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PROSPERITY AT RISK

Findings of Harvard Business School's Survey on U.S. Competitiveness

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EXECUTIVE SUMMARY

What ails the American economy? Surely the Great Recession – the cyclical contraction that began in December 2007 and bottomed out in June 2009 – continues to weigh on the United States. But ample evidence now points to a series of structural changes that began well before the Great Recession and threaten to undermine the long-term competitiveness of the U.S.

Given these circumstances, Harvard Business School recently launched a multi-year project on U.S. competitiveness, which aims to lay out facts and realities of international competition and implications for the U.S. in a nonpartisan way. The School brings to the public discourse a number of assets, including its network of more than 78,000 alumni who live and conduct business around the world.

In October 2011, nearly 10,000 of those alumni completed an in-depth survey on U.S. competitiveness. The survey provides Americans, for the first time, with judgments and data from a broad group of central actors in the global economy. The survey gathers not only opinions but also actual experience with corporate decisions on where to locate business activities.

This report summarizes the survey's most important findings. The March 2012 issue of *Harvard Business Review* will present analyses of critical areas that drive U.S. competitiveness as well as action agendas for restoring America's economic vitality.

The survey results provide strong evidence that the United States faces a deepening competitiveness problem. A large majority of survey respondents, 71%, expect U.S. competitiveness to decline over the next three years, with workers' living standards under greater pressure than firms' success. Pessimism about U.S. competitiveness was widely shared. Respondents in their prime decision-making years, those in the manufacturing sector, those in the U.S., and those whose own firms are exposed to international competition were less hopeful than others.

During the past year, more than 1,700 respondents were personally involved in decisions about whether to place business activities and jobs in the U.S. or elsewhere. In these choices, the United States competed with virtually the entire world and fared poorly, losing two-thirds of the decisions that were resolved. Facilities involving large numbers of jobs, high-end work, and groups of activities located together moved out of the U.S. much faster than they moved in.

The survey findings help us pinpoint where the roots of the competitiveness problem lie. Respondents saw the underlying business environment in America as still strong in critical areas, but not keeping pace with other economies, especially emerging economies. They perceived the greatest current or emerging weaknesses to be in America's tax code, political system, K-12 education system, macroeconomic policies, legal framework, regulations, infrastructure, and workforce skills.

THE STAKES

On any given day, virtually every major media outlet, the debate in Congress, and the promises made on the Presidential campaign trail focus on speeding the recovery from the Great Recession that began in late 2007. If the economy can get back to where it was before the recession by recreating the jobs that were lost, the pundits argue, America's economy will be back on track.

A FUNDAMENTALLY WEAKENED U.S. ECONOMY IS NOT ONLY AN AMERICAN PROBLEM BUT ALSO A GLOBAL RISK

But much of the discussion misses a fundamental issue. Ample evidence now points to a series of structural changes that began well before the Great Recession and threaten to undermine the long-term competitiveness of the United States. For the first time in decades, the business environment in the United States is in danger of falling behind the rest of the world. With this, pressures on jobs, wages, and living standards will only grow.

That's bad news for everyone. A fundamentally weakened U.S. economy is not only an American problem but also a global risk. If the U.S. struggles, global growth will falter, the pace of innovation will slow, and the U.S. will find it hard to lead efforts to open the global trading and investment system.

The last time America faced such a moment was in the 1980s, when competition from Japan revealed quality problems and inefficiency in U.S. firms that had accumulated during a generation of post-war dominance. Then, American leaders from policy, business, labor, and academia engaged in a vigorous debate, came to a shared understanding of the challenges, and pursued a set of public policies and private practices that boosted U.S. productivity and laid the groundwork for two decades of prosperity.

But that's not what is happening now.

Today, public discourse about the problem and potential solutions often ignores the root causes. Many see jobs as the goal, when in fact it is only through restoring American competitiveness that good jobs can be created and sustained. Many see income inequality as the central problem, when in fact inequality is the outcome of underlying problems in skills, opportunities, and other fundamentals that must be addressed if inequality is to fall. Many call on the government alone to solve America's competitiveness problem, but business also has a central role to play. The gap between the public discourse and the real issues stands in the way of progress.

The threat to U.S. competitiveness we face today is far more complex than the one America confronted in the 1980s. Now the challenge is not just from Japan, but from many nations with growing strengths and diverse capabilities. The U.S. government is more fiscally constrained and politically gridlocked than it was three decades ago. Leaders of global enterprises are less invested in the United States, or in any single location, than they were in the 1980s. The problems taking root in the American economy are potentially much more serious. Responsibility for the problems cuts across party lines and involves both the private and the public sectors.

With this in mind, Harvard Business School has launched a multi-year project on U.S. competitiveness, which aims to lay out facts and realities of international competition and the implications for the U.S. in a nonpartisan way. The School brings to the public discourse a number of assets, including research capabilities, an ability to convene decision makers, and importantly, a network of more than 78,000 alumni who live and conduct business around the world.

In October 2011, nearly 10,000 of those alumni completed an in-depth survey on U.S. competitiveness. Its goal is to provide Americans, for the first time, with judgments and data from a broad group of central actors in the global economy. The survey gathers not only opinions but also actual experience with corporate location decisions, where the rubber meets the road in terms of competitiveness and job creation.

This report summarizes the survey's most important findings. The March 2012 issue of *Harvard Business Review* will present analyses of critical areas that drive U.S. competitiveness as well as action agendas for restoring America's economic vitality.

WHAT IS COMPETITIVENESS?

"Competitiveness" is an idea that is often misunderstood. We define U.S. competitiveness as *the extent to which firms operating in the U.S. are able to compete successfully in the global economy while supporting high and rising living standards for Americans*. Both dimensions of this definition, firm success and living standards, are crucial. If firms in the U.S. became more able to compete globally because wages and living standards in America fell, this would be a sign that the U.S. as a business location had become less competitive.

The only way that firms in the U.S. can win globally while supporting high wages is by being productive – creating a high value of goods and services per unit of human, capital, and natural resources deployed. Competitiveness, then, hinges on improving productivity over the long run.

A competitive American economy would produce robust job growth, which the country desperately needs. But it is a dead end to define job growth itself as the goal for America's economic policy. Focusing narrowly on jobs leads policymakers and business leaders to target the jobs that are mostly easily created in the short term even if those jobs are not highly productive, do not boost living standards, and cannot last in a hotly contested global economy.

A competitive United States would enable a highly productive and prosperous middle class, the only antidote to decades of rising inequality. But as with jobs, seeing inequality itself as America's central economic problem is dangerous. It leads us simply to redistribute from rich to poor without tackling the underlying issue: we must invest to make working Americans productive enough to support good wages even as we compete against countries where wages are much lower. Business leaders and policymakers in America must find ways for Americans to work smarter and more productively than workers who are paid lower wages overseas.

Competitiveness, then, must be the central goal of the U.S. economy. The HBS survey aims to understand the state and trajectory of U.S. competitiveness and its drivers.

THE SURVEY RESPONDENTS

The survey taps the perceptions and experiences of alumni of Harvard Business School's MBA and longer executive education programs. These individuals comprise a diverse group of leaders and active participants on the front lines of the global economy. They work in the full range of organizations, from startups and small businesses to midsized companies and global multinationals. These individuals decide whether to hire, where to locate businesses, what to export, when to outsource or offshore, how to cope with regulation, whether to innovate, and which markets to serve.

Working with Abt SRBI, a leading survey research firm, HBS solicited survey responses from its alumni, including all 50,456 for whom the School has working email addresses. Of these, 9,750 (19.3%) completed the survey – a very high completion rate for such a group.

Many respondents are in senior leadership positions; more than 2,500 reported a title of chief executive, president, chairperson, founder, owner, or the equivalent. Respondents were located in 49 U.S. states (68% of respondents) and 121 other countries (32%). The respondents ranged in age from 24 to 99, and the 91% who have worked within the past year came from every sector of the economy, with heavy representation in finance and insurance (26%), manufacturing (15%), and professional and other services (12%). Most are global in perspective: among respondents who had worked within the past year, 79% of their firms had business activities in the U.S., 76% had activities outside the U.S., and 78% were exposed to international competition. An appendix describes the respondents, the survey, and our methodology in greater depth.

