NATIONAL CENTER FOR
THE MIDDLE MARKET

A REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET & THE BROOKINGS METROPOLITAN POLICY PROGRAM

Help Wanted

How Middle Market Companies Can Address Workforce Challenges to Find and Develop the Talent They Need to Grow

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Executive Summary

Nearly four out of 10 middle market executives say that a lack of talent constrains their company's ability to grow. A larger number—44%—say that a lack of candidates with the right skills makes it difficult to recruit. Clearly, middle market companies struggle to find, hire, develop, and retain people with the skills they need for the jobs they have available, especially managerial, technical and professional, and sales positions.

While workforce challenges affect companies of all shapes and sizes, they are particularly acute in the middle market. With an average annual employment growth rate of 3.7% (and well above 5% since the fourth quarter of 2016),[1] middle market companies create more new jobs than any other sector of the economy. So their robust appetite for human capital makes the lack of access to it particularly painful.

Middle market firms say they cannot readily find candidates with the right skills. This inability is exacerbated by factors unique to their size, scope, and internal capabilities. It is also affected by the ecosystem of education, training, and job placement organizations surrounding middle market firms. Specifically, middle market firms are often less well-known than their larger counterparts, so they typically attract a smaller pool of candidates to start with. They tend to have less developed HR infrastructures than their larger peers, which means their talent forecasting, recruiting, and training capabilities are less robust. Furthermore, existing workforce development resources, including educational institutions, trade associations, and governmental organizations, may not pay enough attention to middle market company skills needs and can be difficult to navigate and access for these firms, making it hard for them to take full advantage of resources that exist to help.

Faced with both cyclical and structural challenges in the so-called war for talent, middle market firms have significant hurdles to overcome in their effort to recruit and retain the talent they need to achieve their growth objectives and continue in their role as the engine of the economy. The good news is that many opportunities do exist for middle market companies and the larger workforce ecosystem to address the skills shortage more effectively and bring the right people into their folds.

While solutions to the skills supply-and-demand issue will involve many players, including educational, government, and philanthropic institutions, there is much that middle market companies can do on their own to improve their talent acquisition and retention prospects. Internally, companies can start by taking a more proactive role in their efforts to recruit, train, and retain skilled employees. They can focus on building strategic human resources capabilities and developing programs, such as internships and training and development protocols, to acquire talent early on and successfully groom it from within.

Externally, middle market firms can take better advantage of existing university, community college, non-profit, and public-sector workforce programs. Companies can also participate in (or create, if necessary) consortia and networks that will leverage their efforts with those of other companies in the same region or industry.

Organizations and resources that provide workforce support and skills development services must also play a role, which starts with recognizing the importance of the middle market. These institutions can do a better job of customizing programs to improve the supply of workers with the types of skills middle market companies need most, and they should be proactive about reaching out to middle market companies to forge partnerships and improve access to their services. When these entities begin to better tailor their services to the sector that is actually providing the most job growth, companies, employees, and communities all stand to reap the rewards.

THE U.S. MIDDLE MARKET

Small Middle Market Companies
Annual revenue between $10M and $50M

Core Middle Market Companies
Annual revenue between $50M and $100M

Large Middle Market Companies
Annual revenue between $100M and $1B

Fast-Growing Companies
Middle market companies who grew at a rate of 10% or more in the past 12 months

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Key Findings

THE MIDDLE MARKET EXPERIENCES WORKFORCE CHALLENGES WITH SPECIAL ACUITY

As aggressive hirers responsible for a third of U.S. private-sector jobs and 60% of all new jobs created,[2] the middle market represents the strongest demand for talent and acutely feels the pain of a lack of access to it. Close to half (44%) of middle market firms cite a lack of candidates with the necessary skills as a top recruiting challenge. More telling, nearly four in 10 mid-sized firms say that a lack of talent is constraining their ability to grow.

SIZE CAN BE BOTH A WEAKNESS & AN ADVANTAGE FOR MIDDLE MARKET EMPLOYERS

As smaller entities, middle market companies lack the brand awareness of larger firms. As a result, they often start with a smaller pool of candidates because they simply don't attract as many applicants. Their size also can make it more challenging to offer clear career paths and advancement opportunities to employees. On the flip side, mid-sized firms often offer employees more opportunities to do meaningful work and contribute more directly to the success of the organization.

A LACK OF STRATEGIC HR CAPABILITIES CONTRIBUTES TO MIDDLE MARKET FIRMS' TALENT CHALLENGES

Middle market firms often have lean HR departments with less-developed capabilities for proactively recruiting and retaining candidates. In fact, nearly half (46%) say their HR department is primarily operational versus strategic. They may not have the same degree of focus on talent management and career advancement that larger firms do, and their capabilities might be less robust, causing them to lose qualified candidates to other firms.

EDUCATION, TRAINING, & JOB PLACEMENT RESOURCES DO NOT ALWAYS CONNECT WELL TO THE MIDDLE MARKET

Existing resources, including universities and trade schools as well as public-sector workforce development programs, do not typically focus on the unique needs of middle market firms. In part, this may be because they are more familiar with larger firms and those firms are better able to engage given their size and scope. The process of applying for and obtaining services is often not in line with the capabilities of the middle market; the system can be too cumbersome and time-consuming for lean middle market HR staffs to navigate.

MIDDLE MARKET COMPANIES CAN LOOK BOTH INTERNALLY & EXTERNALLY TO IMPROVE THEIR ABILITY TO FIND, TRAIN, & RETAIN QUALIFIED WORKERS

There are specific actions middle market firms can take to better address their workforce challenges, many of which can be done at little or no cost, although they do take staff time and commitment. Investing in talent management activities, such as succession planning, skills mapping, and developing a more effective performance review process, can help with both recruiting and retention efforts—and improve the productivity of current workers. Middle market firms also can partner with other organizations and local resources, such as universities and community colleges, to address talent issues and build their talent pipelines.

INDUSTRY, EDUCATIONAL, & PUBLIC-SECTOR GROUPS CAN ADJUST THEIR SERVICES & PROGRAMS TO BE MORE RESPONSIVE TO MIDDLE MARKET NEEDS

As the largest supplier of new jobs, middle market companies have the greatest need for workforce services. By better aligning their programs to be more accessible and valuable to middle market firms, organizations providing these services can help close the gap between supply and demand. This may include providing training for the specific skills middle market firms need most, such as managerial, technical, professional, and soft skills. It can also include streamlining and expediting the process of accessing and using the services, as well as actively seeking out metro-area and regional middle market companies. Making these adjustments can help workforce resources better meet the needs of both companies and job seekers within their communities.

Introduction

Middle market companies, with annual revenues between $10 million and $1 billion, provide about a third of U.S. private-sector jobs. They also account for the largest share of private job growth; estimates by the National Center for the Middle Market show that mid-sized companies account for about 60% of net new private sector jobs.[3] Over the past five and a half years, payrolls at middle market companies grew by an average rate of 3.7%. For the same period, employment growth rates among small and large businesses were 1.4% and 1.6% respectively. Moreover, middle market employment growth is accelerating; for the two years ending in June, 2017, the average annual rate of growth has been 4.7%.[4] With high demand for skilled talent, middle market companies are especially affected by the apparent lack of supply of it. Indeed, talent management issues—including acquisition and recruitment, training, and retention—top mid market executives' list of key challenges quarter after quarter, according the Center's quarterly Middle Market Indicator.

Our latest research shows that close to half (44%) of middle market companies say that a lack of necessary skills among candidates is a top reason it is difficult to recruit. What's more, 37%, or nearly four out of ten middle market executives, say that their companies' ability to grow is constrained by a lack of talent, with higher shares in the services, construction, and healthcare industries. Middle market companies specifically have a hard time securing the managerial, technical, professional, and sales skills they need to grow. So-called soft skills—or skills that help workers effectively interact with others and succeed in the workplace, such as communication, conflict resolution, problem-solving and teamwork skills—are also an issue.

Of course, mid-sized firms are not alone in contending with skills availability issues. There is a great deal of discussion regarding skills gaps—shortages of workers with the right skills—among and about employers of all sizes. Employers frequently report that they cannot find workers with the right skills, including technical skills, more basic literacy/numeracy skills, and soft skills.[5] Other analyses based on job postings data find that certain positions take longer to fill than others, indicating a shortage of qualified candidates.[6] Moreover, international data show that the U.S. demonstrates relatively weak skills in literacy, numeracy, and problem solving compared to peer countries.[7] Yet there are counterpoints that employers cause their own problems: They offer wages that are too low, use rigid and overly prescriptive HR and recruiting systems, and have unrealistic expectations regarding skills and experience.

