THE STATE OF OUR BUSINESS

A PERSPECTIVE FROM INDIANA EXECUTIVES

2008

A collaborative effort by Inside INdiana Business, Ice Miller LLP and Butler University to discover the opinions and attitudes of Indiana's business leaders.

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For the second consecutive year, Butler University's College of Business Administration, Inside INdiana Business and Ice Miller LLP collaborated to develop, implement and analyze a survey of Indiana's business executives. The project allowed us to compare the results with the 2007 survey and benchmark changes with respect to the state's role in economic development, human resources and diversity issues, education, and information technology.

The survey asked Indiana executives to offer their opinions on the state's economic climate. What resources are needed to start, grow and sustain a business in Indiana? What initiatives, or industries, offer the greatest opportunities for growth?

Executives compared Indiana to other states in the Midwest. How competitive is Indiana with respect to the cost of living and business environment? The responses to these, and other questions, culminated in a better understanding of the overall business climate in our state.

We also asked respondents to gaze into the proverbial crystal ball and provide a bit of forecasting. Specifically we asked executives how likely they were to add jobs, merge or acquire another company, or relocate outside Indiana.

In some cases, the responses affirmed our beliefs and other times we were surprised at the results. The most critical outcome, however, is to continue to foster a dialogue and debate on the issues facing Indiana so we can collaboratively build a strategic plan to drive our state's economy.

Finally, we would be remiss if we didn't thank the hundreds of Indiana executives who participated in this important project. Their input is invaluable and the totality of their responses will likely shape our state's future.

We hope you find the results of the 2008 survey as enlightening as we did. We remain optimistic that we have the right resources and talent to grow Indiana!

Sincerely,

Gerry A. Dick
President
Inside INdiana Business

Byron Myers
Chief Managing Partner
Ice Miller LLP

Chuck Williams
Dean, College of Business Administration
Butler University

EXECUTIVE SUMMARY

Inside INdiana Business, Ice Miller LLP and Butler University collaborated to conduct and present the findings of the 2008 Indiana CEO Survey. This report captures the opinions of over 200 Indiana business executives from all areas of the state. In some cases, their opinions are very consistent with the 2007 findings. In other areas, opinions have changed. Through our on-going efforts we will continue to monitor these consistencies and trends over the years to come.

Study highlights include the following:

Section 1: CEO Challenges and Issues

- Corporate reputation still tops the list as the most significant issue for CEOs.
- Consistent execution of business strategy and sustained steady top-line growth have become more important in 2008.
- A question to measure the level of concern about state and local taxes was added in 2008 due to the high profile nature of this issue; however, the issue did not rate particularly high as a concern in 2008.
- Succession planning and adding jobs remain the top two items that executives are planning to pursue for 2008.
- "Having enough time" received a rating of nearly six on a seven point scale as being a challenge for Indiana executives; "human resources" was rated significantly more challenging than in 2007.

Section 2: Indiana's Economic Climate

- Indiana remains "the same" economically as neighboring states.
- The educational system, once again, is viewed as a disadvantage for Indiana compared to surrounding states.
- As in 2007, executives express broad support for adding health care and mass transit as state initiatives.
- The state's initiatives are well supported, especially in the areas of life sciences, information technology, distribution/logistics, and advanced manufacturing.

Section 3: State's Role in Economic Development

- Indiana executives are not overly enthusiastic about the availability of public or private funding sources. In fact, public funding sources outside the state receive the highest ranking for being "sufficient."
- Those responding feel the state is only "somewhat effective" in terms of attracting new business and less so in retaining it.
- Executives who are more receptive to relocating their businesses are also those that are the least impressed by Indiana's ability to attract and retain business in the state.
- Quality of life concerns remain a critical issue for economic development success. Those aspects topping the list include improving the educational system, affordable housing, improving the health care system, reducing the crime rate, and improving the state's public transportation.
- Despite the heightened awareness concerning fuel costs, developing alternative energy sources dropped significantly from its position as a concern in 2007.

