Near-Term Economic Outlook: Agri-Food Business Leaders' Perspectives

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Abstract

Why does it seem like individual companies are doing well but the general economy is stuck in neutral? This research sought to identify the consistency between individuals' perspectives about the economy's performance and their own performance experience. It found that peoples' perspectives about their performance are generally disconnected from their perspectives about the economy. While this is positive in the sense that it shows that the uncertainty coming from Washington is not having significant adverse effect on the agri-good and agribusiness community, it is important to recognize that it may be causing overestimation of investment costs and, thus, slowing down or preventing certain investments from being made. In the end, business leaders need to focus on opportunities embedded in these uncertainties and combine their resources and capabilities creatively to ensure they gain and grow their market shares in both domestic and international markets.

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Agri-food and agribusiness companies have done well this year. Cargill reported a rise in profits of 35% to $2.69 billion in fiscal 2011.[1] Archer Daniel Midlands (ADM) reported a modest 5% increase in fiscal 2011 net earnings, from $1.93 billion to $2.04 billion.[2] Monsanto reported a 77% increase in profits in the third quarter of fiscal 2011, causing expected per share earnings to increase from $2.84 to $2.88 in 2011 compared to 2010.[3] General Mills saw a 17.5% increase in net income in fiscal 2011 over fiscal 2010 while Tyson Foods reported an increase of 14.5% in the first nine months of fiscal 2011 compared to fiscal 2010.[4] These increases in agri-food and agribusiness companies' net incomes have come from modest volume increases and significant price increases. For example, Tyson Foods saw a volume increase of about 2.1% across all its products compared to an 11.4% increase in prices in the first months of 2011.

The U.S. farm sector is expected to have some stellar performance this year, similar to the agri-food and agribusiness companies. The Economic Research Service of the USDA forecasts a 19.8% increase in net farm income (the entrepreneurial earnings of producers) to $94.7 billion in 2011 compared to 2010.[5] Net cash incomes (i.e., income earned to settle expenses and debt) are forecast to increase by about 8% over the same period while the net value added of agriculture to the U.S. economy in 2011 is forecast to be the second-highest in the past 35 years.

Agriculture and agri-food sectors are not the only ones seeming to do well. Other industries, such as financial services and basic metals, have seen net profit margin increases of 10.4% and 13.6% respectively while that of consumer goods and industrial goods have increased by respectively 6.5% and 5.8%. Individual companies and industries are doing so well that U.S. companies are reputed to be sitting on more than $2 trillion in cash. The top-20 S&P companies account for 70% of this cash reserve.[6]

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1 Cargill. Cargill reports fourth-quarter and fiscal 2011 earnings. August 9, 2011. Available at http://www.cargill.com/news-center/news-releases/2011/NA3047889.jsp.

2 ADM. News Release. August 2, 2011. Available at http://www.adm.com/LISTS/PRESSRELEASE/ATTACHMENTS/334/Q411%20EARNINGS%20RELEASE.PDF.

3 Berry, I. and T. Stynes. Monsanto 3Q Profit Up 77%, Reveals SEC Probe. Dow Jones Newswires. June 29, 2011. Available at http://www.foxbusiness.com/markets/2011/06/29/monsanto-3q-profit-up-77-reveals-sec-probe/#ixzz1Un3pXVV7.

4 Tyson. Tyson Reports Third Quarter and Nine Months Results. August 8, 2011. Available at http://ir.tyson.com/phoenix.zhtml?c=65476&p=irol-newsArticle&ID=1594016&highlight=.

5 ERS/USDA. Farm Income and Costs: 2011 Farm Sector Income Forecast. Updated February 14, 20111. Available at http://www.ers.usda.gov/Briefing/FarmIncome/nationalestimates.htm.

6 Byrne, J.A. U.S. firms hoarding $2 trillion, *New York Post*, August 6, 2011. Available at http://www.nypost.com/p/news/business/hoarding_cash_Yzfk2c8aK1wAPrZCRdEVnJ

Yet these success stories mask the troubles of an economy stuck in neutral, with gross domestic product growing at about 1.6%, unemployment rates hovering around 9%, average mortgage delinquency rate in excess of 5.3% and stock markets exhibiting wild fluctuations on a weekly basis. The positive financial news does not tell the story of the construction industry, for example, whose unemployment rate almost 14% and enduring a loss in excess of 23% in its value added between 2007 and 2010, estimated from Bureau of Labor Statistics and Bureau of Economic Analysis data. The industries with the success stories have excellent global mobility while those struggling are those constrained to operate domestically. The mobility affords the companies in these industries the ability to move resources around to service customers wherever they are. Cargill's Chairman and CEO, Greg Page, observes in the explanatory notes to the company's 2011 performance that "Cargill sought to be a 'port in the storm' for our customers, sourcing food and feedstuffs from multiple origins, handling the logistics, managing the risk and delivering reliably."[7]

Research Purpose and Method

The global nature and the complexity of the recession are making traditional fiscal and monetary solutions stubbornly ineffective. Yet, the uncertain environment engenders significant opportunities for businesses and the leaders who have nurtured resources and capabilities to be a "port in the storm" for their companies to create value and dampen the effects of the turbulence and the challenges.