In an economy as vast and diverse as that of the United States, it may be less useful to generalize across occupations, industries, and places than to focus on specifics: What particular skills are required for particular occupations and industries, and in what local labor markets? As one study noted, "America's public discourse on skills takes place at a high level of aggregation, obscuring the true nature of the challenges facing the country. Real hiring occurs in a multitude of micro-markets that may or may not have skills gaps."[8]

In the middle market, where there is a great need for workers and skilled talent at all levels, the lack of access to needed skills is both caused and compounded by factors that are unique to mid-sized organizations. For one, these firms lack the brand awareness that larger companies enjoy. Because their names are not widely known, they attract fewer over-the-transom resumes than famous companies. Furthermore, middle market human resources departments tend to be lean; they are unlikely able to fund and field comprehensive training and development and executive education regimes to groom people and grow needed skills organically. Mid-sized companies also lack capacity to navigate the complexities of public-sector programs and resources that may be available to help. And even when they do have access to such support, the resources are not always well-aligned with middle market needs.

The result is market failure: the middle market has high demand for various kinds of skilled talent, and the labor market can't satisfy that demand for a variety of reasons, at least some of which appear to be structural. Closing the gap between supply and demand should be an urgent task for executives as well as other stakeholders at the local, state, and national levels.

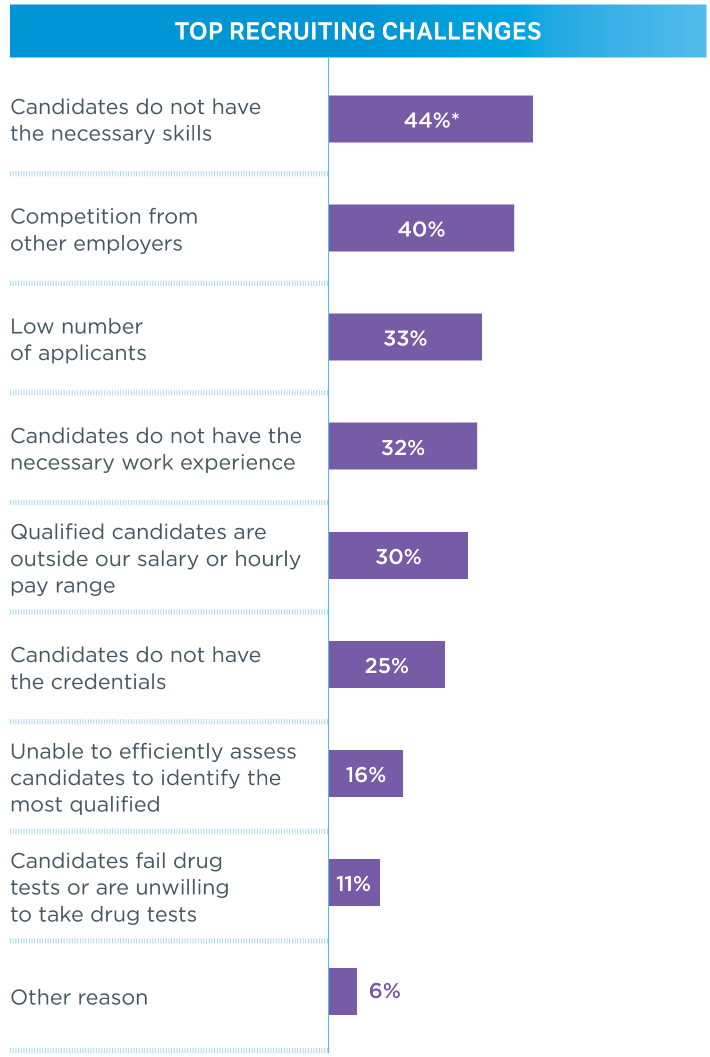
The purpose of this study is to better understand the challenges the middle market faces related to acquiring and developing the skills it needs to grow. It looks at specific actions that can be taken to address middle market workforce problems, by companies as well as by trade associations, educators, workforce investment boards, business development groups, and policy makers. Our hypothesis is that not one of these groups can solve the problem on its own, but that effective action across the spectrum of interested parties can make a difference—to the benefit of companies and industries, workers and communities, and the nation as a whole.

THE MIDDLE MARKET CHALLENGE
Finding Workers with the Right Skills

Fully 37% of executives at mid-sized companies say that a shortage of talent constrains their ability to grow. In healthcare, that percentage rises to 49%, and it is nearly as high in business services and construction. All three are fast-growing industries, of course. But 44% of executives in manufacturing also say that they could grow faster if they had more or better-skilled employees.

When it comes to recruiting, middle market executives believe the biggest hurdle is that candidates themselves lack the skills hirers need; competition from other employers is the obstacle they cite next most often, followed by competition from other employers. While money is an issue (30% of middle market leaders say qualified candidates are outside their salary or hourly pay range), there is a clear gap between supply and demand, where too few candidates with strong skills are being pursued by too many companies. Industry variations are significant, but the overall picture is consistent across the middle market, with little difference by company size or geography.

Even in industries where employment growth is slow, access to specific skills appears to be a challenge. Retailers, for example, report difficulty finding information-technology experts, who possess the skills they need most to compete for online retail dollars. One of those online rivals is Boxed.com, which sells household products in bulk at discounted prices, competing with Main Street stores as well as large brick-and-mortar wholesale clubs. As Chieh Huang, the CEO of Boxed, said during the 2017 Greater Cleveland Partnership Middle Market Forum, "We are technology folks trying to figure out retail faster than the retail folks can figure out technology."



**% of executives who cite this as one of top three recruiting challenges*

LACK OF TALENT CONSTRAINING ABILITY TO GROW

	Total Middle Market	Services	Manufacturing	Wholesale Trade	Retail Trade	Construction	Financial Services	Healthcare
Yes	37%	46%	44%	20%	29%	46%	33%	49%
No	63%	54%	56%	80%	71%	54%	67%	51%

Not all skills are equally hard to find however. A substantial majority of middle market companies say that clerical workers are easy to obtain, though 32% say that finding them is at least somewhat difficult. Challenges also vary by industry, as one would expect; for example 17% of manufacturing and 20% of construction companies say that production workers represent their biggest recruitment challenge.

But companies seem to have the hardest time at the top of the skills ladder. Asked to name their biggest recruitment challenge, executives single out the hunt for people to fill managerial, professional/technical, and sales roles far more often than any others. Focus group participants echoed these findings, specifically pointing to technical skills and soft skills as challenges. One executive said that even if a candidate has a Master's degree, it doesn't mean she knows how to talk to people or relate to individuals, or that she can do HTML, skills that would clearly be needed in specific types of jobs. The soft skills, in particular, were an area of concern among HR leaders and executives because they are not as easy to measure, which means they are both a recruiting and a training challenge.

Still, it would be a mistake to focus only on the problem of educating, attracting, and training people for relatively high-skilled roles. Both data and conversations with executives reveal problems up and down the hierarchy of pay and skill. National studies by Manpower, the human resource consulting firm, put skilled tradesmen and drivers at the top of the list of hard-to-fill positions.[9] "I need drivers and furniture installers," says the CEO of a company that leases and installs office furniture. "In a city like Philadelphia, with a poverty rate of nearly 25%, you wouldn't think finding them would be a problem, but it is." In part, the CEO's problem is a result of his defense contractor clients' need to thoroughly vet anyone who comes on their premises; many potential employees simply don't pass the test. But the problem isn't unique. Candidates for lower-skilled positions are often disqualified by failing a drug test or having a criminal background.

Up and down the skills ladder, middle market companies face skills shortages that directly affect their ability to grow. Those skills shortages are compounded by circumstances that are unique to the middle market, including company size, lack of internal HR capabilities, and underdeveloped external partnerships.

