Decision Factors: 2019 and Beyond

7 considerations for CEOs amid uncertainty and declining economic confidence

VISTAGE

Decision Factors: 2019 and Beyond

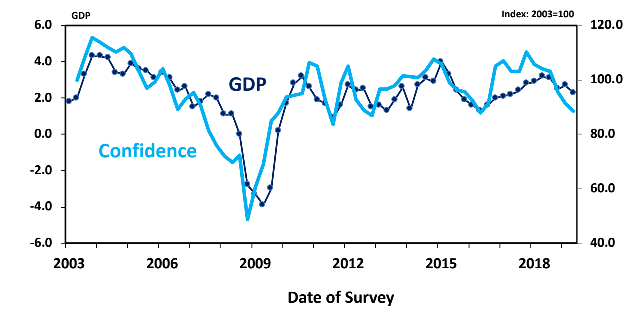
As we enter the second half of 2019, CEOs are growing more concerned about the economy. Just 13% of CEOs expect economic conditions to improve in the next 12 months, while 35% expect conditions to further decay. This represents the lowest economic confidence level since Q2 2016. In fact, the last time we reached this point was right as the economy fell into the Great Recession.

At the start of the year, CEOs of small and midsize businesses were feeling confident but cautious. On the one hand, CEOs were confident in their ability to grow their businesses, with strong investment and hiring plans. On the other hand, they were concerned about the economy. In Q4 2018, Dr. Richard Curtin, an economist from the University of Michigan, attributed CEOs' "plunging confidence in the national economy" to a number of factors, including rising interest rates, higher inflation and tariffs, a newly divided Congress, and a global slowdown.

The Vistage CEO Confidence Index — a tool for gauging the economic optimism of CEOs and predicting annual changes in real GDP — has consistently dropped for six consecutive quarters. As of Q2 2019, the index measured 88.4, a significant decline from last year's 104.1 and well off the peak of 110 recorded in Q4 2017.

This report aims to counteract this uncertainty with new data from the Q2 2019 Vistage CEO Confidence Index report and insights from experts in our community. In seven parts, we break down the top decision factors and recommended actions that CEOs should consider now and into next year:

Vistage CEO Confidence Index and Year-to-Year Changes in GDP



Source: Q2 2019 Vistage CEO Confidence Index, n=1,463

How the outlook for CEOs has changed

A deeper analysis of our Q2 2019 survey, which captured the opinions of 1,463 CEOs of small and midsize businesses, presents a gloomy outlook compared to last year. The data reveals:

- **Economy expected to slow down.** Only 14% of CEOs said they expect economic conditions to improve, compared to 32% one year ago. An economic downturn is anticipated by 35% of CEOs, double the result of last year (17%). "Damage done to the economy from the tariffs, the slowdown in employment growth as well as heightened economic uncertainty has been substantial," says Curtin. "Overall, the data indicates a slowing pace of economic growth during 2019."
- **Fewer firms anticipate revenue and profit growth.** Only 64% of firms expect increased revenues, compared to 70% last quarter and 78% last year. This is the lowest percentage recorded in nearly seven years. Profit increases were anticipated by 54% of CEOs, compared to 58% last quarter and 62% last year. "While most observers believe tariffs primarily impact customers, firms face declines in business activity from price hikes and have, in fact, been unable to fully pass on costs to customers," says Curtin.
- **Fewer firms are planning to hire or invest.** 56% of firms anticipated adding new employees to their workforce, which is marginally below last quarter's 59% but the lowest proportion of the past three years. 40% of firms anticipated increased expenditures for new fixed investments, which is similar to last quarter's 41% and last year's 48%.

> "Pent-up demand for talent is throttling growth. Add uncertainty driven by trade policies and the whiplash of tariffs, and it makes it challenging for CEOs to plan."
>
> **Joe Galvin**
> Chief Research Officer,
> VIstage Worldwide

That said, the news isn't all negative. In the U.S., employment is high, inflation is low and energy sources have stabilized. As a result, while an economic slowdown is inevitable, it's unlikely that it will lead to a recession that resembles the Great Recession in either severity or duration. There are no massive layoffs occurring, housing prices have not collapsed, and we are not on the brink of a financial meltdown, but the economy is slowing down.

Arguably, the bigger challenge for CEOs right now is uncertainty. Erratic trade policies and rapidly changing tariffs have created an environment where it is difficult for CEOs to make decisions and plan for the future. Talent shortages and employee retention challenges are hampering growth, and many firms aren't sure how to solve these problems.

Decision Factor 1: Economy

After 10 years of economic expansion in the United States — the longest in the nation's history — many economists believe that we are on the backside of an economic cycle.

Connor Lokar, an economist from ITR Economics, points to changing customer behavior and decelerating profitability as early signs of decline. "We are seeing decelerating consumer spending and waning confidence on the business side of things. And when those two converge, it typically indicates a downward trajectory for the growth of the economy."

