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Lead Left Interview – Thomas A. Stewart (Part 2)

THE LEAD | July 2, 2018

This week we continue our conversation with Thomas A. Stewart, executive director for the National Center for the Middle Market. The Center is the leading source for knowledge, leadership and research on midsized companies, based at the Fisher College of Business at The Ohio State University. Mr. Stewart is an influential thought leader on global management issues and ideas: an internationally recognized editor and publisher, authority on intellectual capital and knowledge management, and a best-selling author. ***Second of two parts – View part one.***

The Lead Left: *But as you say, little is known about these companies. What are some of the implications of that knowledge gap?*

Thomas Stewart: Think of that two-winged bird. First, there are lots of implications for public policy. How should city halls and business-development organizations best work on economic growth? It's not about luring a new Honda plant; it should be about supporting the growth of the companies already in town. How do you think about what community colleges should be doing, to help theses fast-growing companies get the talent they need? How can we make sure that middle market voices are heard when tax and tariff policies are debated? Right now, small business is heard; big business is heard; mid-sized are at the table only rarely.

Second, think of research that helps executives do better. Most of what we know about management has been gleaned from research about big companies. You can't just lop off two or three zeros for what applies to Proctor and Gamble and say it applies to the middle market. For example, take innovation. A lot of innovation best practices talk about creating a diversified portfolio of projects. But a typical middle market company has, on average, three innovation projects every year. For example, in supply chain management, there's lots about managing large supply chains but—till we came along—there was nothing about how to be a perfect link.

TLL: *From the middle market data you're seeing, where are we today in the business cycle?*

TS: The middle market, I like to say, occupies the sweet spot between resilience and runway. We are in the second longest expansion in history. So far, it's been a blessedly placid environment. Interest rates are low, energy costs are low, labor costs are low, and raw material costs are low. In our quarterly Middle market Indicator, we're seeing continued strong performance and record-high confidence.

But will this benign business climate continue? There's concern about trade. All the costs I mentioned are up. Management is becoming more aggressive about price hikes; they will raise prices. The biggest problem, given near-full employment, is talent. The middle market feels it the most because resumes pour into Google. They don't pour into a small widgets business based in Cincinnati, Ohio.

For now, things look great. But as Jack Welch once told me, "I know a train will come through this building. I just don't know when and where it's coming from."

TLL: *What's your sense regarding the impact on the middle market from new tariffs?*

TS: Middle market companies are indeed domestically focused, but the most successful and fastest growing middle market companies are those that engage with global markets. Canada and Mexico represent their two biggest trading partners. China comes third. Administration policies will affect them. This will certainly impact the price of auto parts, for example, as steel costs increase. Your readers should check out an interesting podcast we have on our website on the impact of tariffs on agriculture.

***TLL:** What has been your biggest surprise so far?*

TS: How cool this is. Every day I encounter interesting new companies. For example, there's the Mohawk Paper Co, based in upstate New York—they make the construction paper you played with as a kid.. Then there's the Simmons Machine Tool Company that makes railroad wheel sets, helping to keep rails stay parallel. There's Keg Works that makes "tools for drinking". Things like kegs and taps and bar rails.

***TLL:** Right up my line.*

TS: Just think about all the great beer companies out there! The ones worth drinking are all middle market companies. The ones that taste like water are all the big ones.

Across the river from my office is the second largest manufacturer of fire trucks. My inner six-year-old boy wants to tour that factory.

Do you like French fries? Grote Industries in Columbus, OH, started out as a pizza business. The owner wanted to find a better way to slice pepperoni rather than by hand. That led to a machine that slices French fries. So the next time you're sitting in a bar, having a burger and fries, the fries were probably cut by a machine this company made you probably never knew existed. And if the beer's any good, it, and the tap it came from, were made by a middle market company.

Contact: Thomas A. Stewart
stewart.1490@osu.edu