TOP RECRUITING CHALLENGES BY INDUSTRY*

	Services	Manufacturing	Wholesale Trade	Retail Trade	Construction	Financial Services	Healthcare
Candidates do not have the necessary skills	46%	44%	20%	29%	46%	33%	49%
Competition from other employers	43%	47%	45%	42%	58%	43%	40%
Low number of applicants	19%	31%	39%	40%	30%	32%	35%
Candidates do not have the necessary work experience	31%	38%	24%	33%	38%	41%	33%
Qualified candidates are outside our salary or hourly pay range	32%	31%	31%	17%	28%	31%	34%
Candidates do not have the credentials	30%	27%	26%	18%	28%	27%	26%
Unable to efficiently assess candidates to identify the most qualified	18%	13%	33%	7%	11%	13%	12%
Candidates fail drug tests or are unwilling to take drug tests	6%	11%	16%	13%	18%	4%	7%
Other reason	3%	5%	18%	7%	1%	2%	2%

**% of executives who cite these as one of top three recruiting challenges*

BIGGEST RECRUITMENT/RETENTION CHALLENGES, BY POSITION*				
	Total Middle Market	Small Middle Market Companies	Core Middle Market Companies	Large Middle Market Companies
Managerial	24%	20%	22%	29%
Professional/Technical	27%	26%	28%	29%
Clerical	5%	6%	7%	4%
Sales	25%	29%	21%	22%
Service	8%	8%	11%	8%
Production	9%	10%	8%	7%
Other positions	2%	2%	3%	1%

**Executives who say it is extremely or very difficult to recruit or retain for this position*

CHALLENGES

Understanding the Gap between Supply & Demand for Skills in the Middle Market

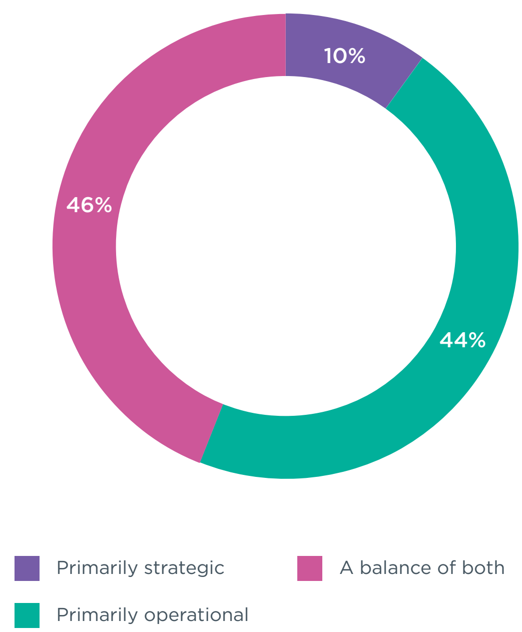
Finding enough people with the right skills can be an issue for employers of all sizes. Nevertheless, 41% of middle market executives say that their workforce needs and challenges are different from those of smaller or larger companies. In some cases, the middle market's unique challenges are a function of size. They simply don't have the brand awareness that larger firms enjoy to attract the same quantity and caliber of candidates or the ability to field resources to fill their pipelines.

What's more, their HR capabilities may not be sufficiently developed to help address recruitment and retention issues. In many cases (46%), HR is primarily an operational department, with little or no strategic outlook or role. Among those firms with a primarily operational HR department, nearly half say they would like HR to be more balanced and serve a more strategic role—for example, by analyzing turnover and attrition rates, forecasting demand for talent, or developing plans to build the human capital necessary to advance strategic goals, such as expansion or changes in business model or technology. Leaders in our focus groups corroborated these findings, telling us that more HR departments need to incorporate an integrated talent development approach, referred to as the "new HR", in which the functions of recruiting, learning and development, and performance are not siloed, but are carried out in conjunction with each other.

Middle market companies face external challenges, too, with some issues stemming from the ecosystem in which companies operate: Resources designed to help firms with workforce issues aren't always aligned to the needs and capabilities of the middle market.

This combination of unique internal and external challenges has an impact on all variables of the talent equation, from recruiting and acquisition, through training and development, and retention.

ROLE OF HUMAN RESOURCES



Recruiting Challenges

COMPETITION FROM OTHER FIRMS IS INTENSE

Among middle market firms, competition from peers is second only to the lack of necessary skills as a barrier to talent recruitment. Research data show that four out of 10 middle market firms cite competition as a problem, and competition appears most fierce in the retail trade, services, financials services, and healthcare sectors.

Competition from larger firms in particular can be problematic for middle market businesses. Focus group participants highlighted the issue, emphasizing that middle-market firms often do not have the brand strength, advancement opportunities, or salary to compete with large employers. Their size, however, can also be an advantage. Employees may have more flexibility and opportunities to make an impact in a mid-sized company.

One focus group participant had this to say: “We try to brand ourselves as the Goldilocks. We're small enough that you're not going to be employee number 22,342. But we're big enough, that we have some stability and some pretty mature processes and structures in place, but you can still also be creative and very agile and responsive to your customers, too.”

SMALLER BRAND PRESENCE AND REACH CONTRIBUTE TO A SMALLER POOL OF CANDIDATES

In any industry, well-known companies receive more over-the-transom resumes than smaller ones for jobs at all levels. They also have the resources to send recruiters to dozens of universities, business schools, and the like. One-third of executives list a low number of applicants among their top recruiting challenges. Across the hierarchy of positions, middle market companies also depend more on local talent markets than larger firms do, because they usually operate in one or a handful of locations and do not have nationally prominent brands. While this can be a strength—in many cases, mid-sized companies can offer employees a better quality of life with less travel—it is a weakness as well. A city like Atlanta, with its fast-expanding fintech sector, does not have enough locally grown talent to fill demand. Companies located only in the city are less able to recruit nationally than rivals with offices in many destinations. Nor can middle market companies attract candidates to a location in, say, Cincinnati or Des Moines with the promise that they will have an inside track for openings in “hotter” cities like Boston or Chicago. Single-location companies are also less able to engage in talent arbitrage, such as shipping jobs to lower-cost places or using profits from one office to fund investments in another.

ACCESSIBILITY IS AN ISSUE

Location matters. And for some middle market companies, especially those located outside of the city or off of bus lines, attracting skilled workers can be a problem if they want a shorter commute or don't have access to a car. In some cases, companies with local resources in factories or offices are able to shape local transportation options in ways that small and mid-sized enterprises cannot. One executive told us that her company is keeping records of how many candidates it turns away due to a lack of public transportation, and her firm is working closely with the transportation authority to find a solution to the problem.

HIRING MANAGERS RELY TOO HEAVILY ON THE BACHELOR’S DEGREE

Employers increasingly require bachelor’s degrees for positions that formerly required less education, even when the skill sets have not changed. In some cases, the preference for college graduates can make hiring more difficult; the same positions requiring a bachelor’s degree can take substantially longer to fill.[10] In addition, looking only at candidates with degrees may cause middle market firms to overlook highly qualified candidates with the specific skills or experience they need.

One reason why middle market companies may demand over-qualified employees is because they lack confidence in their ability to successfully develop raw material. In other cases, hiring managers will only consider candidates with degrees because that’s what’s written in the job qualifications and they simply don’t have the time to be thoughtful about developing job descriptions and identifying key skills. Easier to go with the existing boilerplate and use a BA as proxy for skills then to challenge the status quo or to go to battle for a candidate who does not check all the boxes.

One hiring manager from a middle market logistics company puts it this way: “You are too busy to deal with the details of what you really want in terms of talent. And so what we do is follow the rules that the corporation has in terms of how that requisition needs to be built. But unfortunately, when you do it that way, you really don’t give yourself the opportunity to do the real investigation, the real digging down and finding that person who has the transferrable skills.”