Lokar notes that rising prices have decreased the disposal income of consumers, which has lowered their ability to save and spend. Retail sales numbers have also started to decline, and business profitability numbers have decelerated for several quarters in a row.

ITR Economics predicts that the economy will hit the bottom in the first half of 2020 but then start to improve in the second half of 2020. "We see this downturn as a speed bump rather than an overt recession," says Lokar. "It's not going to be quite a 'hunker down and go to the bunker' type of situation that we saw in 2008 and 2009. It's not going to be a layoff-heavy type of cycle. From where we are today, our expectation is that we should be shifting back to the front side of the business cycle 12 months from now."

Economic recommendations

- **Manage your cash flow.** Give your balance sheet a hard look, advises Lokar. "Growth is going to lessen over the next four quarters, and companies need to draw upon their depth of strength to get through it." For example, he suggests considering whether your loan agreements have the potential to create liquidity problems if your lines of credit are withdrawn or recalled.
- **Take advantage of sliding interest rates.** The 10-year treasury rate is starting to slide back due to mild inflation, international economic distress and a robust appetite for U.S. treasuries. Interest rate traders also expect the Fed to cut rates by 25 basis points once or twice this year. "This offers some debt-restructuring opportunities for companies," says Lokar. "It's a nice silver lining in the cycle."
- **Tell your employees about the changes to come.** Since many companies experienced tremendous growth in 2017 and 2018, "Everyone's mugs are topped off with Kool-Aid," says Lokar. "Everyone's buying into their own hype. They're used to hitting stretch goals and getting bonuses and healthy raises." As a result, senior leaders need to prepare their employees for the changes to come. "It needs to be communicated that there are some external forces that are very likely going to impact their job function and bring some negative pressure," Lokar explains. "It's going to be a rather rude wakeup call for people who aren't expecting it."
- **Snag top talent.** In a soft economy, some turnover is likely, says Lokar. The smart companies will take advantage of hiring opportunities in this environment. "If you can afford to pick up the extra payroll expenses, grab those individuals in preparation for the next growth cycle," he says. "This is a nice opportunity in today's labor market."
- **Empower your people.** Instead of trying to be the captain of your ship, share your map with everyone on your team. "Communicate information downward and outward so that everyone understands that the waters are going to get a little rougher over the next year," Lokar says.

Decision Factor 2: Policy

Uncertainty is running high for CEOs, who feel confused by the unpredictable nature of tax, trade and tariff policies. For many business leaders, the promise of tax savings has fallen flat, while tariff costs have offset gains. In addition, trade policies remain unsettled, and all governments continue to add or remove tariffs in abrupt fashion. In this environment, it's difficult for CEOs to make key decisions or engage in strategic planning.

What we do know is that it is unlikely that tax laws are going to change any time soon due to a divided U.S. government. So although certain elements of tax reform remain unpopular — like the state and local tax deduction limit that impacts many high-tax states — those elements will probably stick around until single-party control returns. With 2020 elections on the horizon, a potential shift in party control may bring a new wave of change.

Meanwhile, all signs point to continued volatility and unpredictability in trade policies and tariffs. "Unfortunately, the trade situation is still ramping up," says Lokar. "Protectionism is generating a glut of uncertainty, domestically and globally." This is having a negative impact on businesses and consumers alike. In our survey, only 4% of CEOs said they have experienced a positive impact from tariffs, while 40% reported a negative impact from tariffs.

On the policy front, several questions remain:

- **Will the U.S. update its trade agreements with Mexico and Canada?** The North American Free Trade Agreement (NAFTA) — now referred to as the U.S., Mexico, Canada Trade Agreement (USMCA) — is due for an update. Developed in 1994, this agreement aims to preserve and stabilize our trade relationships and supply chains with Canada and Mexico.
- **Is a comprehensive trade deal with China possible?** While tariffs have brought China to the negotiating table, other issues remain related to intellectual property theft, market access, government subsidies, geopolitical conflicts, cyber spying and building the next-generation 5G technology infrastructure. Those issues will not be "tariffed" away; they'll only be solved through a comprehensive trade deal.
- **What will Brexit mean for global trading?** Trade agreements between the U.K. and EU remain unresolved, which is only heightening global economic uncertainty. One area of concern is the prospect of new tariffs on European autos, which would have a significant impact on auto pricing and supply chains.