While it is the government's job to solve macroeconomic problems, corporate leaders have the responsibility of ensuring their organizations thrive regardless of the macroeconomic conditions. Despite this, the general media story line is that business leaders are waiting for the government to unleash the economy from its shackles so they can invest and hire people. Although this has become an oft-repeated refrain, it is prudent to assess its veracity within the agri-food and agribusiness sector. To this end, the overall objective of this research is to identify the extent to which agri-food and agribusiness leaders see their performance as dependent on the overall performance of the macroeconomy. The outcome will provide insights on assumptions and perceptions agribusiness and agri-food business leaders form about the policy environment and will provide the foundation for defining solutions to enhance their companies' strategic capabilities.

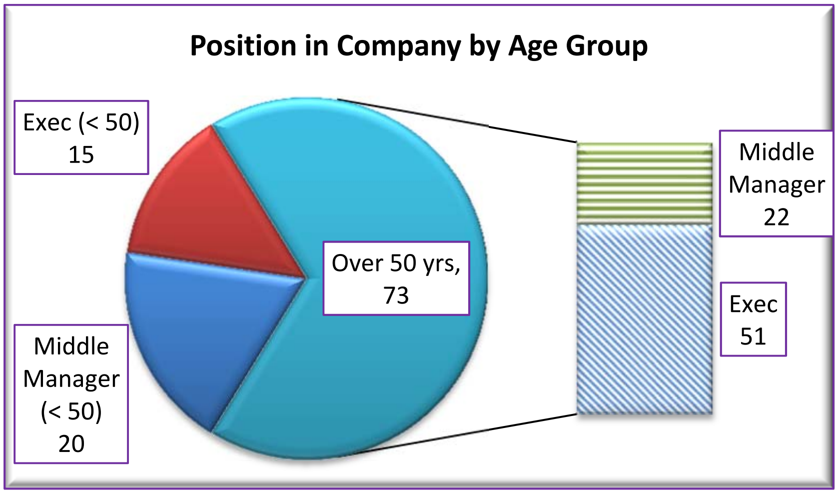
To achieve the objective, an online survey was conducted between August 29 and September 5, 2011. Participation in the survey was limited to specifically-invited 175 agribusiness and agri-food business leaders across the country. The response rate was 57.7% (101), a much higher response rate than is usually achieved in Internet surveys.

The Respondents

Respondents included agricultural producers (about 38.6%), food processors, distributors and retailers (25%) and industry service providers (36.5%), primarily seed and genetic suppliers, financial services, and consultants. About 49% of the respondents' companies had sales of $4 million or less while 42% had sales in excess of $10 million. The remaining 9% had sales between $4 and $10 million. Thus, the respondents were skewed towards small companies, the ones normally presented as being incapable of effectively responding to the challenges of the recession because of their size and resource situation.

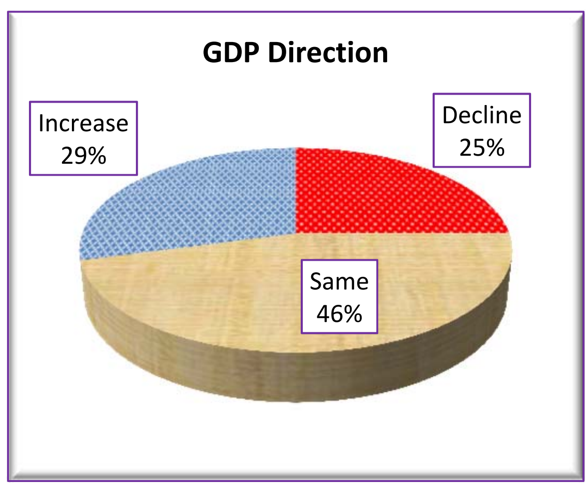
[7] Cargill. Op cit.

The majority of respondents (80.9%) were male and 50% of all respondents were owners of their companies. Another 20% were at the "C-level" (i.e., chief executive, chief operating, chief finance or similar decision-making level). Thus, about 70% of respondents were either owners or C-Level executives (Execs). Middle managers accounted for about 24.5% of total respondents. The remaining 5.5% did not provide information on their positions. Respondents' age ranged from 27 to 74 years, with an average of about 51 years and a standard deviation of 10.7 years. About 67.6% of the respondents were 50 years or more. When respondents are classified by age and position, 73 of the 108 (67.6%) respondents were 50 years or over, and, of these, 51 (or about 70%) were executives. Indeed, among the executives, the average age was about 54 years (standard deviation is 8.7 years). This contrasts with the average age of about 45 years (standard deviation of 12.2 years) for middle managers.



Perceptions about the Economy

Gross domestic product (GDP) is the dominant indicator of economic performance. It is the sum of personal consumption, domestic investment, government expenditures and net exports. When each of these principal segments of the economy is doing their part, GDP growth is healthy – averaging about 3.5% per year between 1960 and 2000. Consumers and corporations are connected through incomes and expenditures. Higher consumer spending creates corporate investments which engender employment, generating incomes which go into spending. When consumer demand is weak, a vicious cycle can emerge, especially in an economy such as the United States where personal consumption expenditures account for about 70% of GDP. In the past, increased government spending has been used to break this cycle by encouraging both personal consumption expenditures and private investment. However, coupled with reduced employment income, Bureau of Economic Analysis data show that consumer savings have also been increasing. Data also show that corporate spending has been declining or been static. If government debt levels are making government expenditures politically unacceptable, then new creative roles are needed for the government in addressing the recession.

