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THE CEO COUNCIL RETENTION SURVEY: RESULTS OF 1992 SURVEY

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EXECUTIVE SUMMARY

Most area businesses are doing better now than two years ago, despite the recent recession, the ensuing sluggish recovery, and the area's high indirect labor costs. Health care costs remain the primary concern of area businesses, with over 65 percent of those surveyed, calling it a major problem in doing business in Kalamazoo County. At the same time, businesses give Kalamazoo County high marks for its higher education institutions and quality of life. These summary findings are based on the results of the Tenth Annual CEO Council's Business Retention Survey.

The purpose of the annual survey remains threefold:

- 1) to provide an annual description of the characteristics of the basic firms in Kalamazoo County;
- 2) to identify problems and opportunities facing county businesses; and
- 3) to help the CEO Council determine how it might further assist local businesses to grow.

As in previous years, indirect labor costs (e.g., unemployment insurance, workers' compensation, health insurance) were among the leading problems facing county firms. The rising

cost of health care was cited by 65.7 percent of all firms surveyed as a major problem. Workers' compensation and unemployment insurance also ranked high among the firms' complaints. For manufacturers, environmental regulations and labor availability were also areas of concern, while the surveyed nonmanufacturing firms cited professional liability and state regulations as major problems. As in last year's survey, less than 10 percent of the surveyed firms cited major problems with local government (county, city, or township).

Only 22.8 percent of firms surveyed this year announced expansion plans, down from 30.6 percent last year. The percentage of surveyed firms planning to remodel their Kalamazoo County facilities matched last year's result of 27.3 percent. However, despite the recent recession and sluggish recovery, only one firm revealed that it was closing its operation in the near future, and another said it had plans to reduce its operations in Kalamazoo. Overall, 61 percent of the surveyed firms reported better sales than two years ago, and nearly 81 percent predicted that business will improve in the closing months of 1992.

The survey identified several important market characteristics of area firms.

- * Over 82 percent of surveyed manufacturing firms reported productivity improvements over the past five years.

- * Ten percent of total sales of the manufacturing firms surveyed were to foreign customers, while only 1.1 percent of sales in the area's nonmanufacturing sector were to foreign customers.

- * Over 27 percent of the surveyed firms depend upon the auto industry for over 30 percent of their total sales.

* Over 50 percent of the firms surveyed cited the area's higher education institutions and its quality of life as strengths.

* Over 60 percent of the firms surveyed are familiar with government procurement procedures on the federal, state, or local level, up from 52 percent last year.

* Over 60 percent of all firms surveyed claim that they were able to find entry level workers with appropriate skills and training. This was a sharp turn-around from last year when a similar percentage said that they were unable to find suitable entry level workers.

Although a majority of surveyed firms believe that Kalamazoo County is a good business location with an excellent quality of life, it would be unwise for the CEO Council to relax its retention efforts. Many complained that the combination of the state's high business costs and county's high health care costs make other competing areas more attractive for business expansion. Moreover, 44 percent of the surveyed manufacturing firms have received solicitations from other economic development organizations.

INTRODUCTION

In May and June of 1992, 31 volunteers conducted the CEO Council's tenth annual survey of basic businesses in Kalamazoo County. The volunteers completed 80 personal interviews of the president, director, or plant manager of "basic" businesses, being firms with the potential for exporting products or services outside of Kalamazoo County. The survey sample was drawn from the following industries:

- * All Manufacturers
- * The following Nonmanufacturing sectors:
 - Finance and Insurance
 - Business Services
 - Health services, except private practitioners
 - Non-profit organizations.

The firms contacted this year were partially selected from an updated list of businesses which were surveyed in 1989. However, as in previous years, additional firms were included and all firms were employing 10 or more workers. This year 20 firms that had declined to be interviewed last year were contacted again. Most of these firms refused again, contributing to this year's low participation rate. Of the 123 firms contacted, 84 were interviewed for a participation rate of 68.3 percent. The participation rate of last year's survey reached 83 percent. Unfortunately, 4 of the completed surveys were never returned by a volunteer, leaving this report to be based upon 80 responses.

Purpose of the Business Retention Survey

The annual survey provides the CEO Council's staff with a better understanding of the county's business structure and environment, and offers insight into the strengths and weaknesses of the local business community. More importantly, the survey identifies important business trends and key problems facing area businesses. The information from the annual survey assists the CEO Council staff in their continuing efforts to identify and solve problems facing individual firms. The information also assists in adjusting the CEO Council's retention program to better meet the current needs of the county's businesses.

Analysis of Kalamazoo County's Business Community

The survey elicited information on several characteristics of Kalamazoo County's businesses including age, geographic distribution of sales, use of contractual services, unionization, and expansion or contraction plans. Most of these findings can be compared to last year's survey findings. (A copy of the 1991 survey results is enclosed as an appendix to this report.)