Policy recommendations

- **Remain vigilant and observant.** It's impossible to say how existing or new global trade agreements are going to play out. As a business leader, your best option is to stay vigilant, understand what is happening and study the implications for your business.
- **Examine alternatives.** If your business is affected by global agreements, hedge your bets in light of changing trade policies. For example, if you work in manufacturing, wholesale trade or construction, review your supply chain. If you rely on China as a provider of goods and services, investigate whether other providers are available to you.
- **Engage with your state and national representatives.** If trade policies or tariffs are hurting your business, reach out to politicians and policymakers and tell them about it. Sharing your story will help them form their opinions and decisions. Your business is part of the U.S. economy, and it has a voice that can effect change.
- **Manage pricing carefully.** Price increases are the natural result of tariffs. Although most businesses have already adapted to the first major wave of tariffs from 2018, additional or new tariffs instantly impact profits. While no customer wants a price increase, it's the way you communicate increases that matters. Create messages focused on value and prepare sales people to handle objections to help ease the process and gain acceptance.
- **Don't forget infrastructure.** Infrastructure is one topic our divided Congress should be able to agree on. Rebuilding and modernizing our roads, bridges, schools and transportation system must be a priority. Just as critical is the digital infrastructure that protects data, communications and financial transactions. Upgraded infrastructure helps all businesses. If infrastructure is a big concern for your business, consider contacting [your elected representatives] to share your views on this imperative.

As part of a partnership with the U.S. Chamber of Commerce, select Vistage Chairs, members and staff attended an exclusive policy briefing in Washington, D.C. at the end of June.

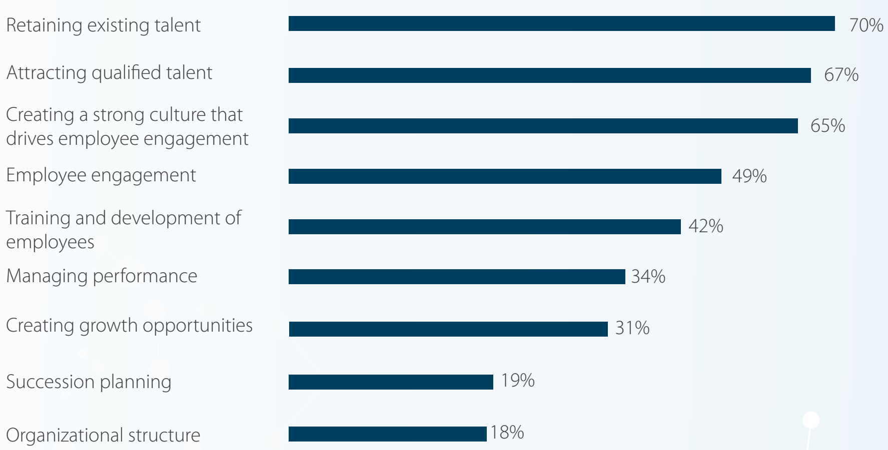
Decision Factor 3: Talent management

Today's companies don't just compete for customers based on the products or services they offer. In addition to trying to gain market share, they have to fight for their share of qualified talent. In fact, in today's labor market, talent may be the biggest area of competition for small and midsize firms.

In our survey, 56% of CEOs reported plans to expand their workforce in the next year. In addition, 37% plan to maintain the size of their workforce. That means that 93% of small and midsize businesses are hiring, as some are hiring to replace people that have been recruited away. There are currently more jobs than job seekers — and that's true from the factory floor to the corner office. Unemployment is hovering near a 10-year low, which means that most qualified talent is already employed.

Growth requires manpower. After 10 years of expansion, the labor force is tapped out. Many CEOs recognize that employee retention is critical to their growth. When asked about challenges in talent management, retention topped the list in terms of importance with 70% of CEOs rating retaining existing talent as very important, followed closely by attracting qualified talent, which 67% rated as very important.

