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**CALIFORNIA BUSINESS ROUND TABLE AND
CALIFORNIA CHAMBER OF COMMERCE
THIRTEENTH ANNUAL BUSINESS LEADERS SURVEY
ANALYSIS APRIL 2003**

For over a decade, the California Business Roundtable and the California Chamber of Commerce have been tracking attitudes of California Business Leaders toward the state's most important issues. The 2003 random sampling of 400 Business Leaders reflects opinions of the growing number of small and medium-sized businesses in the state. In fact, three-quarters of the survey's respondents work in firms with fewer than 250 employees, and the majority of those come from firms with less than 100 employees.

These California Business Leaders register a sharp decline in overall mood from just a year ago. Currently only fourteen percent of California Business Leaders believe things in the state are going in the right direction, a marked decline of twenty-eight points since the 2001 survey. Over three-quarters believe things have gotten off on the wrong track. California Voters hold similar pessimistic views of the state's direction with seventy-three percent saying things are on the wrong track.

Most Business Leaders believe the economic climate in California has also worsened. Eighty-one percent rate business conditions in California as worse than they were two years ago, an increase of fourteen points since the 2001 survey. Sixty-five percent believe that business conditions *in their industry or field* have become worse in the last two years, and fifty-three percent say conditions for *their company* have gotten worse. These data indicate a level of concern for business conditions not witnessed since the state weathered a deep recession during the early 1990s. In fact, the number of Business Leaders who believe their company's conditions have gotten worse is at its highest level in the twelve year history of the Annual Business Climate Survey.

With an eye toward cutting expenses during California's rocky economic climate, Business Leaders indicate that direct and government-imposed costs—especially with regard to worker's compensation costs—have hit them hard this year. Fifty-four percent of Business Leaders identified these types of costs as their top problems facing California businesses. The high cost of worker's compensation insurance was

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cited as the single top issue, mentioned by nineteen percent of Business Leaders. Government regulation was mentioned by ten percent, and legislation was identified by eight percent of respondents.

Interestingly, even though the business community is experiencing a significant downturn in mood due to the recession, only twenty percent of respondents named the poor economy or business climate as the top issue facing California businesses.

As California's small and medium-sized companies face these issues, it is not surprising that many Business Leaders are searching for ways to cut costs and regulations. According to the survey, nearly one-fifth of California businesses are planning to expand and/or relocate outside of the state to relieve these pressures. This represents a steady increase of businesses entertaining this idea over the past several years. Some California companies are even being actively courted by other states. Fifteen percent of respondents say they have been approached by other states to expand or relocate out of state. Fifty-one percent of those who were approached were offered monetary or other incentives to relocate. Of those, thirty-seven percent were offered a more favorable tax structure in the new location. Other perks include moving assistance, buildings, land, and employee training.

Along with the pressures of running their companies in this economic climate, many Business Leaders suggest they are also concerned with the potential effects of the state's \$30 billion budget shortfall. A majority of respondents oppose each one of several ideas tested for reducing the budget deficit. In fact, they overwhelmingly oppose reducing education spending (83%) and increasing income taxes (80%). Seventy percent also oppose reducing payments to doctors who provide Medi-Cal services. Approximately two-thirds of Business Leaders each oppose the ideas of increasing automobile taxes (62%) and sales taxes (63%). Finally, nearly half do not favor reducing optional services such as adult dental coverage.

Finally, Business Leaders believe that lowering taxes would be beneficial not only to the business community, but also their employees. When asked to identify things the government could do to help company employees, a plurality say the best way to help their employees would be to lower or not raise taxes. Providing better benefit options, increasing worker pay and making insurance more affordable were also mentioned by respondents.