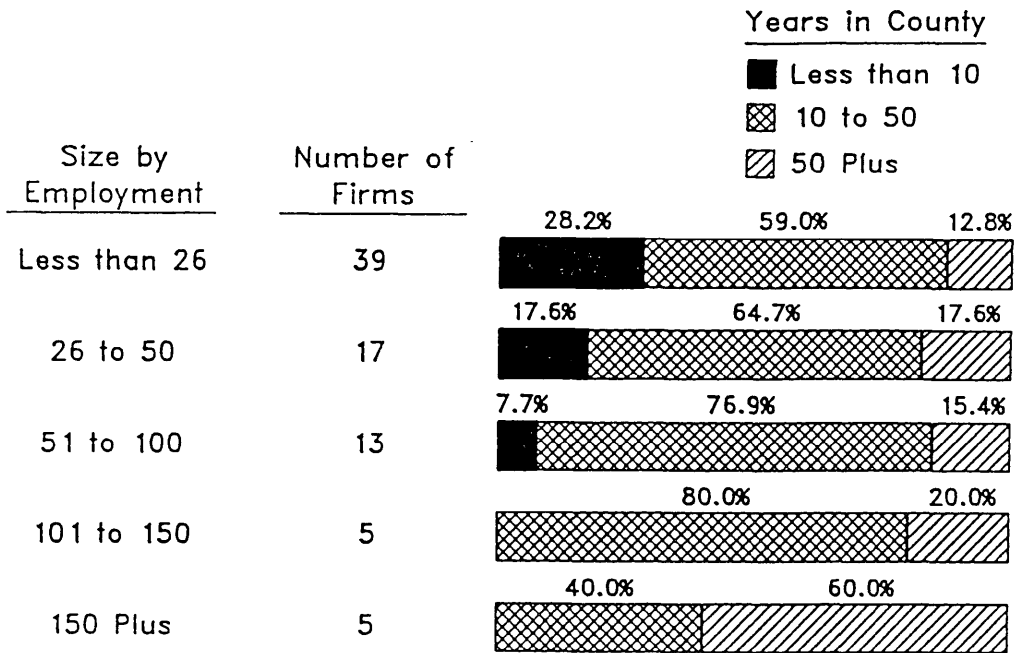
Age Composition

Of the firms surveyed, 81 percent have been in business for ten or more years (derived from Chart 1), down from 88 percent recorded last year. Only four firms surveyed were five years or younger. This is not totally unexpected since 1) the survey sample is drawn from a pool of firms that employs 10 workers or more and 2) the sample is based, in part, on the list of firms surveyed three years ago.

While small businesses may generate the lion's share of new jobs, most small businesses stay small through their lifetime. Of the surveyed firms, 35.4 percent employ fewer than 26 workers and

are over 10 years old, with 13.5 percent being over 50 years old. Last year, 80 percent of the surveyed firms employed fewer than 26 workers and were over 10 years old. As shown on Chart 1, all firms employing more than 100 workers have been in operation for at least 10 years.

CHART 1
Age of Firms by Size



Sales Distribution and Dependency

As in earlier surveys, the geographic distribution of sales in manufacturing is directly correlated with the employment size of the firm. As shown on Table 1, manufacturing firms employing less than 26 employees make over 42 percent of their sales to customers within the county, whereas firms employing over 150 workers make only 17.5 percent of their sales in-county. In nonmanufacturing, however, the geographic distribution of sales is seemingly unrelated to employment size with most sales going to local customers:

