

REOPENING THE MIDDLE MARKET:

MIDSIZE BUSINESSES DISPLAY OPTIMISM,
WITH RESPONSES DIFFERING BY SIZE

RSM US MIDDLE MARKET BUSINESS INDEX SPECIAL REPORT

2020



U.S. CHAMBER OF COMMERCE



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EVEN AS RISING coronavirus cases in the third quarter of 2020 forced local U.S. economies to pull back from reopening activities, middle market businesses in the United States remained largely optimistic they would be able to resume operations within the next year, proprietary research from RSM US LLP found.

Executives at midsize companies also appeared steadfast in their approach to pandemic-related safety, ensuring that certain conditions must first be met for employee readiness and on-site worker health protections, as well as requiring a decline in coronavirus case count, according to the third-quarter RSM US Middle Market Business Index survey, which polled executives from July 8 to July 23 on pandemic-related questions.

Enthusiasm for reopening was a predominant theme, regardless of business size. But attitudes and approaches toward remote work, the timing of reopening, the measures necessary to prepare employees and businesses for restarting their offices and facilities, and the handling of reopening costs, varied significantly between larger and smaller middle market companies.

“We were heartened by the positive response to reopening displayed by the majority of midsize firms in the survey cohort,” said RSM US Chief Economist Joseph Brusuelas, noting that an improvement in economic sentiment in the main MMBI index subsequent to the quarterly survey supports their ongoing optimism. “On a tactical level, however, it seems that smaller middle market firms—while typically more nimble with their

operations—will likely feel more pressure on their margins in the near term, due to their inability to pass reopening costs downstream to their customers.”

Remote work

Not surprisingly, larger companies with more sophisticated communications infrastructure saw their employees more readily pivot to remote work. Executives at 43% of larger middle market companies—those with annual revenues of \$50 million to \$1 billion—said 20% to 39% of their staff was working remotely. That compares with a significantly fewer 14% of their smaller middle market counterparts, whose businesses have annual revenues of \$10 million to \$50 million. In fact, 24% of smaller middle market businesses had zero employees working remotely, compared to just 5% of the larger-company cohort.

Percent of employees now working from home or other remote locations since COVID-19 pandemic



Source: RSM US Middle Market Business Index, Q3 2020

Taking this a step further, as a nationally representative sample of U.S. middle market companies, MMBI data—consistent with national patterns—reflects the higher concentration of manufacturing companies in the lower revenue ranges. And manufacturers, of course, typically require on-site workers to maintain production.

On the positive side, the limited use of remote work by smaller middle market companies, combined with their nimbleness, may give those businesses a leg up when returning to the workplace.

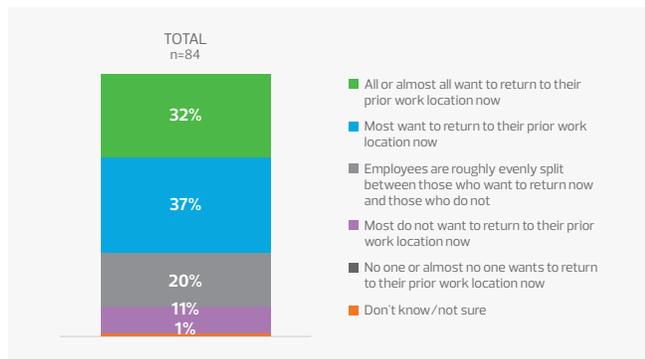
“Getting back into the office creates a lot of issues for companies, particularly around human resources,” said RSM Principal Jay Schulman. “Smaller companies can adapt and accommodate these issues with more agility than larger companies.”

Return to work

The attitudes of employees toward workplace safety was paramount to nearly all executives polled in the MMBI survey. Ninety-eight percent of executives said that employee readiness was a consideration in their reopening plans, and 40% indicated that it was critically important.