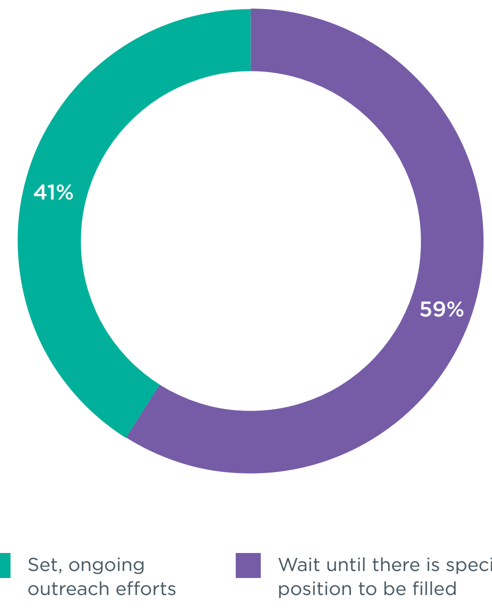
MID-SIZED FIRMS UNDER-INVEST IN FORWARD-LOOKING TALENT PLANNING ACTIVITIES

Middle market executives say they do a good job identifying key positions and key personnel, including managerial, technical, and sales talent. But, perhaps because they tend to be more operational than strategic, they do not do as well at lining up successors for those key people or at identifying current and future skills gaps.[11] Almost by definition, middle market companies do not have deep benches from which to choose candidates for open slots. This can be attributed in part to the fact that middle market companies feel less able than big firms to hire promising talent when it is green and support it through a long development process. By and large, when a position opens up, they seek fully qualified candidates from outside rather than looking for someone in the company who is ready to advance.

As a result, only about a third (35%) of middle market vacancies are filled via promotion from within. While reliable data are scarce, studies suggest that the internal-fill rate is higher for larger companies. [See *Internal Candidates, The Real Competition* for more insight on this trend]. Middle market companies are forced to compete for talent in the external labor market, rather than develop talent internally, which can be riskier as well as more challenging. This is especially true when it comes to sales talent, which is particularly amenable to development from within, and therefore particularly hard to recruit from without.

Furthermore, middle market companies, and especially the smallest middle market firms with revenues between $10 million and $50 million, often rely on the "spot market" for labor. Overall, 59% of mid-market executives report that they wait to recruit until there is a specific position to be filled, rather than having a set, ongoing outreach effort to stock talent pools with potential candidates. One study notes that companies "do not apply the same discipline in sourcing talent as they employ in sourcing other inputs," for which they typically have planning systems, disciplined processes, and metrics.[12]

PROCESS FOR RECRUITING NEW EMPLOYEES



Retention Challenges

LARGER COMPETITORS POACH KEY PEOPLE

Even when middle market companies successfully find and onboard the right talent, they are often at risk of losing key people to other organizations, particularly larger firms. According to one Philadelphia office-furnishings executive, "One of my competitors offered every one of my drivers a $20,000 signing bonus to leave. Then they got $5,000 for everybody they took with them. They did the same thing for my customer service people and my sales people. How can you compete with that?"

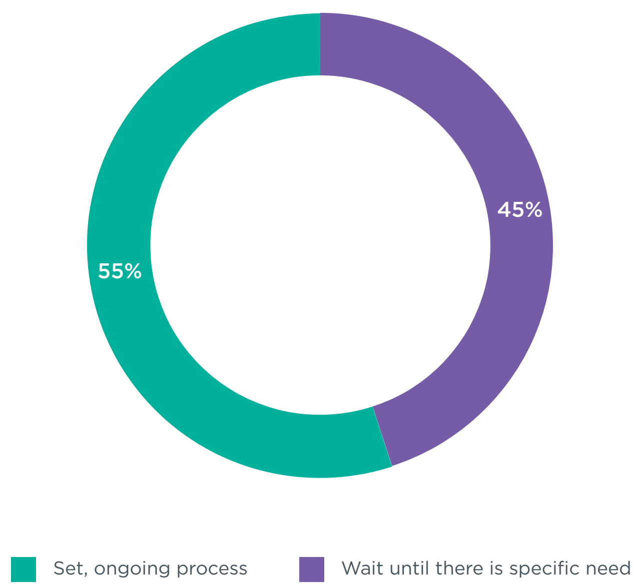
In addition to money, larger firms often recruit people away with the promise of more advancement opportunities, better benefit packages, or opportunities to work in another, more desirable location, all of which can be difficult to compete with for a middle market firm.

RESOURCES FOR TRAINING AND DEVELOPMENT ARE SCARCE

Middle market firms are more proactive about training existing employees than they are about recruiting new talent. A narrow majority (55%) of firms indicated they have set, ongoing processes for training. However, 45% of companies say they wait until there is specific need to address training. As a result, one HR leader says, "We don't have people up and coming to backfill any one of those roles because we operate pretty lean. We kind of hire for each role and hope for the best."

Larger middle-market companies do more training than small ones do. Sixty-one percent of upper middle market companies (with annual revenues between $100 million and $1 billion) say they train on a regular basis. The type of training provided varies by industry and role. Some industries (notably healthcare, where training and development may be required by law, and retail) are much more likely to train regularly than others, such as wholesale trade, financial services, and construction. But there is no role—production, sales, technical, etc.—for which a majority of middle market companies provide regular, ongoing training, with one exception: 51% of companies train managers in company policies, guidelines, or requirements.

PROCESS FOR TRAINING EMPLOYEES



TRAINING REGULARLY PROVIDED	Managerial	Professional/ Technical	Clerical	Sales	Service	Production
Introduce company policies (guidelines or requirements)	51%	42%	46%	41%	38%	36%
Upgrade skills or knowledge	44%	40%	32%	37%	33%	30%
Teach basic job skills (office software, work habits, or management practices)	30%	30%	46%	31%	27%	24%
Teach new specific work skills (how to use equipment, machinery, or technical procedures)	24%	37%	26%	23%	32%	34%
To prepare for another job (or assignment) within the organization	24%	27%	24%	21%	23%	22%
None of these	14%	14%	15%	18%	17%	18%

CAREER ADVANCEMENT PROGRAMS ARE FEW AND FAR BETWEEN

Career ladders, training, and programs for high-potential employees are known to contribute to retention. Without these programs in place, middle market companies are more vulnerable to losing their talent to other organizations. Yet, three-fifths (61%) of middle market firms (and especially smaller companies) lack a systematic policy or process for career advancement, hurting their ability to groom their talent from within and help their employees work their way up in the organization.

Additionally, fewer than a quarter of middle market firms provide regular training to prepare employees for another job or assignment within the organization. As mid-sized companies, their size may work against them; there may simply be fewer slots for upward mobility. However, as skill requirements evolve over time, mid-sized firms may be missing the opportunity to leverage their incumbent workforce to fill new roles.

For example, as retail employment moves from relatively low-skilled cashier positions to high-skilled back-office jobs, both companies and training organizations have a need to reconstruct their hiring, training, and placement protocols. A recent NPR segment[13] illustrates how Walmart is taking just such an approach while also partnering with other retailers to create industry-wide training standards. While mid-sized firms may not be able to float the same caliber of program, they can benefit from investing in their people and providing training in the skills that will be needed to ensure the company's future success.

Challenges with the Support Ecosystem

The workforce system strives to be responsive to employer needs, but does not always achieve that goal for a variety of reasons. In a system characterized by decentralization and multiple actors, there is tremendous variation between and among places. Several analyses have described programs and services funded by the federal Workforce Investment Act as having examples of success and disappointment in connecting with the private sector, both as partners in strategic planning and as customers.[14]

One issue is resources. The United States make smaller investments in active labor market policies to help people find good jobs or increase their skills and earnings than other OECD countries, spending 0.1% of GDP on active labor market policies compared to the OECD average of 0.5%, 0.7% in Germany, and about 1% in France. Only Chile and Mexico are lower.[15] Moreover, this number has been declining over time. Funding for employment and training services under the Workforce Innovation and Opportunity Act (WIOA, the successor to the Workforce Investment Act) declined by nearly 25% between 2000 and 2016.[16]

THE WORKFORCE SYSTEM INCLUDES MULTIPLE PLAYERS OF VARYING CAPACITY AND CAN BE HARD TO NAVIGATE

Any given local workforce system is a patchwork of different actors implicating federal, state, and local funding streams and policies. Workforce Investment Boards (WIBs) administer Workforce Innovation and Opportunity Act (WIOA) funds and design and coordinate workforce strategies. Community colleges offer both two-year associate degrees and shorter-term training. Most school systems have some career and technical education (CTE) programming at the high school level. Multiple nonprofits offer education, job training, and job placement, some funded through WIBs.

All of these can provide much needed help to employers looking to find and groom talent. Yet, middle market companies are not always able to take full advantage of these resources. One issue is the fragmentation and complexity of the system itself. Middle market companies may not be clear on which organizations exist, what they provide, or who to contact to get started, and their lean HR teams don't have the time to invest in prospecting and finding the right resources. Companies may not understand that they are interacting with different levels and components of government, and thus lump them all together as one.