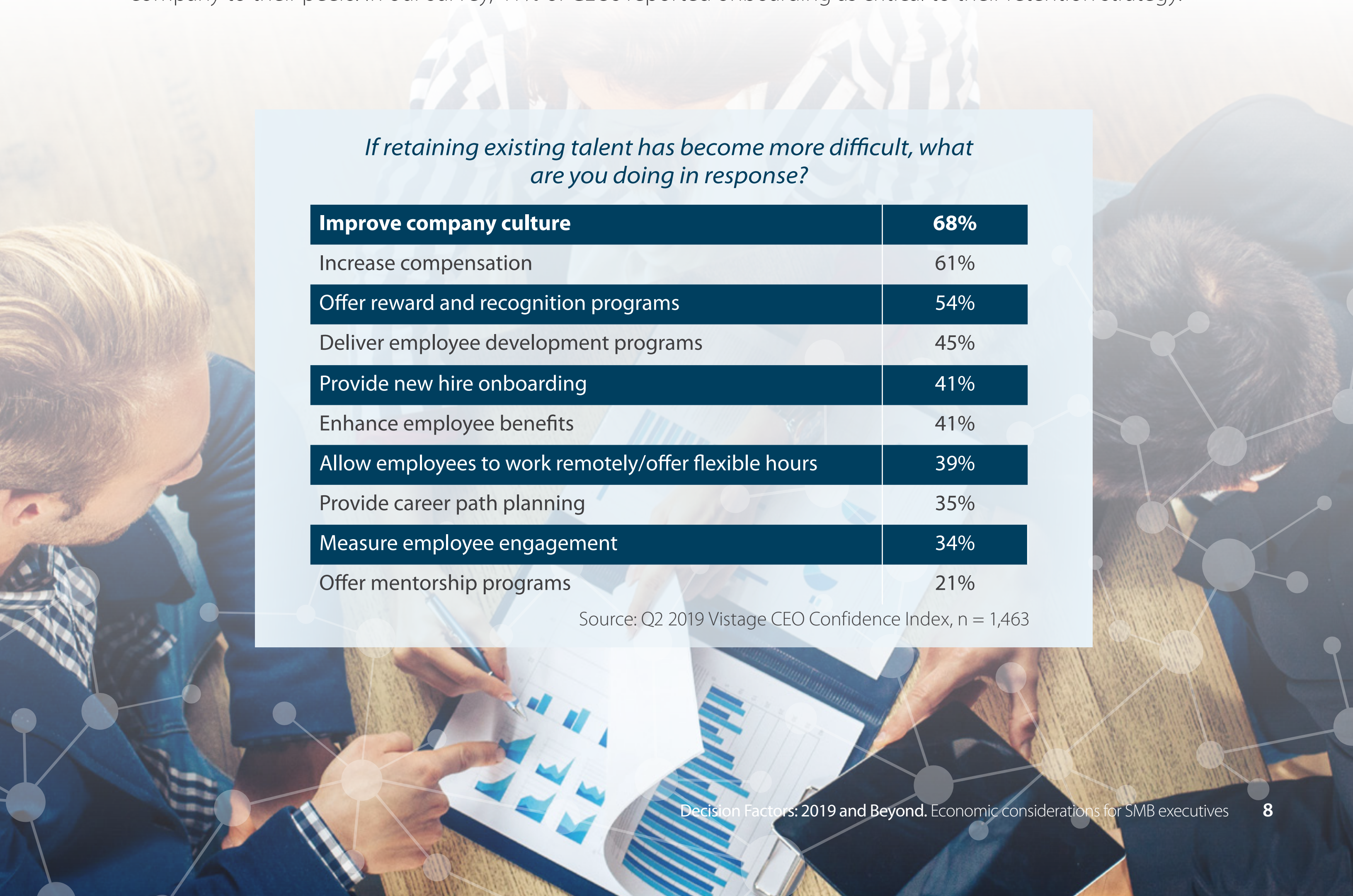
Top talent management challenges as rated by CEOs



Source: Q2 2019 Vistage CEO Confidence Index, n = 1,463

Talent management recommendations

- **Move from a hiring mindset to a recruiting mindset.** Talented people have more job options than ever. To attract them to your company, go beyond posting on an online job board. Instead, implement a multi-channel strategy that leverages many communications platforms to attract passive and active job seekers to your business. Create messaging that promotes your company as a destination workplace. Always be recruiting, even when you don't have a job opening.
- **Develop an employee referral program.** In our survey, more than half (57%) of CEOs rated employee referrals as a "very effective" or "extremely effective" hiring tactic. To leverage your employees as recruiters, formalize a program that encourages and compensates them for referrals. You may want to consider alternatives to the classic signing bonus, too. For example, reward both the new hire and their referrer after meeting a key milestone, such as a six-month anniversary.
- **Grow your own.** Training and development were cited by 42% of CEOs as very important parts of their talent management strategy. Indeed, building your employees' skills and capabilities can help you rapidly increase efficiencies in your business. Development also drives employee engagement and retention, so investing in your people can pay off dividends over time.
- **Budget accordingly.** In a competitive labor market, companies have to offer competitive compensation to secure top talent. According to our research, boosting wages and adding benefits are the No. 2 and No. 3 tactics used by small and midsize businesses to attract talent (development is No. 1). If you're not budgeting for these costs, then budget for development programs or technology assets that can support routine tasks.
- **Increase retention with onboarding**. Develop comprehensive onboarding programs that give new hires a positive experience with your company from day one. A well-designed program can increase employees' productivity in the short term and increase their retention in the long term. It can also encourage new hires to recommend your company to their peers. In our survey, 41% of CEOs reported onboarding as critical to their retention strategy.



If retaining existing talent has become more difficult, what are you doing in response?

Improve company culture	**68%**
Increase compensation	61%
Offer reward and recognition programs	54%
Deliver employee development programs	45%
Provide new hire onboarding	41%
Enhance employee benefits	41%
Allow employees to work remotely/offer flexible hours	39%
Provide career path planning	35%
Measure employee engagement	34%
Offer mentorship programs	21%

Source: Q2 2019 Vistage CEO Confidence Index, n = 1,463

Decision Factor 4: Customer engagement

Revenue-growth expectations have fallen for six consecutive quarters and are now at a seven-year low. This has implications for your company's ability to engage customers, as slowing customer demand will make customer engagement harder. Your customers will face slowing markets and their buying behaviors will change, resulting in longer sales cycles and more "no" decisions. Finance will play a greater role, and you will find more shoppers than buyers. New accounts will become even more risk-averse.