Section 4: Human Resources and Diversity

- As compared to 2007, the availability compared to demand has diminished for engineers and manufacturing workers. This could potentially signal a tight labor market for these two professions.
- Acquiring talented managers remains the top concern for the executives responding to the survey.
- Compared with 2007 respondents, 2008 respondents are significantly more concerned with issues of job satisfaction, workforce loyalty, turnover, and immigration.
- Agreement to the statement that diversity is lacking at the highest levels has diminished since 2007. It is unclear if this indicates real progress or is a result of more visibility for the diversity that does exist.

Section 5: Education

- All ratings in this area are consistent with those given by the respondents in 2007. There is once again high regard for the colleges and universities, grave concerns for public K-12 programs, and "luke warm" evaluation of trade/technical schools and private K-12 programs.
- Due to the view in 2007 that educational issues were "critical" to Indiana's future, several questions were added in 2008. One asked what the executives could offer to improve the system. The most common responses received were mentoring programs and internships.
- Over half of the executives indicated they are currently involved in their local school and this involvement is more than just simply being a parent of a child who attends that school.
- There appears to be a willingness on the part of executives to be involved, but an organized approach may be lacking.

Section 6: Information Technology

- Over 60% of respondents indicated their company has a formal policy concerning Internet use.
- About two-thirds have no way to monitor the time employees spend on the Internet.
- Only 16% have a formal policy concerning blogging.
- Executives, consistent with the 2007 results, continue to be less than confident about their ability to evaluate the competency and productivity of information technology staff.
- More than 30% of respondents indicate a strong likelihood of outsourcing production and maintenance of the company Web site, installation/setup of computer workstations, HR/payroll systems management, server maintenance, security systems, and computer programming.

What We Learned

The full report will show that, in many cases, the views are consistent from 2007 to 2008. This strengthens the validity of the data and shows that the issues identified are real and that Indiana executives take them seriously.

There are some views that have changed. Some are surprising and some are expected. Other changes are likely trends that will continue to evolve over time.

This study will be administered annually so that emerging trends and changes over time are monitored.

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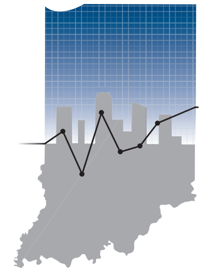


Background of the Project

Introduction

Indiana's top executives make decisions every day that ultimately affect all Hoosiers. They decide to grow or expand or to stay in Indiana or relocate their operations elsewhere, or whether they will lobby to support the state's initiatives or not.

Understanding their perspectives on a wide range of issues can help us all prioritize and focus on what is critical to the future of the state. For example, what specific issues challenge our top executives? Do they plan to add jobs or relocate their operations? How do they evaluate the state's business climate? Do they support Indiana's economic initiatives? What issues are becoming more important?

Inside INdiana Business, Ice Miller LLP and Butler University joined together in a unique partnership in 2007 to collect and disseminate information gathered from Indiana CEOs and other executive officers. The results reported here are from the 2008 administration of the survey.

The objective of this project is to identify key issues from the perspective of Indiana business leaders and to track these issues over time. The survey is conducted annually. Topics addressed include:

- General CEO business and economic challenges;
- Indiana's economic climate;
- The role of government in economic development;
- Human resources and diversity issues;
- Indiana's educational system; and
- Planning, managing and accessing information technology.

This report summarizes results of the second annual survey of this group.

Methodology of the 2008 Online Indiana Executive Survey

The 2008 survey was intentionally designed to replicate the 2007 survey. The 2007 survey was carefully designed based on extensive qualitative and secondary research. Since one main goal of the project is to track changes over time, most of the questions in 2008 were not changed from 2007. However, in a few cases we added questions on emerging issues, such as taxes, and on issues raised during discussions of the 2007 results, such as what businesses can do to help improve Indiana's educational system.