What's more, different entities within the system have varying levels of capacity and may not respond with sufficient speed and flexibility to meet employer needs for trained workers. As one executive told us, getting the CTE providers in his area to even return his phone calls proved to be an exercise in futility.

WORKFORCE INITIATIVES RARELY DISTINGUISH THE MIDDLE MARKET AS A SEPARATE SEGMENT

Public and other workforce initiatives are often maladapted to middle market capabilities. As one employer puts it, "The resources that are available are not targeting the mid-market because they don't know the mid-market company." He points out that programs are obviously aware of companies like Coca-Cola, SunTrust, and Home Depot, so it's much easier to target their programs to those types of firms. But they need to become more aware of the mid-market at the largest providers of new jobs.

The forms and bureaucratic requirements involved with public-sector programs are also a deterrent to middle market firms. In many cases, the requirements are very complicated and time-consuming. Big companies often employ specialists to seek out and navigate these programs, but middle market HR departments, which may operate with just a handful of people, have a hard time doing the same. According to one industry insider, there is a "disconnect between the speed of the employer and the speed of the bureaucracy." Many mid-sized companies simply can't invest the resources or afford to wait on the public sector entities to help.

Indeed, a paper recommending that businesses invest more strategically in building their talent pipelines specifically calls out the limited resources of middle market firms, noting that sector-wide workforce initiatives with participation by large employers can have outsize benefits for small and middle market firms.[17] Such sector initiatives, in which workforce needs are addressed across multiple companies to achieve economies of scale, are increasingly gaining traction, but they do not automatically incorporate a lens regarding firm size. When they do, middle-market companies are often clumped together with small business as "SMEs"—small and medium enterprises. Yet their needs are distinct: Middle market companies tend to be more mature (their median age is 31) and have a more complex mix of workforce skill requirements.

Likewise, companies and organizations that offer certification programs, specifically technology companies and associations that serve functional specialties like project management and human resources, appear not to do well at targeting middle market companies. In fact, only 13% of mid-sized firms report using these types of programs to address their workforce needs.

INCENTIVES ARE MISALIGNED

Workforce development providers and employers have different incentives, which can hinder their ability to work together. Employers want qualified people as quickly (and typically, as cheaply) as possible. In meeting employer needs, however, community colleges and WIBs have to balance other interests and incentives as well. Workforce programs are subject to governmental regulations and performance measures that require documentation of specific procedures and outcomes for compliance purposes, which does not always lend itself to speedy action. And while WIBs are required to report on performance measures including job placements, earnings, and retention, they do not have to report on measures of how businesses use the system or their satisfaction.

Community colleges, on the other hand, are not judged by job placements but by graduation rates. Moreover, their funding is based on enrollment, not on the costs or labor market value of a program. Some education and training programs, such as nursing, allied health, and manufacturing, are more expensive to run based on the need for up-to-date and sophisticated equipment. This can discourage community colleges from operating or expanding such programs, because they will lose money based on a funding formula doesn't cover the costs.

SOLUTIONS

Building Strategic HR Capabilities in the Middle Market

Solving the middle market's workforce challenges will likely be a collaborative undertaking involving a broad group of stakeholders. Employers, educational institutions, government, and philanthropy need to support and make changes on both the supply and demand sides of the labor market. Employers need to identify more clearly the skills necessary to execute their business plans and improve their strategies and capabilities to recruit, assess, and train for those skills. Stakeholders, for their part, need to recognize how much demand for talent comes from middle market companies, and modify their programs accordingly by supporting and participating in workforce intermediaries or employer partnerships that meet regional middle market talent needs.

ACTIONS FOR MIDDLE MARKET FIRMS

Middle market companies should not be excused from taking actions to improve their situation. Depending on size (and in some cases industry), individual firms have options available—both internally and externally—to address attraction, retention, and development of workers across the board. Certainly they need not, and should not, be passive recipients of whatever the labor market provides them.

Particularly among lower middle market firms, lean management structures and short benches create competition for the time and resources, or time and attention to focus on workforce development. But a small investment can produce significant results. We've outlined some of these opportunities below. Another resource is the *U.S. Chamber of Commerce Foundation*, which has outlined a process by which employers can work independently or together to use supply chain management principles to build a talent pipeline.

Internal Opportunities

Middle market companies place a premium on keeping support functions lean, including human resources. One CEO speaks for many in saying, "It's just too difficult to do everything. You can't do on-the-job training, you can't do training for an entry level employee who needs professional skills if you are a middle market company. I am looking at opportunities of growing my revenue and I don't have time to worry about doing all this other stuff." There are, nevertheless, a clear set of capabilities and programs that could be more widely deployed at little or no cost, although they do require some level of staff time and commitment and support by leadership.

A plant manager at a middle market manufacturing firm in Chicago spoke candidly about how his company changed its approach to workforce issues: "When I first came on board, if you had a pulse and could pass a drug test, you were hired." Now HR is treated as a key component in a multiyear initiative to reduce high error rates, customer complaints, and low productivity.

He continued, "Talent is a strategic point for any business. You can say, I want to grow X percent and increase my profit margin by Y percent, but those words mean nothing if you don't have the talent to perform those tasks....Anyone can make the time to establish these relationships [with schools and training organizations]—if talent development and recruitment is important enough to their strategy."[18]

TAKE A MORE PROACTIVE ROLE

The opportunity for a more proactive, strategic human resources function begins at the beginning, with recruiting. Six out of ten middle market companies report that HR engages in the search for talent only when specific jobs open up; i.e., they are not regularly scouting the market or advancing the employer's brand or presence. Though executives recognize the importance of raising their profile in talent markets—a finance company HR leader says, "We in the mid-market have to pay for the talent because we don't have the brand, we don't have pull"—they appear not to have converted that knowledge into specific activities. The practice of "talent pooling"—keeping track of potential internal promotions and external hires—is relatively rare in the middle market and should be undertaken by HR and executives working together. Many of the initiatives listed below—community outreach, college and university relationships, and more—will also help companies know their local talent markets in advance of the actual need to recruit.

PUT MORE EMPHASIS ON SOFT SKILLS

Executives have told us that companies hire for technical skills, and fire for professional behavior. Indeed, the lack of soft skills among candidates, including college-educated candidates, is a shared problem among middle market leaders as well as executives at companies of all sizes. A paper by the National Bureau of Economic Research reports on the increasing importance of social skills in the labor market, showing that between "1980 and 2012, jobs requiring high levels of social interaction grew by nearly 12 percentage points as a share of the U.S. labor force."[19] Another recent report shows the importance of non-cognitive skills, such as personality traits, goals, character, and motivations, and how such skills can rival or exceed the importance of cognitive skills in some circumstances.[20]

Some middle market hiring managers recommend conducting multiple interviews and asking situational questions as a way to give candidates ample opportunities to demonstrate their soft skills, such as the ability to communicate effectively or think creatively. Other leaders spoke of the value of partnering with organizations that focus specifically on soft skills training, such as Year Up. Year Up provides young adults with six months of classroom training on in-demand technology-related skills, including soft skills, and then places those workers in internships for six months, where they have opportunities to apply those skills and gain work experience. Companies that host the interns realize tremendous value. One focus group participant that works with Year Up said, "You are partnering with an organization that vets for you, trains for you, and teaches soft skills. It's worth $25K if that intern stays with you an average 42 months. You would be spending more on churning out the people that apply for jobs. They [the interns from Year Up] are performing the job and outperforming the college guy you spent more money training."

INVEST IN TALENT PLANNING

Human capital and talent in the context of business can be thought of as a four-legged stool consisting of 1) attraction, 2) performance management, 3) development, and 4) the overall process of managing these functions, or talent planning. Recent research from the National Center from the Middle Market[21] has uncovered that the best-performing middle market companies undertake a more comprehensive talent planning approach consisting of interwoven tactics and activities that address the other three legs of the stool. The powerful combination of these activities creates momentum for aligning strategy, culture, operations, and innovation in ways that make all the components collectively more valuable.

Talent planning initiatives should range the spectrum, from competency-based job profiles to succession planning to the identification and development of high-potential workers for future promotion. Where middle market companies tend to place importance (and also rate themselves as doing well) is identifying key positions, having processes to regularly assess performance and potential, identifying best performers, and identifying internal talent pools.