These changing buyer behaviors will require your sales teams to adapt to a new buying dynamic. Get closer to your customers and make sure you are working with them while things are slow, and you'll be rewarded when growth returns. Approach competitive accounts with new messages of efficiency and cost containment. Maybe these accounts have a provider that isn't partnering with them, making them ripe for takeover.

You'll also want to sharpen the sales skills most important for selling in a slowdown. Return-on-investment selling emphasizes economic payback positioning and calculations. Reference selling leverages successful relationships and creates buying security. Negotiation skills will be tested by this altered buying dynamic.

By recognizing changing conditions, and rapidly adapting to these new realities, your business can become one of the few that maintains — and even grows — its sales productivity during this period.

Customer engagement recommendations

- **Revisit your sales process.** A strong sales process is key to understanding the absolute state of sales opportunities. Reinforce your sales cycle definitions, opportunity grading, pipeline integrity and forecast accuracy to ensure that all winnable opportunities have appropriate resources.
- **Change your message.** When B2B buyers are feeling cautious, messages about increasing revenues or improving market share tend to fall flat. By contrast, messages about improving operational efficiency and containing costs resonate best. Adapt your message accordingly and encourage your sales and marketing teams to fine-tune it for different audiences in the buying cycle.
- **Sell parts instead of the whole package.** Buyers tend to quickly adapt to their new set of circumstances, and as a result are more likely to buy from current providers than new ones. This creates an opportunity for you to help your customers optimize their current solutions by acquiring add-ons and complementary components.
- **Go for competitive accounts.** A downturn is the perfect time to connect with the competitive accounts you've never been able to penetrate. Maybe your competitor is unprepared or suffering worse than you are, and is therefore unwilling or unable to support their customers through the downturn.
- **Negotiate.** Although discounting will seem like an easy way to keep deals moving, negotiating the finer points of a deal will help protect your margins without losing valuable business. We recommend creating a negotiating skills module in your training program and forming an internal bid desk or strategic pricing team to facilitate special deals.

Decision Factor 5: Operations

Operations is the top area in which CEOs are investing, with technology as their No. 1 focus. All companies rely on digital tools to drive their productivity and run their operations; those that use technology to transform processes achieve a competitive advantage.

Companies that leverage technology for a digital transformation, however, stand out from the pack. Digital transformation is about more than just buying technology or digitizing existing processes. It's about adopting a digital-first mindset and designing new workflows around what technology is capable of — particularly in light of advancements in machine learning and artificial intelligence.

Technology has an inherent downside, though. It puts companies at risk for cyberattacks, a threat that many small and midsize businesses aren't equipped to handle.

"The biggest problem is that 80% of CEOs are non-technical," explains Cynthia James, CEO and principal consultant at Cyberus Security. "As a result, they haven't learned to manage a risk that, right now, is bigger than any other financial or legal risk."

Currently, the greatest risks to small and midsize businesses fall into two categories of cyberattacks: business email compromise (BEC) attacks, when cybercriminals spoof or hack the email address of an executive, and ransomware attacks, when cybercriminals hijack data and hold it for ransom. "In every class that I teach, at least one person has been a victim of one of these attacks," says James. "In most groups, there are several people who have been victims."

> "With cybersecurity, it's as if an entire field of science has exploded into existence in about 15 years. There has been enough time for people to grasp the basic essentials."
>
> **Cynthia James**
> CEO and Principal Consultant,
> Cyberus Security

Operations recommendations

- **Beware the "trifecta" in emails**. Anyone that has access to your financial accounts or company credit cards needs to watch out for emails that carry three distinct traits: They present an (1) urgent request that (2) involves money and (3) asks for confidentiality. Train your employees to stop and verify the legitimacy of these emails before taking any action. "Walk into the CEO's office and ask them, 'Did you really send this?'" says James. "Send the note to IT and ask them 'Is this real, or is this spoofed?' And scroll over the email address to see if it really came from thatcompany.com."
- **Keep your backups off the network.** If your files are backed up, store them in a place that is disconnected from your network, such as in the cloud. "Ransomware is really smart," says James. "Even before you get a ransom note, it will encrypt your local files and any backup it can find."
- **Separate IT and cybersecurity.** The goal of IT is to give people access to the computers, technology and assistance they need to be productive. Cybersecurity has the opposite goal: to ensure that only the people that need access get it. "It doesn't make any sense to have the people that might make security mistakes be responsible for figuring out what mistakes are made," says James. "Yet that's what CEOs expect when they ask their IT people to manage their cybersecurity."
- **Pick two: cheap, easy, secure.** When she's coaching CEOs on cybersecurity, James likes to draw a pyramid and label its three points with the words "cheap, easy, secure." Then she asks CEOs to pick two. "This is how cybersecurity works," she says. "You can't have cheap security that's easy. You can't have easy security that's cheap. There are tradeoffs."
- **Prioritize employee training.** About 90% of breaches, whether in the form of ransomware, BEC or another type of cyberattack, are caused by employees who fell for a phishing attempt. "Training users not to fall for phishing is really, really important," says James. "Once people learn the things they need to do better, they will do them eagerly."