The majority said that the workers themselves appear eager to return: 69% said their employees are ready to come back immediately. Of those whose companies plan to reopen their workplace location within the next 12 months, the majority said their organizations had surveyed their workers—either formally or informally—about their readiness to return. But the scope of their companies’ operational footprint led to differing views on the timing of reopening.

Best describes desires of employees to return to prior work locations

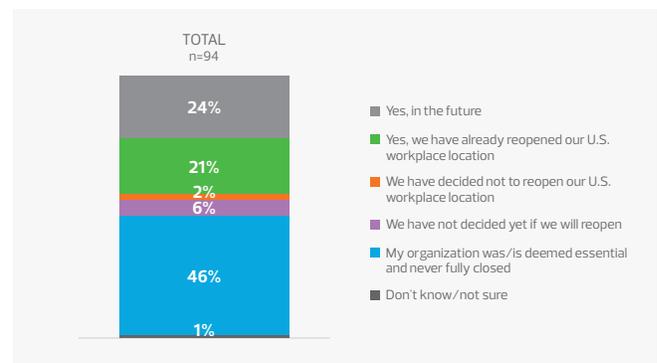


Source: RSM US Middle Market Business Index, Q3 2020

When middle market executives whose businesses encompass multiple locations were asked about whether they planned to reopen U.S. work locations within the next year, slightly more than half said they expected to reopen all locations, and 29% said they would reopen most.

Those businesses with just a single location—typically smaller middle market businesses—appeared more aggressive with respect to maintaining and restarting operations. Forty-five percent said they had already reopened or planned to reopen operations, and 46% indicated that their organizations had been deemed essential and never closed.

Organization plans to reopen U.S. workplace location within next 12 months



Source: RSM US Middle Market Business Index, Q3 2020

Workplace safety

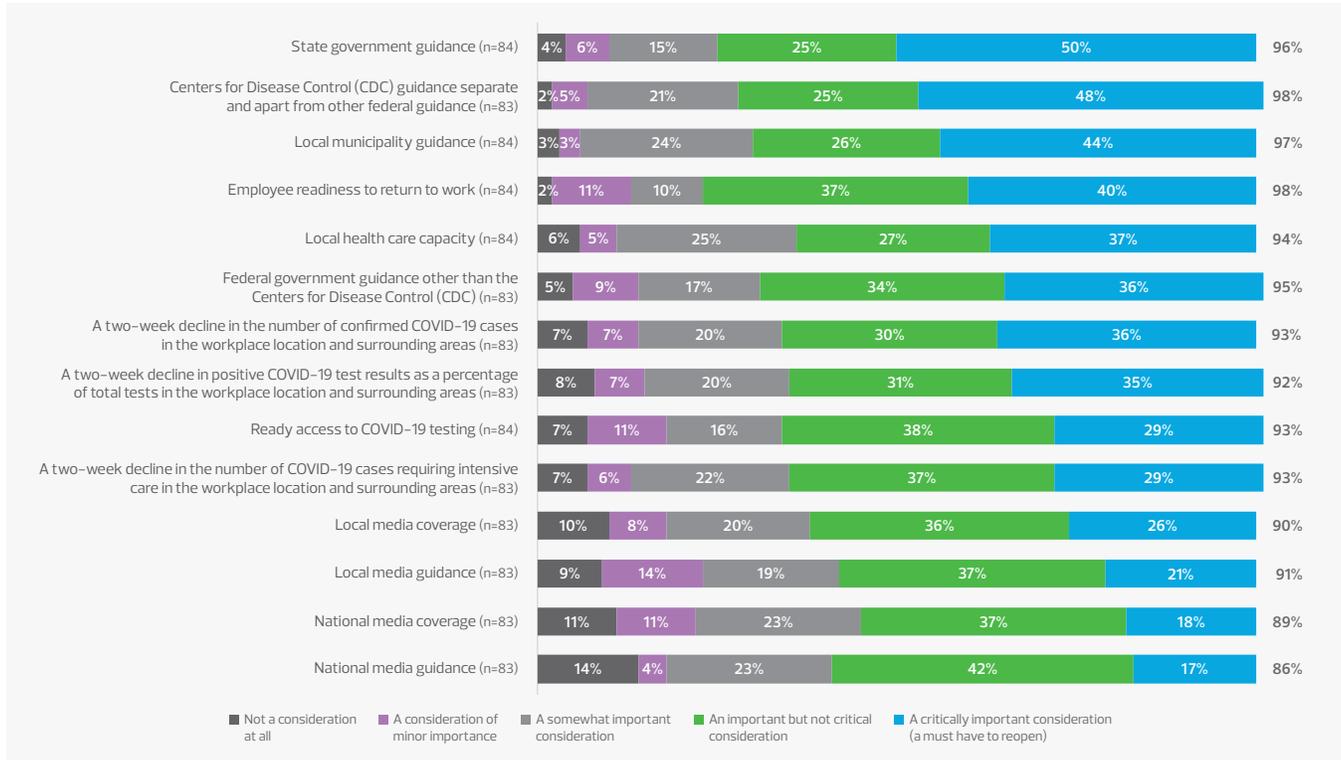
Given the magnitude of the pandemic, executives said their businesses made safety paramount. Of those who plan to open the next 12 months, 86% said a two-week decline in the number of confirmed COVID-19 cases in the workplace location and surrounding area would be at least somewhat important to consider before reopening. And 83% said that ready access to COVID-19 testing was at least a somewhat important consideration. An overwhelming majority (65%) said they provided their workers with personal protective equipment (PPE).

