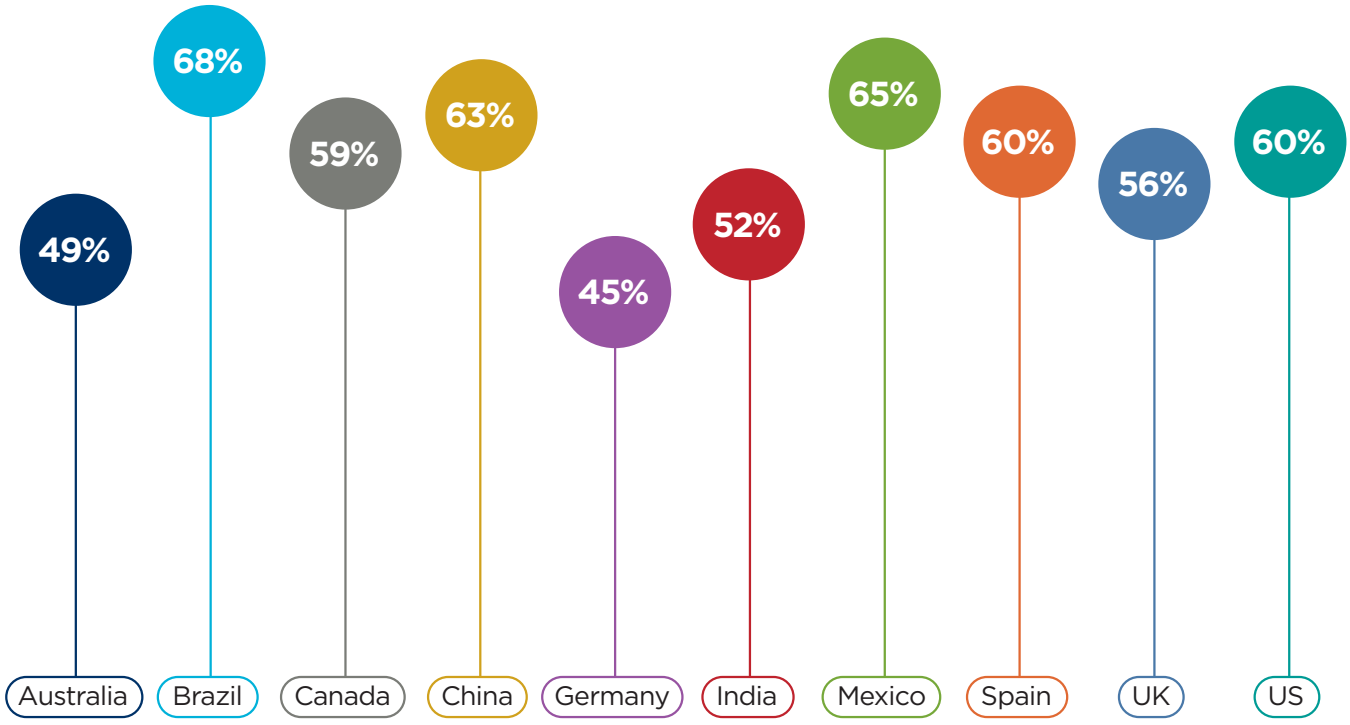
Midsize companies have certain strategic advantages in terms of talent development. Senior leadership's ability to take a hands-on approach to employee training, change management, and growth strategies can improve long-term retention, if paired with competitive compensation and benefits.

But these potential advantages do not always produce meaningful results. Smaller organizations are consistently more likely to cite lack of skilled talent as a barrier to meeting strategic goals—a trend we saw as far back as our 2016 study on leadership for digital transformation.[5] Our latest survey of HR leaders shows that companies of all sizes, despite citing talent challenges as top of mind, are inadequately addressing long-term skills development. They are far more focused on the challenge of maintaining productivity than on reskilling workers or increasing diversity and equity—both of which will be necessary to meeting performance goals in the years ahead (Figs. 3, 4).