Download **Digital transformation report**

Download **Cyberthreats and solutions for small and midsize business**

Decision Factor 6: Financials

Key performance indicators (KPIs) are critical measures that, at minimum, help leaders understand the overall performance of their business. But are your KPIs really revealing all they could about the future health of your business?

The first question to ask is: Are you tracking the metrics that provide the most insight into your business? In other words, are your KPIs giving you a general report on the health of your business — like overall revenue — or are they pinpointing performance in a specific area critical to growth, such as on-time delivery?

> "The benchmarking aspect of measuring rates of change is the most important."
>
> **Connor Lokar**
> Economist,
> ITR Economics

Not only do you need the right metrics, you also need to look at the data from different perspectives. KPIs by themselves don't tell the whole story. Trend lines, rates of change and benchmarking against external metrics can make your data work even harder.

Tracking the rate of change in your metrics helps you understand the volume and velocity of your most important KPIs. Just as blood pressure can help you detect heart problems, rate of change metrics can serve as a highly valuable diagnostic tool, offering a point of comparison to changes in market conditions. Benchmarking your data against external factors provides even greater context to your rates of change.

"Think about it as your tide gauge," Lokar explains. "If I'm rising and I see my benchmarks rising with it, that makes sense. But if the tide gauge is dropping and I'm dropping with it, then I can see and track that. The nightmare scenario is when your tide gauge — whether you're benchmarking to U.S. industrial production or your core markets or leading metrics — is rising but your business isn't rising with it. That's how you know you have a hole in your boat."

Over time, tracking the right metrics on a consistent basis leads to predictable and actionable insights. The key is to develop a formal process and cadence for reviewing, sharing and communicating metrics that guide steady progress towards goals — and signal when you've veered off course.

Financial recommendations

- **Get started with a two-step process**. To track your rate of change, first select the metrics you want to monitor, and then add in trendlines. "A lot of times, this is an eye-opening process for companies," says Lokar. "It's a different way of looking at your numbers and gives you context for why something is happening right now."
- **Focus on KPIs that define success for your business.** Track the metric that is a true indicator for your business performance. If on-time delivery or implementation serves as your competitive advantage, use that as your leading indicator. When advising companies, ITR Economics looks at metrics such as shipments, backlogs or "something that is a core part of a client's business," Lokar says. "It may not even represent their total business, but just helps show where they are trending."
- **Find external benchmarks.** Compare your metrics against an external metric and overlay trendlines between the two. "Chart it out and plot it," says Lokar. "See where you are now, how you've done in the past and how you've responded to different periods in the economy when things have picked up or slowed down."
- **Calculate 3/12 and 12/12 rates of change**. A 3/12 rate of change represents quarterly variance, while a 12/12 rate of change represents annual variance. Calculating both is important because they play different roles in capturing trends and predicting the future. For example, there may be a nuance in a 3/12 rate of change that you can't see in a 12/12 rate of change.
- **Adopt processes that make KPIs more valuable.** Make it easy to capture and review your KPIs by investing in tools such as an online dashboard. Measure your KPIs on a daily or weekly basis, rather than on a monthly basis. Share your KPIs with everyone in your organization, rather than just your senior leadership team. And reward employees for contributing to KPIs that drive growth.

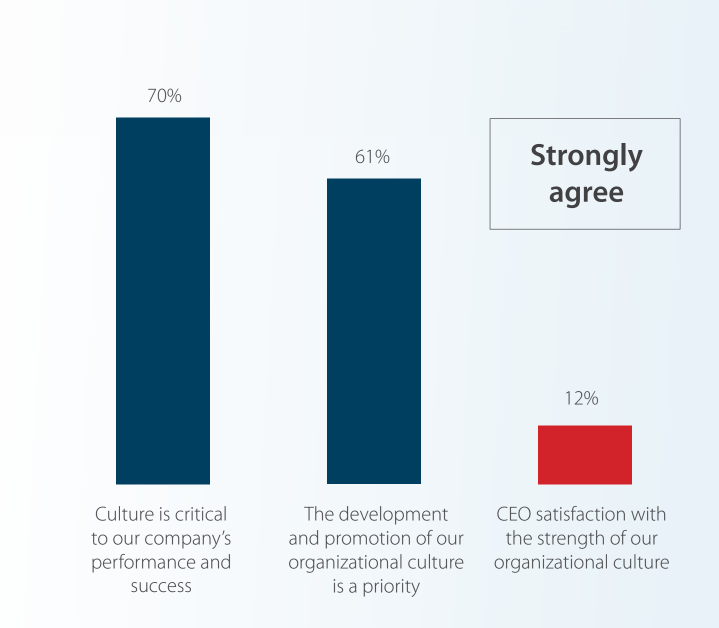
Decision Factor 7: Leadership

For CEOs of small and midsize businesses, culture has become the top leadership priority. In our survey, 70% of respondents said they strongly agreed that culture is critical to their company's performance and success. Another 61% said they strongly agreed that the development and promotion of culture is a priority. And yet, just 12% of CEOs said they strongly agreed that they are satisfied with their culture.

