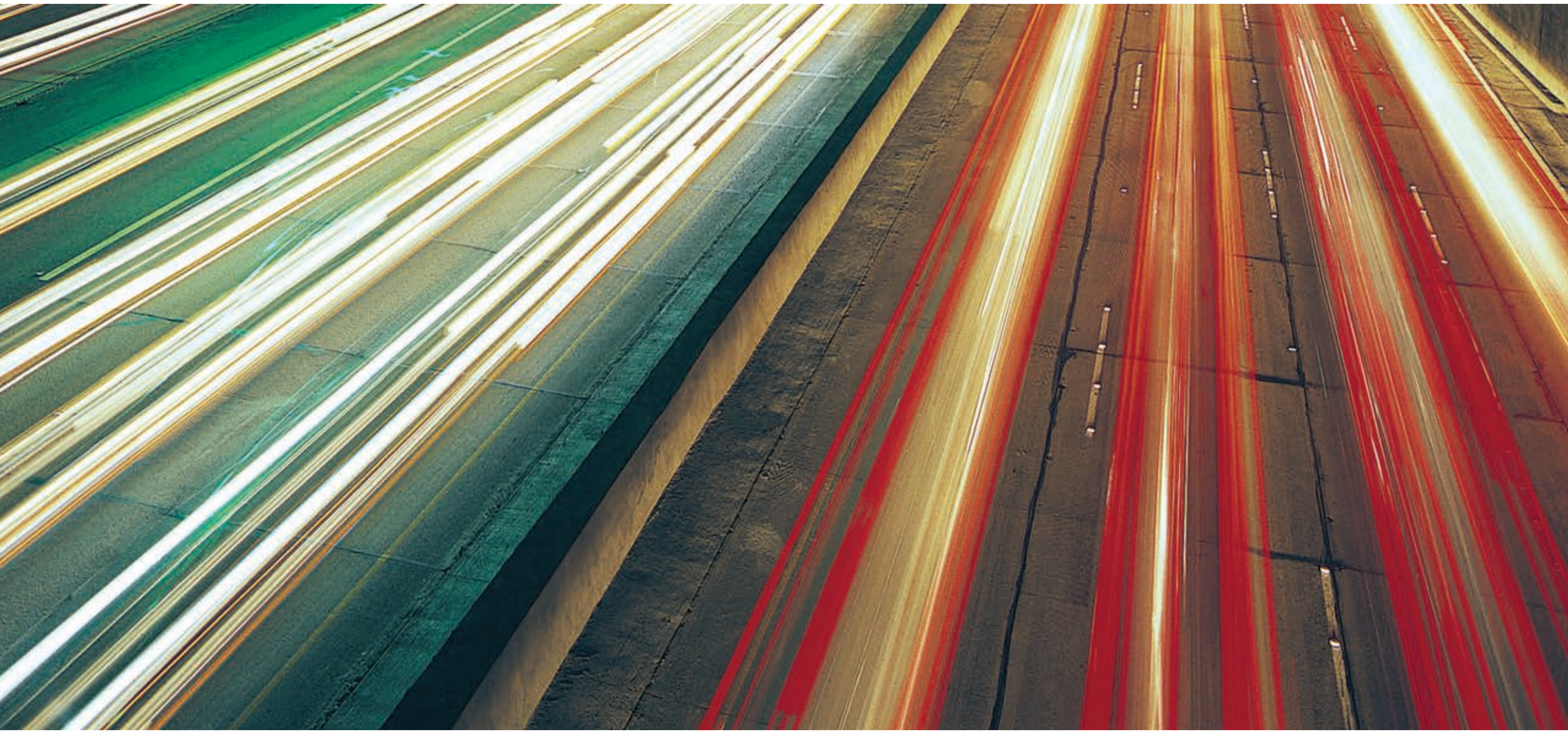
America's economic engine
Tapping the brakes



A mid-market perspectives report

Tapping the brakes

On this survey's five-year anniversary, the 500-plus executives we polled are sounding a decided note of caution. Growth in most of their companies' business metrics continues, but at a more modest pace than seen in recent years. As a result, they're starting to rein in certain expenditures at a time when the broader economy is expanding, but in fits and starts. These findings stand in contrast to our experience over the past five years, a time in which US mid-market companies invested anew as they recovered from one of the worst recessions in the nation's history.

The slowdown this survey portrays is far from a hard stop, but rather a tapping of the brakes after so much forward momentum. In some cases, it may very well be that mid-market executives are focused too narrowly on the short-term gyrations of the US economy. In others, it may simply be that growth and spending levels are now moderating to a more normalized run rate.

Whatever the case, at times like these we generally counsel our clients to maintain their long-term perspective, even as they navigate bumps in the road. The mid-market companies profiled in the pages that follow echo this sentiment: they're doing what it takes to keep their businesses growing and dealing with everyday challenges at the same time.

Their companies, and many others like them, are investing in talent and also exploring opportunities to diversify their workforces and leadership teams to better connect with customers and acquire fresh insights. For the first time in this report, we dive into the issue of diversity and explore what mid-market businesses are doing to transform their talent base.

As always, we hope you find the answers to be informative and useful. Our aim since the beginning has been to deliver insights mid-market leaders can act on. Here's to another five years of continued growth for this all-important sector of the economy.

Roger Nanney
National Managing Partner
Deloitte Growth Enterprise Services
Deloitte LLP

About the survey

From October 22 to November 4, 2015, a Deloitte survey conducted by OnResearch, a market research firm, polled 522 executives at US mid-sized companies about their expectations, experiences and plans for becoming more competitive in the current economic environment. Respondents were limited to executives at mid-market companies with annual revenues between $50 million and $1 billion.

Eighty-one percent of the companies represented were privately held; 19 percent were public. Of the private companies, 33 percent were family-owned and 31 percent were closely (non-family) held; 33 percent were private-equity or VC-backed or had other ownership structures.

Half of the respondents were owners, board members, or C-suite executives; the remainder included vice-presidents, department or business line heads, or managers. Industries were diverse: those with the largest representation were consumer and industrial products; technology, media and telecommunications; and, financial services. Life sciences and health care, energy and resources companies, and other industries comprised the remainder of respondents.