Conversely, they tend to perform less well at identifying current and future skills gaps, as well as lining up successors for key roles in the organization. In general, they say they are better at managing today's leaders and workers than at planning for tomorrow's.

Executives also point to opportunities to improve the coherence within HR itself, which, even in middle market companies, can be "siloed," with recruiting, training and development, and performance management each doing their own thing. Effective programs to develop and retain talent can be an important tool for coping with a skills gap in the talent market; it is after all easier to keep a bucket filled if it is not leaking.

ENGAGE IN SKILLS MAPPING

Skills mapping is an activity that falls within the talent planning arena. While understanding the difference between job responsibilities and competencies for success can be tricky for companies of all sizes, middle market companies can start by conducting skills mapping of every role in company. In other words, they must detach the current individuals in the role and what they do on a day-to-day basis from the actual skills and behaviors that would make someone successful in that particular position. Effective mapping is the first step in assessing the skills and strengths of the workforce, and determining where gaps might exist (getting the right people on the bus, as Jim Collins would say). It can also reveal positions for which a company may have created irrelevant barriers to finding talent—imposing a college-degree requirement for a job that does not require college-level skills, for example.

The next step would be assessing the skills of individual employees to understand best fit. Distinct from assessing actual performance, the skills mapping consists of a strengths-finding type exercise to ensure a match between inherent skill sets and the mapped role. Significant gaps might call for individual development planning, lateral move into a better fit (right seat on the bus), or addressing a larger recruiting need as jobs evolve over time. This kind of exercise can yield more training and development that is more cost-effective because it is targeted at specific skills and offered to specific employees.

IMPROVE PERFORMANCE MANAGEMENT

Performance management also fits under the talent planning umbrella. In many middle market companies, performance management is a very ad hoc process. But research by the National Center for Middle Market show a clear correlation between effective performance management, faster revenue growth, and better profit margins.[22]

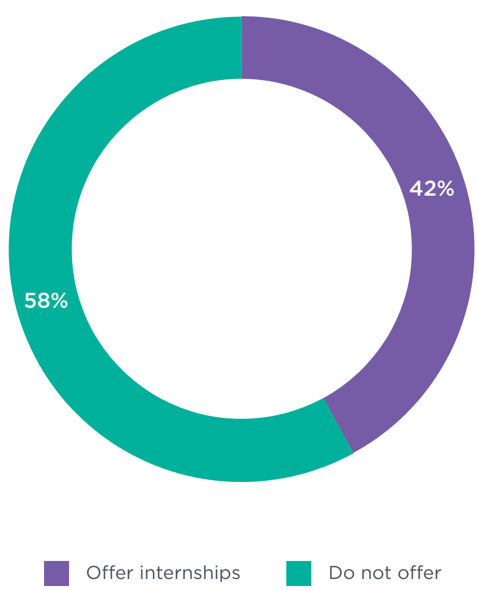
Mid-sized firms that excel at performance management tend to have senior executives who believe in the process and treat it as an integral part of every working day. Rather than just relying on formal performance reviews, which may happen only once a year and last less than an hour, they treat it as an ongoing process with informal feedback flowing regularly. They focus on goal setting, seek input from second-level managers, and align the performance management process with the company's culture. Ultimately, they use performance management as a way to make their employees more integral to the company's overall success.

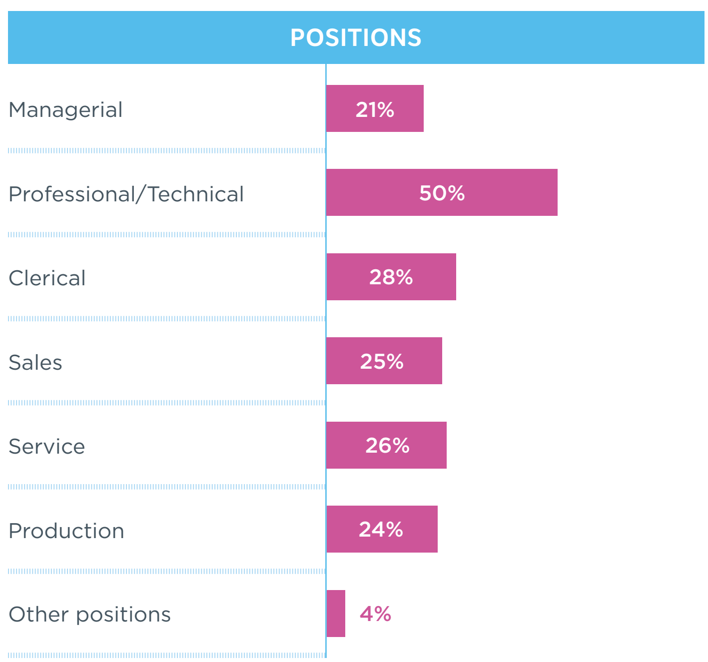
DEVELOP INTERNSHIP PROGRAMS

Internship programs provide middle market companies with an opportunity to connect with and build brand awareness among up and coming talent. Yet, fewer than half (42%) of middle market firms currently offer internship programs. Among those firms that do host interns, positions are most commonly concentrated on professional and technical roles. These types of internships are most common at the largest middle companies and within the healthcare industry.

Middle market companies of all types and sizes that offer internships report considerable success with these programs, even if they only offer a handful of internships per year. Leaders in our focus groups recommend partnering with local universities and schools and developing relationships with professors, which can lead to an inside track on the most promising candidates. They recommend offering summer internships to students going into their senior year of high school or college, and if those candidates prove to be a good fit, to consider making an offer at the end of the summer so as not to lose the candidate to another opportunity. Because middle market firms tend to be deeply rooted in their communities, they have opportunities to forge these types of connections and to participate in job fairs and other similar activities that schools may be providing.

INTERNSHIPS WITH COMPANY





CONSTRUCT CAREER LADDERS TO IMPROVE RETENTION

Another internal process where middle market companies tend to fall short is creating career ladders that demonstrate the types of paths toward growing a career over time. While an entry-level position only a few steps from the C-suite can create tremendous opportunities for exposure and contribution at a middle market company, it can also create a “ceiling” that can make career progression seem distant at best, impossible at worst. The blockage that potentially exists in the leadership ranks can be perceived as a barrier to progressing into those roles. This can also be true for non-professional workers who must be made aware of not only the paths, but how the company itself will support their development.

Because of their size, middle market companies may offer fewer opportunities for upward mobility that larger firms offer. But one executive tells us that to overcome this issue, his company consciously looks for opportunities to challenge people to become involved in different areas of the company. “Even though we don't have the formal ladders and plans in place, it's a way to try to really understand your workforce and what motivates them over and above the job they do day in and day out.”

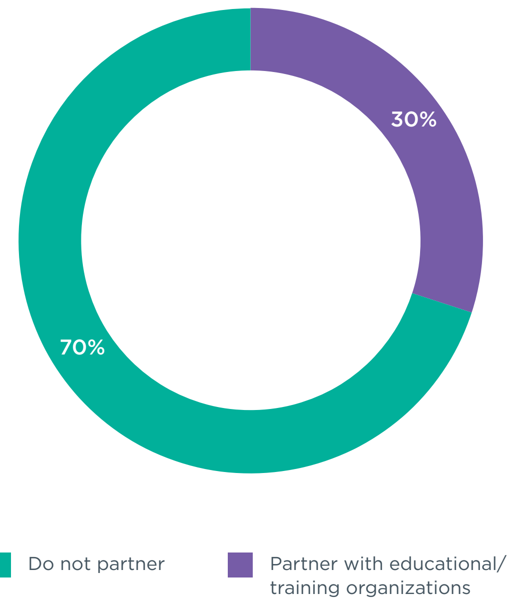
ENHANCE COMMUNITY OUTREACH

Building awareness is a key approach middle market companies can take to ensure their career opportunities are known. Those companies that have a strong employer brand—in other words, firms that have an image and reputation with current employees, prospective candidates, and the general public as a great place to work—typically outperform their peers and have an advantage when it comes to securing top talent.[23] These firms must make sure to actively promote that brand in different ways.