Fig 3: Maintaining productivity is top of mind

Q: What do you think are the biggest challenges for businesses after COVID-19? *Respondents ranked their top three challenges*

Percentage of respondents who chose mantaining productivity given new ways of working as a top-three challenge



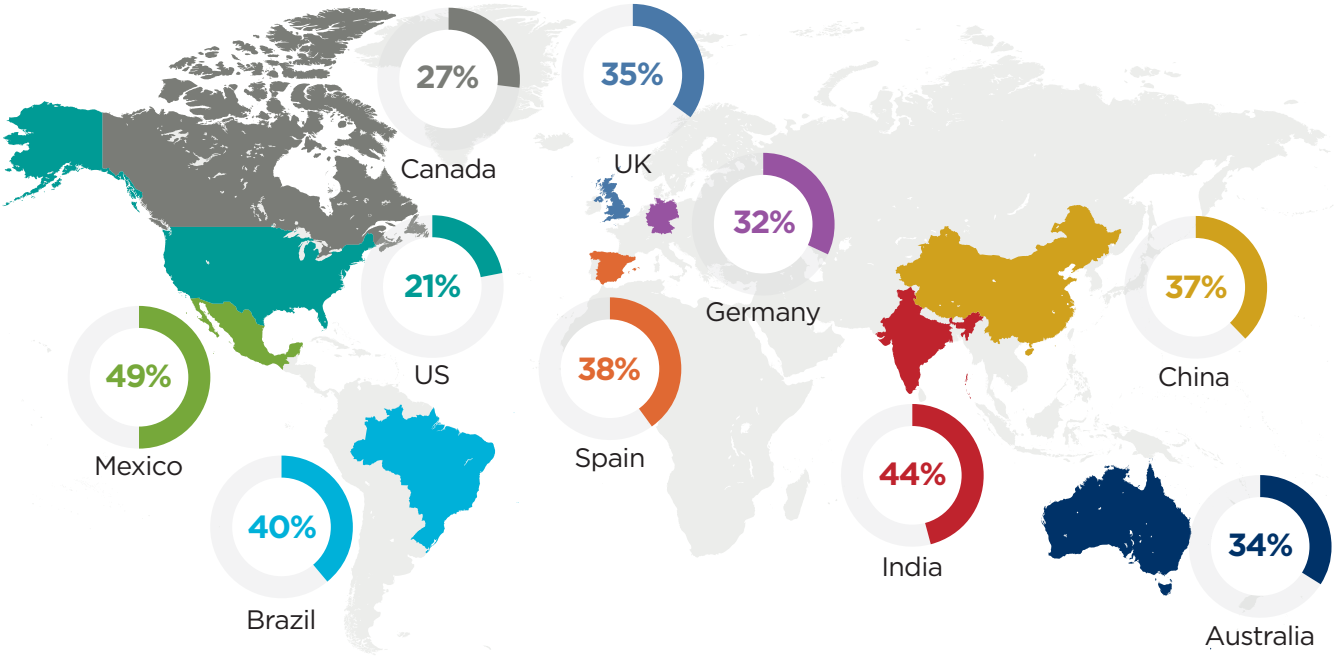
Midsize organizations in the United States are less likely than their peers from other countries to invest in learning programs for reskilling, and diversity and equity efforts (Fig. 4). Reasons for this disparity—which exists among larger companies in our sample, too—are hard to pinpoint, as the data could reflect real shortcomings or the fact that many have already made investments in these areas.

5 https://www.oxfordeconomics.com/publication/open/268443

Fig 4: Are employers investing enough in learning programs and diversity efforts?