The full survey results are included in a separate appendix; some percentages in the charts throughout this report may not add to 100 percent due to rounding, or for questions where survey participants had the option to choose multiple responses. All changes in survey results reported are statistically significant at the 95 percent confidence level.

Growth slackens, investment wanes

The middle market's ongoing efforts to navigate challenging economic conditions have generally been a story of firming confidence in the economy and business conditions, but that narrative began to change slightly in our spring 2015 survey. That report showed a slight deceleration in key business metrics and investment intentions. The current survey reveals further moderation — fewer executives expect the economy to expand at a robust rate, a view which is translating into a pullback in expectations for growth in profits, prices, and capital investment.

… fewer executives expect the economy to expand at a robust rate …

While the majority of respondents expect the US economy to grow by at least 2 percent in the coming 12 months, we saw a significant spike in those expecting something less. The 29 percent of executives who believe the economy will grow by between 0 percent and 2 percent was the highest mark since spring 2014. Nearly half — 49 percent — believe gross domestic product (GDP) will show no change by this time next year, up from 41 percent in the spring. At the same time, a significantly higher proportion of the executives now label themselves merely "confident" the economy will improve, with a like amount no longer "extremely confident" about it.

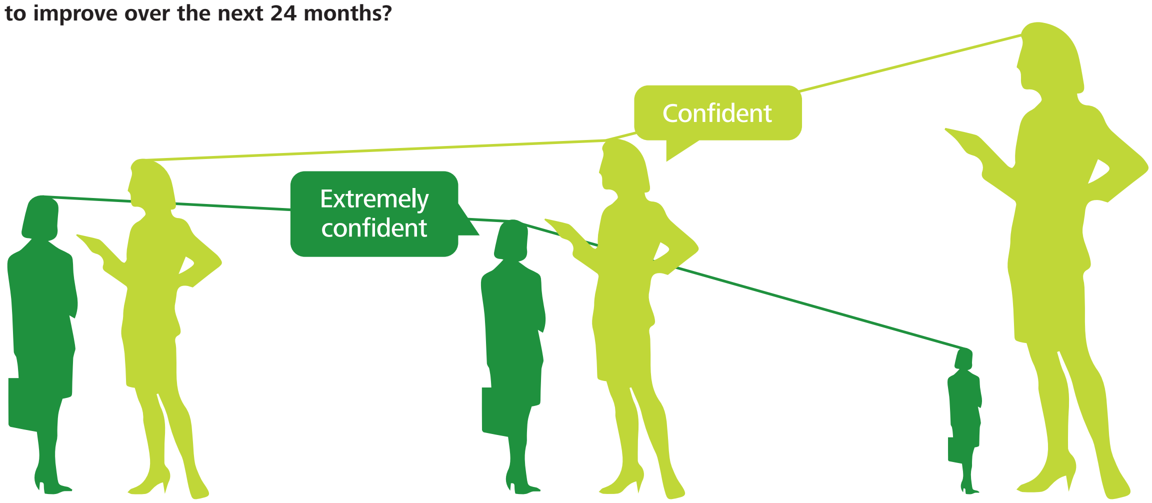
The survey sentiments belie an economy that, despite showing mixed signals this year, is still growing. The third-quarter GDP report from the Commerce Department showed only 2.1 percent annual growth for the third quarter after it expanded by 3.9 percent in the second quarter.[1]

That slowdown translated into more modest growth across a number of key business metrics at the respondents' companies. Over the last 12 months, the number of executives reporting growth in profits and gross profit margin fell significantly. Lack of pricing power seems to be one of the key drivers in this, as 59 percent report holding prices steady over the past 12 months and more companies than in the spring survey say their prices actually fell.

But it's clear that slowing revenue growth among some of the companies surveyed is also contributing, with the fast-growing companies in particular ratcheting back their expectations for the coming 12 months. Generally speaking, expectations for most metrics over that time are still optimistic but at a more conservative level, and capital investment stands out as one area where growth slowed significantly from the spring.

"Overall, the economy is still growing," said Ira Kalish, chief global economist, Deloitte Touche Tohmatsu Limited. "Business leaders can pay too much attention to short-term variations in the economy when they should be focused on building their businesses for the long term. Taking a myopic view at this point in the recovery risks missing out on potential growth opportunities."

What is your level of confidence that the US economy will continue to improve over the next 24 months?



	FALL 2014	SPRING 2015	FALL 2015
Extremely confident	19.6%	17.9%	9.8%
Confident	21.9%	23.0%	30.6%