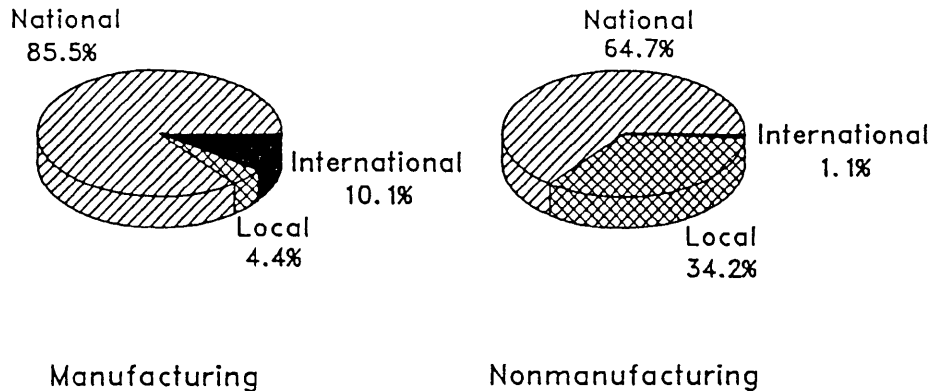
TABLE 1
GEOGRAPHIC DISTRIBUTION OF SALES
BY EMPLOYMENT SIZE

EMPLOYMENT	MANUFACTURING			NONMANUFACTURING		
	Local	Domestic	International	Local	Domestic	International
Less than 26	42.0	54.2	3.8	73.8	24.0	2.2
26 to 50	39.2	59.9	0.9	66.1	33.9	0.0
51 to 100	14.9	77.6	7.5	68.3	30.5	1.2
101 to 150	1.5	78.3	20.2	*	*	*
151 or more	17.5	76.3	6.3	*	*	*

* Combined with the 51 to 100 size group.

Just over 41 percent of all surveyed firms sell their goods or services internationally. However, as shown on Chart 2, exports account for just 10.1 percent of total sales for the surveyed manufacturers, and a tiny 1.1 percent for nonmanufacturers. Canada continues to be the primary market for many of the county's exports.

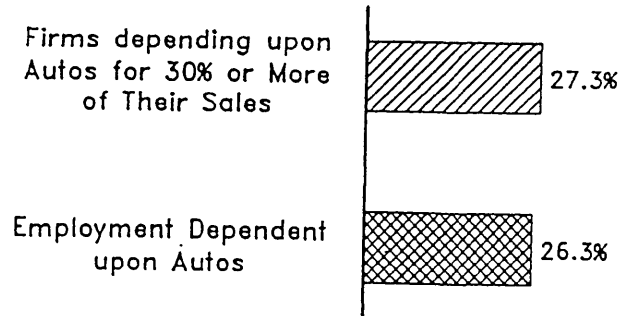
CHART 2
Geographic Distribution of Sales in Dollars



It is perhaps more important to know the industry to which area firms sell their goods and services, as it is to know the geographic location. An area's industrial base is only as diversified as the markets for its goods. In manufacturing, 15 of the firms surveyed or 27.3 percent depended upon the auto industry for more than 30 percent of their sales (Chart 3). Overall, 26.3 percent of the workforce in the manufacturing firms surveyed is directly dependent upon sales to the auto industry.

CHART 3
Auto Industry Dependency

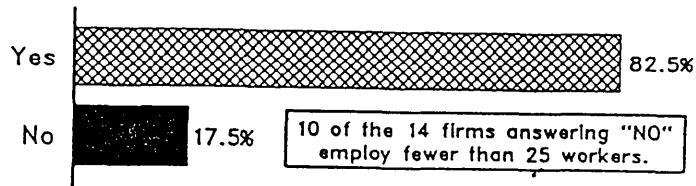
Manufacturing:



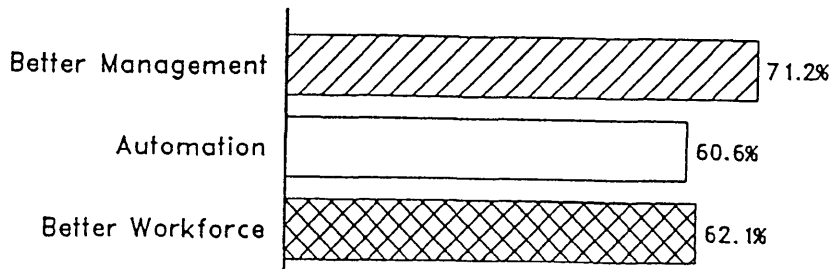
Productivity

Productivity has become the key to survival. Of the county's manufacturing firms surveyed, 82.5 percent claimed to be more productive over the past five years. As shown in Chart 4, better management practices, followed by a better workforce and automation were cited as the leading reason for advancements in productivity.

CHART 4
Productivity Improvements in Manufacturing
(Over the Last Five Years)