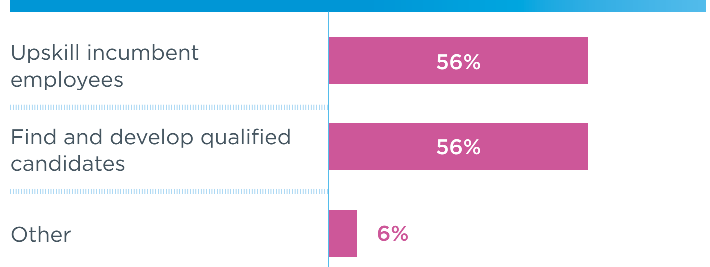
Some of the more prevalent strategies include community outreach events and referral incentives. Community outreach events can provide a two-way path for companies to share their stories while also discovering good candidates for the talent pool. Offering referral incentives for associates reinforces their contribution to building the workforce while also validating that employee value proposition.

Mid-size companies should not overlook the digital space—it can serve as the first window into the organization. Companies may want to take a leaf from larger organizations and leverage social media as a recruiting tool as well as a marketing tool. Actual employees could be featured in videos, blogs, and profiles online that tell the story of what it’s like to work at the organization and highlight career development efforts. The effect on workforce development can be two-fold: clearly communicating the skills and competencies needed for various positions as well as reinforcing a commitment to developing current staff.

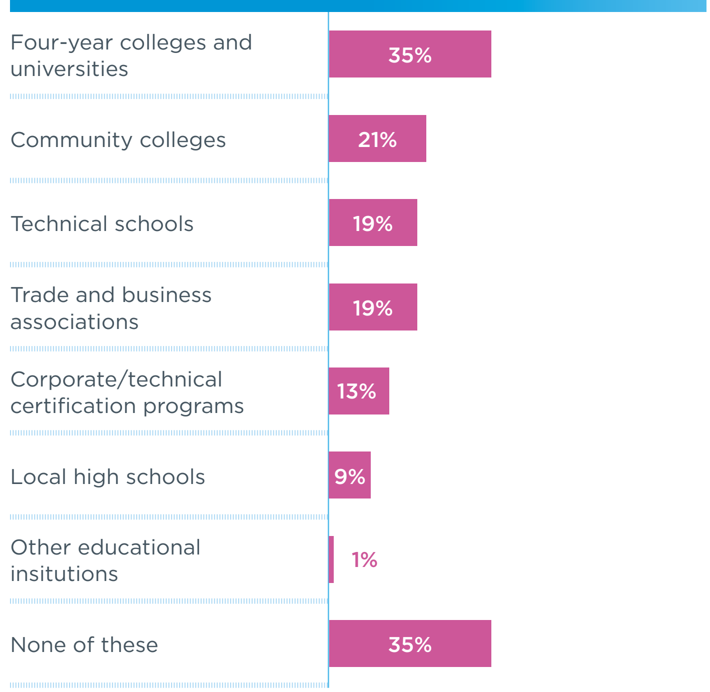
RELATIONSHIPS WITH EDUCATION INSITUTIONS



REASONS FOR RELATIONSHIP



EDUCATIONAL PARTNERSHIPS



External Opportunities

Most middle market companies do not take advantage of opportunities to address workforce problems by partnering with other private or public institutions, organizations, or programs in their industry or community, despite the fact that such partnerships could help companies bolster the capabilities of their internal HR staff. Workforce development partnerships bring complementary resources and perspectives from organizations such as universities and community colleges, private-sector training groups, and public-sector projects and teams. The benefits of scale with these partnerships are particularly helpful for a middle market company that likely will not have the needs of a large corporation, but fits the profile as a partner in this space. One focus group participant in the HR department of a middle market firm estimated off the top of her head that she fills 60% of her job openings through partnerships.

Yet, our research shows that less than one-third (30%) of firms partner with education and training organizations to either upskill incumbent employees or find and develop qualified candidates. Educational partnerships are more common among larger firms, and the most common partners (among firms of all sizes) are four-year colleges and universities, followed by community colleges and technical schools.

One reason why so few firms pursue these types of relationships may be that the United States does not have as strong a tradition as other advanced economies of employers working closely with high schools, technical schools, and universities to create talent pipelines. This reflects that educators and employers generally operate in separate spheres in the United States, in contrast to other countries in which vocational education pathways are more robust, higher quality, and built around extensive employer engagement.[24]

On the public sector and industry side, nearly half (45%) of mid-size companies fail to establish partnerships with organizations such as chambers of commerce, trade associations, or local government. Partnerships are more common among the larger middle market firms, and these companies look to local or national trade groups or their local chambers of commerce. Still, fewer than a quarter of firms take advantage of any of these opportunities to help address their workforce needs.

BUILD RECRUITING AND TRAINING RELATIONSHIPS WITH COMMUNITY COLLEGES AND UNIVERSITIES

As we've seen in previous research, middle market companies (particularly those under $100MM in revenue) are less apt to have formal strategies, processes, and tactics for recruiting. As mentioned above, three out of five companies begin recruiting only when a position is open. In contrast, larger companies often have dedicated staff investing time on campus to connect with future talent. This visibility, along with strong employer brands and employee value propositions, moves these firms to the front of the line in the competition to hire new graduates.

Middle market hiring needs can be real-time; in other words, instead of planning to hire three summer interns and five new graduates each spring, the plan may be driven by current needs. This should not prevent middle market companies from developing recruiting relationships with local educational institutions. Many career management offices maintain student resumes and profiles, and can quickly match organizational needs with available students. Sponsoring a campus event or hosting an information session for rising juniors/seniors also creates awareness and visibility that can help a middle market firm with a tight budget. Faculty are often eager to welcome guest speakers to class or take students to visit company operations. In addition, many business schools offer courses in which students study real-company challenges and problems and make recommendations, providing an introduction to talent and low- or no-cost consulting.

Similarly, middle market companies can take advantage of training options for current managers and employees available through colleges and universities. Students aren't just those moving straight from high school through higher education—professional development is one of the hallmarks of a good talent planning strategy. Employees from front-line associates through the executive team can benefit from training opportunities delivered by the university system, either through open-enrollment programs or custom-designed solutions to address a certain need. Community colleges in particular have proven adept at developing effective certification courses delivered locally to aid in workforce development.

USE OF NON-EDUCATIONAL PARTNERSHIPS FOR WORKFORCE NEEDS	Total Middle Market	Small Middle Market Companies	Core Middle Market Companies	Large Middle Market Companies
Local business associations or trade groups	20%	17%	24%	24%
National business associations or trade groups	20%	15%	36%	22%
Local chamber of commerce	16%	11%	18%	22%
Other businesses	14%	14%	15%	13%
Corporate/technical certification programs	13%	10%	14%	17%
Local government	10%	7%	13%	13%
Other organizations	2%	3%	1%	2%
None of these	45%	53%	33%	37%

ESTABLISH PARTNERSHIPS WITH OTHER FIRMS OR INDUSTRY GROUPS

Only 14% of middle market businesses say they work with other companies to collectively address their workforce needs. Only slightly more firms (20%) seek to partner with local or national associations or trade groups to address these issues. However, working with other businesses in the same industry can be an effective approach to addressing commonly experienced workforce issues. A middle market executive participating in an employer-led consortia noted, "The employers were such a part of the problem for so long. All we did was complain, but we never jumped in to tell people what we needed."[25]

According to an executive from a workforce development and talent solutions company in Philadelphia, developing and supporting industry partnerships is a focus for her organization that is well-received and gaining traction among clients. For example, by creating an industry partnership for advanced manufacturing, the organization is able to link manufacturers to sources of local talent if another plant is moving its operations or experiencing layoffs.

She says the industry partnerships also provide a forum for employers to share pain points and solutions to support the general growth of their industries. Retailers, for example, are looking at ways to combat the perception of retail as a summer or part-time only job by creating career pathways and providing training to help employees move into managerial positions.

Partnerships don't necessarily need to be formalized and can often result from networking with other professionals. An HR leader from a company that operates a large call center shared that by participating in HR industry associations, she's built relationships with other HR professionals from companies that also operate call centers. She says when those companies are experiencing workforce reductions, "we're on their radar so that they can call us and say we have a large number of call center folks who are going to be downsized. Then we can obviously partner with them and maybe hire those folks."

ACTIONS FOR OTHER STAKEHOLDERS

Industry, educational, and public-sector groups have opportunities to redesign or refocus their programs so as to be more accessible and valuable to the middle market—the segment that is most actively and aggressively providing new jobs. The availability of effective partnership models with training and education providers and the leadership of peer firms can lower the perceived risk of action.