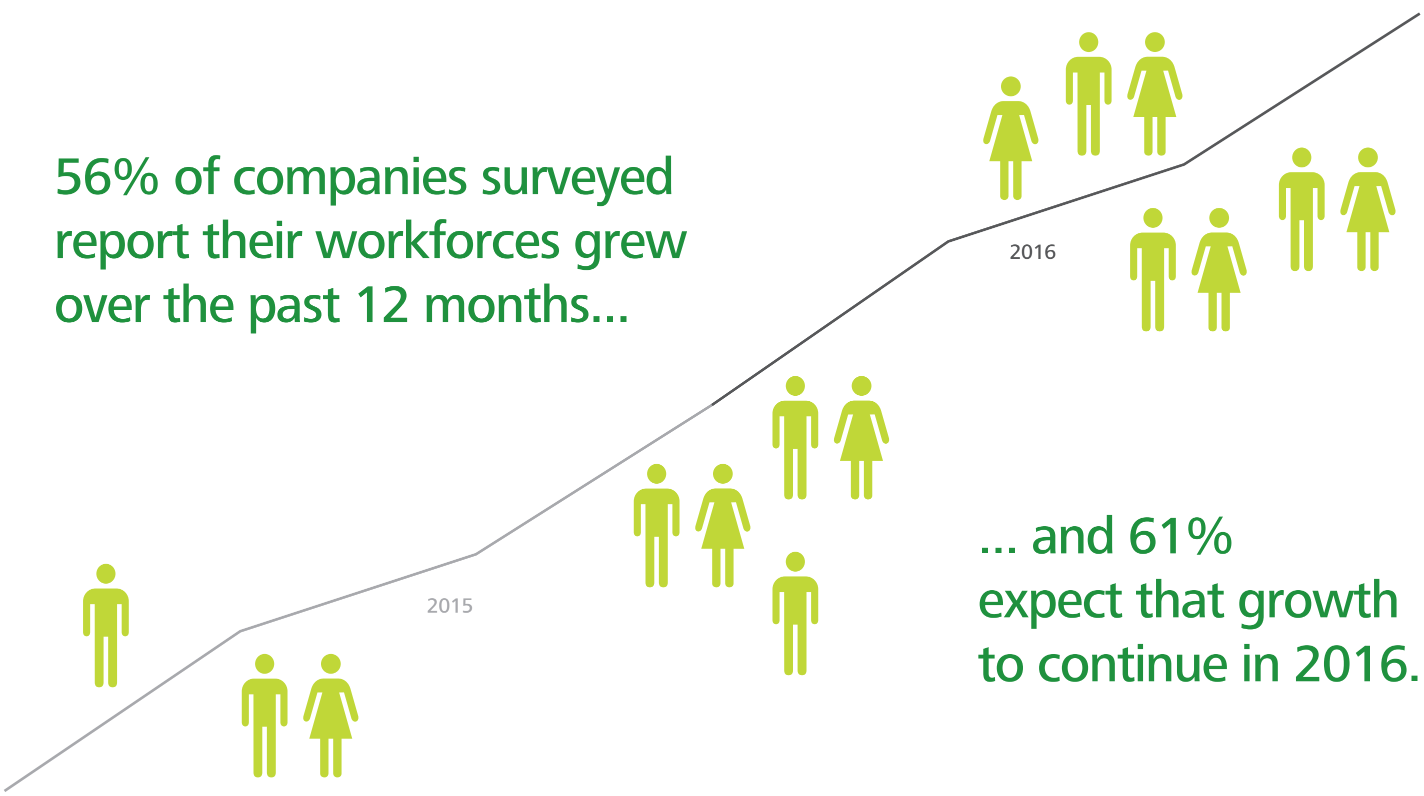
Growth keeps jobs in demand

If there's one investment area that continues to hold steady, it's hiring. Fifty-six percent of companies surveyed report their workforces grew over the past 12 months, and 61 percent expect that growth to continue in 2016.

These results align with a US jobs market that has bucked slowing economic growth. This year, employers have continued to staff up and push the nation's unemployment rate down to 5 percent, the lowest level since April 2008.[2]

"Employment is rising rapidly, so companies are increasingly competing for talent," Kalish said. "With no signs of the shortage abating, their talent strategy is going to be critical to success."

A tighter labor market is naturally making it harder to staff up and retain talent. Nearly two-thirds of the survey respondents agree that it is difficult to find new employees with the skills and education necessary to meet the needs of their business, and close to one in five cited skills shortages as an obstacle to their company's growth.



56% of companies surveyed report their workforces grew over the past 12 months...

... and 61% expect that growth to continue in 2016.

M&A steady but targets are shrinking

Mid-market companies have joined their larger counterparts in stoking the market for mergers and acquisitions this year. By early December, the value of global transactions passed the record set in 2014.[3]

However, evidence of a potential slowdown in middle market M&A activity shows up in our latest survey. While the proportion of companies completing deals held stable over the past 12 months, fewer companies report completing multiple deals. In the survey, only 8 percent cite M&A as their main growth strategy over the coming 12 months, down from 12 percent in the spring. Along the same lines, we see a drop in the number of executives who feel their company is likely or very likely to participate in a merger over the coming 12 months.

Flexera Software of Chicago completed a handful of acquisitions the first year after it was purchased by a private equity firm in 2008. During the last three or four years, it has stayed on the sidelines, but not for lack of want. Asking prices simply got too high, says Chief Financial Officer Joe Freda, who blames cheap capital, the low cost of debt, and plenty of cash piling up on the sidelines at financial buyers.

"We have a regular quarterly town hall meeting with our employees, and it got to a point where somebody would always ask why we haven't bought anything," Freda says. "The truth is we couldn't find anyone we wanted to buy at the price we wanted to pay." That changed in September, when the company acquired Secunia, a Danish cybersecurity software company.

Kevan Flanigan, national managing director of Deloitte Corporate Finance LLC, echoes Freda's sentiments, saying that any pullback in M&A activity in the middle market "appears to be more reflective of the availability of attractive targets than it is a reduced interest in growing by acquisition or a scarcity of available capital."

"The challenge in identifying attractive acquisition targets requires even greater vigilance in sourcing, screening, and vetting potential opportunities," Flanigan says. He believes mid-market companies will remain hot targets among private equity firms and other financial acquirers, who have raised significant capital that needs to be deployed, in addition to strategic buyers seeking accelerated growth.

On that score, the executives we surveyed believe it is slightly less likely now than it was six months ago that their company could be the target of a merger in the coming year. They see the most likely buyers as a direct domestic competitor, a domestic business partner, or a private equity firm.

... evidence of a potential slowdown in middle market M&A activity shows up in our latest survey.

Obstacles inhibiting growth

The fact that the US economy has not been able to produce sustained, strong growth since the global financial crisis is a subject of great debate among economists, policy makers, and business leaders. In recent months, this relative underperformance has been attributed to a range of issues, from slowing growth in China to lack of productivity gains to income inequality.

Executives cite health care costs as the number one obstacle to US growth....

Since the survey began five years ago, we have been asking mid-market executives their views on the challenges facing the economy and their businesses. Our intent was to dig deeper into the factors inhibiting growth in this all-important sector that has accounted for more than 90 percent of the 2.8 million jobs added by commercially active firms since 2008.[4] Understanding what drives and impedes America's economic engine is therefore an important task. To that end, the executives point to a number of emerging issues that may help explain why the economy isn't growing at its full potential.

Health care now tops worry lists

Since the Affordable Care Act was passed in 2010, the mid-market executives in our surveys appeared to be growing more comfortable with its implementation. Through spring of this year, we saw a steady drop on their worry lists when it came to the issue of rising health care costs.

In the latest survey, however, the issue takes front and center stage. The executives cite health care costs as the number one obstacle to US growth, edging ahead of two longstanding concerns — government budget challenges and high tax rates. What's more, we see a significant jump — to 34 percent from 25 percent in the spring survey — in those citing health care costs as an impediment to their company's growth, making it the number two issue behind the uncertain economic outlook. As a result, nearly a third of the respondents — 32 percent — now believe that rolling back health care reform is an action the government should take to help growth, up from 26 percent in the spring and a year ago.