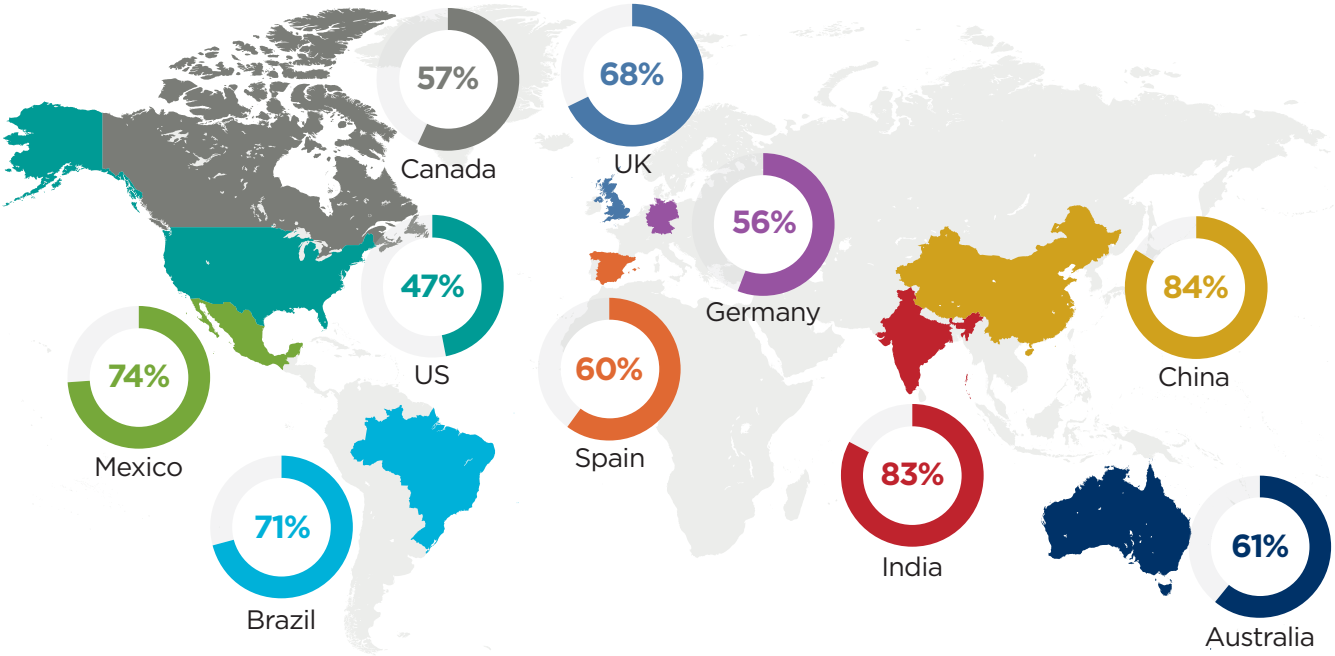
Q: Which technologies do you plan to invest in over the next 12 months? *Respondents could select all that apply*

Percentage of respondents investing or planning to invest in learning programs for reskilling and upskilling, as well as new procedures



Q: How likely is your organization to do the following over the next 12 months? *"Highly likely" and "Somewhat likely" responses combined*

Percentage of respondents who say their organization is somewhat or highly likely to increase diversity among the board or senior leadership over the next 12 months