MANY RESPONDENTS ARE IN SENIOR LEADERSHIP POSITIONS. MORE THAN 2,500 REPORTED A TITLE OF CHIEF EXECUTIVE, PRESIDENT, CHAIRPERSON, FOUNDER, OWNER, OR THE EQUIVALENT

DOES THE U.S. HAVE A COMPETITIVENESS PROBLEM?

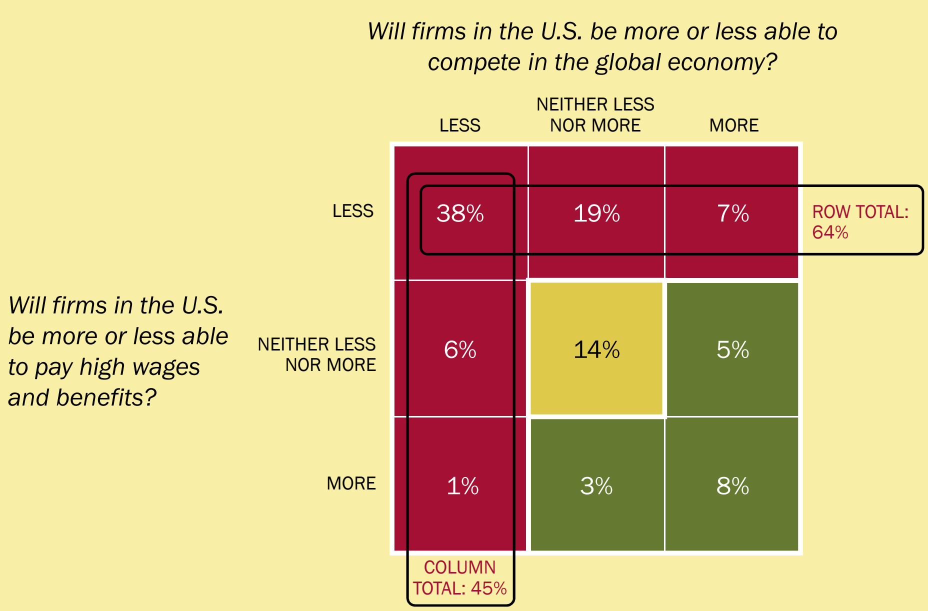
The survey findings provide strong evidence that the United States faces a deepening competitiveness problem.

A large majority of survey respondents expect U.S. competitiveness to decline over the next three years, with workers under greater pressure than firms.

To gauge the trajectory of U.S. competitiveness, we asked survey participants two questions that make up the definition of competitiveness. In three years, will firms in the U.S. be more or less able to compete in the global economy? And in three years, will firms be more or less able to pay high wages and benefits? As Figure 1 reports, the vast majority, 71%, expected U.S. competitiveness to deteriorate, with firms less able to compete, less able to pay well, or both (red boxes). Another 14% were neutral, anticipating no change on either dimension (yellow box). Only 16% of respondents were optimistic, expecting one or both dimensions of U.S. competitiveness to improve and neither to decline (green boxes). (Numbers do not total to precisely 100% because of rounding.)

Respondents foresaw greater pressure on workers than on firms: 64% expected U.S. firms to be less able in three years to pay high wages and benefits, while 45% saw firms as less able to succeed in the marketplace. This view likely reflects the fact that firms have more options than workers. When under competitive pressure, firms operating in the U.S. can trim expenses, outsource or offshore parts of their operations, shift locations, improve processes and products, and so on. Workers, in contrast, have limited mobility and few good alternatives, especially if jobs are scarce and their skills are not world-class. The respondents expect severe pressure on American living standards in the future.

FIGURE 1: **COMPETITIVENESS IN THREE YEARS**

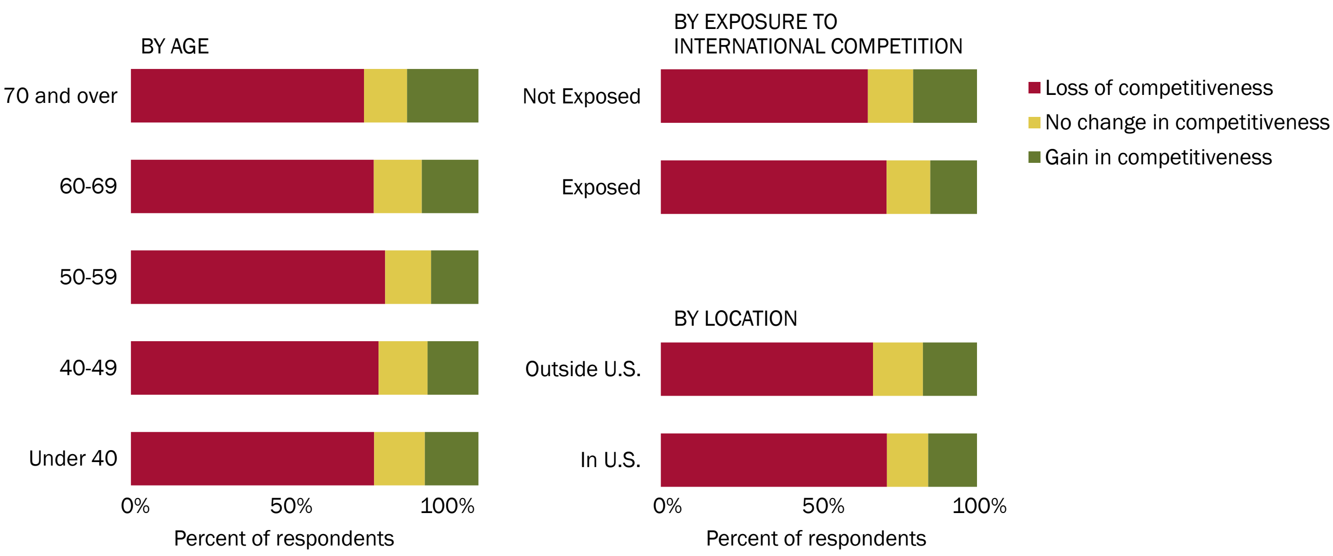


Pessimism about U.S. competitiveness is widely shared. Respondents who are in their prime decision-making years, exposed to international competition, and located in the U.S. are less hopeful than others.

The negative view of the future of U.S. competitiveness was widely shared among respondents, though we observed some differences across groups (Figure 2). Respondents between the ages of 40 and 59 – years in which they are especially likely to hold senior positions and make key decisions – were most likely to expect a decline in U.S competitiveness and least likely to foresee a gain. Respondents in firms exposed to international competition were more pessimistic about U.S. competitiveness than were respondents in more insulated firms. Respondents working in America were more pessimistic about the future of U.S. competitiveness than were their counterparts outside the U.S.; it is an open question whether respondents in the U.S. were more pessimistic because they were very familiar with America's challenges, or non-U.S. respondents were relatively optimistic about America because they were very familiar with the difficulties facing other regions, such as Europe.

RESPONDENTS WORKING IN AMERICA WERE MORE PESSIMISTIC ABOUT THE FUTURE OF U.S. COMPETITIVENESS THAN THOSE OUTSIDE THE U.S.

FIGURE 2: **ASSESSMENT OF COMPETITIVENESS TRAJECTORY BY RESPONDENT AGE, EXPOSURE TO INTERNATIONAL COMPETITION, AND LOCATION**



Respondents in manufacturing have a more negative view of the ability of firms in the U.S. to compete than do those in public administration, finance, and sectors less exposed to international competition.