Mitch Morris, principal, Deloitte Consulting LLP, and global leader of Life Sciences and Health Care, Deloitte LLP, points to several potential reasons for the renewed concerns. For one, health care costs continue to rise as new treatments generate higher price tags. Second, the employer mandate included in the ACA kicked in for many employers this year, driving up their health insurance premiums. And companies are beginning to get their hands around how to absorb the "Cadillac Tax," a new ACA levy that goes into effect in 2017 that will amount to a 40 percent non-deductible excise tax on employer-sponsored health coverage that provides high-cost benefits.

"Sometimes you don't worry until it's too late," Morris says. "Companies living quarter to quarter that aren't looking ahead all of a sudden are facing the reality of these new regulations hitting them in the face. It's imperative for business leaders to have a deep understanding of potential obstacles to their growth plans so they can develop options for mitigating them."

What are your company's main obstacles to growth?

Uncertain economic outlook

Fall 2015	**40.8%**
Spring 2015	38.0%

Health care costs

Fall 2015	**34.0%**
Spring 2015	24.9%

Increased regulatory compliance

Fall 2015	**31.9%**
Spring 2015	23.0%

Regulatory compliance causing more anguish

It's not just health care regulations that have more executives in the survey concerned. Increased regulatory compliance typically captures about a quarter of the executives' votes when citing obstacles to their company's growth, but this year we see a notable spike in their concerns.

Perhaps not surprisingly, energy and health care companies saw the biggest increases. New energy regulations in particular dominated the news this year. For example, in August, the Obama administration announced sweeping new curbs on carbon emissions from power plants that require states to work with electricity producers to reduce overall carbon emissions by 32 percent below 2005 levels by 2030.[5] Six months before that, the administration unveiled the nation's first major federal regulations on hydraulic fracturing, which many in the industry credit for helping US oil and gas production reach their highest levels in years.[6]

Interest rate, credit worries climb

At the start of 2014, many of the executives were worried about the specter of rising interest rates, with Federal Reserve officials beginning to telegraph the potential for their first rate hike since 2006. In our spring 2014 survey, nearly two-thirds expected rates to rise over the course of the year.

But it took until December 2015 for the Fed to hike short-term rates, and even then they stepped back their rate forecasts for the next few years. Long-term rates, by comparison, have remained near historic lows based on muted expectations for inflation. In the current survey, which closed before the December rate-hike announcement, just over half the respondents are convinced rates will be higher by this time next year. Rising interest rates are cited by 33 percent as an obstacle to US growth, up from 29 percent in the spring. Keeping interest rates low is now viewed as the second most important step the government can take to support growth, nearly as high as reducing corporate tax rates.

While only one in 10 of the executives cite the availability and cost of credit as a constraint to their business, their companies will likely have to rely more on the credit markets in the next 12 months. Those who believe their company will be able to tap internal sources to meet their financing needs fell to 25 percent from 32 percent in the spring, while asset-based financing and secured loans both climbed. That may help explain why a significantly higher proportion of executives — 18 percent versus 13 percent in the spring — believe that easing bank lending practices will help US growth in the coming year.

Keeping interest rates low is now viewed as the second most important step the government can take to support growth...

Technology budget crunches

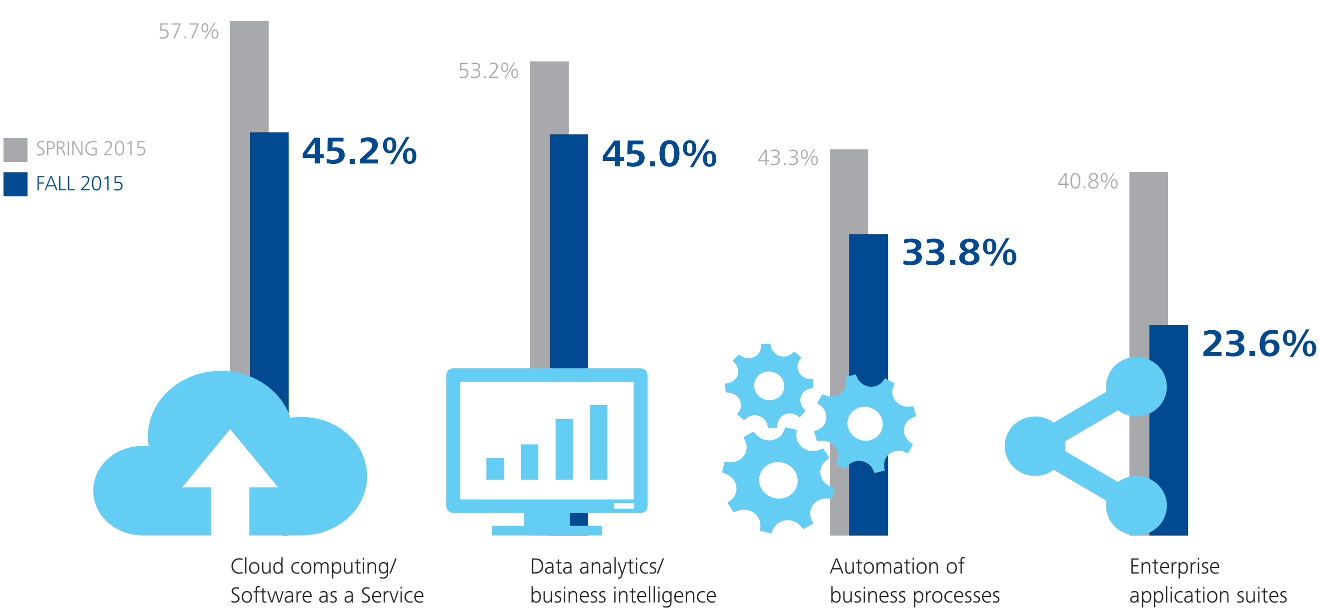
Inflation may be tame by historical standards, but one area where costs are reportedly creeping up is in technology. We have tracked mid-market companies' adoption of emerging technology solutions such as cloud computing and data analytics over the course of the past few years, both in this report and a dedicated annual survey on technology in the middle market.[7] Those reports have revealed a growing appetite among mid-sized companies for these productivity-enhancing tools.