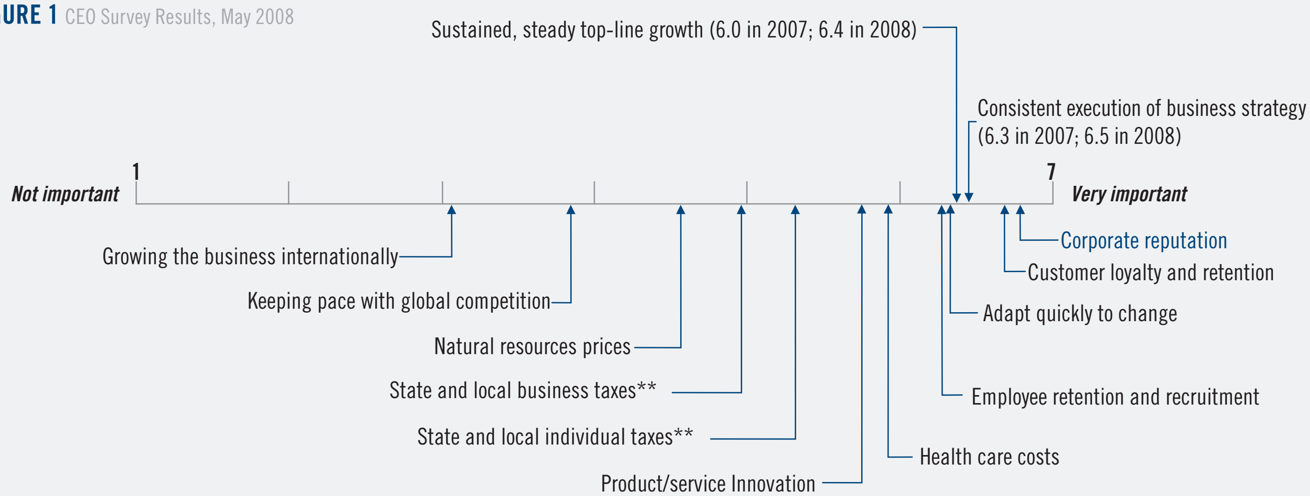
The revised questionnaire was administered online between March 5 and April 26, 2008. A total of 227 usable responses were received, which represents a slight increase over the 210 responses received in 2007.

A detailed description of the methodology can be found in Appendix 1 at the end of this report.

Section 1: CEO Challenges and Issues

The first section deals with several general issues raised by CEOs during the qualitative stage of the research in 2006 which were validated by the results of the 2007 CEO survey. In the first question, respondents were asked to rate the importance of 13 issues on a seven point scale ranging from “not important” to “very important.” Two new items addressing tax issues were added to the 2008 survey because of the high profile discussion of taxation in late 2007 and early 2008. Summary results are presented in Figure 1.

FIGURE 1 CEO Survey Results, May 2008



“Please rate the following issues in terms of their importance to you and your company.” (Q1)
*Variables shown above the scale are statistically different at 95% confidence from 2007 results.
**These variables not asked in 2007.

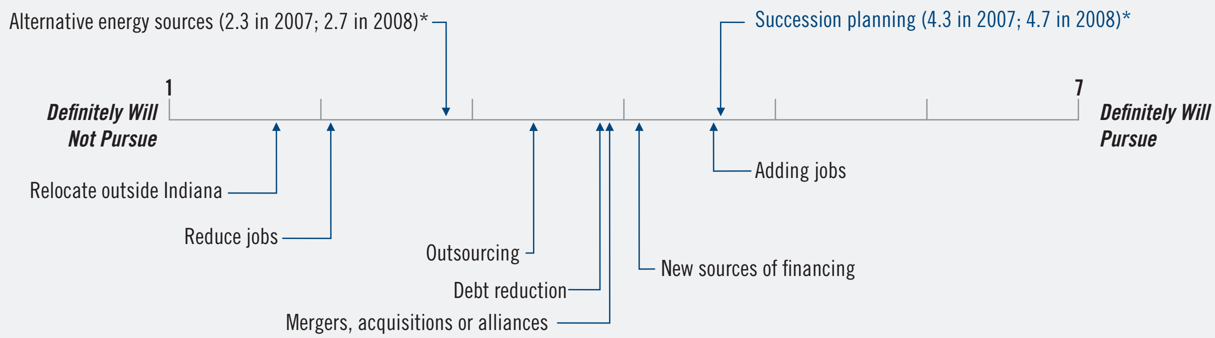
Note that most items receive importance ratings that are statistically equal to the ratings received in 2007. Once again, most issues are perceived to be very important, with “corporate reputation” and “customer loyalty and retention” topping the list. Two other issues see their ratings increase significantly from last year: “consistent execution of business strategy” and “sustained, steady top-line growth.” These both appear to deal with stability of challenging performance issues during these times of economic uncertainty.

