

# Attract and Retain the Best People As You Grow

Doug Farren (National Center for the Middle Market)

**KEYWORDS:** human resources, Growth.

All businesses confront their own talent management challenges at some point. Small businesses and start-ups, typically consisting of the founder/owner and perhaps one or two key employees, struggle with determining when and how to best build their team to continue driving growth. Established enterprises, on the other hand, need to manage the complexity overseeing the performance, development, career paths, and succession plans of potentially thousands of individual employees.

In between these categories are middle market companies, defined as those with annual revenues between \$10 million and \$1 billion. And these midsized firms face their own unique talent management challenges. Entrepreneurs whose firms are approaching midsized should get ready for them, in order to attract and retain the talent they need to grow successfully.

## What is the middle market?

The middle market is an economic powerhouse but has long been understudied and underserved. These businesses exist across all industries, geographies and ownership types and account for a third of private sector GDP and employment in the U.S. economy. However, unlike small entrepreneur-led businesses, which enjoy support and advocacy from dedicated groups like the Small Business Administration, the middle market is very diverse group without a set of common denominators. Even large, publicly traded companies enjoy the recognition of being assembled into groupings like the Fortune 500, S&P 500, Russell 2000. Those titles have become commonplace in the American business lexicon.... but if someone were to say “middle market,” what images would come to mind?

The National Center for the Middle Market (NCMM), located at The Ohio State University Fisher College of Business, was launched in 2011 to bring more understanding and attention to middle market companies through research, outreach, and education. Over the years, the NCMM has been able to define what comprises the middle market, and its unique challenges

and opportunities. Here are some interesting facts about this huge swath of our economy:

- Over 90% of the middle market are privately-held companies, which makes finding data or information about how they operate so difficult.
- The average age of a middle market company is approximately 40 years, meaning they've been through multiple business cycles and have gone through the twists and turns of early-stage growth.
- Our research shows that about 45% of these companies are family-owned, bringing in another dimension of relationships and legacy to manage.
- While midsized companies are a very diverse group, one challenge they all share is that nearly 95% of them report having some degree of skills gap, while nearly 30% say their workforce is insufficient for the current market environment.

## Talent management in the middle market

What makes the talent arena such a vexing issue for the middle market? For one, many of these organizations run “lean” – doing more with less, but all the while facing big problems with limited resources. Think of it this way: the Society for Human Resources Management (SHRM) has historically identified as a best practice that companies should have approximately one HR resource for every 75 employees. That means a middle market company with 200 employees might have only three associates managing all of the functions associated with people (forms, regulations, payroll, recruiting, onboarding, exit interviews, reviews, and more).

Another challenge for middle market companies is developing an employer brand – the reputation among employees and in the community at large. What do people think about when they hear a company name, or see a logo -- value, quality, innovation, technology? Many middle market companies fail to cultivate this form of “brand,” which then makes it hard to recruit people,



since job candidates might not know much about the organization. Finally, there is the employee value proposition. This consists of the sum of benefits, both tangible and intangible, that contribute to culture and employee well-being. Most of us have heard the stories about beer-cart Fridays, or bring your dog to work day...elements of the employee value proposition that are as important as salary, benefits, and the chance to move up. How do midsized firms define, deploy, and communicate these perks? Developing and then talking up both employer brand and employee value propositions help make a company more successful in attracting new talent.

While these challenges are real, middle-market firms generally have the ability to overcome them and make their talent management a strength.

## Meeting the challenges

One of the key strengths of these firms are their resilience. For instance, the NCMM tracked employment in the middle market during the COVID-19 pandemic. While this segment certainly was not spared from the impact of this unprecedented disruption to our society and the world, the number of layoffs and shutdowns were far less than what both smaller and larger companies experienced. Part of the reason is that as privately held companies, leadership can afford to take a longer view and not overreact for the sake of making quarterly earnings. Meanwhile, middle market firms are large enough to weather the shocks that a small start-up might view as a death knell, such as 8-12 months of decreased revenue in this case.

Another strength is agility – making quick pivots to react to both opportunities and threats, either in the marketplace or internally. Larger enterprises often need layers of management and sometimes board approval to undertake strategic changes. The middle market can often capture innovation or seize upon an unforeseen event – mass layoffs at tech firms, for instance – to attract the talented people displaced from those firms. Even now with an uncertain economic environment shaken by record inflation, geopolitical instability, and the threat of recession, the NCMM is hearing of more middle market companies looking to double-down on investment and growth. In fact, they have enjoyed double-digit employment growth rates over the past two years.

## Six things to think about

So, what are the best middle market companies doing to accelerate their own talent management capabilities? The most important thing is to first view talent management as an actual function: not just as part of Human Resources, but also an actual process that needs some degree of structure, organization, and management. Don't confuse this with bureaucracy. While many large, multinational enterprises build talent profiles, produce binders, and organize quarterly or annual "talent reviews," middle market companies do not need to be so formal. Here are some questions that leaders and managers of small but rapidly growing companies should ask themselves:

- Are managers developing their high-performing, high-potential employees through challenging assignments and customized training? It's not enough to just show employees the ladder for success; they need help with "career pathing," or achieving the skills and experience to climb it.
- Does a basic succession plan exist, especially for key leadership roles and mission-critical positions?
- Are employee skills being continually evaluated not only to support the needs of today, but also the future?
- Does the entire leadership team discuss the potential of all the workers throughout the organization, rather than having managers focus narrowly on just the people who work for them?
- What is your company's "brand?" Will potential employees and people from outside the company recognize it?
- Think about your employee value proposition: Do people see your company as a great place to work because of its tangible benefits and small perks, such as allowing employees to bring pets to work?

Asking questions like these, and the discussions that follow, can help startups that are approaching midsized to identify untapped potential among their employees and reveal ways to develop them. And it can also show how to make the company more attractive to future workers.

## Conclusion

As companies grow out of being small businesses, everything will continue to become bigger – the number of customers, number of facilities, number of

employees, and amount of technology. Some of the biggest barriers to growth become resources: time, capital, and especially people. Often times the focus is on accelerating top-line revenue as quickly as possible and accessing the right capital to fuel that growth. But keep the talent element front and center.

Having the right people with the right skills in place at the right time is critical to maintain a successful trajectory. You need to plan for that. But that isn't enough – you need a sustained focus on training, development, and career pathing in order to build skills and maintain employee satisfaction. And if employees and outsiders have a good image of your company's brand, and you have a reputation as a nice place to work, meeting your staffing challenges will be so much easier.