Increasingly, though, mid-market executives are worried about the costs tied to those tools. The executives surveyed list the cost of keeping up with technological advances as a growing concern, with more than a quarter now calling the issue an obstacle to their company's growth. On a possibly related note, spending intentions across a range of technology solutions declined from the spring, with investments in enterprise application suites, cloud computing, automation of business processes, and data analytics/business intelligence all falling after showing significant growth a year ago.

Given the continued strong demand for such technologies captured in Deloitte's annual technology survey of middle market firms, it is likely that many such businesses are simply busy implementing high-priority technology solutions they purchased in recent years.

An ongoing challenge that mid-market companies face in adding new technologies is having the right talent on board to help run and manage them, according to Steve Keathley, a principal at Deloitte Consulting LLP and national technology leader for Deloitte Growth Enterprise Services. "These companies are facing a dearth of talent in this respect," he says. "They need to be sourcing talent well in advance of the need because they're vying for the same people as everybody else and it's not going to get better any time soon. When it comes to technology investments, as with so many other dimensions of running a growth-oriented company, inaction can create risk."

Which investments in technology is your company most likely to make in the next 12 months?



COMPANY SPOTLIGHT

Flexera Software: Making every technology dollar count

The cost of keeping up with the pace of technological change isn't just a pain point for mid-market companies — it's also the basis of some business models.

Flexera Software, a Chicago-based software company in the licensing, compliance, security and installation space that operates in 12 countries, got its start helping software providers and developers license their products and manage entitlements. Unlicensed use of software can be extremely costly, particularly in the case of very focused, niche applications that can run companies upwards of $100,000 in annual licensing fees for each individual user. Over time, Flexera Software discovered that enterprises that use software needed the company's services as much as the software providers developing it. Software Licensing Optimization software pioneered by Flexera Software not only helps enterprises ensure licensing compliance, but it also helps to identify "shelfware" — software a company buys but never uses or underutilizes.

"Our technology helps them better manage their software investment," says Joe Freda, Flexera Software's chief financial officer. Freda says software cost savings often go undiscovered because it's not a tangible good "you can touch," like a piece of equipment on a shop floor. Increasingly, though, companies want to be sure they get the biggest bang for their buck.

"When times are good, companies are expanding their business and investing in technology," Freda says. "When times are tough, they want to be sure they aren't underusing the technology. They want to get the biggest return on their investment that they can."

That means Flexera Software needs to be focused on growth in just about any economic environment. Though the company has experienced some bumps in the road of late due to the economy, the company has added more people over the past two years than it did in the prior five.

"As a software company, we are very topline-driven," Freda says. "Our ability to call on the global 2000 companies is only limited by the size of our sales organization. Therefore, our growth depends on how many revenue-generating heads we can add."

One of the reasons the company keeps pushing so hard to add new people is that it's getting harder to find them. A tight labor market has increased competition for job candidates who have the skills Flexera Software needs. While its business hasn't been constrained to date by the challenge, finding talent is "one of the things I probably worry about more than anything," Freda says.

Freda credits Flexera Software's private-equity partners for helping him focus on the growth needs of the business and not get too distracted by short-term fluctuations in sales and other obstacles. The company was sold by Macrovision Corp. to private-equity firm Thoma Bravo in 2008. The Ontario Teachers' Pension Plan acquired majority ownership from Thoma Bravo in 2011. "We might make tactical changes at the margins when our business slows, but our investors take a long-term view of our business and they encourage us to do the same. It's a freeing experience," Freda says.

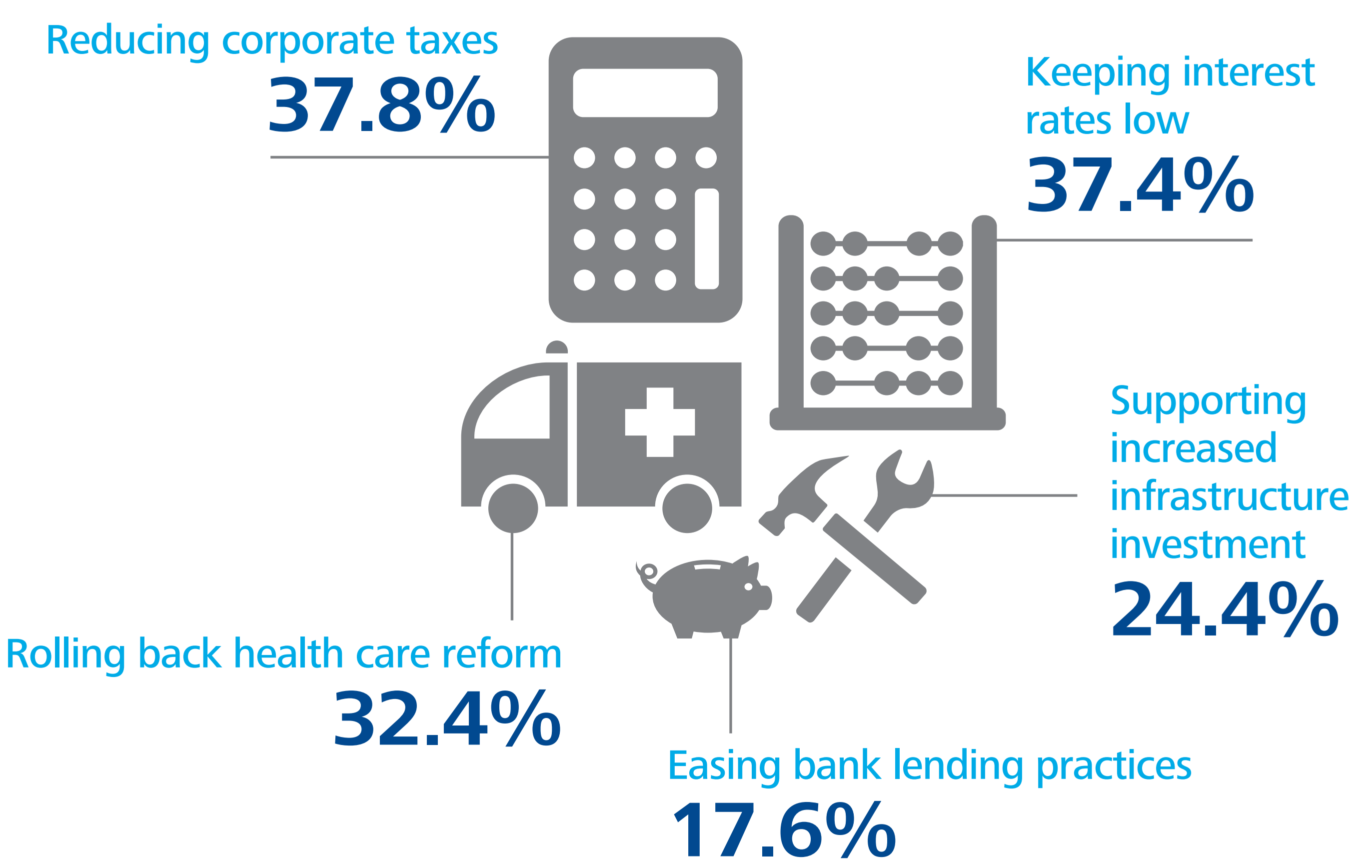
A number of policy prescriptions inched up in the survey……