The next grouping contains three issues: “natural resources prices” and the two new tax issues. Somewhat surprisingly, the two tax issues did not rate especially high despite the amount of press coverage and political discussion directed to these topics. Likewise, respondents rate “natural resources prices” as being of moderate importance, perhaps reflecting the perception that these are largely outside the control of an individual organization or company.

Once again, the two global issues: “growing the business internationally” and “keeping pace with global competition” are rated as being of relatively low importance. This might also be considered a surprising result given the large and increasing coverage of global issues in national business media outlets and industry trade publications. However, closer examination of the pattern of responses to these items indicates that, as was the case last year, the distribution of ratings is definitely bimodal. This means respondents tended to rate the issues at the extremes of the scale: some CEOs think global issues are of critical importance while the remainder think such issues are not relevant to their organizations.

The second question of this section asks how likely it is that an organization will engage in one or more of several possible activities. Summary results appear in Figure 2.

FIGURE 2 CEO Survey Results, May 2008



"Please rate how likely your company is to pursue each of the following in the next 18 months." (Q2)
*Variables shown above the scale are statistically different at 95% confidence from 2007 results.

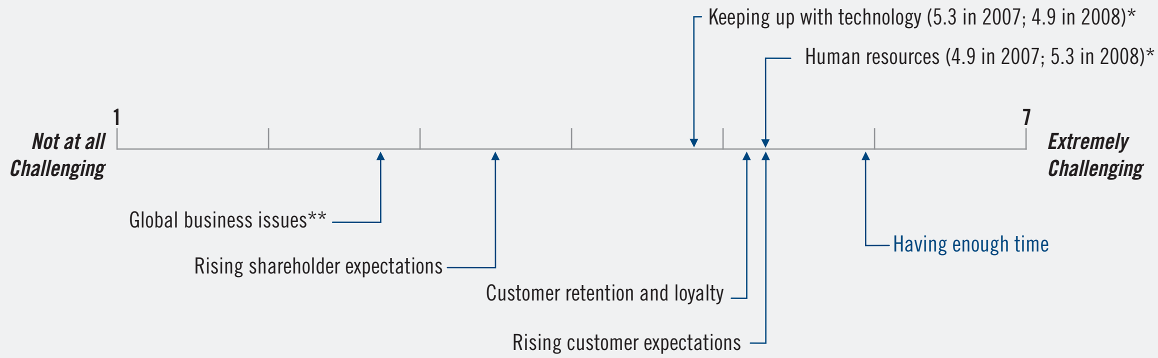
As in 2007, "succession planning" and "adding jobs" are the top two activities planned for the next 18 months. However, ratings for "succession planning" are significantly higher in 2008 than they were in 2007. Surprisingly, despite the economic slowdown which was evident even in the spring of this year, ratings for "adding jobs" remain as high as they were in 2007.

The next grouping of activities, "new sources of financing," "mergers, acquisitions or alliances," "debt reduction," and "outsourcing," are all rated near the midpoint of the scale and all remain unchanged from the 2007 CEO survey. Interestingly, the rating for "alternative energy sources" increased significantly over the past year.

Those activities rated as the lowest on the likelihood scale are "reduce jobs" and "relocate outside Indiana." Again, given the state of the economy, it is a bit surprising that job reduction is rated at about the same level as it was in 2007. Likewise, plans to relocate outside Indiana seem to be uncommon.

The third question of this section asks "how challenging" each of several issues are to executives and/or their organizations. Summary results appear in Figure 3.

FIGURE 3 CEO Survey Results, May 2008



"Please indicate how challenging you or your company find each of the following…" (Q3)
*Variables shown above the scale are statistically different at 95% confidence from 2007 results.
**These variables not asked in 2007.

"Having enough time" receives a rating of nearly six on our seven-point scale, making it the most challenging of seven issues from our respondents' perspectives. The rating of this item remains the same as last year.

The next grouping of challenges, "human resources," "rising customer expectations," "customer retention and loyalty," and "keeping up with technology," contains the same items as it did last year.