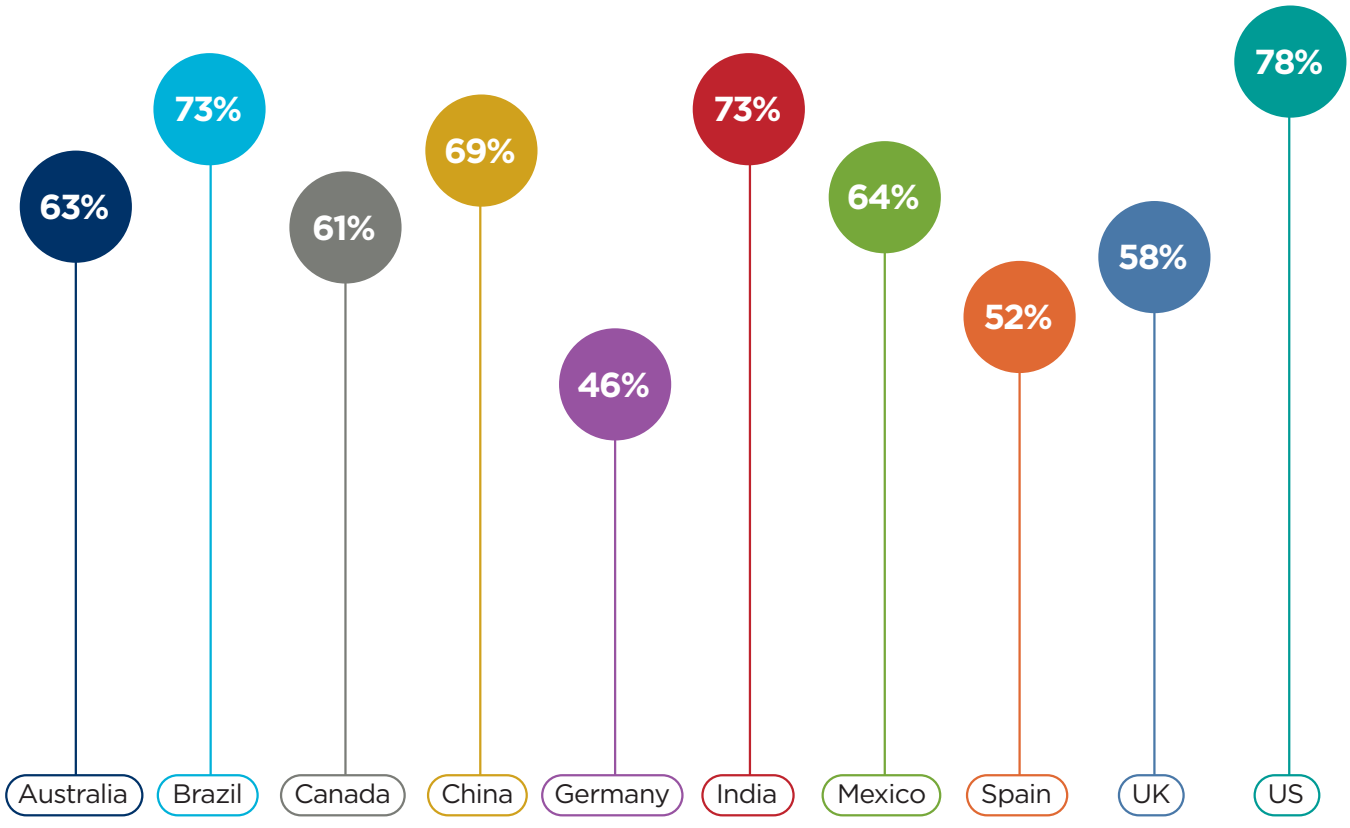
Retaining top talent also depends on meeting the needs that matter most to employees. This is a moving target in the pandemic era, as many workers are forced to juggle dependent care with work. Business leaders expect flexible work policies to become much more important to their ability to attract and retain talent over the coming years, and greater flexibility for remote work is seen around the world as a top long-term change to the workplace. Midsize companies in the United States are more likely than respondents from comparably sized organizations in other countries to emphasize the importance of flexible work policies in attracting talent: more than three-quarters of midsize businesses in the United States say so, compared to only about 60% internationally (Fig. 5).

These changes should be beneficial to employees who have the option of working remotely, but employers must also provide for the needs of on-site workers to avoid inequities in the workforce.

Fig 5: Flexible work policies expected to be a talent differentiator

Q: To what extent do you expect the following to become less or more important in an organization's ability to attract or retain talent, given the effect of COVID-19? *"Much more important" and "Somewhat more important" responses combined*

Percentage of respondents who expect flexible work policies (e.g., schedules, location) to become more important