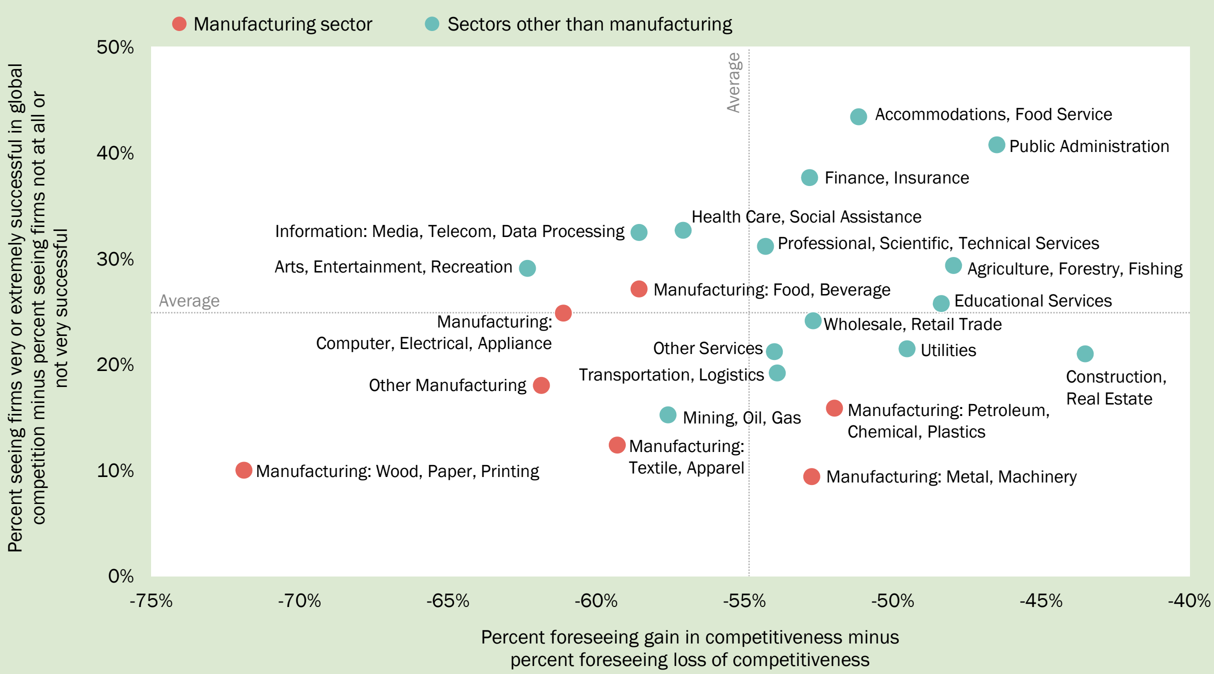
The survey results allow us to compare opinions from leaders in various sectors of the economy. Respondents were asked to assess the status of *typical* firms in the U.S. economy, not firms in their sector or their own firms. Yet respondents in different sectors gave different assessments, and these probably reflect differences in conditions in various sectors.

In Figure 3, each data point is based on the aggregated replies of survey respondents working in a particular sector of the economy. A sector is high on the vertical axis if respondents in that sector believe that, today, firms in the U.S. are more successful competing in the global marketplace and low if less successful. A sector is far to the right if respondents expect a relatively small decline in U.S. competitiveness in the coming three years (all expect some decline) and to the left if the expected decline is large. So respondents in sectors to the upper right have relatively positive assessments and forecasts about U.S. competitiveness.

Manufacturing-related sectors, shown in red, tend to appear in the lower left of the figure. U.S. manufacturers are clearly embattled. Sectors whose respondents have a more positive outlook include public administration, financial services, and a number of sectors less exposed to international competition, including accommodations (i.e., hotels), food services (restaurants), construction, real estate, and utilities.

Sectoral differences are potentially troubling: it will be hard for America to tackle its competitiveness problem if leaders in the country lack a shared perspective on the issue and a common sense of urgency. While there are differences across sectors, there is also some measure of consensus. In every sector, respondents expecting U.S. competitiveness to decline in the coming years outnumber those who expect it to improve.

FIGURE 3: **COMPETITIVENESS ASSESSMENTS BY SECTOR**



The United States fares poorly in decisions about where to locate business activities and jobs.

The findings reported so far are based purely on respondents' perceptions. Hence, the 71% who foresee a decline in U.S. competitiveness may just be unduly pessimistic. To obtain harder evidence on America's standing, we asked respondents about specific decisions in which they personally participated that reflect on U.S. competitiveness. In particular, we asked about decisions to locate business activities in the U.S. or elsewhere, which are important "votes" on competitiveness. The survey is, to our knowledge, the first attempt to count such votes on a large scale.

Many survey participants were involved in location decisions. Among the 9,750 respondents, 4,151 (43%) reported that their firms had made choices about relocating activities or siting new activities during the previous year. Of these, 2,982 (72%) had made location choices that involved the U.S., and 1,767 respondents had *personally* been involved in making such a choice. The subsequent survey questions focused on these 1,767 decisions. (See Figure 4.)

The first piece of bad news is that 1,005 (57%) of the decisions concerned the possibility of moving existing activities out of the U.S. while only 154 (9%) considered moving existing activities from another country into the U.S. The other 608 decisions (34%) weighed whether to set up new activities and, if so, whether to place them in the U.S. or elsewhere. The offshoring-to-onshoring ratio, 1,005-to-154, overstates America's troubles because about twice as many respondents were based in the U.S. as outside the U.S. Adjusting for that fact, it is still true, roughly speaking, that a U.S.-based respondent was three times as likely to be considering moving a business activity out of the U.S. than a non-U.S. respondent was likely to be considering moving an activity into the U.S.

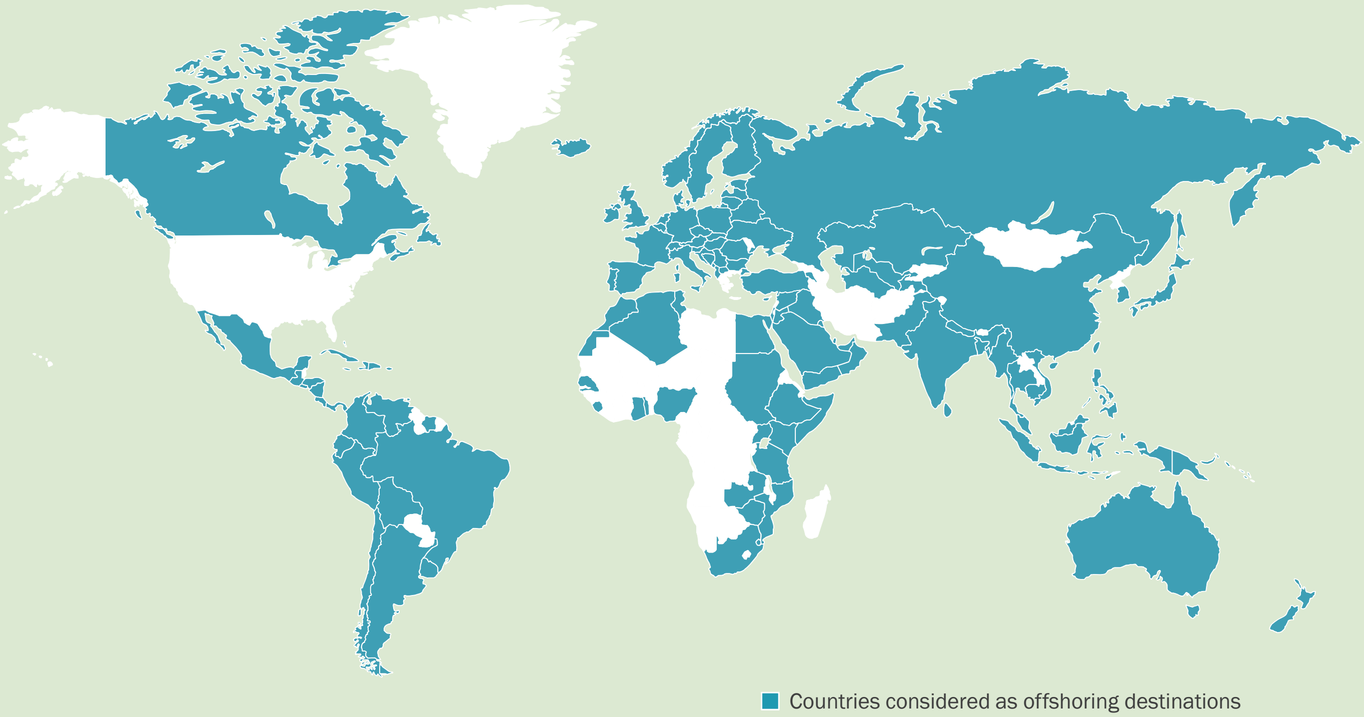
A U.S.-BASED RESPONDENT WAS THREE TIMES AS LIKELY TO BE CONSIDERING MOVING A BUSINESS ACTIVITY OUT OF THE U.S. THAN A NON-U.S. RESPONDENT WAS TO BE CONSIDERING MOVING AN ACTIVITY INTO THE U.S.