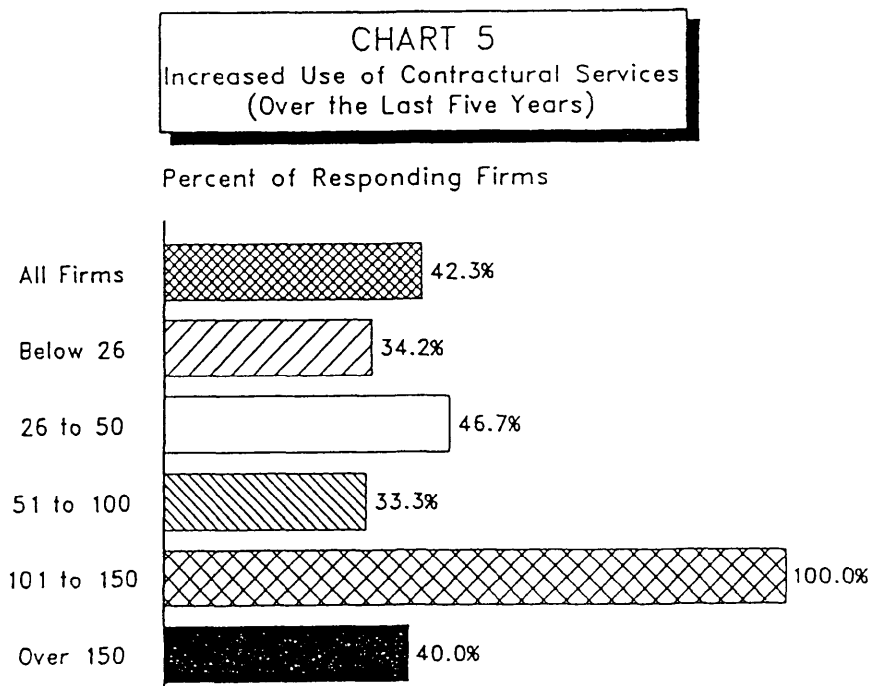
Reasons for Improvement:



Ten of the 14 firms that did not report productivity improvements employed fewer than 25 workers. Similar findings were reported last year, supporting the view that too many small manufacturing firms are attempting to compete on price alone. Such a strategy, unfortunately, can lead to low wages, high labor turnover rates, and in the long run, shrinking markets.

Temporary Workers and Unionization

Area firms have increased their use of contractual services over the past five years. Of the firms surveyed, 42.3 percent of the firms surveyed have increased their use of contractual services over the past five years, compared to 40.4 percent last year. As shown on Chart 5, the increased usage of contractual services occurred regardless of firm size. Last year a higher percentage of the larger firms increased their use of contractual services relative to smaller firms.



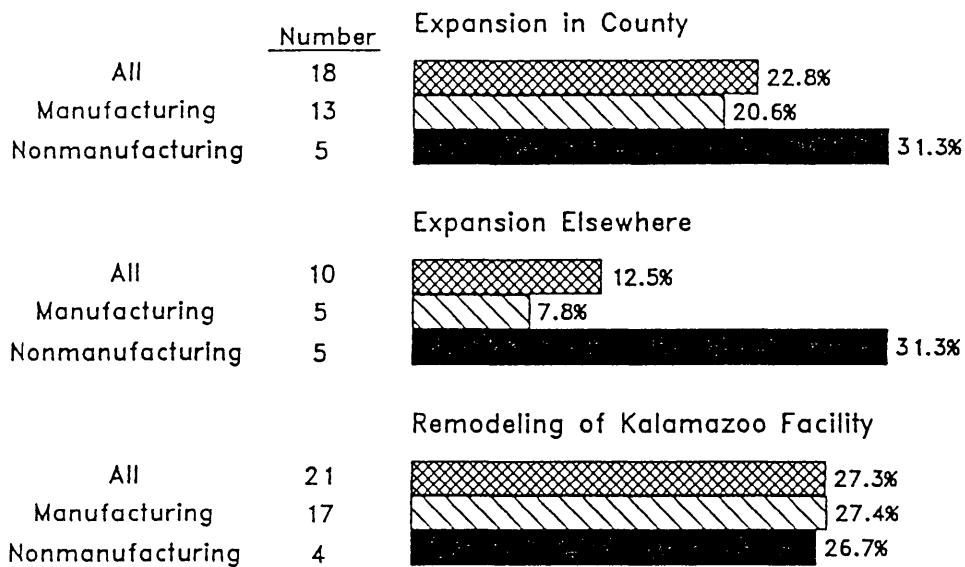
Counter to national trends, only 36.3 percent of the firms surveyed are using temporary workers compared to 60 percent last year. Temporary workers make up only 1.9 percent of the total year-round workforce of the firms surveyed. These findings confirm last year's findings that while the use of temporary workers is widespread, most workers in area firms are permanent employees.

Business Expansion and Contraction

As shown on Chart 6, 22.8 percent of all firms surveyed have plans to expand their Kalamazoo facilities, down from 30.6 percent last year. An additional 27.3 percent reported their intentions to remodel their Kalamazoo facilities, matching last year's total of 27.8 percent.

Only one firm disclosed plans to close their Kalamazoo County operations, one stated plans to reduce its operations in the county, and one is planning to move its operations out of the county. In total, 3 firms or just 3.8 percent of those interviewed definitely have plans to curtail or reduce their operations in the county compared to 6.5 percent last year. However, an additional 25 firms did reveal that they have and are "considering" curtailing or reducing business activity in the county.