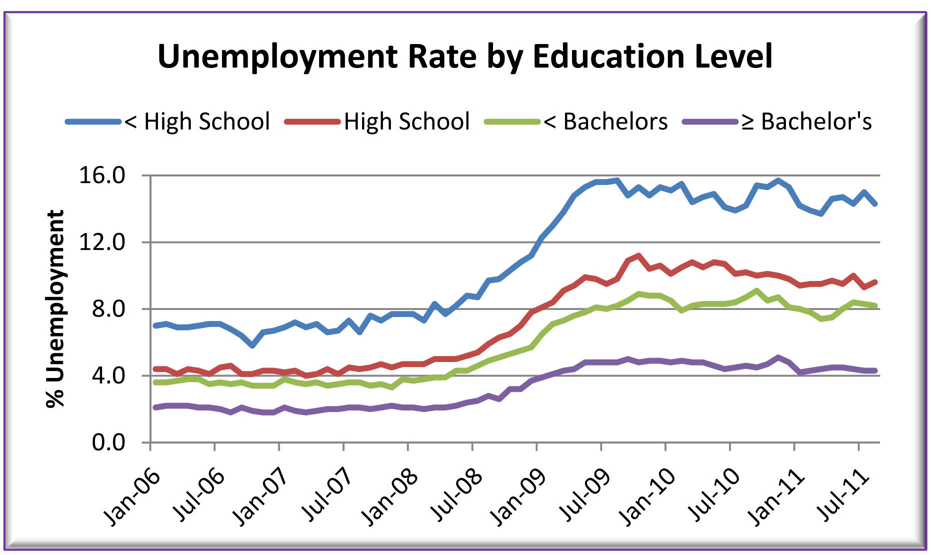


When asked to indicate whether GDP would increase, stay the same at its current 1.6% or decline in the coming year, the majority of respondents (46%) said it would stay the same while 25% said it would decrease. About 30% of respondents, however, expect the economy to pick up some steam in the next year. A smaller proportion of executives (26%) than middle managers (29%) expect the economy to grow in the next 12 months. However, about an equal proportion of both groups (22% and 21%) expect a decline. A larger proportion of female respondents (28%) expect a declining GDP over the next 12 months compared to 22% of male respondents.

Expectations about unemployment are not very positive. While 30% of respondents expect it to decline from its current 9.1% level, 55% thought it would remain the same and 16% expect it to increase. A higher proportion of female respondents (28%) expect the unemployment rate to increase compared to 13% of male respondents. At the same time, a higher proportion of female respondents expect it to decrease (39%) compared to 28% of males. Middle managers were more optimistic about a future decline in the unemployment rate than executives, 43% versus 21.5%.

The sustained level of unemployment is not just a reflection of the economic situation but possibly an indicator of a technology shift affecting employers' labor needs and available labor. As the economy becomes more knowledge-based, technology is replacing manual labor in a lot of industries that employed large numbers of people. For example, robots are replacing assembly line workers in many manufacturing industries. Marshall Brain, founder of *How Stuff Works*, notes in a recent article that any new jobs will not be in manufacturing because "robots will hold all manufacturing jobs."[8] This may be stretching it a little, but the reality is advanced technologies are becoming increasingly cheaper and posting higher returns on investment and shorter payback periods, making capital very competitive in manufacturing against labor (i.e., humans).

A deeper look at the unemployment situation indicates a systemic problem that cannot be fixed with the wave of a magic wand. Bureau of Labor Statistics data show that the unemployment rate among less-than-high school graduates was 3.14 times as high as that among people with a bachelor's degree between January 2000 and December 2006. The unemployment rate for people without a high school degree was 1.91 times higher than for people with some college and 1.60 times higher for high

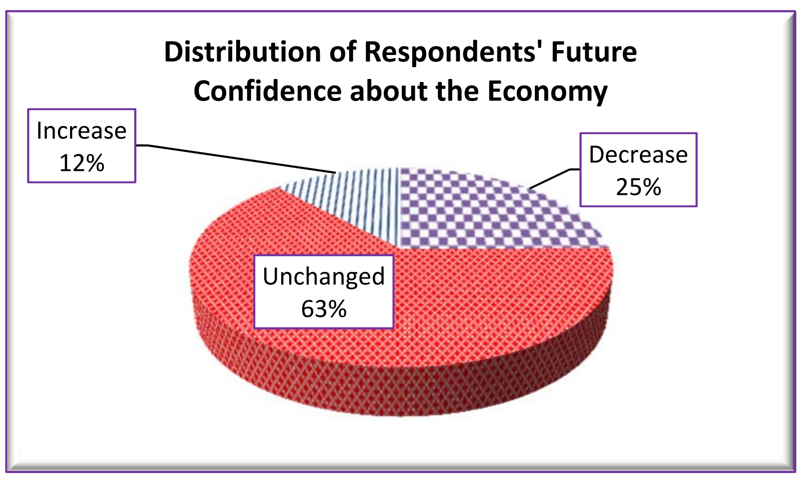


8 Brain, M. "Robotic Nation," http://marshallbrain.com/robotic-nation.htm.

school graduates. However, between January 2007 and August 2011, the comparative unemployment rates were 3.35, 2.18 and 1.78 higher in comparisons of people without a high school diploma and those with a college degree, some college, and with a high school diploma, respectively.. The recession prompted organizations to enhance efficiency. In those cases where people have been replaced with capital, leading to competitive efficiency gains, not many companies are going to "lay off their machines" The most secure jobs are increasingly those that require creativity and active human interactions, especially when tasks cannot be routinized. This change in labor demand is perhaps reflected in the low unemployment rate of people with university degrees compared to those with less than university degrees.