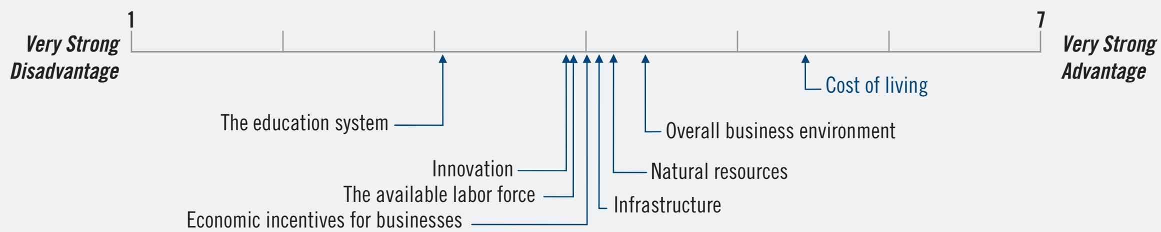
The two items receiving generally low ratings are "rising shareholder expectations" and "global business issues." Both of these items were also rated in the same relative positions in the 2007 study. However, as with the global items in question number one, there is a bimodal distribution of responses to the "global business issues" item, indicating that the issue is extremely challenging to some, while it is largely perceived as not challenging (or even relevant) to others.

We added an open-ended question (Question 4) in the 2008 survey to determine whether there are important issues on the minds of our respondents which are not reflected in the first three questions. Fifty-five, or 24%, of the respondents mentioned at least one item. There is very little overlap in the specific issues identified. However, of those responding to this question, 20% mention government and regulatory issues and 18% mention employee acquisition and/or benefits issues.

Section 2: Indiana's Economic Climate

The second section of the questionnaire deals with the economic and general business climate of the state. The first question of this section simply asks about the areas in which Indiana has a relative advantage or relative disadvantage compared to neighboring states (see Figure 4). There are no significant differences between results for 2008 versus the results for 2007.

FIGURE 4 CEO Survey Results, May 2008



"Compared to neighboring states, would you say that Indiana is at an advantage or disadvantage in the following areas…" (Q5)

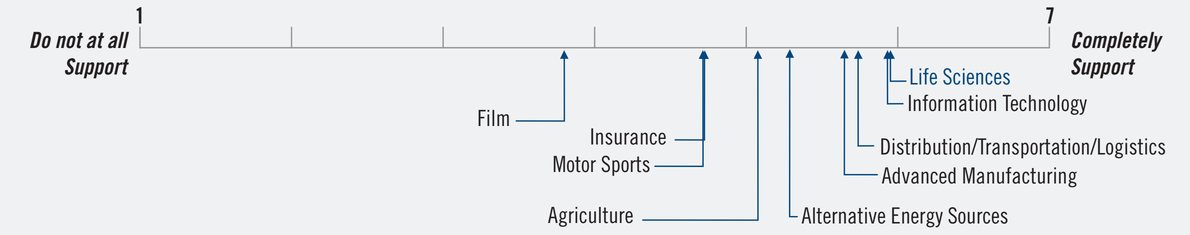
As was the case in 2007, most of the topics covered are grouped around the scale midpoint of "4," indicating that Indiana is perceived to be on par with surrounding states on these issues. Within this grouping of issues, "overall business environment" is above the midpoint by a statistically significant amount, while both "innovation" and "available labor force" are below the midpoint. Even so, the magnitude of these differences is relatively small.

"Cost of living" is perceived to be a strong advantage for Indiana, relative to nearby states. In fact, about half of the respondents rated "cost of living" as a "6" or "7." Only eleven (5.1%) of the 215 executives who responded to this question rated this issue as a "1," "2" or "3," indicating they perceive "cost of living" to be a disadvantage.

At the other side of the scale is the "education system." Once again, this is rated as a disadvantage for Indiana relative to surrounding states. While 15.4% did rate "education system" above the midpoint, only 4 respondents (1.9%) rate it as a "very strong advantage" (7). Given the response to this question and to other education questions in 2007, the 2008 CEO Survey included additional questions on this topic which are focused on some possible solutions to this low rating. These are discussed in Section 5 in this report.

