



MHR



RESEARCH REPORT

BUSINESS RESILIENCE AND THE FORGOTTEN MIDDLE

Investigating why UK and Irish businesses are teetering on the edge of having the right resources to navigate business risk and what they can do to be successful.



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EXECUTIVE SUMMARY

WHAT IS AN ACCEPTABLE LEVEL OF BUSINESS RISK?

Despite business leaders saying that resilience and agility are higher on their agenda now than five years ago, many mid-sized enterprises in the UK and Ireland admit that they can only 'just about cover it' when having to respond to recent market shocks.

Mid-sized businesses have a unique set of challenges that are driven by their size, history and stage of development. They are often squeezed between large global enterprises with their greater level of resourcing, and nimble start-ups with their flexible business models and digital superiority.

Despite these challenges, there are steps that mid-sized enterprises can take to boost their business resilience and increase their buffer against potential negative events.

We define business resilience as being in control of your company performance through flexible resource availability (financial resources/funding, people and assets), a good understanding of your business risk tolerances, and accurate business modelling to predict and react to what is likely to happen before it happens.

At MHR, we enable organisations to thrive in an ever-changing world, delivering the real-time data and insights that inform plans and decisions, and the flexible systems and support that aid swift adaptation to change. We partner with organisations to create a more adaptable today and a sustainable future, increasing resilience and enabling excellence.



INTRODUCTION

ADDRESSING THE CHALLENGES OF MID-MARKET ENTERPRISES

Compared to the period of relative stability before the 2007/08 global financial crisis, the unpredictability of the last 15 years has led businesses to reassess how they plan for risk.

What started with a sharp decline in economic conditions in the wake of the financial crisis has been followed by a series of shock events, including Brexit, Covid-19, the conflict in Ukraine and the possibility of another recession.

These events have greatly contributed to major challenges such as supply chain difficulties, high gas and utility costs, global inflation, low unemployment rates and the climate crisis.

Alongside this, we have seen huge changes enabled by digitisation across working practices, such as talent mobility and more flexible/remote working, as well as younger generations entering the workforce with different expectations of working practices and engagement.

In today's volatile, uncertain, complex and ambiguous world (VUCA), businesses need to be prepared for the unexpected.

We surveyed over 500 senior managers, C-level executives and business owners from businesses in the UK and Ireland with between 500 and 5,000 employees. Our aim was to understand the unique reality that these organisations face in competing with the agility of start-ups and the resources of the multinational enterprises. The results found that, shockingly, many mid-sized UK and Irish enterprises have 'just about enough' capacity to cover unexpected events, but it would not take much to tip them over the edge.

In this report we highlight the particular challenges faced by these businesses, and what they can do to prepare themselves for the next big challenge or market shock.



SHEDDING LIGHT ON THE FORGOTTEN MIDDLE

WHO ARE THE MIDSIZED ENTERPRISES?

According to Gartner

“Midsize enterprise is a term essentially born out of a process of elimination – it refers to the organisations that are neither Global 2000 enterprises nor small businesses.”

There are over 3,500 businesses in the UK and Ireland with over 500 employees, and only a handful of these are large, global enterprises. The remainder of these fall in to our definition of a midsize enterprise: a company with between 500 and 5,000 employees, or with revenues of between £50 million and £2 billion.

Very little research focuses on this segment of the market, which is surprising given that it is a major driver of the UK and Irish economies, contributing to an estimated:

48% of total UK turnover.



UNIQUE CHALLENGES OF MIDSIZED ENTERPRISES

Regardless of their industry sector, mid-sized enterprises experience a similar set of challenges driven by their size, history and stage of business development.

Our research has identified several major challenges in particular that mid-sized enterprises face.

CHALLENGES	RATING*
Staying ahead of competition from large global enterprises	81%
Internal business complexity	80%
Availability of appropriate skills to remain competitive	79%
Responding quickly to unexpected changes in the market	79%
Restrictions or delays caused by legacy systems/infrastructure	79%
Achieving stakeholder growth expectations	77%
Having sufficient people resources to remain competitive	77%
Ensuring sufficient budget/investment to remain competitive	76%
Getting clear visibility of company performance and key metrics	72%
Fulfilling your regulatory/compliance obligations	72%
Staying ahead of competition from nimble start-ups	72%

*% listing the issues as very challenging or somewhat challenging

UNPACKING THE TOP THREE CHALLENGES

1. Staying ahead of competition from large global enterprises – and smaller start-ups

By their nature, large global enterprises generally have good economies of scale and access to resources, as well as the pull of a well-known name to attract customers and employees. Midsized enterprises need to hold their own with less scale, and fewer resources to win business and continue to grow. Although the risk from global enterprise is perceived as higher, there is the additional risk of competition from nimble digitally native start-ups. Midsized enterprises are being squeezed in the middle, fighting on two fronts to protect and grow their business.