MIDDLE MARKET INSIGHT

Attitudes and approaches toward remote work, the timing of reopening, the measures necessary to prepare employees and businesses for restarting their offices and facilities, and the handling of reopening costs, varied significantly between the larger and smaller middle market.



Importance of considerations in decision to reopen workplace location



Source: RSM US Middle Market Business Index, Q3 2020

Besides employee readiness, other top considerations for all executives surveyed included state, government and local municipal guidance; data from the Centers for Disease Control and Prevention; and the ability of local health care facilities to handle coronavirus cases. Underscoring the regional variances in the pandemic's spread, executives said that factors less significant to them were media coverage at the national and local levels.

"The most important factor is that the case count has to drop significantly," noted one executive in the financial services sector." Said another in the manufacturing space: "We want to make sure we have proper precautionary steps in place so that when we reopen, our employees are protected."

Based on responses, the 10 steps businesses planned to take to control social distancing in the workplace ranked as follows:

1. Limiting the number of persons that can be physically present in a group (62%)
2. Limiting the total number of employees and visitors in the workplace (56%)
3. Prohibiting nonessential vendors and deliveries from entering the workplace (54%)
4. Prohibiting handshaking (53%)
5. Establishing minimum spacing between workstations (52%)
6. Offering continued remote work as an option (51%)
7. Closing or limiting access to common areas (50%)
8. Establishing physical barriers between workstations (44%)
9. Providing visual markers on walls or floors to establish distancing (43%)
10. Rotating/limiting days that individual employees can be physically present (35%)

THESE '3 PS' HELP DETER EMPLOYEE DISENGAGEMENT

Transparent policies, frequent communications with employees and workplace safety measures are among the components required for companies to bring their employees back to the workplace as the novel coronavirus pandemic plays out. But Jay Schulman, principal at RSM, indicates there are deeper considerations that businesses must consider, including overall people morale, productivity and equity measures when facing predominantly virtual environments.

“For many companies, it’s an HR concern in terms of how to support their people when working from home,” Schulman says. For instance, how does a company handle sick days? Is an employee truly able to take a sick day, or is there an expectation for the employee to stay somewhat engaged during this time? Or, what types of flexibility are needed for the employee who is at home with children attending school at home?