Other hot-button issues

Finally, the executives are concerned about a host of issues likely to be predominant in politics in the run-up to the 2016 presidential election. A number of policy prescriptions inched up in the survey, compared to six months ago. For instance, 16 percent believe the government needs to do a better job protecting US firms from global competition.

Easing immigration restrictions is one of a few other measures that more executives believe would help the economy, along with relaxing export and import restrictions, and passing currently pending free trade agreements.

Which of the following measures by the US government would most help US mid-sized businesses to grow in the next year?



A dynamic and diversified workforce

Even as mid-market companies consider dialing back in some key areas of their business, they continue to prioritize investments in talent. These efforts are geared not just toward bringing new talent in house, but keeping them on board with a combination of training, coaching, and other steps that show employees their contributions are valued.

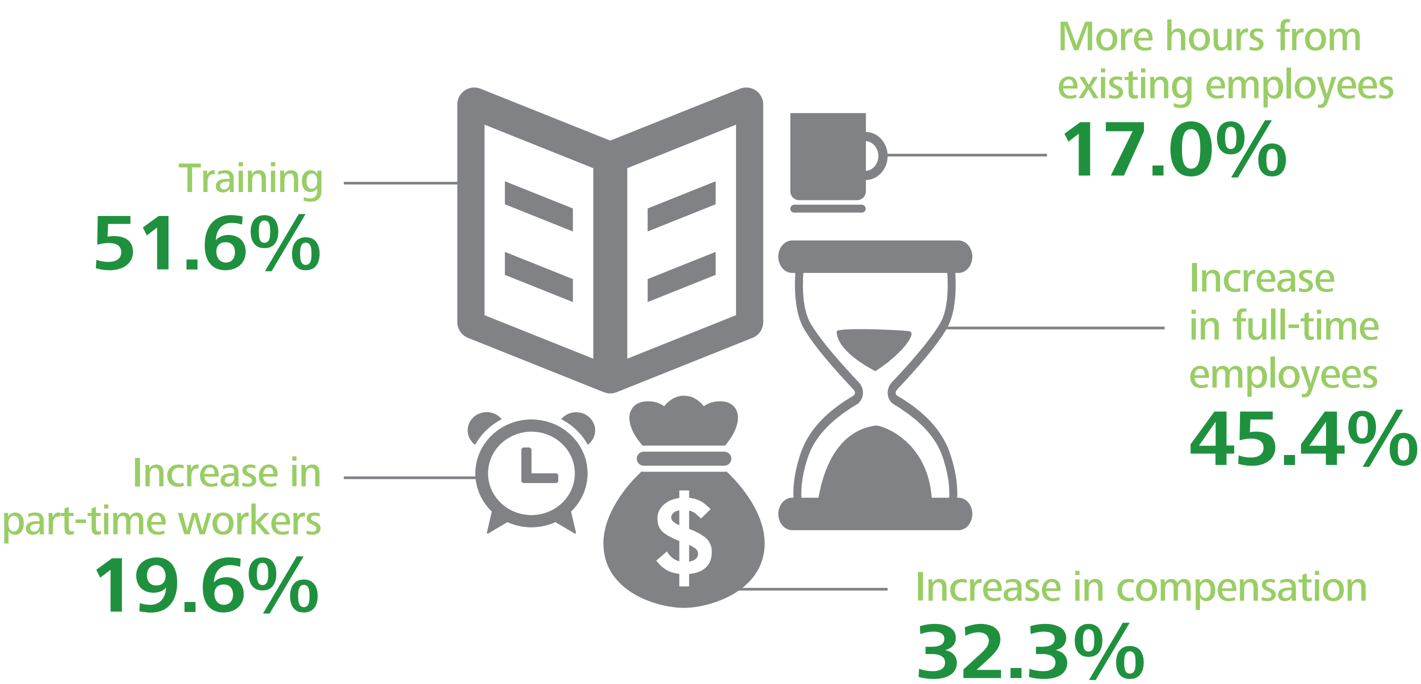
... a stronger labor market makes it tougher to find skilled workers...

As a stronger labor market makes it tougher to find skilled workers, mid-market companies are spending more time and energy on meeting their talent needs. The latest survey bears this out across a few dimensions. For instance, hiring and training takes the top spot for the first time since we started asking respondents to identify their company's biggest investment priorities for the next 12 months. More than half say training will dominate their talent investments in the coming year, and full-time hires and higher pay also rate highly on the list. Fourteen percent believe the federal government should help subsidize vocational and other skills training and development, up from just 9 percent in the spring.

Chicago's Loop Capital has adopted a more systematic approach to its training over the past year, says Tasha Henderson, chief financial officer at the investment firm. "We've honed our screening process, our interviewing and our onboarding to make sure we have better success in selecting individuals who fit our values, our mission and our strategy," Henderson says.

Indeed, "train them and see what they can do" appears to be the mantra many mid-market leaders adapt when it comes to managing their workers. This makes inherent sense: midsized companies have a natural leg up in the war for talent because many are private or family-owned and can grant employees a level of freedom they might not enjoy in larger, public companies. Thirty-six percent of the executives say they work to establish trust with their employees by granting them a level of autonomy, while nearly as many provide access to company leaders. Other top trust-building steps include communicating regularly about values and the state of the business, aligning values and company strategy, and having a well-regarded leadership.