2. Internal business complexity

Our research shows that almost two-thirds of midsized UK and Irish enterprises have expanded at least partly through inorganic growth, which could explain why internal business complexity is a challenge. The age of an enterprise and its reliance on legacy systems and infrastructure – which may no longer be fit for purpose – are also likely to contribute to this complexity. Nearly one third of midsized enterprises find that restrictions or delays caused by legacy systems/ infrastructure are a significant challenge.

61%

of midsized UK and Irish enterprises have expanded at least partly through inorganic growth

31%

find that restrictions or delays caused by legacy systems/infrastructure are a significant challenge



UNPACKING THE TOP THREE CHALLENGES

3. Availability of appropriate skills to remain competitive

By 2030, two thirds of the UK workforce could be lacking basic digital skills, while more than 10 million people could be under-skilled in leadership, communication and decision making. Competition to recruit skilled individuals in the UK and Ireland is already fierce, and it looks set to get worse. Midsized enterprises are finding it difficult to compete with larger global enterprises that are better able to keep up with wage inflation and may be more advanced in their digital transformation (providing a more attractive working environment), and smaller organisations that have the advantage of being digitally native and better set up to meet the needs of younger working generations. All of which makes it harder for midsized enterprises to attract skilled workers.

While all these factors raise issues for most midsized enterprises, businesses that are over 20 years old see the greatest level of challenge. This is particularly true when it comes to having the right people and skills to remain competitive, being able to quickly respond to changes in the market, overcoming restrictions caused by legacy infrastructure and fulfilling regulatory obligations. This could be due to the age of the infrastructure, and the difficulty this creates in building working systems and environments that meet expectations in the digital age.

2/3 of the UK workforce could be lacking in basic digital skills by 2030

>10 million

people could be under-skilled in leadership, communication and decision making



THE RELEVANCE OF RESILIENCE

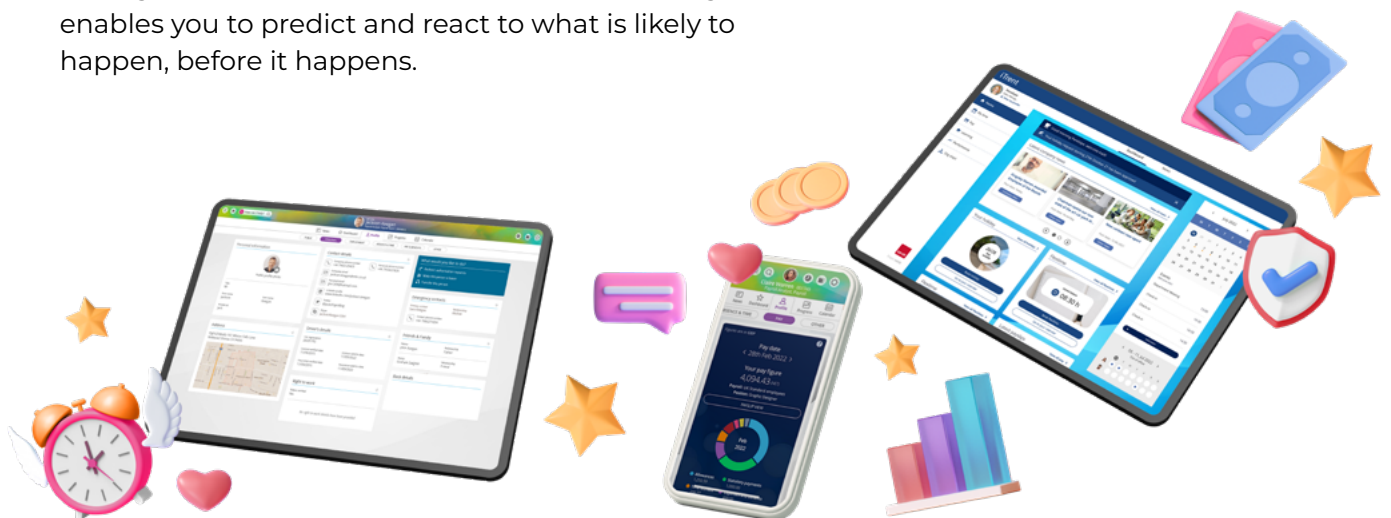
WHAT DO WE MEAN BY BUSINESS RESILIENCE?