Employers are more likely to try new approaches if they trust that partners such as educators, workforce boards, and industry associations understand their specific challenges and are effective in addressing those needs. Effective partnerships reduce information costs, aggregate employer interest and demand, provide a forum for small and mid-sized firms to join forces with larger employers, and, perhaps most importantly, build employer trust.

Tailor public sector services and programs

States and localities are increasingly organizing their efforts around particular industry sectors, responding in part to the federal Workforce Innovation and Opportunity Act (WIOA), which directs states and localities to support sector partnerships. Of course, many states and regions have already incorporated sector efforts into their work. For example, the state of Washinton convenes industry skill panels to identify workforce needs in strategic industries. It also developed community college "centers of excellence" that specialize in targeted industries such as allied health, manufacturing, agriculture, and information technology, working closely with industry representatives to develop responsive and flexible training programs.

Many localities have tailored one or more of their public One-Stop Career Centers to focus on particular industries such as manufacturing and healthcare, which local employers can use. For example, in Louisville, KY the Manufacturing Career Center offers free short-term training (two to four weeks) leading to industry-recognized credentials and that is tailored to local needs. However, sector initiatives are often agnostic as to firm size. It is up to employers in a given industry to identify the problems to be addressed. If employers identify middle market firms as experiencing particular workforce problems, a sector initiative should follow that lead. Of course, the managers of sector initiatives can (and should be) sensitive to their requests of time and other resources of participating employers, especially important to leanly staffed businesses.

Facilitate intermediaries

Aligning labor market supply with employer demand in a given region, industry, or supply chain cannot happen with any scale or efficiency without an entity to bridge the needs and interests of employers, educators, and workers. While it can be described by different labels—workforce intermediary, employer collaborative, industry partnership—such an entity exists to meet employers' workforce needs while helping residents find jobs or better jobs, and as such it should provide value both to businesses and job seekers.

Effective intermediaries allow educators and employers to avoid the inefficiencies of one-by-one engagements by aggregating employer needs across a given sector. They also create forums for small and medium-sized firms to join forces with larger employers for economies of scale in training investments. In describing the key characteristics of high-performing industry partnerships, the National Fund for Workforce Solutions emphasizes strong employer leadership as well as entrepreneurial staff who develop industry-specific expertise and relationships with individual employers.[27]

SKILL UP

In early 2017, Cuyahoga County in Northeast Ohio launched the *SkillUp* initiative to make it easier for area businesses to train their workforce. Housed within the Department of Economic Development, SkillUp helps employers address their skill needs by providing capacity, resources, and expertise—particularly valuable for middle market companies. More specifically, SkillUp provides the following services to employers:

+ Assistance with defining and documenting job duties and skill requirements
+ Custom roadmaps outlining a plan to train employees to industry standards and evaluate their skills
+ A list of providers for technical instruction and credentials

SkillUp also helps employers manage the training process, coaches workers, helps employers create advancement opportunities as worker skills increase, and reimburses employers for approved training and credentialing costs. Staff have private sector experience and backgrounds in fields such as human resources, training, and industrial/organizational psychology. The initiative reports positive early results: Participating workers have experienced annualized median wage increases of about $3,000, and the county has received increased annual taxable income yielding at least twice its investment.

KENTUCKY FAME

In the Louisville-Lexington, KY region, manufacturing firms joined together to create *KY FAME*, the Federation of Advanced Manufacturing Education consortium. The initiative built from and expanded upon Toyota's Advanced Manufacturing Technician (AMT) apprenticeship program, in which Toyota partnered with the Bluegrass Community and Technical College to create a multi-disciplinary course of study focused on electricity, fluid power, mechanics, and fabrication. After it developed AMT, Toyota and other employers with similar talent needs organized themselves into regional consortia to develop "world-class technical talent for manufacturing." An executive of a middle market firm participating in KY FAME noted it was especially beneficial for firms of his size. With "razor thin margins," he doesn't have the staff to do outreach to educational institutions and potential students: "That's why consortiums are so important."[28, 29]

Conclusion

Middle market companies do not face workforce challenges alone. But they clearly do experience a significant gap between their demand for skilled talent at all levels and their ability to access that talent. The problem comes in part from passivity on the part of middle market firms—they are not being proactive enough in addressing their own talent issues. At the same time, public and educational resources have not adjusted their offerings to align better with the middle market as the primary source of new jobs.

Much of the onus lies on middle market firms to make strides in closing the gap. For example, they can do a better job of promoting their brands and attracting more candidates, and they can proactively build their HR capabilities, in terms of recruitment, internal skills development, and retention.

Where appropriate, they can also partner with other companies and industry organizations to collectively address workforce issues. But external workforce support systems and educational providers must play a role as well. This starts with recognizing the importance of the middle market in the area of new job creation and taking action to better connect their services with needs of mid-sized companies. When middle market firms as well as the larger workforce ecosystem both take the initiative to develop a skilled workforce, companies, workers, and communities all stand to realize the benefits.

About This Report

THE U.S. MIDDLE MARKET

The U.S. middle market comprises nearly 200,000 companies that employ 44.5 million people and generate more than $10 trillion in combined revenue annually. The middle market is defined by companies with annual revenues between $10 million and $1 billion. In addition to their geographic and industry diversity, these companies are both publicly and privately held and include family-owned businesses, sole proprietorships, and private equity-owned companies. While the middle market represents approximately 3% of all U.S. companies, it accounts for a third of U.S. private-sector GDP and jobs. The U.S. middle market is the segment that drives U.S. growth and competitiveness.

WORKFORCE CHALLENGES IN THE MIDDLE MARKET

Despite the fact that middle market firms hire more workers and generate more new jobs than any other economic segment—or perhaps because of that fact—middle market executives regularly cite talent management issues, including competing for and acquiring people, training and development, and retention, as a top challenge affecting company performance and long-term growth and vitality. Difficulty finding and developing people with the right technical and soft skills is central to the workforce challenge. Drawing on both research and practice, the National Center for the Middle Market, and the Brookings Institution explored the specific workforce challenges middle market executives and hiring managers face in finding the right workers for the job, as well as the factors—both internal and external to firms—contributing to those challenges. Our work identifies and defines common issues for middle market firms while highlighting strategies and emerging solutions that mid-sized companies as well as policymakers and other stakeholders can adopt to help the middle market find and keep the right talent for its jobs.

HOW THE RESEARCH WAS CONDUCTED

The National Center for the Middle Market surveyed 1,000 CEOs, CFOs, and other C-suite executives of America's middle market companies. The Center designed specific survey questions to learn about the human resources and workforce partnership practices of these firms, including their recruiting and training efforts and challenges, the role of HR, and how the firms partner with other entities and organizations to address workforce issues. Executives completed the survey during the first two weeks of December 2016. Additionally, the Center and the Brookings Institution conducted focus groups with middle market executives in Atlanta and Philadelphia in April 2017 to gain additional insights into the unique challenges middle market companies face when it comes to finding the talent they need to grow. Brookings also interviewed local workforce investment boards, other intermediaries, and firms. This report is prepared jointly by the National Center for the Middle Market and the Brookings Institution.

THE NATIONAL CENTER FOR THE MIDDLE MARKET

The National Center for the Middle Market is a collaboration between The Ohio State University's Fisher College of Business, SunTrust Banks, Inc., Grant Thornton LLP, and Cisco Systems. It exists for a single purpose: to ensure that the vitality and robustness of middle market companies are fully realized as fundamental to our nation's economic outlook and prosperity. The Center is the leading source of knowledge, leadership, and innovative research on the middle market economy, providing critical data analysis, insights, and perspectives for companies, policymakers, and other key stakeholders, to help accelerate growth, increase competitiveness and create jobs in this sector. To learn more visit: www.middlemarketcenter.org.

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The National Center for the Middle Market (NCMM) and the Brookings Institution have partnered to highlight the middle market as a critical component of the national economy. As its importance is not fully understood by policymakers and other stakeholders, this partnership will address this gap through collaboration, expert research, company insight, metro-based experiences and strategic engagement with our respective networks. Together, the NCMM and Brookings will elevate the middle market as a key driver toward building a more productive, resilient, and inclusive economy.

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