Of the 1,005 instances of potential offshoring, 607 had been resolved by the time of the survey. The U.S. retained the activity just 96 times (16%) and lost it in 511 cases (84%). America's win-loss ratio was better for the smaller number of potential onshoring or new-activity decisions (75% and 51%, respectively), perhaps reflecting the fact that the U.S. was considered rarely, only when it was likely to win. Overall, the U.S. won 32% of the resolved decisions for which it was a finalist, hardly the win-loss record of a leader.

FIGURE 4: **LOCATION DECISIONS**

	OFFSHORING (Potentially moving existing activities out of the U.S.)	ONSHORING (Potentially moving existing activities into the U.S.)	SITING NEW ACTIVITY (Potentially siting new activities in the U.S.)	TOTAL
Number of decisions	1,005	154	608	1,767
U.S. wins	96 retained in the U.S.	70 moved into the U.S.	154 sited in the U.S.	320
U.S. losses	511 moved out of the U.S.	23 not moved into the U.S.	149 not sited in the U.S.	683
Other outcomes	398 not yet resolved or not reported	61 not yet resolved or not reported	305 not yet resolved, not established, or not reported	764

FIGURE 5: **OFFSHORING DESTINATIONS CONSIDERED BY SURVEY RESPONDENTS**



The United States is competing with virtually the entire world to host business activities.

The data on location decisions help us understand the range of countries with which America is competing for jobs and investment. We asked for the full list of countries that had been considered as candidates in each decision. This makes our survey data especially valuable compared to other datasets, most of which track the choices that were ultimately made but not the alternatives that were weighed and rejected.

Consider, for instance, the 1,005 decisions about potentially moving existing activities out of the U.S. The most common alternative hosts were not surprising: China (426 times), India (382), Brazil (152), Mexico (149), and Singapore (121). But the full list stretched to 146 countries, including obscure destinations such as Togo, Turkmenistan, and Tuvalu. Figure 5 shows in blue each country that at least one survey respondent considered for relocating a U.S.-based activity in the past year. Very little of the globe was not a potential destination. As a home for jobs and business investment, the United States is competing with virtually the entire world.

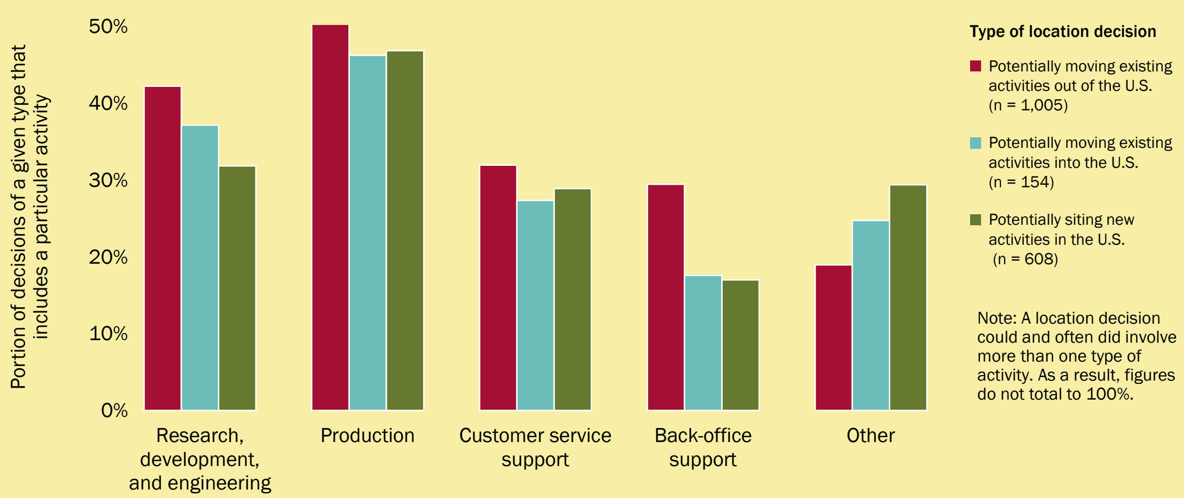
Facilities involving large numbers of jobs, high-end work, and multiple types of activities located together are moving out of the U.S. much faster than they are moving in.

42% OF ALL DECISIONS ABOUT POTENTIALLY MOVING EXISTING ACTIVITIES OUT OF THE U.S. INVOLVED RESEARCH, DEVELOPMENT, AND ENGINEERING ACTIVITIES

Figure 6 shows the kinds of activities involved in each type of location decision. The first column in the figure, for instance, reports that 42% of all decisions about potentially moving existing activities out of the U.S. involved research, development, and engineering activities (RD&E).

The figure dispels any hope that it is just low-end activities like back-office operations that are moving out of the U.S. while high-end activities like RD&E are being attracted to America. To the contrary, decisions about moving activities out of the U.S. were slightly more likely to involve RD&E than were decisions about moving activities into the U.S. Respondents could indicate if decisions involved more than one type of activity. Offshoring decisions involved moving more types of activities together than did onshoring decisions (1.7 on average versus 1.5), suggesting that multi-function activities moved as a group were more likely to be considered for relocation out of the U.S. than for movement into America.

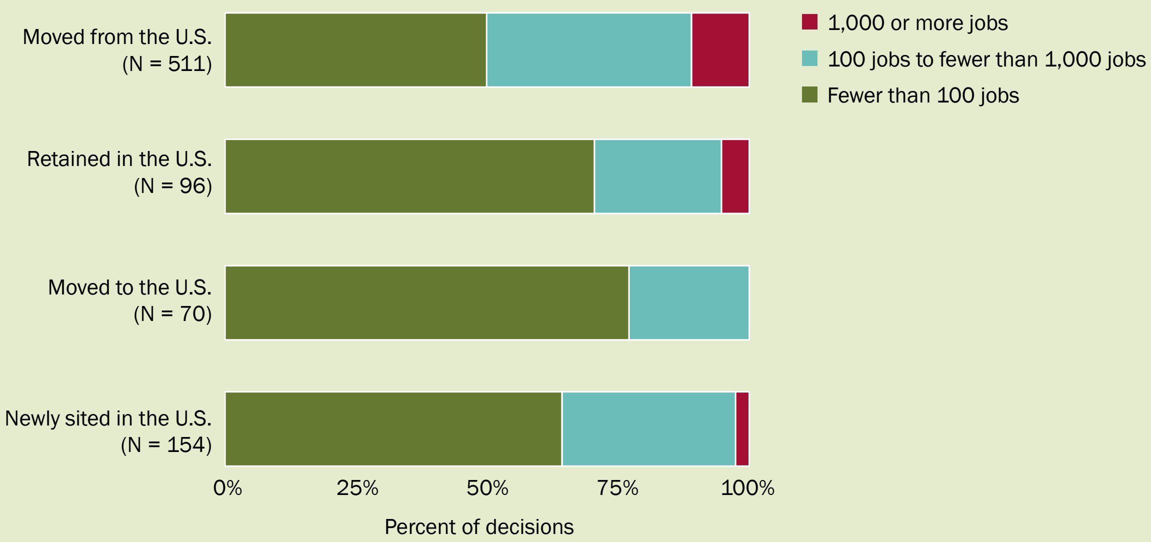
FIGURE 6: **ACTIVITIES BY TYPE OF LOCATION DECISION**



America's jobs challenge is compounded by the fact that activities which moved out of the U.S. tended to involve more jobs than activities retained in, moved into, or newly sited in the U.S. (See Figure 7.) Thus, 11% of activities reported by respondents to have been moved out of the U.S. in the past year – a total of 56 moves – consisted of 1,000 or more jobs. Of activities retained by the U.S., only five decisions (5%) involved 1,000 or more jobs; no activities moved to the U.S. involved 1,000 or more jobs; and only four decisions (3%) to locate newly established activities in the U.S. involved 1,000 or more jobs.

If the survey participants are representative, then, job-rich facilities involving high-end work and multiple functions are moving out of the U.S. much faster than they are moving in, a compelling sign that the United States has a competitiveness problem.