Respondents were next asked to indicate their personal level of support for several state development initiatives. Figure 5 presents the results of that question. Again, all of the results this year are very close to the results for these same questions in 2007, indicating a high level of stability in these perceptions.

FIGURE 5 CEO Survey Results, May 2008



"The State of Indiana has identified the following economic development initiatives for Indiana. Please indicate how much you personally support these areas of focus." (Q6)

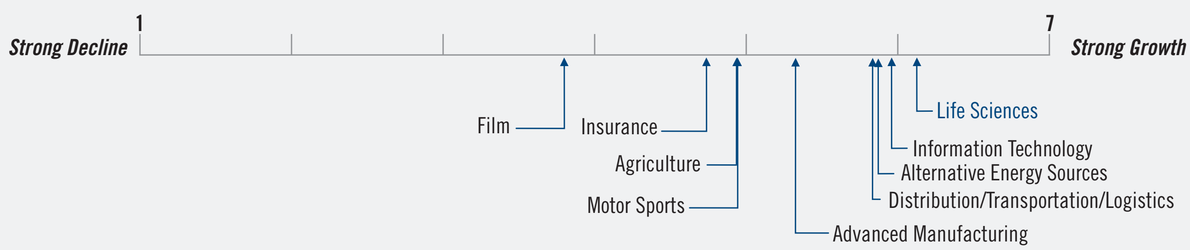
"Life sciences," "information technology," "distribution/transportation/logistics," and "advanced manufacturing" all receive a high level of support. In fact, only 10% or fewer of the respondents rate any of these below the scale midpoint of "4," while one-third or more "completely support" each of these initiatives.

"Alternative energy sources," "agriculture," "insurance," and "motor sports" also receive support, with 75% or more of our respondents rating each of these at or above the midpoint. "Motor sports" has the largest standard deviation of any of the initiatives presented, indicating that it has the widest "spread" in ratings.

Even "film," the initiative with the least support, seems to have a significant minority (30.8%) rating the issue above the midpoint. Only about one in ten (9.8%) indicate they "do not at all support" this initiative by giving it a "1."

In a related question, respondents were then asked whether they expected these industries to grow or decline over the next few years (see Figure 6). Once again, these results are statistically indistinguishable from the results received in 2007.

FIGURE 6 CEO Survey Results, May 2008

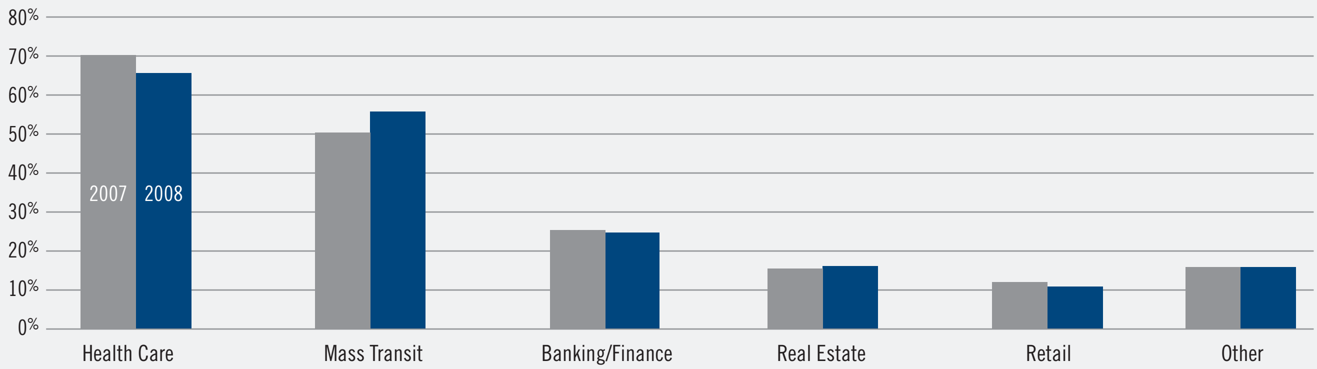


"Please indicate how much you expect the following industries to grow or decline over the next few years." (Q7)

As we might expect, there is a strong relationship between a respondent's rating for an item on this question and the same respondent's rating for the same item on the previous question. In fact, in ratings for only three of the items do mean ratings differ between Figure 5 and Figure 6: "life sciences," "alternative energy," and "advanced manufacturing." For the first two of these items, the expected growth is significantly higher than is the personal support for the items. On the other hand, mean expected growth for "advanced manufacturing" is significantly lower than is the personal support for that initiative, perhaps indicating that respondents do not expect state initiatives supporting this industry to be as successful as the other initiatives.