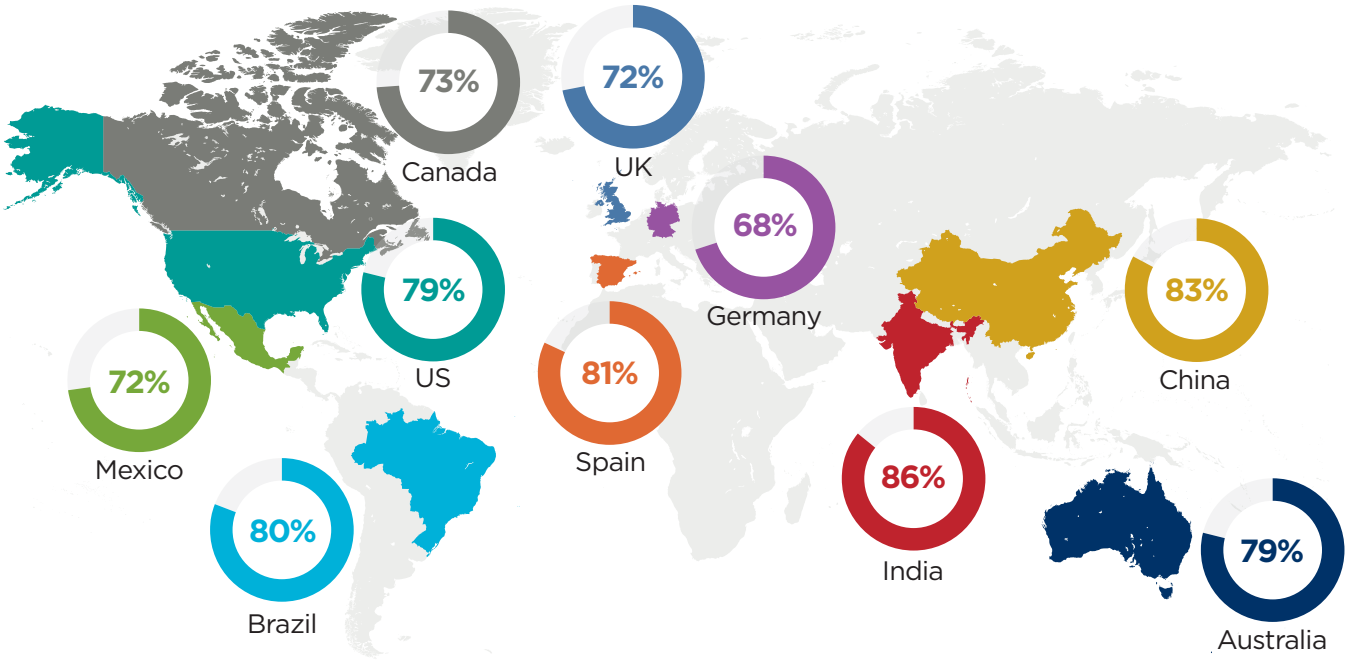
Bridging the digital divide

Midsize businesses frequently find themselves at a disadvantage in terms of technology strategy and implementation compared with their larger peers. They often lack the financial resources and workforce skills to compete effectively in these areas—disparities that may increase as companies rush to adopt applications powered by artificial intelligence.

The organizations we surveyed largely agree that they have the technology—which could include tools like mobile apps or HR software—needed support the changing work environment (Fig. 6).

Fig. 6: Midsize organizations generally have the technology they need

Percentage of respondents who agree that their company has the technology it needs to navigate the changing work environment



But plans for investment in specific tools tell a different story, which could leave midsize firms further behind their competitors—especially as pandemic-driven shutdowns diminish their financial resources. They are more likely than others to say they do not plan to invest in new technology in 2021, and adoption numbers for remote collaboration tools, onboarding programs, and workforce analytics lag those of larger organizations.

A more immediate technology challenge is making sure employees have what they need—like connectivity and environments suitable for focus—even when they are not able to work on-site. The survey shows that midsize organizations are somewhat less likely than their larger peers to say workers across various parts of their business have the technology and environment needed to work remotely. This raises important questions about equity across the workforce, as failing to address the needs of all workers can hinder organizational strategies around diversity and inclusion, as well as overall employee productivity and satisfaction.

Calls to action for midsize companies

- **Plan for accelerated change.** Decision-makers must plan digital investments to support remote work, balance efficiency and growth, and attract top talent. Account for employees in different locations, job types, and personal situations to help their entire workforce stay safe, healthy, and productive. Getting this right will demand a focus on up-to-date technologies and close communication with everyone in the workforce.
- **Stay focused on employee development.** New ways of working demand new skills, including technical capabilities and the capacity to quickly adjust behaviors and processes as the organization continues to evolve. Managers need to make sure reskilling efforts do not fall by the wayside.
- **Build a more equitable workplace.** Certain job roles have been disproportionately affected by layoffs and wage cuts, or are more vulnerable to virus exposure, and the enablers of remote work are not always available to all employees. Organizations must make sure operational and workforce strategies are in line with their broader diversity and inclusion goals.

For more results from our research, including a series of fact sheets showing results by country, see https://www.sap.com/cmp/dg/human-experience-shrm-oe/index.html.

The research program at a glance

The research findings detailed in this report are based on parallel surveys fielded between Q2 and Q3 in 2020. Respondents to both surveys spanned a number of industries and company sizes within 10 countries. The sample included respondents from companies with fewer than 100 employees to companies with more than 5,000 employees; for the purposes of this report, we focused on companies with fewer than 5,000 employees.

The US survey targeted HR professionals from SHRM's membership. It is important to note that this is a sample of SHRM members, and is therefore not necessarily representative of US businesses and other organizations as a whole.

The international survey was fielded to HR managers outside SHRM's membership. This survey was administered through an independent survey vendor. Respondents to this survey spanned industries, company sizes, and locations, but responses may not be representative of the national economies.