The foregoing suggests that conversations about reducing the unemployment rates should be more thoughtful and deliberate than chants of "job creation." Given the relative cost to a company of employing capital or additional workers, the unemployment rate graph above would suggest the need for *retooling* people to upgrade their skills, capabilities and competences to ensure they can find a place in the shifting economy. Thus, any *serious* observer of the situation would recognize the absence of a magic wand to address challenges emanating from technological and global competitiveness and resource shifts. It is important to note that unemployment rates differ not only by education but also by age and race. We cannot do much about age or race, but there is a lot we can do about *purposeful education* to enhance productivity in a shifting economy. However, for the policies that create these results to be effective, policymakers must think beyond the short-term election cycle. Consider Germany's labor reforms in the early 2000s, known as Hartz IV, that are credited for addressing the German unemployment problem. The adopted reforms did not yield painless, rapid outcomes. Gerhard Schroeder, the German Chancellor who initiated them, was no longer in office as the reform benefits occurred.[9]

Survey respondents seemed more concerned about inflation. About 44% of them indicated they expected inflation to rise from its current 3.6% level in the next 12 months compared to 9% of the respondents who expected a decline. The majority (47%) expect inflation to remain unchanged. Half of the executives (50%) expect inflation to increase compared to the majority of middle managers (56%) who expects it to remain the same. There were no gender differences about inflation expectation. The general consensus is that the Dr. Ben Bernanke's Federal Reserve will do everything it can to control inflation. The focus of the Fed appears to be on overcoming current economic stagnation. In



9 http://www.npr.org/blogs/money/2011/09/23/140707524/germanys-painful-unemployment-fix.

September, 2011, the Fed took the unconventional step to increase its share in holding longer-term treasuries by $400 billion by June 2012 in an effort to make credit cheaper while stimulating spending and investment. However, the real risk of inflation may be imported inflation, emanating from a stronger dollar that fuels imports and dampens exports. Approximately 47% of respondents indicated an expectation that the U.S. dollar will decline against major international currencies while 13% held the opposite expectation. About 41% of the respondents expected it to remain about the same.

Confidence is critical to the economy's performance since all decisions are uncertain. Consumers have to believe that they would continue to have disposable income for them to feel confident to spend and investors have to feel confident about business performance for them to invest. There is a strong correlation between people's confidence in the economy and their feelings about government. For example, the Thomson Reuters/University of Michigan Consumer Sentiment Index fell to 55.7 in August 2011 from 63.7 a month earlier because of consumer "despair and pessimism about the role of government," Richard Curtin, the survey director noted.[10]

About twice as many respondents expect their confidence in the general economy to decrease over the next year as those expecting an increase. However, the majority (63.4%), as seen in previous cases, believe their confidence in the economy will remain unchanged over the next year. About 33% of female respondents expect their confidence to decrease compared to 21% of male respondents. However, 17% of female respondents expect their confidence to increase while only 10.5% of male respondents expect same. Although the majority of respondents are decision-makers in their companies, the effect of the macroeconomic environment on their expectations is reflected in their expected confidence about the economy. As Kansas State University Professor Barry Flinchbaugh opines, "The problem is not economic uncertainty but government uncertainty."

The correlation matrix of respondents' responses about GDP, unemployment, inflation, the dollar and confidence in the general economy suggests a strong consistency in their perspectives. For example, the correlations between perceptions about GDP, on the one hand, and unemployment and inflation, on the other, are respectively -0.20 and -0.22, both significant at the 5% level. This implies that those expecting GDP to rise generally expected unemployment and inflation to decline, and this relationship is statistically different from zero. The correlations between GDP and the international value of the dollar and between GDP and respondent confidence were both positive and highly significantly (1%). Thus, those who expect GDP increases also express a higher confidence in the economy over the next year.

Variables	GDP	Unemployment	Inflation	Dollar
GDP	1.00		*(5%); **(1%)	
Unemployment	-0.20*	1.00		
Inflation	-0.22*	0.13	1.00	
Dollar	0.30**	-0.23	-0.27**	1.00
Confidence	0.57**	-0.35**	-0.13**	0.43**

However, these correlations are not independent of respondents' positions. While the correlation between GDP and inflation (-0.41) was significant at the 5% level for middle managers, it was not