FIGURE 7: **NUMBER OF JOBS INVOLVED IN RESOLVED DECISIONS**



ACTIVITIES THAT MOVED OUT OF THE U.S. TENDED TO INVOLVE MORE JOBS THAN ACTIVITIES RETAINED IN, MOVED INTO, OR NEWLY SITED IN THE U.S.

ROOTS OF THE U.S. COMPETITIVENESS PROBLEM

Where do the roots of America's competitiveness problem lie? Recall that competitiveness hinges on long-run productivity. The productivity of the U.S. as a business location sets wages and job growth versus other locations. In today's global economy, American wages and living standards are deeply influenced by whether our productivity offsets lower wages elsewhere.

Numerous factors in a nation's business environment influence how productive its citizens are. Our survey focused on 17 elements of the business environment that prior, cross-country research has identified as driving long-run national productivity and prosperity differences.* (See the box at right.) The elements span the macro, which set the overall framework conditions of the economy, and the micro, which shape the immediate business environment for companies. Policymakers drive some elements (e.g., fiscal and monetary policy), business leaders determine or strongly influence others (e.g., sophistication of management), and many are shaped by both the public and the private sectors. The elements all combine to shape productivity, and thus assessing competitiveness requires a holistic view of the 17 essential elements of the national business environment.

*See Michael E. Porter, Mercedes Delgado, Christian Ketels, and Scott Stern, "Moving to a New Global Competitiveness Index," Global Competitiveness Report 2008-09, World Economic Forum, 2008.

17 ESSENTIAL ELEMENTS OF THE NATIONAL BUSINESS ENVIRONMENT

MACRO ELEMENTS

Macroeconomic policy: soundness of government budgetary, interest rate, and monetary policies

Effectiveness of the political system: ability of the government to pass effective laws

Protection of physical and intellectual property rights and lack of corruption

Efficiency of legal framework: modest legal costs; swift adjudication

Complexity of the national tax code

K-12 education system: universal access to high-quality education; curricula that prepare students for productive work

MICRO ELEMENTS

Logistics infrastructure: high-quality highways, railroads, ports, and air transport

Communications infrastructure: high-quality and widely available telephony, Internet, and data access

High-quality universities with strong linkages to the private sector

Context for entrepreneurship: availability of capital for high-quality ideas; ease of setting up new businesses; lack of stigma for failure

Availability of skilled labor

Flexibility in hiring and firing of workers

Innovation infrastructure: high-quality scientific research institutions; availability of scientists and engineers

Regulation: Effective and predictable regulations without unnecessary burden on firms

Strength of clusters: geographic concentrations of related firms, suppliers, service providers, and supporting institutions with effective collaboration

Quality of capital markets: ease of firm access to appropriate capital; capital allocated to most profitable investments

Sophistication of firm management and operations: use of sophisticated strategies, operating practices, management structures, and analytical techniques

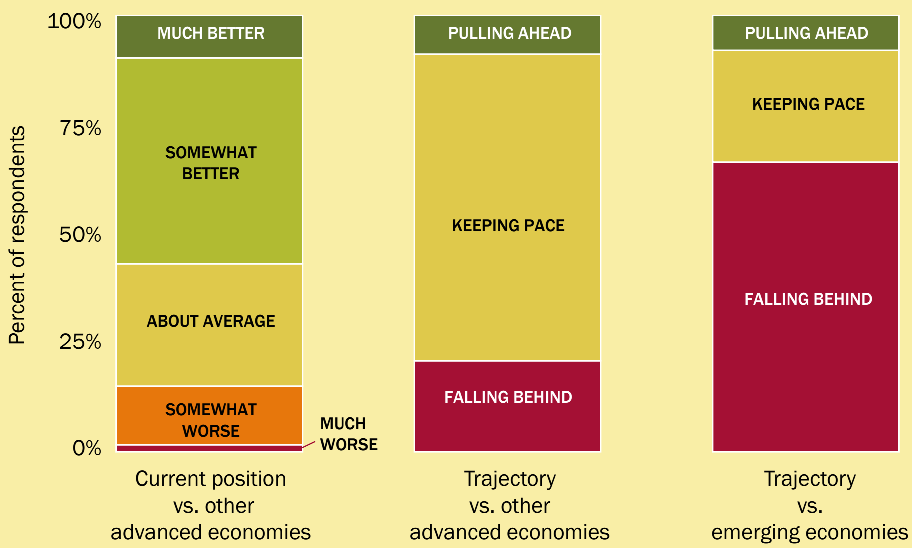
Survey respondents see the overall U.S. business environment as relatively strong today but not keeping pace with other economies, especially emerging economies.

In assessing the business environment as a whole, survey respondents see the United States as relatively strong today. However, the *future* of the American business environment and U.S. competitiveness worries them.

This pattern shows up in Figure 8. We first asked respondents to assess the overall business environment of the U.S. today relative to other advanced economies such as those in Western Europe, Japan, and Canada.

66% PERCEIVED THE U.S. AS FALLING BEHIND EMERGING ECONOMIES, WHILE JUST 8% SAW IT AS PULLING AHEAD

FIGURE 8: **ASSESSMENT OF THE OVERALL U.S. BUSINESS ENVIRONMENT**



As the first column in Figure 8 shows, the U.S. retains important strength today: 57% saw the U.S. business environment as somewhat or much better than average, while only 15% saw it as somewhat or much worse.

However, respondents were far less optimistic about America's business environment when their attention shifted from today to the future (in the second and third columns of Figure 8). Even compared to traditional competitors such as other advanced economies, 21% perceived the U.S. as falling behind, while only 9% saw it as pulling ahead. Moreover, compared to emerging competitors such as Brazil, China, India, and Eastern Europe, 66% saw the U.S. falling behind, while just 8% saw it pulling ahead.

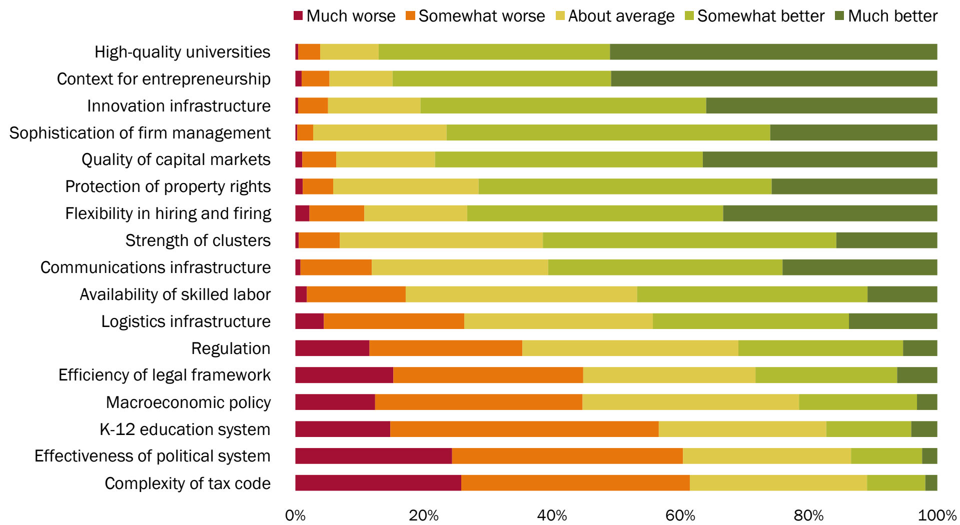
The current position of the U.S. business environment reflects historical choices to develop a highly competitive economy, with resulting strengths that endure to this day. But the perception of America's trajectory tells a very different and unsettling story: the U.S. is now allowing its business environment to deteriorate even as other countries, especially emerging economies, are getting their acts together economically, politically, and socially.

Respondents point to America's tax code, political system, K-12 education system, macroeconomic policies, legal framework, regulations, infrastructure, and workforce skills as the greatest current or emerging weaknesses in the U.S. business environment.

To dig deeper, we asked respondents to rate individual elements of the business environment compared to other advanced economies (Figure 9) and to assess whether the U.S. is falling behind, keeping pace with, or pulling ahead of other countries on each element (Figure 10).