We see business resilience as having everything that you need to ensure the survival and growth of your mid-sized enterprise in an increasingly unpredictable and fast-moving world.

At its highest level, business resilience is being in control of your company performance. This relies on several conditions, most critically:

- having flexible resource availability to guarantee access to financial resources/funding, people and assets as and when you need them
- having a clear understanding of your business risk tolerances – how far your business can flex without breaking
- having the accurate business data and modelling that enables you to predict and react to what is likely to happen, before it happens.

All of which is underpinned by what we call the Three Is of the resilient-ready organisation. This is a framework that highlights the most important building blocks of a resilient organisation, ensuring that you are in control and able to successfully navigate business risk.



THE THREE IS FRAMEWORK



Inspired individuals

You are able to **effectively recruit, lead, empower and energise** your most valuable resource: your people.



Insightful information

You can deliver the **accurate inputs, outputs and reporting** that are fundamental to good decision making and compliance. You know where information comes from and how it flows and reports across the business, and use this information to model scenarios in order to **manage future costs and risk**.



Intelligent integration

Your data, systems and teams are brought together in a user-friendly, secure way for **superior visibility and agility** across the entire business.

Organisations that have good capability across the Three Is will have greater business resilience. They will have more visibility and control over their financial performance and forecasts, their flexible resource availability (cash, people and assets), and their business risk tolerances.



HOW IMPORTANT IS RESILIENCE TO MIDSIZED ENTERPRISES IN THE UK AND IRELAND?

It is no surprise that building business resilience is moving up the agenda within midsized enterprises in the UK and Ireland.

84% think that resilience is a higher priority than it was five years ago

Major reasons for this include responding to the Covid-19 pandemic and other change/uncertainty such as Brexit, inflation, climate change and the conflict in Ukraine.

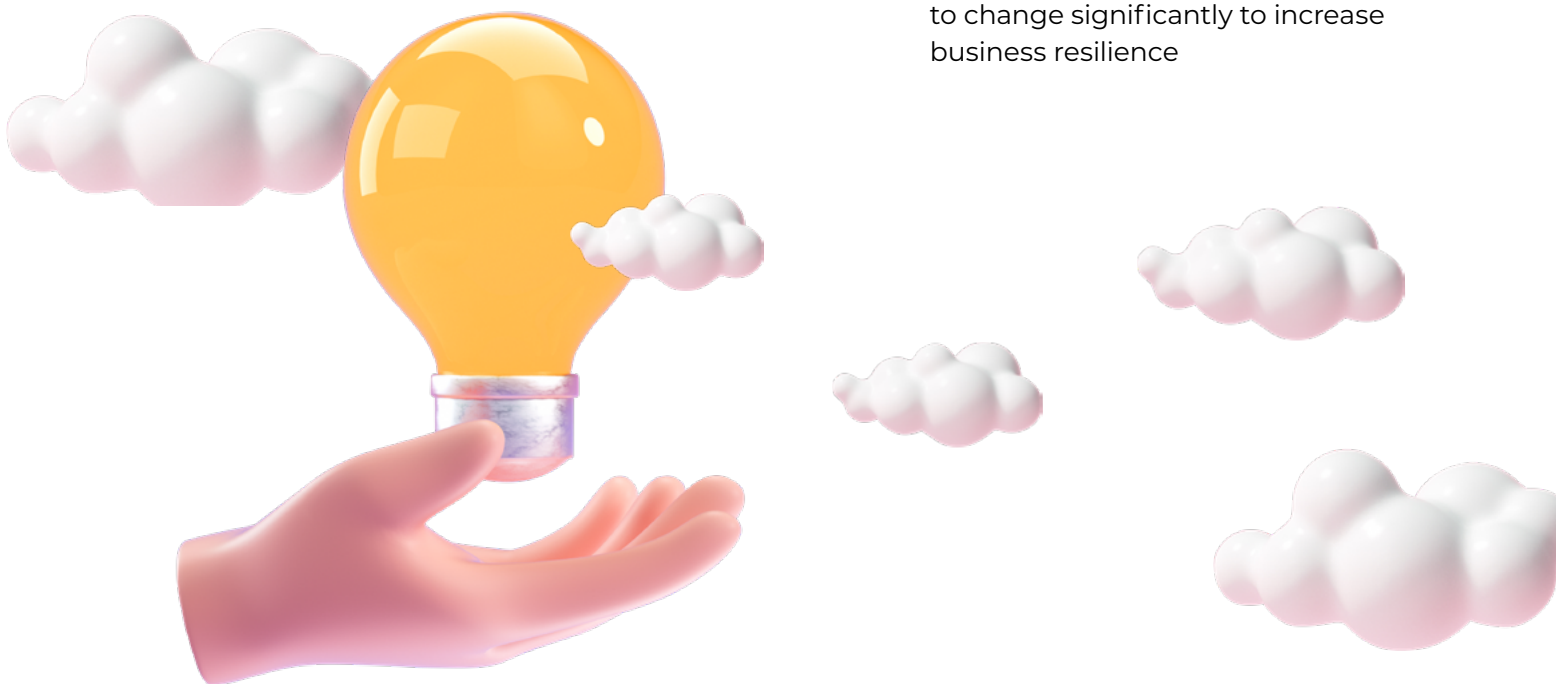
85% agree that there are areas that they need to change significantly to increase their level of business resilience