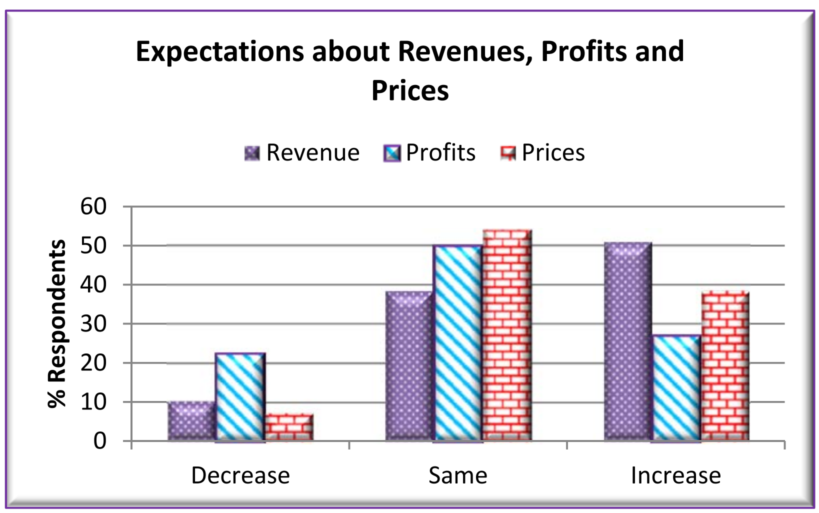
[10] http://www.reuters.com/article/2011/08/26/us-usa-economy-sentiment-idUSTRE77P3OY20110826.

statistically significant for executives. The correlation between GDP and the dollar (0.29) was statistically significant for executives, but was not for middle managers. Also, executives expecting unemployment to increase saw the dollar decreasing in the next 12 months (correlation is -0.27), a statistically significant relationship. The relationship was also negative for middle managers, but the correlation was not significantly different from zero. Confidence and unemployment correlation was significant for both groups. By gender, the correlation between inflation and confidence (-0.79) was significant for female respondents but not for males and the correlation between unemployment and confidence (-0.27) was significant for males but not for females.

Company Performance Expectations

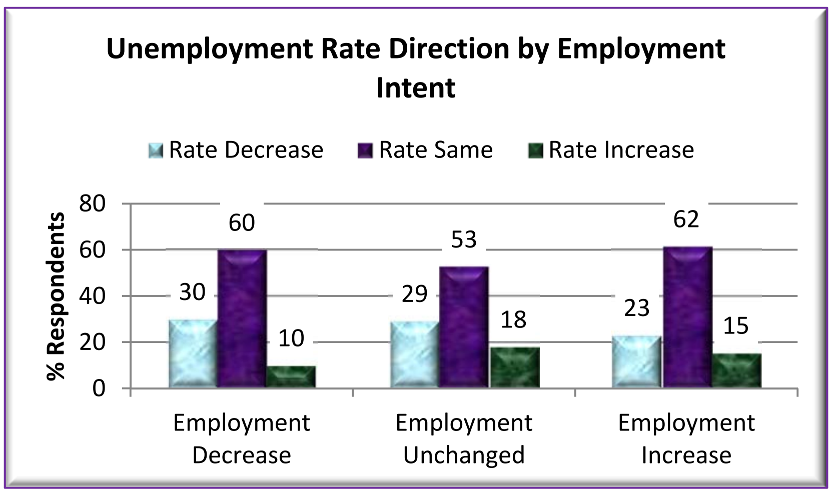
The research was motivated by the seemingly incongruous observation that while individual companies were doing relatively well, the economy as a whole was lethargic. Having assessed the perspectives of respondents about the general economy, this segment focuses on their expectations about their companies' performance. We sought answers to the question of the extent of respondents' expectations about their companies' performance match their expectations about the macroeconomy? The hypothesis is that the two are disconnected because respondents see the economy through very different lenses from the ones they see their companies.

Respondents' expectations about their own companies' revenue, profits, costs and employment plans are assessed in this section. About 51% of respondents expect their revenues to increase and 26% expect profits to increase over the next year. While only 10.4% expect revenues to decline, 23% expect profits to decline. Thus, 50% expect profits to remain unchanged while about 38.5% expect revenues to remain unchanged. Nearly 39% of respondents expect to see some price increases for their products while about 54% expect no change. The remaining 7.3% expect to see a decline in their product prices. Nearly 75% expect their input costs to increase with the remaining 25% expecting them to remain unchanged. With interest rates at historically low levels, it was not surprising that only 8.3% expected to see interest rates. The majority (60.4%) expect interest rates to remain unchanged while about 31.3% expects interest rates to increase.



About 57% of people in a recent Gallup poll said they were most worried by too much regulation of business by government while 37% said they were worried by not enough regulations.[11] The agribusiness and agri-food leaders participating in this study seem to agree with the former group because nearly three-quarters of them indicated they expect an increase in regulatory burden in the coming year. Only 3.2% indicated an expected decline in regulations while 22.3% expected no change. Regulations increase the cost of doing business but they can also be sources of competitiveness, especially in international trade. However, for this to happen, it is critical that these regulations are clear and are enforced effectively. The costs and benefits associated with regulations are incorporated into feasibility studies and business plans surrounding new investments. When these benefits and costs are uncertain because the regulatory environment is uncertain, people tend to assume the worst, overestimating costs, underestimating benefits and reducing the economic attractiveness of investments. Since governments are responsible for these regulations, the consensus that people expect the regulatory environment to worsen may be a reflection of taking the worst case scenario because of the confusion currently emanating from Washington, D.C. There was no statistical difference between the sexes or respondent age in perspective about regulatory costs.