CHART 6
Expansion and Remodeling



Major Problems Facing the County's Basic Businesses

As in previous surveys, respondents were asked to identify any problems they were having from a prepared list of potential problem areas. The respondents were also asked if they were experiencing any problems with state or local governments. Table 2 lists the problem areas given to

the respondents and the overall score each problem area received; Chart 7 highlights the four top problem areas in the county.

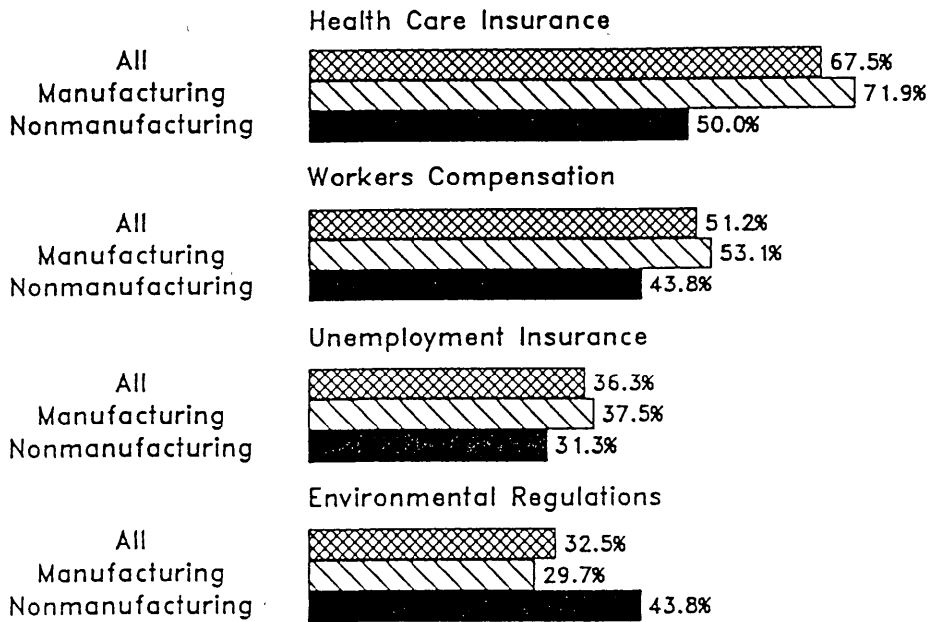
As in previous years, indirect labor costs (e.g., unemployment insurance, workers' compensation, health care costs) rank highest in the major problems facing area firms. To no surprise, health care costs ranks first this year with 67.5 percent of the surveyed firms labelling it a major problem, matching last year's results. Workers' compensation ranked second, as 51.2 percent of the firms surveyed felt it was also a major problem. Unemployment insurance ranked third, and environmental regulations ranked fourth. The same four areas were the top problem areas in last years survey.

TABLE 2
MAJOR PROBLEMS

	MANUFACTURING		NONMANUFACTURING		TOTAL	
	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT
DIRECT LABOR COSTS	2	3.1%	3	18.8%	5	6.3%
INDIRECT LABOR COSTS						
WORKERS COMPENSATION	34	53.1%	7	43.8%	41	51.2%
HEALTH CARE INSURANCE	46	71.9%	8	50.0%	54	67.5%
UNEMPLOYMENT INSURANCE	24	37.5%	5	31.3%	29	36.3%
RETIREMENT	1	1.6%	2	12.5%	3	3.8%
OTHER LIST	6	9.4%	5	31.3%	11	13.8%
LABOR AVAILABILITY	10	15.6%	4	25.0%	14	17.5%
LABOR RELATIONS	0	0.0%	0	0.0%	0	0.0%
UTILITY COST/SERVICE	2	3.1%	2	12.5%	4	5.0%
PRODUCT OR PROFESSIONAL LIABILITY	8	12.5%	5	31.3%	13	16.3%
SECURITY	2	3.1%	0	0.0%	2	2.5%
AVAILABILITY OF QUALITY SPACE	4	6.3%	0	0.0%	4	5.0%
AVAILABILITY OF ACCESSIBLE FINANCE	8	12.5%	2	12.5%	10	12.5%
AREA AMENITIES	1	1.6%	0	0.0%	1	1.3%
K-12 SCHOOLS	7	10.9%	2	12.5%	9	11.3%
HIGHER EDUCATION	1	1.6%	1	6.3%	2	2.5%
ACCESS OF BUSINESS COUNSELING	1	1.6%	0	0.0%	1	1.3%
ENVIRONMENTAL REGULATIONS	19	29.7%	7	43.8%	26	32.5%
WASTE DISPOSAL	11	17.2%	1	6.3%	12	15.0%
OTHER	6	9.4%	2	12.5%	8	10.0%
CITY OR TOWNSHIP	5	7.8%	0	0.0%	5	6.3%
COUNTY	3	4.7%	0	0.0%	3	3.8%
STATE	7	10.9%	2	12.5%	9	11.3%

Top five in categories.