Culture naturally occurs within any group of people. When left to develop on its own, it is the product of the collective behavior and expectations of leaders in a group. This happens in families, schools and communities. It happens in group meetings and at dinner parties. In the business world, culture defines how humans work together.

As the talent war has intensified, culture has become increasingly more important to CEOs. This is mainly because recruiting and retaining employees is critical to business growth. Unlike prior slowdowns, companies are still looking to hire in the current slowdown. As a result, talented employees have multiple opportunities to choose from. Culture influences whether those employees decide to stay or leave a company.

The force that retains, repels and attracts.



Source: Q2 2019 Vistage CEO Confidence Index, n = 1,463

> "Culture sets guardrails for how people treat each other, collaborate and resolve conflict. It establishes standards and expectations for work activities, behaviors and performance."

Joe Galvin

Culture is your organizational gravity. It's the magnetic force that keeps good employees connected to your company. While being paid fair compensation for the job is important, culture is the intangible force that emotionally connects your employees to the people they work with and the work they do. When an employee finds alignment between their own beliefs and their company's mission, vision and purpose, it creates a bond that leads to greater engagement and performance.

Your culture is also the force that repels and rejects people who don't, won't or can't align with your culture. Even as cultural fit becomes a bigger part of a hiring decision, sometimes mismatched people will get hired or existing employees will change — or prove that they're not willing to change. Your culture will call out the inappropriate or inconsistent behaviors of those individuals. As the culture grows stronger, boundaries defined and enforced by people in the company will grow clearer as well.

Culture is also the magnetic force that attracts people who might want to work for your company. It radiates through your employees in how they interact with customers. It is reflected in how they talk about their work with family and friends. In our survey, employee referrals were rated as a highly effective strategy for recruiting. That's primarily because employees don't refer friends that they wouldn't want to work with or who would make them look bad. In addition, the attitude or vibe of a company is obvious to the outsider. Just as employers look for cultural fit, talented people evaluate companies for cultural fit.

Leadership recommendations

- **Make culture a priority.** As a CEO, you need to actively develop and constantly promote the culture you want in your business. While cultural development starts at the top, all leaders need to embrace and reinforce culture so that their employees accept and practice it.
- **Connect culture to metrics.** Culture is interwoven with your ability to hire and retain. While there are no hard metrics for measuring culture, your metrics for time-to-hire and employee turnover will reflect the results. Culture is an engagement driver, so an engagement study or pulse surveys will also show results.
- **Lead by example.** Employees, at all levels, watch the behaviors and actions of leaders. Ask yourself: Do my actions reflect our cultural values? How do I show up to work every day? Am I walking the talk? If you don't live your culture, your employees won't, either. Expect what you accept.
- **Articulate your mission, vision and purpose.** And then communicate it — not only through email campaigns and posters around the office, but through your everyday actions and attitude. Culture will mutate on its own if not continuously and consistently reinforced by leaders, managers and co-workers throughout the organization.
- **May the force be with you.** Culture is the powerful, unseen force that connects and motivates the behaviors of the people in your business. It radiates through your people into your community becoming the brand of your workplace. Many CEOs strive to be recognized as a "best place to work." While the majority of CEOs acknowledge culture's importance, few are prepared to harness the force to increase performance, productivity and employee engagement.

Research Perspective

Decision-making is never easy, even in the best of times. But applying a structured framework can bring greater clarity and insight to your decision-making process.

The Vistage Decision Model was created for this purpose. It is not a model for how to make decisions, but rather a model of the decisions you need to make as a CEO. It starts with you as a leader. How do you show up every day? How do you lead? What is your leadership process? These factors impact your key business decisions — in operations, customers, talent and financials — which are shaped by your instincts, judgment and perspectives.

The next six to 12 months will prove especially challenging, with decisive elections on the horizon and no guarantees or fortune tellers to help. As you navigate these interesting days, these should be your key considerations.

1. Economy: The dark clouds are getting darker

CEO confidence continues to sink as the economy rides down the backside of a business cycle. Hiring remains strong, but revenue expectations continue to soften and forward-looking prospects for the economy are at lows not seen since the Great Recession. With full employment a recession is unlikely, but a slowdown is already underway. CEOs need to maintain their vigilance and incorporate the perspectives of people and experts they trust — and then hope for the best.