Which investments in talent is your company most likely to make in the next 12 months?



Diversity in the middle market

As important as maintaining trust with employees is ensuring that the internal organization has access to a wide array of perspectives. We asked a series of questions about the demographic makeup of the companies' workforces and leadership teams and how they're working to foster inclusion. We wanted to better understand how much of a role diversity plays in talent management and how mid-market companies are responding to the changing face of their customer base.

The findings point to a segment of America's companies in which women and minorities still hold comparatively few leadership positions. For instance, 92 percent of companies in the survey report that female and minority leaders or managers comprised less than half of the executive leadership at their organizations. Overall company headcounts using this measure are slightly more diverse, however, as 14 percent of respondents report that more than half of their employees were women or minorities.

Research shows that the shifting gender balance at the highest levels of corporate leadership is not only likely to boost profits, but also is a contributor to a healthier workplace. A recent analysis of composition of corporate boards found that boards with gender diversity experienced fewer governance-related improprieties as well as shareholder conflicts.[8] But here again, the executives we surveyed suggest their companies still have a ways to go in this regard — 37 percent say women and minorities made up less than a quarter of their boards. Meanwhile, one-fifth of respondents report having a majority of directors who are women or members of minority groups.

Mid-market companies that make workforce and leadership diversity a priority believe it's imperative for them to more closely reflect the communities and customers they serve.[9] Demographers have been predicting for some time that the United States is headed for "majority-minority" status. By 2044, trends indicate that no racial group will make up more than 50 percent of the population.[10] Leading middle-market companies such as The Greensheet and Loop Capital, both profiled in this report, are working to understand the value of diversity in their workplace, from entry-level positions all the way up to the board room.

92% of companies in the survey report that female and minority leaders or managers comprised less than half of the executive leadership at their organizations

COMPANY SPOTLIGHT

The Greensheet: Range of voices defines culture at Texas' No. 1 weekly shopper

This year, The Greensheet celebrates 45 years in a business that's solidly linked to a thriving economy: hyperlocal advertising. The job postings, real estate listings, and community classifieds in the Houston-based company's papers and online marketplace provide neighborhood-specific evidence of the economy's strength across the firm's three Texas markets.

Behind The Greensheet's 20 publications and web-based listings is a multilingual staff of more than 200 professionals led by CEO Kathy Douglass. The Greensheet's community papers and online sites cover Houston, Austin, and Dallas-Fort Worth, collectively serving three of the five largest metropolitan markets in Texas and some of its most diverse populations.

In Houston, where nearly half of residents speak a language other than English at home, some of The Greensheet's listings appear in English and Spanish. To better serve the needs of its advertisers, Douglass says the company has made it a priority to embed not only non-English language proficiency but also cultural competency within the skills sets of the company's sales representatives. Employees who can sell advertising in a language other than English and also master the nuances of doing business across cultures "can bring a different level of respect and understanding," Douglass says.

The 220-person company has traveled creative routes to look for talent in racially diverse Houston, where African Americans and Hispanics make up more than half of the population. "The key to finding diversity and different types of individuals is looking in different places," Douglass says. "We'll go to universities. At different times we have gone to activities where the type of individuals we're looking for might join and belong. Churches sometimes have helped in recruitment. If we're not finding the quality that we need in one source, we look elsewhere."

The company's diversity push rises to all levels of the organization, not just the customer-facing dimensions. Douglass says the key to transforming diversity into business results is ensuring that leaders involve a range of voices in decision-making and input on business strategy, regardless of rank. "We try to understand the people that work in the company, rather than believing they have to understand us," Douglass says.

COMPANY SPOTLIGHT

Loop Capital: Diverse voices in finance, from classroom to career

Inside the Chicago offices of Loop Capital, a full-service investment bank, brokerage and advisory firm, passion for workplace diversity is as fervent as the desire to build a global financial services practice. Management takes both responsibilities to heart—Loop's leaders recognize that the financial industry's strongest path forward is one that reflects the increasingly heterogeneous markets it serves.

"We want diversity, we promote it. You get a better perspective when you have different views," says Tasha Henderson, Loop Capital's chief financial officer and a 20-year industry veteran. "We're working very hard to change the landscape and to change mindsets."

Henderson signals underrepresentation of women and minorities in her industry as a deficit that firms such as Loop Capital have to confront. Nationally, women make up just over half of all workers in finance.[11] In our latest survey of mid-sized companies, however, women and minorities combined held only 18 percent of leadership roles among respondents at financial services firms. Henderson, who took her first accounting class in high school, says companies bear the responsibility for boosting representation among underrepresented groups and showing how an early grasp of finance can lead to career opportunities.

The very nature of personal networks explains part of the failure in building a diverse pool of potential workers, Henderson says. Companies and recruiters can start to remedy this by casting a wider net for young talent, she says. "We might go to the Harvards, the Yales, the Stanfords of the world, to get a specific recruit we think will be successful in financial services," Henderson says, "but we have to broaden our reach to other schools because talent and success isn't isolated to those who obtain Ivy-league degrees."

Retaining talent once they've been brought onboard is another challenge, particularly among millennials, who "want to know what that the next level looks like, and what they need to do to get there," Henderson says. Structured orientation is a centerpiece of Loop Capital's commitment to retention, an element she says is critical to any company's success.

"We all need to have better mechanisms to bring new hires into the fold," Henderson says. "We have to make sure the environment is open so they have an opportunity to grow. With new talent, I take it upon myself as part of my professional growth to help out, to reach out to that person. So I'm constantly having those conversations outside of performance reviews, throughout the course of their tenure here. To get to know the person so that you can be in alignment, know how they're going to add value to the firm, and know what you can do to help them grow both personally and professionally."

Since starting her career, Henderson says she's seen a gradual diversification of the industry to include more women and minorities in senior-level finance roles. "It can only mean good things for our economy," she says, "because you know you have all those perspectives in the room, and you can make better decisions."

... many mid-market employers are struggling to support diversity...