“Employees will have to help employers understand the limitations and needs in order to work through issues. In turn, employers must provide structure and HR policies to provide guidance,” he says.

Likewise, says Schulman, productivity and employee engagement in a remote setting are important. Because of office shutdowns, diminished contact, limited travel and other pandemic restrictions, isolation has become a norm. Indeed, there are virtual connection points, he says, but decreased face-to-face interactions and limited movement have taken their toll.

Before the pandemic, a person going about their typical day had about 35 face-to-face interactions, Schulman says, a number that might now be at most 10, for some. This decreased engagement has a way of dampening employees’ spirits and fostering depression. Fresh ideas and creativity may suffer, and attention spans may wane. Schulman says employers will have to think of ways to combat isolation and

reinvigorate people to spark engagement, maintain productivity and keep morale from eroding.

Finally, while remote work provides the answer now for many businesses, some companies are maneuvering to bring more employees back to the workplace, using a bucket approach that categorizes their workers by how essential they are to the office. Bucket 1 might be deemed essential to be on-site every day, whereas Bucket 5 could work remotely full time. While such an approach can be effective, Schulman has some reservations.

“Does this categorization create inequities among employees?” he asks. Do the workers deemed essential have more opportunities for important face-to-face interaction, mentoring, formal and informal training, and exposure to culture and esprit de corps than those in a lower tier who will largely remain isolated from the office?

KEY TAKEAWAYS

Consider the three Ps when thinking through reopening efforts.

- **People:** Are your employees’ needs considered regarding flexibility and work-life demands? Do your HR policies address these concerns?
- **Productivity:** Are you monitoring performance and productivity? Do you have an employee assistance program in place to provide counseling and other resources for your people?
- **Parity:** When bringing employees back in the workplace, are you thinking through equity measures to ensure all employees—both on-site and remote—have similar opportunities related to career, training and engagement?

WHEN REOPENING, AVOID A ONE-SIZE-FITS-ALL APPROACH

In preparing to reopen offices and work sites, companies should communicate thoroughly and frequently with employees about what the reopening process entails, said Antoinita Thompson, a human capital consulting manager at RSM US LLP. That might involve educating employees about what new COVID-19-related regulations companies are required to adhere to, explaining new office configurations or distributing masks and other PPE. All of this can help to put employees at ease.

Employers will also need to navigate accommodations for employees who have children attending school remotely from home, Thompson said. Some companies are implementing flexible schedules that allow employees to manage their time as needed in order to balance work and child care duties in a healthy way.

There is no one-size-fits-all solution; whether employees are handling new child care arrangements, getting used to working from home or simply dealing with pandemic fatigue and stress, workplace operations will likely be fluid for some time, Thompson said.

“Employers and employees are going to have to be flexible with providing information as well as receiving the information,” she said. “The best thing employers can do right now is be transparent with employees.”

Companies can also support their teams by promoting and enabling employees to take courses to grow their skill sets or enhance their professional development, Thompson said. Executive leadership might encourage some employees to attend webcasts that help them stay up to speed on the host of new policy implications the pandemic has spurred, such as the Families First Coronavirus Response Act, which requires certain employers to provide employees with paid sick leave or expanded family and medical leave for specific reasons related to COVID-19. These efforts can help employees feel supported by their companies during this time of uncertainty as work sites reopen.

KEY TAKEAWAYS

- Employers and employees need to be flexible while adapting to changing work environments.
- Companies need to communicate clearly with employees about what reopening entails.
- Businesses may want to encourage employees to take opportunities to continue their professional development and grow their skill sets.

RSM US LLP (RSM) and the U.S. Chamber of Commerce have joined forces to present the RSM US Middle Market Business Index (MMBI)—a first-of-its-kind middle market economic index developed by RSM in collaboration with Moody’s Analytics. Our special reports are derived from a topic-specific question set that varies each quarter.



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