Given that unemployment is a primary indicator of economic performance, respondents were asked to indicate if their firms were going to hire people in the coming year. About 76% indicated that their employment situation will remain unchanged in the coming year while 10.4% indicated they would reduce their labor force and 13.5% indicated they would increase it. Ironically, 23% of those planning on hiring in the next 12 months and 30% of those planning on reducing workforce expect the national unemployment rate to decline. However, 29% of those who indicate no change in their own employment levels expect the national unemployment rate to decline while 18% of this group expects it to increase. What is interesting is that about 60% of those either expecting to increase or decrease their own number of employees thought the general unemployment rate will remain unchanged. This reflects a recognition among the respondents that their individual actions have little or no effect on the general economic conditions.



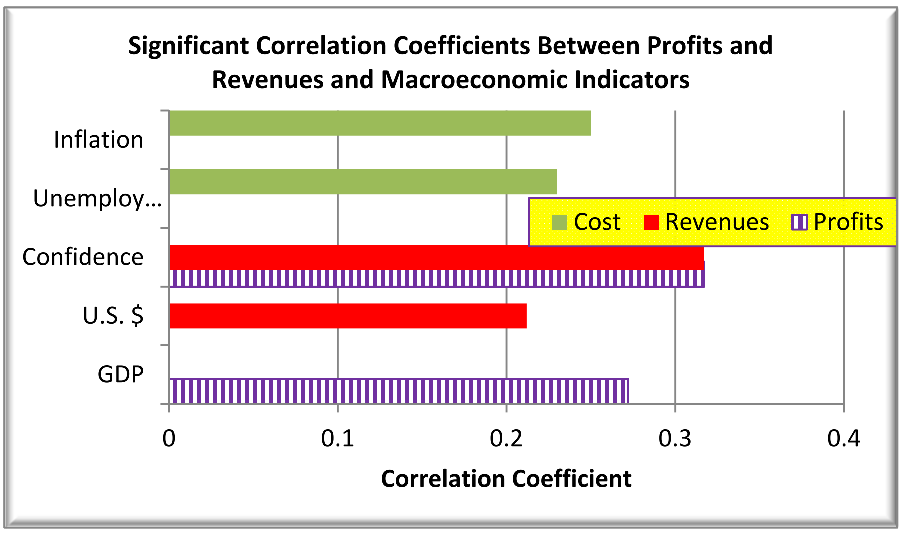
In a rapidly changing marketplace, developing strategic alliances to seize opportunities and minimize costs is a credible strategy. Asked to indicate the direction of their supply chain collaborations, 50% said these collaborations would remain unchanged while about 49% said they planned to increase them.

11 Newport, F. Americans Leery of Too Much Gov't Regulation of Business, Feb. 2, 2010, Gallup. http://www.gallup.com/poll/125468/Americans-Leery-Govt-Regulation-Business.aspx.

There is a positive and significant correlation between changes in employment and supply chain collaboration. There is also a positive and significant correlation between changes in employment, on the one hand, and expected changes in the business's profits and revenues. Interestingly, a positive and significant correlation is also found between product prices and input costs. While concerns about the regulatory environment were negatively correlated with revenues, prices and profits, these correlation coefficients were not statistically significant.

To what extent are respondents' perspectives about their own companies consistent with their perspectives about the macroeconomy? A correlation analysis is used to address this question. It is hypothesized that the correlation coefficients between individual performance indicators and the general economy's performance indicators are not significant. The alternative hypothesis is that these correlations are, indeed, significant.

The results show that the correlation between GDP and expected company profits is 0.27 and is statistically significant at the 5% level. However, the correlation between GDP and expected company revenues is not statistically significant even though it is positive. The correlation between confidence in the economy and both profits and revenues are positive and significant (1% level). Also, revenues are positively correlated (0.21) with the U.S. dollar at the 5% level but profits are not significant even though they are positively correlated (0.71) with expectations about the strength of the U.S. dollar. Neither of these company performance indicators is significantly correlated with unemployment and inflation but operating costs expectations are positively correlated with employment (0.23) and with inflation (0.25) at the 5% level. The hypothesis that respondents' views about their own performance are disconnected from their views about the economy's performance is thus not rejected because if they were, it would have been expected that the correlation coefficients would be significant across all indicators.