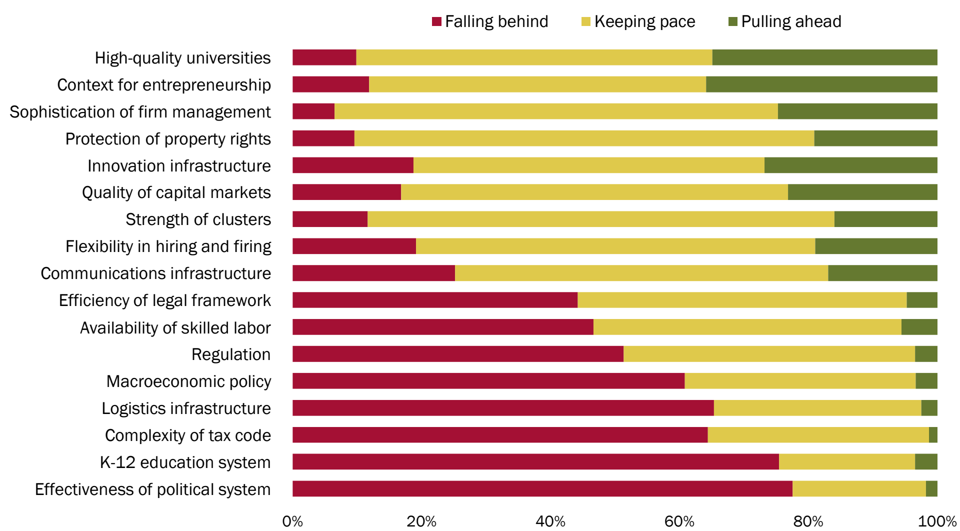
The prevalence of green in Figure 9, compared to the dominance of red and yellow in Figure 10, reinforces the prior point: overall, respondents see the U.S. business environment as relatively strong today but not keeping pace with other economies.

FIGURE 9: **HOW DOES THE U.S. COMPARE TO OTHER ADVANCED ECONOMIES TODAY?**



Note: Elements are ordered by the difference between the percentage of respondents answering "somewhat better" or "much better" and the percentage answering "somewhat worse" or "much worse." This difference determines horizontal placement in Figure 11.

FIGURE 10: **IS THE U.S. FALLING BEHIND, KEEPING PACE, OR PULLING AHEAD?**



Note: Elements are ordered by the difference between the percentage of respondents answering "pulling ahead" and the percentage answering "falling behind." This difference determines vertical placement in Figure 11.

Figure 11 summarizes the current position and trajectory of each element of the U.S. business environment. Respondents perceived the United States as already weak and in decline with respect to a range of important factors: the complexity of its national tax code, the effectiveness of its political system, the K-12 education system, macroeconomic policies, the efficiency of the legal framework, and regulation. Some current American strengths, such as logistics infrastructure, workforce skills, and communications infrastructure were seen as declining. America's unique strengths in higher education, entrepreneurship, management quality, property rights, innovation, clusters, and capital markets were perceived as stable or increasing.

The weaknesses and areas of deterioration in Figure 11 are largely in areas strongly affected by policy decisions and politics. In the eyes of survey respondents, government officials in America are not doing their part to lay the groundwork for U.S. competitiveness. Indeed, America's profile of strengths and weaknesses in Figure 11 diverges from the profiles of other countries whose competitiveness we have studied. Many emerging economies have improved their macro conditions in

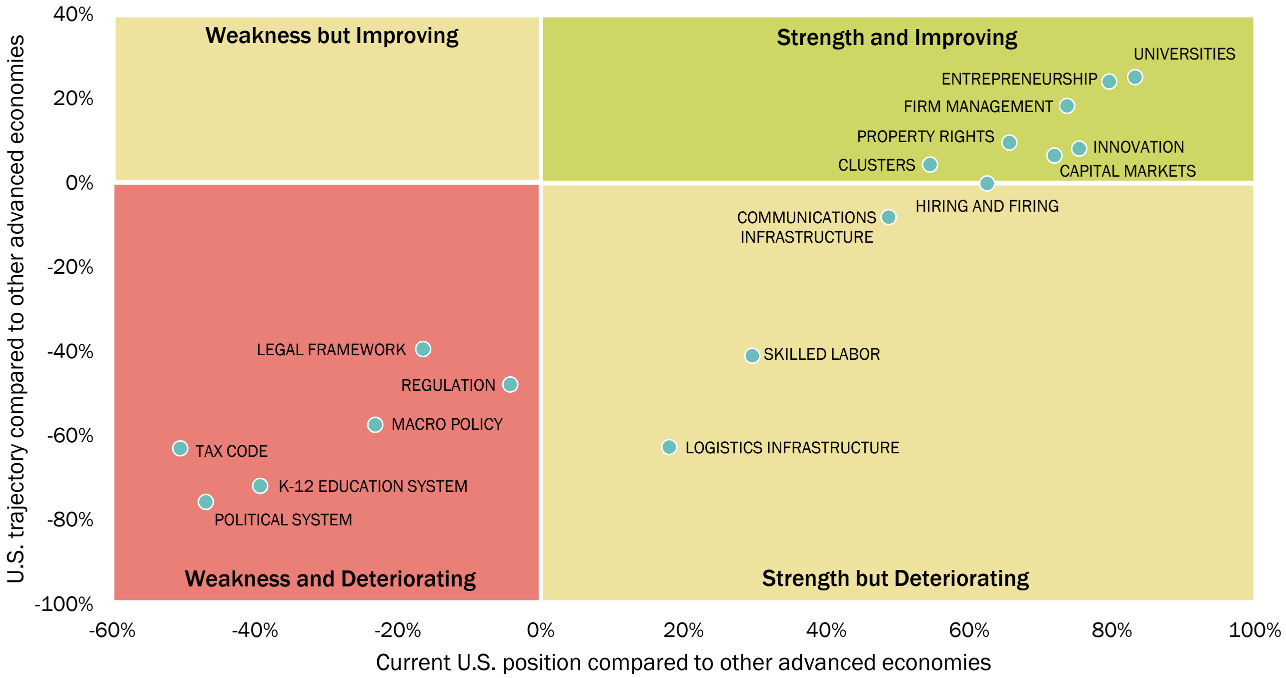
ACCESS TO SKILLED LABOR WAS LESS OFTEN A REASON TO STAY IN THE UNITED STATES THAN A REASON TO LEAVE

recent decades but face challenges in establishing strong microeconomic institutions. This is the usual pattern by which countries improve competitiveness. The U.S. has retained strong microeconomic institutions such as a vibrant entrepreneurial sector and a culture of high-quality management. Often these institutions must be grown organically over long periods of time and are hard to upgrade. The U.S. retains many of its core micro strengths, at least for now.

But, according to survey respondents, the U.S. has let its macro context erode. This is surely bad news for America. The good news is that some macro conditions can be improved rapidly through sound choices—if a country can make them.

FIGURE 11: **POSITION AND TRAJECTORY OF ELEMENTS OF THE U.S. BUSINESS ENVIRONMENT**

Current position and trajectory are percentage green minus percentage red in Figures 9 and 10, respectively.



In explaining location decisions and identifying impediments to investing in the U.S., respondents confirm their concerns about America's tax code, regulations, workforce skills, K-12 education system, political system, and macroeconomic policies.

We probed respondents to understand better how the U.S. business environment has affected their concrete decisions. Specifically, we explored the rationales behind the location decisions described earlier. When making real choices about where to place business activities (not simply expressing opinions on surveys), what factors cause business leaders to leave or stay in the United States? We examine this question partly because the deteriorating weaknesses in Figure 11 are policy-related while several of the improving strengths are rooted more in the private sector, and this pattern raises a concern about bias. Perhaps the survey findings reflect little more than businesspeople grousing about the government and politicians.

Figure 12 examines why activities either left or stayed in the U.S. We asked each decision maker to identify the characteristics of the chosen country that played a major role in its selection over other potential locations.

Respondents who moved existing activities out of the U.S. tended to do so for lower wages, better access to customers, and notably, better access to skilled, productive labor (the left column of Figure 12). Lower wages were the most common reason that America lost. This suggests that the U.S. was often not productive enough to offset lower wages elsewhere. However, in line with Figure 11, policy-related factors such as tax rates and regulations also played decisive roles in a significant fraction of choices.