Over half

think that some changes are needed

1/3

think there are a lot of areas that need to change significantly to increase business resilience



RATING RESILIENCE TODAY

WE CAN JUST ABOUT COVER IT

While they recognise the importance of business resilience, many mid-sized UK and Irish enterprises do not have significant buffers against events that might have a negative impact on their business. The door to business risk is clearly open.

Only a quarter of businesses of this size rate their financial performance as consistently strong in difficult market conditions.

Over a third

(36%) rate their ability to withstand non-routine disruptive events as less than good. This number increases as a company gets older, rising to almost half (46%) for businesses that are over 20 years old.

Only 28%

have had more than enough cash-flow to cover unexpected events in the last five years. The majority (63%) have had 'just about enough' to cover it. This clearly exposes businesses to risk.

Less than half

have significant financial capacity to support operational change. 51% can 'just about cover it'.

Many are also lacking the financial resources or funding for investment, as well as people resources and assets, to remain competitive.

Only 1/4

say that their organisation has all the resources it needs to remain competitive.

In terms of being fully in control of their current business performance and forecasts, many mid-sized enterprises are lacking insightful data to enable them to respond quickly to downturns in performance and anticipate future risks.

Only 29%

believe that their organisation has a good understanding of their current and likely future business risks and tolerances.



WE CAN JUST ABOUT COVER IT

Just under a third

(32%) are very confident in the accuracy of their business reporting and modelling.

Many mid-sized enterprises are also struggling to maximise the effectiveness of their partnerships, including those with suppliers, regulators, authorities and the wider community. The importance of partnerships to building resilience should not be underestimated. In today's complex environment, no business exists in isolation, with supply chains increasingly dependent on a network of partners for business-critical deliveries. Partnerships with stakeholders outside of the immediate supply chain – such as regulators and the wider community – are also essential for compliance, licensing and maintaining a positive brand reputation.

**Only
1/4**

of organisations have very effective partnerships. Most position them as 'somewhat effective', meaning that there is definitely room for improvement.

All this data suggests that, while many mid-sized enterprises have been able to 'hang-on' during difficult times so far, their margin for error is very small and is likely to be severely tested when the next unexpected situation arises.



STEPS BEING TAKEN TO BOOST RESILIENCE

Our research shows that mid-sized UK and Irish enterprises are taking some action to boost their business resilience.

88% have made significant changes over the last five years to increase their business resilience. 30% have made a lot of significant changes. Just 5% have not made any changes and have no plans to do so.

86% of organisations who rated their ability to withstand non-routine disruptive events as less than good are looking to improve this within the next year.

The changes that mid-sized UK and Irish enterprises have made over the last five years, or plan to make going forward, mapped into our Three Is as follows:



Inspired individuals

44% have made changes to workforce management

but

33% think that significant change is still required in this area.

40% have focused on employee engagement

but

35% think that significant change is still required in this area.

35% have improved leadership

but

37% think that significant change is still required in this area.