**CHART 7
Major Problems**



Concerning government relations, 11.3 percent of the surveyed firms cited major problems with state government. This is up slightly from last year when 7.4 percent viewed state government as a major problem area. The number of firms citing major problems with local government remained small. Only 3 firms reported having a major problem with the county government, and 5 firms cited major problems with either their city or township government.

For each problem raised, the CEO Council has already contacted the government or private agency most closely involved and has or will act as a facilitator between the two parties to hopefully solve the problem.

Area Strengths

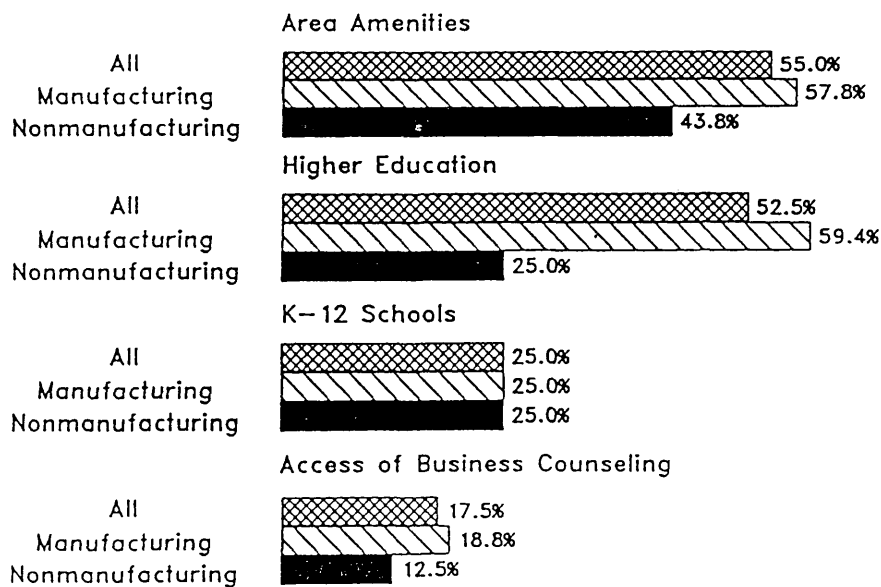
This year, unlike previous years, firms were asked if any of the potential problems areas listed on Table 2 were, in fact strengths of the county. As shown on Table 3 and highlighted in Chart 8, the area's amenities (quality of life factors) and its higher education institutions were cited by more than 50 percent of the firms surveyed as area strengths. Primary and secondary education was also cited as an area strength, as was access of business counseling. Although not listed on Table 3, several manufacturers commented on Kalamazoo County's excellent market location, between the Chicago and Detroit metropolitan areas, as a strong plus.

TABLE 3
STRENGTHS OF THE AREA

	MANUFACTURING		NONMANUFACTURING		TOTAL	
	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT
DIRECT LABOR COSTS	3	4.7%	3	18.8%	6	7.5%
INDIRECT LABOR COSTS						
WORKERS COMPENSATION	0	0.0%	0	0.0%	0	0.0%
HEALTH CARE INSURANCE	0	0.0%	0	0.0%	0	0.0%
UNEMPLOYMENT INSURANCE	0	0.0%	0	0.0%	0	0.0%
RETIREMENT	2	3.1%	0	0.0%	2	2.5%
OTHER LIST	0	0.0%	0	0.0%	0	0.0%
LABOR AVAILABILITY	3	4.7%	2	12.5%	5	6.3%
LABOR RELATIONS	4	6.3%	1	6.3%	5	6.3%
UTILITY COST/SERVICE	1	1.6%	0	0.0%	1	1.3%
PRODUCT OR PROFESSIONAL LIABILITY	1	1.6%	0	0.0%	1	1.3%
SECURITY	3	4.7%	0	0.0%	3	3.8%
AVAILABILITY OF QUALITY SPACE	3	4.7%	0	0.0%	3	3.8%
AVAILABILITY OF ACCESSIBLE FINANCE	7	10.9%	0	0.0%	7	8.8%
AREA AMENITIES	37	57.8%	7	43.8%	44	55.0%
K-12 SCHOOLS	16	25.0%	4	25.0%	20	25.0%
HIGHER EDUCATION	38	59.4%	4	25.0%	42	52.5%
ACCESS OF BUSINESS COUNSELING	12	18.8%	2	12.5%	14	17.5%
ENVIRONMENTAL REGULATIONS	0	0.0%	1	6.3%	1	1.3%
WASTE DISPOSAL	1	1.6%	0	0.0%	1	1.3%
OTHER	4	6.3%	1	6.3%	5	6.3%