In terms of strengths (the right column of Figure 12), the U.S. appears to be living off of its large home market and strong rule of law more than it should. It is sobering to see that access to skilled labor was less often a reason to stay in the United States than it was a reason to leave.

FIGURE 12: **RATIONALES FOR LOCATION CHOICES**

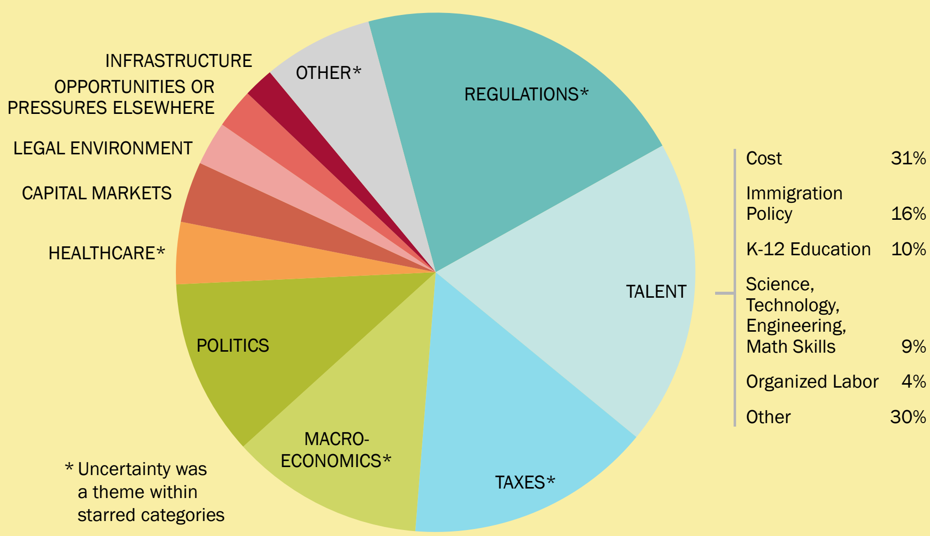
LEADING REASONS FOR MOVING EXISTING ACTIVITIES OUT OF THE U.S. (N = 511)	
Lower wage rates (in the destination country)	70%
Proximity to customers	34%
Better access to skilled labor	31%
Higher productivity of labor	30%
Faster growing market	29%
Lower tax rates	25%
More generous incentives from local authorities	24%
Fewer or less expensive regulations	22%
Proximity to suppliers	19%
Proximity to other company operations	16%

LEADING REASONS FOR NOT MOVING EXISTING ACTIVITIES OUT OF THE U.S. (N = 96)	
Proximity to customers (in the U.S.)	32%
Less corruption	30%
Better access to skilled labor	29%
Greater safety for people and property	27%
Stronger intellectual property protection	24%
Proximity to home market	22%
Similar language and/or culture	22%
Better transportation infrastructure	19%
Proximity to other company operations	18%

To pinpoint further the roots of America's competitiveness problem, we asked an open-ended question: What are the greatest impediments to investing and creating jobs in the United States? (Respondents who had worked in the past year were asked about impediments facing their firms or companies they advise, while those who had not worked in the past year were asked for a general opinion on impediments.) We coded the replies into categories and tabulated the results, shown in Figure 13. Regulation, talent issues, taxes, macroeconomics, and politics continued to arise as concerns, very much in line with Figure 11. The open-ended nature of the question allowed us to understand respondents' specific concerns. In the realm of taxes, for instance, respondents were deterred from investing in the United States not simply by a high statutory corporate tax rate, but also by the sheer complexity and uncertain future of the tax code. Similarly, with respect to regulations, respondents identified regulatory uncertainty as a barrier nearly as often as they pointed to regulatory burden, and they highlighted the bureaucratic complexity commonly associated with compliance and permitting. In the area of talent, respondents pointed to the relatively high cost of talent in the United States, but they also highlighted immigration policies that limit the inflow of foreign talent and weaknesses in the K-12 education system.

These specific impediments were largely consistent with the findings from the assessment of elements of the U.S. business environment. Overall, respondents pinpointed America's tax code, political system, K-12 education system, macroeconomic policies, legal framework, regulations, infrastructure, and workforce skills as the most important culprits in the country's deepening loss of competitiveness.

FIGURE 13: **MOST COMMONLY MENTIONED IMPEDIMENTS TO INVESTING AND CREATING JOBS IN THE U.S.**



IMPLICATIONS

The closing questions of the U.S. competitiveness survey asked each respondent to make one specific suggestion to government officials to improve U.S. competitiveness and to identify one action that his or her firm could take to make its U.S. operations compete more effectively. Figure 14 shows the suggestions for government. Taxes, talent, and regulation were the most common categories, as in Figure 13 – though taxes became relatively more prominent once respondents were pressed to move from general impediments to specific suggestions. The clearest pleas were to simplify the tax code and to reform immigration policies to allow talent into the country.

FIGURE 14: **SUGGESTIONS FOR GOVERNMENT OFFICIALS**

TAX-RELATED SUGGESTIONS	
Simplify tax code	419
Reduce corporate tax	196
Reform tax code	154
Facilitate repatriation of profits	93
Reduce taxes in general	82
Establish flat tax	77
Give incentives for investment or R&D	74
Other tax-related suggestions	252
	1,347

TALENT-RELATED SUGGESTIONS	
Reform immigration policies	322
Reform or invest in K-12 education	167
Invest in education & training in general	112
Invest and raise standards for STEM training	60
Other talent-related suggestions	191
	852

REGULATION-RELATED SUGGESTIONS	
Reduce regulatory burden / review costs & benefits	177
Reform specific regulations or regulatory agencies	137
Repeal or reform Dodd-Frank	59
Repeal or reform Sarbanes-Oxley	52
Strengthen banking and finance rules	52
Reform Food and Drug Administration	50
Other regulation-related suggestions	85
	612

HEALTHCARE-RELATED SUGGESTIONS	
Repeal or change healthcare reform act	89
Reduce healthcare burden on employers	66
Other healthcare-related suggestions	86
	241

OTHER SPECIFIC SUGGESTIONS	
Balance federal budget / reform entitlements	151
Institute tort or legal reform	101
Facilitate or fund physical infrastructure investment	82
Help / reduce burden on small business	59
Facilitate start-ups (regulations and tax incentives)	58
Retool / reinvest in manufacturing	57
Impose tariffs / push for fairer trade	51
	559

OTHER CATEGORIES OF SUGGESTIONS	
Energy-related suggestions	104
Politics-related suggestions	90
	194

OTHER SUGGESTIONS	**620**
TOTAL SUGGESTIONS	**4,425**

Note: All categories of suggestions mentioned by 50 or more respondents are broken out separately.

FIGURE 15: **ACTIONS FOR FIRMS**

INVESTMENT- & INNOVATION-RELATED ACTIONS	
Invest in technology, equipment & automation	169
Improve sales, marketing, or customer service	115
Improve processes or culture to spur innovation	64
Improve access to capital & internal finance	64
Expand or scale operations in the U.S.	45
Invest in R&D	44
Other investment-related actions	19
	520

TALENT-RELATED ACTIONS	
Hire more skilled labor / improve recruiting	141
Invest more in training and developing employees	128
Reduce wages, benefits, or headcount	60
Develop more globally-attuned U.S. workforce	60
Increase pay to retain & motivate talent	40
Other talent-related actions	81
	510

LOCATION-RELATED ACTIONS	
Outsource / move activities out of the U.S.	98
Expand operations in or exports to foreign markets	79
Other location-related actions	35
	212

COST-RELATED ACTIONS	
Improve operational efficiency & productivity	84
Reduce costs	60
	144

OTHER ACTIONS	**361**
TOTAL ACTIONS	**1,747**

Note: All categories of actions mentioned by 40 or more respondents are broken out separately.

Figure 15 reports the actions that companies might take to help their U.S. operations compete more effectively. Innovation, broadly defined, and investment, especially in people, dominate the list. There are far fewer actions in Figure 15 than suggestions in Figure 14. In part, this reflects the fact that only 71% of respondents worked in the past year for firms with U.S. operations. Beyond that fact, however, it appears that respondents found it easier to suggest steps for policymakers than to see actions they could take themselves.