2. Policy: Uncertainty is the new normal

Decaying confidence fueling increased caution is now compounded by the unpredictability of trade and tariff policies. Fractured agreements with Mexico, Canada and China disrupt trade and impacts everyone, especially those businesses that pay the tariffs. The confusion created by sudden and seemingly random application and threats of tariffs feeds uncertainty, which makes decision-making extremely difficult and planning impossible. CEOs need to brace for sudden shifts and accept the political volatility guaranteed through the 2020 elections.

3. Talent management: No peace in the talent wars

After 10 years of slow-to-steady growth, the labor market is tapped out. While not everyone is increasing headcount, everyone is hiring to replace the people who have left. Workers have options unlike in prior slowdowns, as pent-up demand for talent creates opportunities. The absence of skilled and willing workers is the greatest threat to long-term growth. CEOs recognize the need to retain and develop the people they have as a precursor to hiring more.

4. Operations: Infrastructure as an imperative

Increasing investments in technology, facilities, workers and equipment underscore the confidence of CEOs who are motivated by ready access to capital and historically low interest rates. Technology leads the charge, as data is the future of business. But lurking around the corner is the cyber bogeyman, ready to bring a business to its knees. CEOs know that the future is a digital one and recognize the need to transform — and not just transition — to a digital-first world.

5. Financials: Rate of change is your business blood pressure

Managing KPIs is an important part of monitoring the health of the business. Ensuring you have the right KPIs in place is always important, but critical in a slowdown. But KPIs can't tell you the whole story. Rate of change metrics tell you the volume and velocity of your most important KPIs. KPIs monitor the heartbeat of your business, but rate of change measures your business blood pressure.

6. Customer engagement: Cash is king, but customers rule

While a deep recession is unlikely, traversing the economic slowdown will require discipline in how you manage relationships. Not to be lost is the fact that getting closer to your customers is the right answer in all economies. They will be struggling and will look to their business partners for support. CEOs know that working with customers through downturns is rewarded when things improve.

7. Leadership: Culture is your gravity

Culture has emerged as the top priority for CEOs. With no end in sight to the talent shortage, culture becomes the key to retaining and inspiring your people. It is the force that keeps your good people working for you, repels people who don't fit or won't change, and most importantly, attracts the type of workers that you want. Culture can develop naturally as a result of common behaviors and attitudes that is the norm within a group of people, or something that is created consciously with intent. CEOs know they need to create the culture they want, promoting it daily — through words and action. They know to expect what they accept in the daily attitudes, behaviors and actions of their people.

Contributors

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Dr. Richard Curtin is a Research Professor and has been the Director of the Surveys of Consumers at the University of Michigan since 1976. Professor Curtin’s monthly report on consumer confidence is one of the most closely followed economic indicators, with findings from his research extensively reported in the media. His research is widely used by businesses and financial institutions as well as by federal agencies responsible for monetary and fiscal policies. Data from the Surveys of Consumers is an official component of the Index of Leading Economic Indicators.

Joe Galvin

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Connor Lokar

Economist, ITR Economics

Connor provides economic consulting and speaking services for small businesses, trade associations, and Fortune 500 companies. His economic insight and forecasting experience are key to ITR Economics’ 94.7% forecast accuracy. Connor specializes in applied research for business-cycle trend analysis, growth-cycle trend analysis, and implementing cyclical analysis at the practical, company level. He applies his expertise primarily through Executive Vantage Point™, an ITR service including customized forecasting and reporting.

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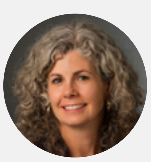

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As Sr. director of research, Anne Petrik leads the design, deployment and analysis of CEO surveys for Vistage, capturing the sentiment and practices of the Vistage CEO community. Using her analysis, in collaboration with perspectives from experts and partners, Anne directs the thought leadership published by Vistage research to provide SMB CEOs with insights that inform decision-making about how to optimize their business or enhance their leadership.

About Vistage Worldwide

Vistage Worldwide is an organization designed exclusively for high-integrity CEOs and executive leaders who are looking to drive better decisions and better results for their companies. Our members — 23,000 strong in more than 20 countries — gather in trusted, confidential peer advisory groups where they tackle their toughest challenges and biggest opportunities. CEOs who joined Vistage in the past five years grew their companies 2.2 times faster than average small and midsize U.S. companies, according to a 2017 analysis of Dun & Bradstreet data.

Learn more at vistage.com.

About Vistage Research

Vistage curates subject matter from our community and collaborates with top thought leaders to create unique content. Vistage executives access actionable, thought-provoking insights from the Wall Street Journal/Vistage Small Business CEO Survey and Vistage CEO Confidence Index results, as well as national and local economic trends. Since it began in 2003, the Vistage CEO Confidence Index has been a proven predictor of GDP, two quarters in advance. Vistage provides the data and expert perspectives to help SMB CEOs make better decisions.

Learn more at vistage.com/confidenceindex and vistageindex.com.

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