Creativity in staffing, retention practices

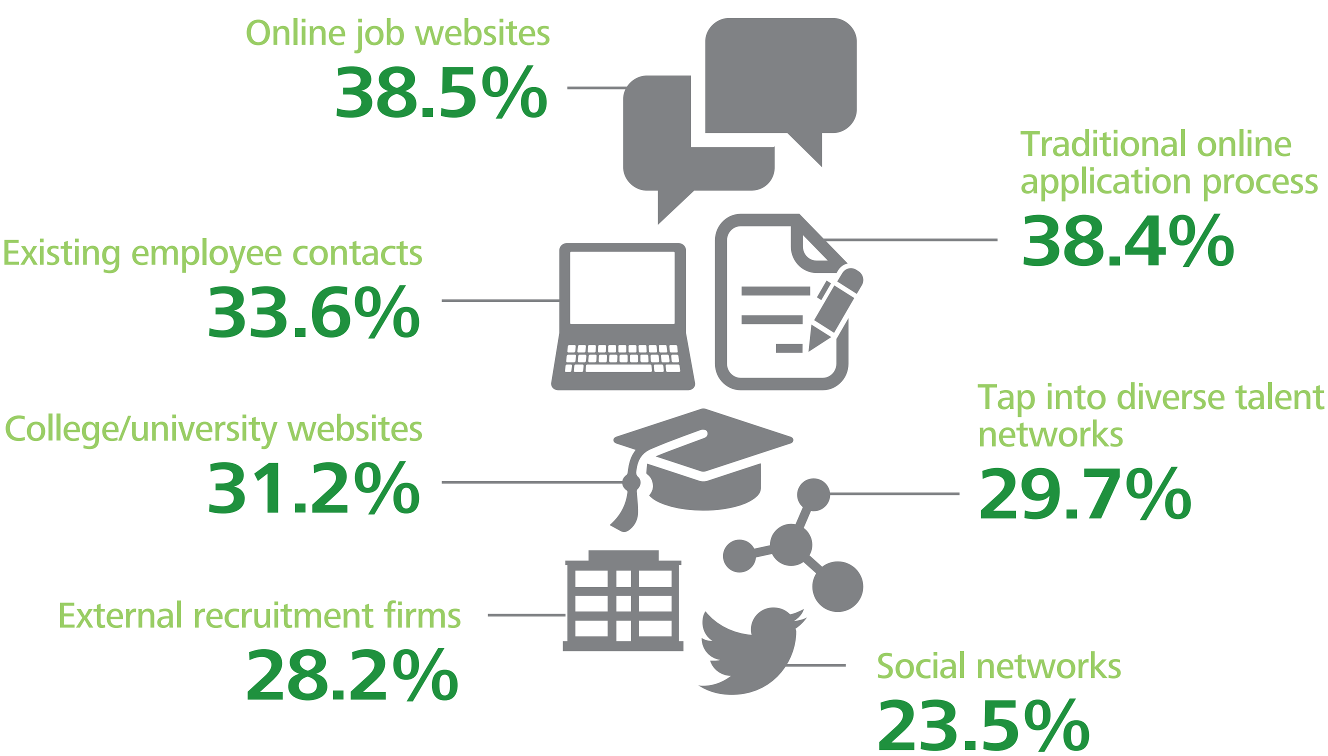
And yet, many mid-market employers are struggling to support diversity while addressing the twin challenge of finding skilled talent.

Part of the issue may stem from the ways in which such firms are reaching out to prospective employees. The survey reveals that the first steps many mid-market employers use to engage female and minority candidates fall largely along the most widely used recruitment sources.[12] For instance, online career websites and traditional applications hosted on corporate job portals are the most common forums employers use to showcase openings. Meanwhile, 29 percent of respondents say they are mining diverse talent networks in order to find potential new colleagues.

The survey finds that roughly a quarter of the companies use social media as a recruiting tool. This points to room for improvement, as minorities are very active users of social networks. For example, nearly 77 percent of US Hispanic Internet users access social media on a monthly basis, outstripping every other ethnic group in the population.[13]

Nearly two-thirds of companies in our survey say they either have programs to foster diversity and inclusion or are developing such initiatives. Meanwhile, 31 percent of respondents say their companies are complying with legal requirements but have not put specific programs into place to address diversity or inclusion within their organizations.

What are the primary ways your company attracts women and/or minority candidates when recruiting new employees?



Conclusion

Despite mounting challenges that appear to be hindering growth in the US economy, many middle market firms are setting their sights on the horizon by making the investments needed to fuel their long-term growth, but with moderation. At times like these, we find that looking down the road just a little bit further can help business leaders stay the course and take advantage of emerging opportunities, even while they engineer solutions to smooth out near-term bumps in the road.

The fact is that competition is intensifying across a number of commercial dimensions. Skilled talent is getting tougher to come by. Acquirers are greater in number and market conditions are pushing asking prices to lofty heights. And new technologies are challenging business models while engendering productivity gains and access to new markets and customers.

There's never a good time to sit idly by, and that's certainly not the case now in such a dynamic operating environment. Mid-market leaders need to understand how these challenges stand to affect their businesses and growth plans. Important questions to consider include:

- What's your strategy for acquiring, growing, and retaining top talent? How can you capitalize on the advantages of a more diverse workforce?
- How confident do you feel about your knowledge of the M&A market and ability to source, screen, and vet potential targets? If you perceive the valuation of potential targets to be excessive, do you have a plan to increase organic growth?
- What actions have you taken to address the impact of proposed regulations affecting your industry? Have you adopted a long-run view that allows you to prepare for tomorrow's regulations today?
- What have you done to expand your financing options so you are ready to take advantage of market conditions? Can you fund your plans internally? If not, are you prepared for credit markets to tighten?

It's clear that the companies surveyed and profiled for our report are grappling with these questions — and coming up with some innovative solutions to them. If your company isn't having those kinds of discussions, now is a good time to see where you stand.

Notes

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Contacts

Roger Nanney
National Managing Partner
Deloitte Growth Enterprise Services
Deloitte LLP
rnanney@deloitte.com

Bob Rosone
Director
Deloitte Growth Enterprise Services
Deloitte LLP
rrosone@deloitte.com

Research and editorial lead
Janet Hastie
Senior Marketing Manager
Deloitte Services LP

Report design
Isaac Brynjegard-Bialik
Senior Manager
Deloitte LLP