To conclude, we step beyond the results of the survey and offer our own interpretation. Clearly, the roots of America's competitiveness problem are numerous and intertwined. The country has much work to do, and there is no single silver bullet that will fix the problem.

America's political system, especially at the federal level, is letting us down, in ways that cut across political parties and span Presidential administrations and Congressional sessions. But it would be wrong to place either the U.S. competitiveness problem or its solution at the feet of the government. Business plays a role in creating even those problems that seem to stem from public policy. Take, for instance, America's corporate tax code. The code is convoluted in part because government authorities have allowed it to be, but also because corporate leaders have relentlessly pushed for loopholes and subsidies that serve narrow self-interest. Part of the business agenda for U.S. competitiveness is to stop taking actions that benefit one's own firm but, collectively, weaken America's business environment.

Moreover, business can and must be a positive part of the solution to America's competitiveness problem. Individually and collectively, firms can upgrade the business environment in the communities where they operate – by supporting educational institutions, building shared infrastructure, investing in workforce skills, deepening clusters, and so on. We are not suggesting corporate charity here. In our survey, we asked each respondent what would happen to his or her company if it undertook more activities to benefit the local community. A full 22% said that the company itself would be more successful as a result. Another 72% said that their companies could do more to benefit the local community without affecting company success. Only 7% felt that doing more for the community would diminish corporate success. Untapped opportunities exist for firms to upgrade the competitiveness of their local communities, and to benefit themselves in the process.

BUSINESS CAN AND MUST BE PART OF THE SOLUTION TO AMERICA'S COMPETITIVENESS PROBLEM

The threats to U.S. competitiveness are multifaceted, interrelated, and long term. Addressing them requires a strategy that is multidimensional, holistic, and sustained, not just isolated initiatives or single-issue policy steps.

We believe that business leaders must lead the way in making the choices that will build America's ability to compete rather than erode it. Precisely how business leaders might proceed is a central theme of the March 2012 issue of *Harvard Business Review*.

APPENDIX: METHODOLOGY AND RESPONDENT PROFILE

The HBS Survey on U.S. Competitiveness was designed and conducted by HBS faculty in conjunction with Abt SRBI, a leading survey research firm. A copy of the survey and a full report on methodology are available at: **http://www.hbs.edu/competitiveness/survey**

The survey targeted HBS alumni, defined as former students holding MBA and doctoral degrees as well as those who have completed comprehensive executive education courses (e.g., the Advanced Management Program or the Program for Leadership Development). All living alumni were eligible for the survey, regardless of their retirement status, field of employment, or location. Alumni contact information came from the HBS alumni list, which is based on original matriculation and graduation records and is actively managed and regularly updated.

The opening three sections of the survey instrument gathered background information on respondents; asked respondents to assess America's standing on the 17 elements of the business environment described above; and posed questions on the overall competitiveness of the U.S. A fourth section probed the location decisions of businesses in which the respondents were personally involved. A brief fifth section examined the activities firms undertake to benefit their local communities. A final, open-ended section asked respondents to pinpoint the most important impediments to investing in the United States and sought advice for government officials and business leaders.

HBS faculty led the process of designing and vetting the survey instrument in collaboration with survey methodologists. HBS and Abt SRBI researchers developed topics and questions with input from faculty members with substantive expertise in relevant areas. Cognitive interviews were conducted in person and by telephone to ensure that respondents' interpretations of survey items matched the expectations of researchers, and a web-based pilot test was conducted to evaluate and develop the survey instrument further.

The field period for the survey was October 4-November 4, 2011. The survey was designed to be completed by web, paper, or telephone. Although the majority of respondents completed the survey using the Internet, a small number chose to complete the survey on paper. Interviewer-administered interviews were primarily directed toward a subset of respondents who did not respond to initial contacts (described below).

Analysis of nonresponse. To test for potential differences between survey respondents and non-respondents, a nonresponse bias study was embedded in the survey design. Although all alumni received multiple contact attempts by e-mail, a random "core sample" of 4,000 alumni was selected to receive a more methodologically rigorous survey approach. The core sample was stratified by age and location (U.S. vs. overseas) to ensure that it was representative of all alumni on these dimensions.

The core and noncore samples differed with respect to use of a paper pre-notification letter, number of contact attempts, and use of live telephone interviewers. Alumni in the core sample received a paper invitation letter, an invitation email, two email reminders, and additional reminders and interviews via telephone. Alumni in the noncore sample received an invitation email and two reminders.

The responses from core and noncore samples were analyzed for statistically significant differences. Any difference between the two would indicate the potential existence of bias in the sample. Differences were minimal (see full report on methodology), and data were consequently pooled for analysis.

Number of completes and response rates. A total of 12,256 alumni completed at least part of the survey. The findings of this report are based on 9,750 surveys that were fully complete by the end of the field period. This includes 905 interviews from the core sample and 8,845 from the noncore sample. The response rate to the core sample can be conservatively calculated at 22.6% (American Association for Public Opinion Research RR1). In the noncore sample, the response rate (AAPOR RR1) was 16.6%, excluding alumni who were not contacted because no email address was on file. Including those without email addresses, the response rate for the noncore group was 12.8%. Based on the nonresponse analysis, it does not appear that the lower response rate among the noncore group introduced biases into the survey's results.

Weighting. Survey data were weighted by respondent age and location to provide more accurate overall estimates. For analysis of nonresponse, weights were calculated for both completed interviews from the core sample and completed interviews from the noncore sample. These two weights were then combined into a single weight. Weights were not applied to analyses that examined location decisions.

Precision of estimates. The U.S. Competitiveness Survey was designed as a census of HBS alumni. Consequently, sampling error (the extent to which responses to a survey may be expected to differ from those of the population from which the survey sample was drawn due to the sampling process) does not apply.

Respondent profile. The tables below report the distribution of respondents across countries and states, sectors of the economy, and age ranges.

RESPONDENT LOCATION

IN THE UNITED STATES	
California	1,139
New York	963
Massachusetts	909
Texas	384
Florida	274
Illinois	254
Connecticut	226
Virginia	225
New Jersey	223
Pennsylvania	168
39 other states, plus territories	1,820
Subtotal	**6,585**

OUTSIDE THE UNITED STATES	
United Kingdom	332
Canada	228
China	208
Japan	198
Switzerland	192
Australia	142
Germany	122
Brazil	120
India	117
France	112
111 other countries	1,388
Subtotal	**3,159**

UNKNOWN LOCATION	6
TOTAL	**9,750**

RESPONDENT SECTOR OF EMPLOYMENT*

	NUMBER	PERCENT
Finance and Insurance	2,297	26%
Manufacturing	1,368	15%
Computer, Electrical, and Appliance	*236*	*3%*
Metal and Machinery	*233*	*3%*
Food and Beverage	*175*	*2%*
Petroleum, Chemicals, and Plastics	*171*	*2%*
Wood, Paper, and Printing	*60*	*1%*
Textile and Apparel	*53*	*1%*
Other	*440*	*5%*
Professional, Scientific, and Technical Services	1,051	12%
Information: Media, Telecom, and Data Processing	772	9%
Other Services	708	8%
Educational Services	516	6%
Health Care and Social Assistance	451	5%
Construction and Real Estate	420	5%
Wholesale and Retail Trade	394	4%
Arts, Entertainment, and Recreation	163	2%
Mining and Oil & Gas Extraction	160	2%
Transportation and Logistics	159	2%
Utilities	113	1%
Public Administration	101	1%
Accommodation and Food Services	84	1%
Agriculture, Forestry, and Fishing	74	1%
Subtotal	**8,831**	**100%**
Gave no response or hasn't worked in past year	**919**	
Total	**9,750**	

* Each respondent was assigned to the sector in which s/he currently works or (if not currently working but having worked within the past year) the sector in which s/he recently worked.

RESPONDENT AGE

Under 30	432	4%
30-39	1,682	17%
40-49	1,600	16%
50-59	1,999	21%
60-69	1,836	19%
70 and older	1,268	13%
Unknown	933	10%
Total	**9,750**	**100%**

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For more information on Harvard Business School's U.S. competitiveness project, please visit: http://www.hbs.edu/competitiveness/