STEPS BEING TAKEN TO BOOST RESILIENCE



Insightful information

48% have implemented digital transformation programmes **but** **42%** think that significant change is still required in this area.

47.6% have improved processes **but** **38%** think that significant change is still required in this area.



Intelligent integration

43% have improved access to data **but** **40%** think that significant change is still required in this area.

37% have more informed planning and analysis **but** **36%** think that significant change is still required in this area.



WHAT IS STOPPING PROGRESS?

LONG-TERM RESILIENCE VERSUS SHORT-TERM DISRUPTION

Midsized UK and Irish enterprises know that they need to increase their resilience, but are held back by a number of concerns.

The three biggest factors holding them back from investing in increasing business resilience are:

29% Fear of business disruption

28% Lack of skills

26% Existing system complexity

While making changes to improve resilience might seem daunting, especially if it requires a change to fundamental processes and systems, it does not have to be! In the next section, we look at how to uncover the priority changes that could increase resilience within your business – an approach that makes the process much more manageable.



HOW TO BREAK THE STALEMATE

THE MHR RESILIENCE READINESS HEALTH CHECK

Midsized businesses must be pragmatic about their investment choices and their existing business infrastructure. While start-ups will have the benefit of a born-in-the-cloud set-up, companies that have been around for longer will inevitably have existing systems and processes that need to be optimised without completely starting again. Larger enterprises could have bespoke systems designed around their specific needs, but this is likely to be cost prohibitive for midsized enterprises.

The best way to find out which changes you should prioritise to increase resilience is to carry out a resilience readiness health check: a high-level assessment of whether your organisation is in control of your resilience. Under the Three Is framework you should ask yourself the questions on the following pages to determine how resilient your organisation is.



THE MHR RESILIENCE READINESS HEALTH CHECK

Understanding which elements within the Three Is framework can be improved makes it easier to formulate a plan for addressing these areas and boosting your overall business resilience.



INSPIRED INDIVIDUALS

1. LEADERSHIP

- ✓ How strong is your leadership?
- ✓ How aligned is the business in its unity of purpose?
- ✓ How good are your internal communications?

2. EMPLOYEE ENGAGEMENT

- ✓ How proactive is your employee engagement?
- ✓ How strong is your collaboration/teamwork?
- ✓ To what degree do your people feel empowered and able to develop?
- ✓ What is the level of your people's wellbeing?

3. WORKFORCE MANAGEMENT

- ✓ How effective are your policies and processes for recruitment, on-boarding, training, performance management, workforce flexibility, rewards/recognition and planning/salary modelling?





INSIGHTFUL INFORMATION

1. DATA



What is the quality of your data?



How effective is your financial reporting?



How easily do you maintain regulatory compliance?

2. KNOWLEDGE



How effective is your planning and analysis, situational awareness, ability to leverage knowledge and decision making?

3. VISION



What is the quality of your innovation and creativity, financial scenario planning and risk mitigation?



INTELLIGENT INTEGRATION

1. SYSTEM DESIGN



What are your levels of simplicity, automation, joined-up data and efficiency?

2. SYSTEM CONTROL



What are your levels of accessibility, agility and scalability?

3. SYSTEM PROGRESSION



How effective is your system integration?



How robust are your eco-system/partnerships?



How do you stress-test and ensure continuous improvement?

HOW MHR CAN HELP

LONG-TERM RESILIENCE VERSUS SHORT-TERM DISRUPTION

Existing business complexity is something that we see regularly. We can add enormous business value by freeing you up from time-consuming duplication and manual entry. The only regret that many of our customers have is that they did not make the move to remove complexity and boost resilience sooner!

MHR can help you build the resilience you need to thrive in an ever-changing world. We deliver the real-time data and insights that inform plans and decisions, plus the flexible systems and support that enable swift adaptation to change. We can partner with you to increase your resilience and enable your excellence, creating a more adaptable today and sustainable tomorrow.

The concerns that are holding businesses back – fear of business disruption, lack of skills and existing system complexity – are all areas that partnering with MHR can address.

With carefully managed plans to ensure business continuity before, during and after transition, our solutions ensure you avoid disruption.





ARE YOU READY TO ENABLE EXCELLENCE WITH SMARTER HR, PAYROLL AND FINANCE?

For more on how you can build business resilience, achieve operational simplicity and empower your people, just get in touch.

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