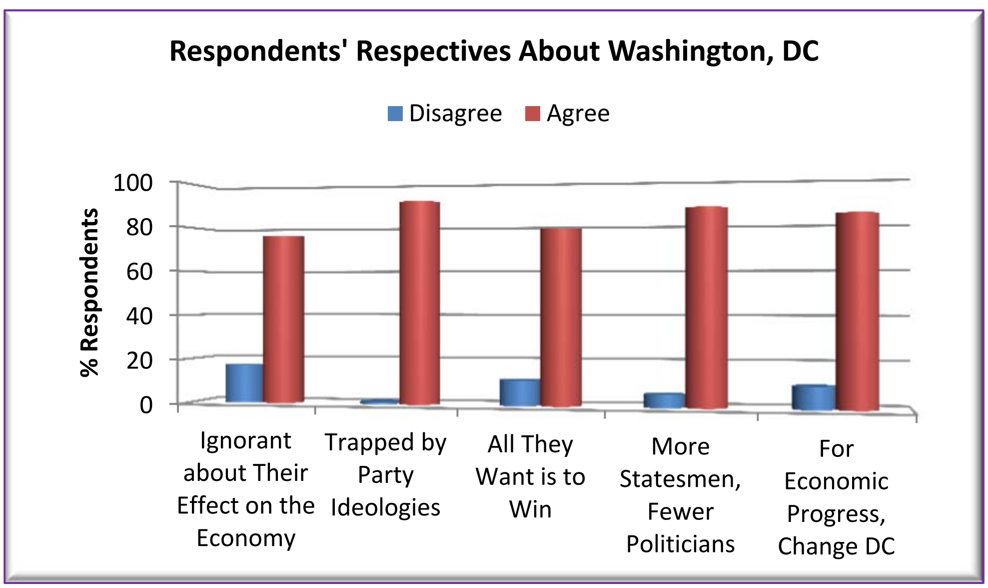
The results suggest that respondents' expectations about their companies' performance are consistent with their perspectives about the economy. Those who believe they are not going to do well also believe the economy is not going to do well while those who believe they are going to do well also believe the economy is going to do well. This is what is expected – that the whole should at the minimum equal the sum of the parts. The results show that respondents' own performance expectations are disconnected from their expectations about national unemployment. This disconnection seems to support the observation made earlier that the problem is not lack of jobs but lack of jobs for the people seeking jobs. Indeed, a number of respondents indicated that they need to spend more effort in retaining and recruiting the right talent over the next year while a few noted that a major challenge they need to overcome is identifying and securing the talent they need to achieve their performance expectations.

Thoughts about Washington Politics

Washington is not in anybody's good books nowadays. Gallup's Congressional Approval poll data shows that the August 11-14, 2011 Congress's approval rating of 13% is the lowest since Gallup started this polling in 1974.[12] The debt ceiling debate may have contributed to this low rating because politicians on both sides of the issue illuminated their poor appreciation of how their rhetoric and behavior affect consumers, investors and the country's international credibility.

Respondents were asked to rank the extent to which they agreed with a number of statements about Washington politicians on a Likert scale. The scale was 1 (Disagree), 2 (Somewhat disagree), 3 (Don't know/don't care), 4 (Somewhat agree); and 5 (Agree). The disagreement and agreement codes were recoded -1 and 1 respectively, thereby collapsing the 5-point scale to three: -1 (Disagree), 0 (Don't know/don't care), and 1 (Agree). These recoded responses are used in the rest of the analyses.

Seventy-six percent of respondents agreed that the majority of policymakers were ignorant about how their decisions affected the economy. Nearly all respondents (98%) agreed that the majority of policymakers were trapped by their political ideologies, which stifled their ability to make good public policy. When politicians feel beholden to particular interest groups, they fail to exercise the fundamental responsibilities of their office – i.e., ensuring the well-being of the nation through good policymaking. There was also concern that the primary objective of the majority of policymakers has ceased to be making policy and is principally to gain position facilitating a win on any upcoming election. "It seems like a perpetual election campaign without the necessary intermission of governing," one respondent involved in follow up interviews



[12] Gallup. Congressional Approval 09-12-2011. http://www.gallup.com/poll/149402/Congressional-Approval-091211.aspx

opined. If this perpetually unfolding campaign is the cause of the puerile behavior in Washington, then citizens need to engage in serious conversations in search of effective solutions that make the risk of losing the next election irrelevant to incumbents' commitment to the work at hand. That is if citizens are interested in making the changes they say they want.

According to Webster's 9th New Collegiate Dictionary, a statesman [or stateswoman] is "one who exercises political leadership wisely and without narrow partisanship." Such a person, it is agreed, is a wise and disinterested promoter of the public good. How does the statesman or stateswoman differ from the politician given that they both have political power? Perhaps the statement attributed to the last leader of the now-defunct Soviet Union, Mikhail Gorbachev, captures it best: "A statesman does what he believes is best for his country, a politician does what best gets him re-elected." But the ever-cynical and witty Oscar Wilde may get more to the point: "A statesman is a dead politician. We need more statesmen."

Asked the extent to which they agreed with the statement "What we need in Washington are more statesmen and stateswomen and fewer politicians," 75% agreed and 5.8% disagreed. An equal proportion of female and male respondents agreed to this statement, but all those who disagreed were males. While 91% of executives agreed, only 81% of middle managers agreed. However, while about 13% of middle managers said they didn't know or didn't care, only 3.6% of executives were in this group.