Top five in categories

**CHART 8
Major Strengths**



Type of Assistance Requested From the CEO Council

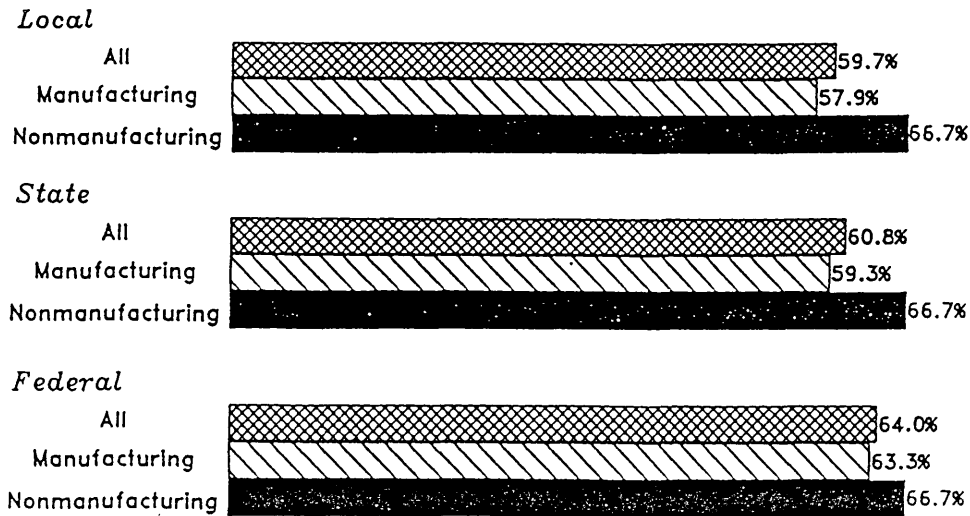
The CEO Council offers many programs for local businesses, including government procurement, exporting assistance, and management training.

Government Procurement

Approximately 60 percent of the firms responding to the survey are familiar with the federal, state, and local government procurement procedures (Chart 9), up from 52 percent last year. Over the last several years, county firms have become more familiar with procurement procedures on all governmental levels. Still, 21 percent of the firms surveyed requested more information about government procurement.

CHART 9
Government Procurement Opportunities

Percent Aware of Government Contracting



Training Needs

Last year, firms were asked if they would agree with the following statement: "It is difficult to hire workers with the appropriate skills/training." Nearly 60 percent of the firms agreed with the statement with 23 percent strongly agreeing. However, concerns were raised that the strong negative response might have been caused by way the question was asked, instead of reflecting a general dissatisfaction with the area workforce. Indeed, labor availability has never been found to be among the top major problems facing area firms. This year, 17.5 percent of the surveyed firms cited labor availability as a major problem (Table 2), while 6.3 percent saw it as an area strength.

This year we reworded the above statement in the positive: "We are able to hire entry level workers with the appropriate skills/training." As shown in Table 4, the response, this year, was more positive; 52.5 percent agreed with the above statement, while 42.5 percent disagreed. Ten percent of the surveyed firms strongly agreed to the statement, nearly matching the 12.5 percent that strongly disagreed.

TABLE 4

You are able to hire entry level workers with appropriate skills & training?
(percent)

	MANUFACTURING	NONMANUFACTURING	ALL
Strongly Agree	9.4	12.5	10.0
Agree	40.6	50.0	42.5
No Opinion	6.3	0.0	5.0
Disagree	31.3	25.0	30.0
Strongly Disagree	12.5	12.5	12.5

Wage expectations of employees is clearly not a problem for area businesses. Table 5 shows that 85 percent of the surveyed firms found employees' wage expectations to be acceptable, if not low. Indeed, 7.5 percent of the surveyed firms found direct labor costs as a strength on the area (Table 3).

