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New Study Finds Nearly 40 Percent of California Companies Plan To Move Jobs Out of State

Most Moves Inside the U.S.

SACRAMENTO, CA - February 26, 2004 –Nearly 40 percent of companies in California are planning to move jobs out of state according to the *California Competitiveness Project*, a new study for the California Business Roundtable.

The comprehensive analysis, conducted by Bain & Company, the global business consulting firm, also found that a startling 100 percent of senior executives interviewed view the business climate in California unfavorably.

The *California Competitiveness Project* included in-depth analysis of a broad range of factors, as well as interviews with various policy experts and with senior decision-makers in companies, of varying sizes doing business in California. The goal of the study was to assess both the current state and anticipated trajectory of California's competitiveness and enable the California Business Roundtable, an organization comprised of chief executive officers of the state's leading corporations, to develop a set of policy and legislative options that can improve the state's competitiveness and performance in the coming years.

Companies interviewed included small businesses with as little as \$1.5 million in revenue to large corporations with as much as \$90 billion in revenue. These companies represent more than 95 percent of the state's industry sectors and employ nearly half a million in-state workers.

"This research reveals that 'business as usual' is not working in California and that there are distinct areas the State must address to improve the competitiveness and keep high-value jobs in the state," said Dick Kovacevich, chairman and CEO, Wells Fargo and Company, and chairman, California Business Roundtable. "The tech bubble merely masked the erosion of California's competitiveness and Bain's analysis reveals that California has lost its edge. Looking forward, if nothing changes, things are likely to get worse."

Over One-Fourth of California Jobs in Vulnerable Areas

Bain's analysis of California's employment landscape revealed that 27 percent of California jobs are in "mobile sectors," including manufacturing, software programming, and insurance underwriting. Companies in mobile sectors can move operations from California to other locations. Consequently, these 4 million "mobile" jobs are those in the most danger of being relocated outside California.

According to the analysis, jobs in "mobile sectors" tend to be 35 percent more valuable to the California economy than jobs in non-mobile sectors. As a result, California's future economic potential will be heavily influenced by California's ability to retain and attract these high-value "mobile" jobs.

The Future of California Jobs is in Serious Jeopardy

According to the *California Competitiveness Project*, 50 percent of the companies interviewed have explicit policies to halt employment growth in the state. These growing companies plan to simply do their expanding – new factories, new design centers – elsewhere. Nearly 40 percent of the companies (55 percent of companies in mobile sectors) plan to relocate jobs from California.

Reverse Gold Rush

California has already lost jobs to Texas and abroad in the motion picture business. Since 1997, motion picture production days have plunged in California by slightly more than 60 percent, the study found. Meanwhile, over the same period, they have skyrocketed in Texas by close to 300 percent; Ireland and the U.K. (nearly 400 percent), and Australia, New Zealand and Canada (over 60 percent). Because location decisions are made with greater frequency in the movie business, this industry should be viewed as a leading indicator of what is likely to happen over time across many of the mobile sectors.

Small Businesses Hit the Hardest

The higher cost of doing business in California hits smaller, low-margin companies particularly hard. For example, a typical small manufacturer in California with \$20 million in revenue and operating income of \$200,000 would be earning more than a \$1 million, if it were located in a lower-cost state like Nevada, Georgia or South Carolina.

Regulatory Environment Impedes Job Growth

The study found, by a large margin, that California's regulatory environment is the most costly, complex and uncertain in the nation. For example, California enacted 15 statutory changes to labor law *per year* between 1992 and 2002. This rate is four times the average for all states over that same period and three times the average for New York.

"California is in a league of its own in terms of complex and unpredictable regulation," added Kovacevich.

Residential construction provides a good example of this complexity. According to the study, there is only a six percent probability in California of having a subdivision project approved with no modifications. By contrast, in Texas and Arizona, there is nearly a 75 percent chance of project approvals with no required modifications.

Furthermore, approvals require significantly more time than Texas or Arizona with California averaging 33 weeks compared to 16 in Arizona and eight in Texas. This massive uncertainty deters investment in the State. Indeed, California has experienced chronic under investment in residential construction, with a cumulative shortfall of more than 500,000 units since 1995.

“California has been a classic ‘satisfactory under-performer’ for years,” said Jeff Melton, a partner in Bain’s San Francisco office who led the *California Competitive Project* analysis. “Despite having so many distinct advantages such as the sixth highest level of US worker productivity, the third largest concentration of US science and technology workers, and 40% of all U.S. venture capital, California has been losing ground to other states.”

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About the California Business Roundtable

The California Business Roundtable is a non-partisan association comprised of chief executive officers of the state’s leading corporations with a combined workforce of more than 700,000 California employees. Since 1976, the Roundtable has provided essential leadership on high-priority public policy issues and is a compelling advocate for a strong economy and a healthy business climate in California. For more information visit www.cbrt.org.

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