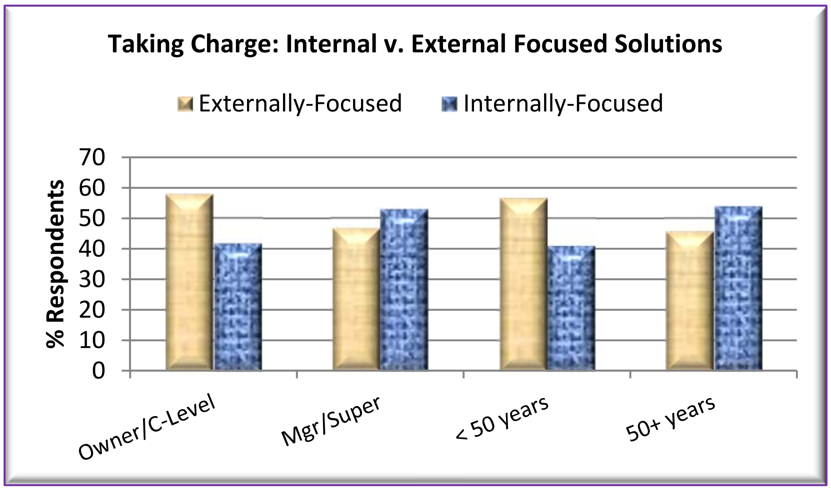
Strengthening the economy suggests a need to change how Washington operates. Again 84.3% agreed with this statement but 10% disagreed. More females (88%) agreed with this statement than males (81.5%) and more executives (89.3%) agreed with this than middle managers (75.8%). It was reasoned that if people are going to make good policies that affected the economic well-being of the country, they needed to understand the fundamentals of economics and how the economy works. Asked the extent to which they agreed with testing policymakers for their understanding of how the economy works before being allowed to take office, about 56% agreed and 35% disagreed. More middle managers (61.3%) agreed with this than did executives (51.2%) and more females (69.2%) agreed than males (50%). Since citizens choose their policymakers in this democracy, maybe citizens should be better educated on economics and policymaking so they elect people with the appropriate skills and capabilities to guide economic growth. About 89% agreed and 5.6% disagreed with this statement. As in the previous case, 92.3% of female respondents agreed compared to 88.5% of the male respondents but 5.8% of male respondents disagreed.

Positioning for Success

There is a lot talk in the press about how the uncertainty emanating from Washington D.C. is preventing businesses from making good decisions. It was hypothesized that business leaders know what they need to do to create stakeholder value and Washington's behavior is certain in its uncertainty. Business leaders should thus factor Washington into their decision making and move forward, choosing paths that minimize any potential adverse effects from the uncertainties in Washington.

To test this hypothesis, respondents were asked to identify **ONE** thing that they, as business leaders, would change in ***their companies*** to significantly transform their companies over the next year. The emphases were the same in the survey. The expectation was that respondents would look inward, focus on their opportunities and capabilities and specify one thing that they believed would transform their companies for the better in the next 12 months.

The responses were classified into two groups: those who answered the question and identified what they would specifically do; and those who pointed to macroeconomic and public policy issues limiting the potential for business success. Respondents were split nearly in the middle between the two groups, with a slight majority (50.5%) falling into the latter group. When these responses were assessed by the respondents' position, it showed that a larger proportion of owners and C-Level executives were externally-focused while a slightly larger proportion of managers and supervisors were internally-focused. This may be because owners and C-Level executives tend to focus their attention on the macro factors that affect the organization while the middle managers as operators are focused on internal issues and how to address them. Looking at responses by age indicated that the proportion of those less than 50 years focusing on external solutions was higher than those 50 years or more focusing on external solutions.



Respondents were virtually split equally on whether they were internally-focused or externally-focused when assessed by company size. For firms with more than $4 million in sales, 49% were internally-focused compared to 51% externally-focused. For firms with sales of $5 million or less, 52% were externally-focused compared to 48% internally-focused. They were also split within the sexes, with slightly more females (53%) identifying internally-focused solutions compared to 47% identifying externally-focused solutions while the males were 50:50 internally-focused versus externally-focused solutions.

Conclusion

It is extremely unlikely that meaningful decisions to stimulate economic growth will come from our political decision makers, at least in the short run. However, this study shows that there is a disconnect in attitudes about the importance of internal and external factors affecting business performance, suggesting that Washington is not as critical to individual business success as is often portrayed. It is still very important to note that regulatory uncertainty creates significant costs which possibly prevent certain investments from being made because their regulatory discount is overestimated.

Individual companies are creatively recombining their resources and capabilities to create value for their customers, both at home and abroad. Company managers are working hard at gaining and sustaining business competitiveness. Unfortunately, the leaders in charge of the macroeconomy are busy posturing for the next election, as observed by Allan Sloan, senior editor-at-large at *Fortune Magazine* in the August 18, 2011 issue: "Think of me as an angry moderate who's finally fed up with the lunacy and incompetence of our alleged national leaders — and with people stirring up trouble from which they hope to benefit politically or financially."[13]

Mr. Sloan's comment may be an exaggeration, but only slightly. For while the global economic challenges remain real – Greece, Italy, the Euro zone, turmoil in the Middle East, etc. – the fact that individual companies are *doing well* but the economy is stuck in neutral suggests the whole is less than the sum of the parts. However, given that political leaders are stuck in their ideological cages and are unable to work together to unleash the economy from its current doldrums, it behooves business leaders to take full control of their future and not wait for Washington. Further, because an entrepreneurial outlook is critical for sustained success under uncertainty, it makes sense to think about the opportunities that the current environment presents instead of its hurdles and its constraints. It is essential to recall that within this uncertainty are customers seeking a "port of safety" which can be molded with a little bit of creativity and ingenuity.

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[13] http://finance.fortune.cnn.com/2011/08/18/how-washington-is-destroying-the-economy/.