TABLE 5

Wage Expectations of Employees
(Percent)

	MANUFACTURING	NONMANUFACTURING	ALL
Too High	17.7	6.3	15.0
Acceptable	81.3	93.8	83.8
Low	1.6	0.0	1.3

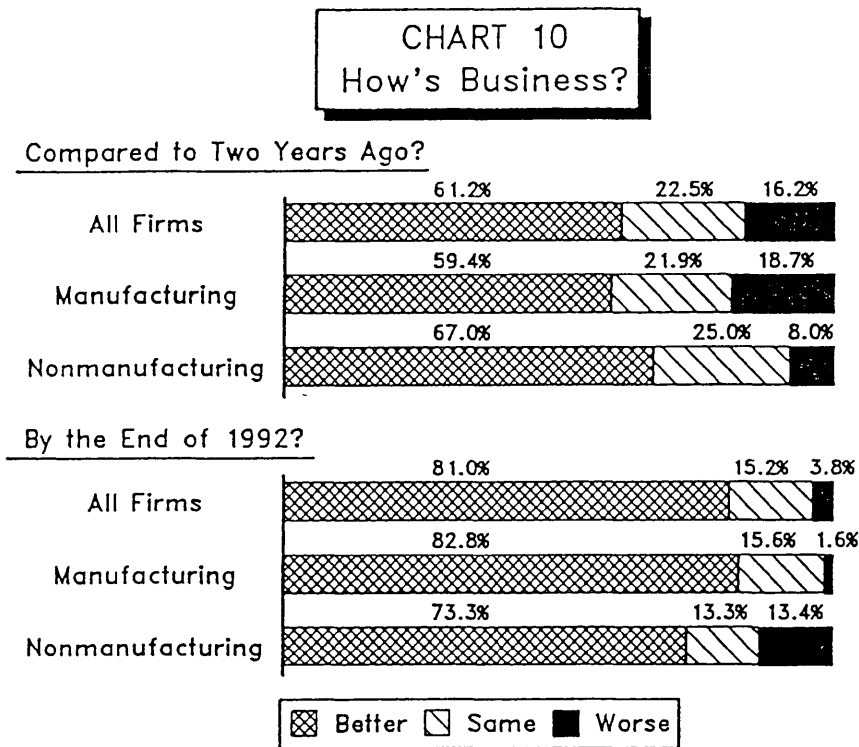
Finally, the surveyed firms were asked about their training needs for 4 broad types of training areas. As shown in Table 6, the strongest need is for new technology training, with nearly 25 percent of all firms surveyed saying they will need "a lot" of training for new technologies. More concerning, however, one out of 5 firms surveyed said that they will need to provide "a lot" of basic training for their workers.

TABLE 6
 TYPE OF TRAINING NEEDED
 (Percent)

	MANUFACTURING		NONMANUFACTURING		ALL	
	A lot	Some	A lot	Some	A lot	Some
Basic Skills	21.0	29.0	20.0	33.3	20.8	29.9
Leadership	11.3	53.2	6.7	46.7	10.4	51.9
New Technology	22.6	56.5	33.3	46.7	24.7	54.5
Personal Management	11.3	56.5	26.7	46.7	14.3	54.5

CONCLUSIONS

Kalamazoo County businesses are doing better than two years ago, and their short-term forecast is robust. As shown on Chart 10, over 60 percent of the firms surveyed said that business is better today than two years ago, despite the national economic downturn. Moreover, over 80 percent believed that business will continue to improve in the final months of 1992.



The area's workforce, in general, remains a strength to the area. It has become more productive over the past five years, and the area's employers find that employee wage expectations are acceptable. Moreover, labor relations and availability are not found to be major problems to area firms. In fact, several surveyed firms cited labor relations and availability as area strengths.

County businesses are facing problems, however. Indirect labor costs, particularly high health care costs, workers' compensation and unemployment insurance, remain major problems for area businesses. Environmental regulations issues are also of major concern. Although, a majority of the firms surveyed is satisfied with the skills/training of entry level workers, an overly large minority is not.

Fortunately, the number of firms dissatisfied with local government remains low, and there appears to be a high degree of stability among Kalamazoo firms with only a very small proportion indicating plans to close, move out, or sell.

The survey findings do not suggest any drastic changes in CEO Council's activities and are consistent with the findings of past surveys. Interest in government procurement remains strong, indicating that the CEO Council should continue to provide assistance in this area. While the number of firms exporting is substantial, the volumes are not, suggesting continued study on determining how the CEO Council can further assist area firms in effectively entering the international marketplace.

The CEO Council should continue its efforts in assisting the business community in handling environmental regulations and in managing health care costs. Finally, the survey has, again, uncovered a high level of concern about the skill level of the area's workforce. Whereas, the solution to this far-reaching problem is clearly outside the capacities of the CEO Council, a renewed effort by all the education and training service providers should be encouraged.

Finally, several companies interviewed expressed concern that local economic development efforts and programs, such as property tax abatements, were overly directed toward large businesses. A perception that the CEO Council spends too much of its time on "big" businesses or on attracting

new businesses, instead of working with small-to-medium businesses, can be detected in the survey. Few solutions were offered that could alleviate this perception. The more interesting ones include setting up a venture capital fund, introducing a business planning assistance program, and establishing a public relations campaign to highlight the area's economic success stories of small-to-medium firms.