The final question in this section asks executives which initiatives should be added as an area of focus for the state of Indiana. Please see Figure 7 for responses to this question.

FIGURE 7 CEO Survey Results, May 2008



"Which of the following initiatives, if any, do you think the state of Indiana should add to its focus? (select all that apply)" (Q8)

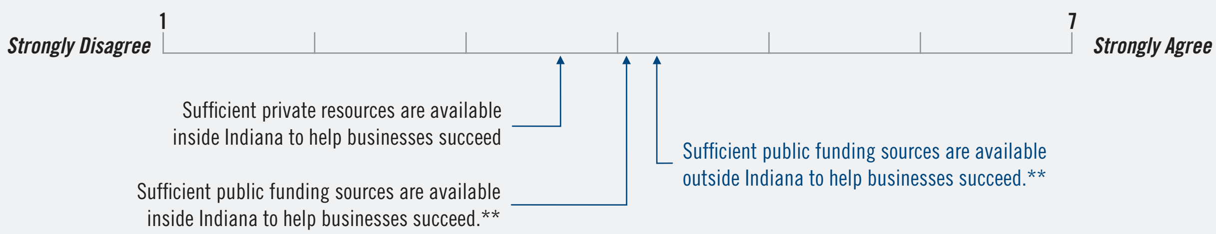
There seems to be broad support (65.7%) among our respondents for the state to add "health care" as a focus for economic development efforts. As was the case last year, a slight majority (53.7%) also favors adding a "mass transit" initiative as well. Though it may appear that support for health care is falling and support for mass transit is increasing, neither change is statistically significant. And once again, "banking/finance," "real estate," and "retail" received support from significant minorities of survey respondents.

Section 3: State's Role in Economic Development

The third section of the questionnaire is closely related to the previous section and focuses on the state's performance as an economic development catalyst. Please note that several of the questions are reworded versions of 2007 questions and thus direct year-to-year comparisons are sometimes problematic.

The first question of this section asks respondents about their perceptions of the availability of public and private financial resources to help businesses succeed (see Figure 8). Please note that respondents were provided with some clarification of what is meant by public and private resources.

FIGURE 8 CEO Survey Results, May 2008

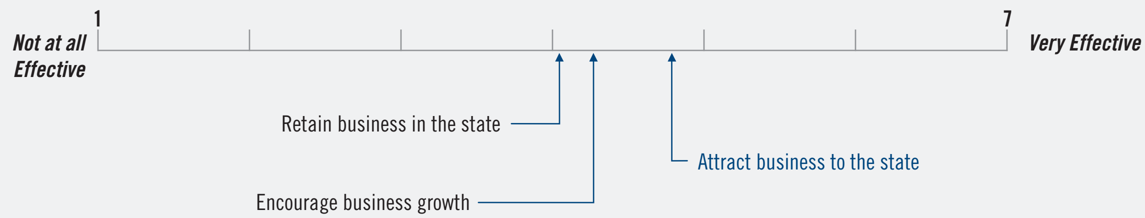


"Please rate how much you agree or disagree with the following statements…" (Q9)
**These variables not asked in 2007.

All three potential funding sources are rated near the midpoint of the seven-point scale, indicating that respondents are neither especially enthusiastic nor especially negative about the availability of funding resources. Respondents agree slightly that public funding resources, both inside and outside Indiana, are "sufficient," and disagree slightly that private funding resources are "sufficient." Interestingly, in-state public funding resources are not seen to be as sufficient as out-of-state public funding resources.

The next question of this section simply asks respondents to rate the state's effectiveness in encouraging business growth, attracting business to the state, and retaining business in the state. Results from this question appear in Figure 9.

FIGURE 9 CEO Survey Results, May 2008



"How do you rate the effectiveness of government in Indiana to…" (Q10)
**This question not asked in this way in 2007.

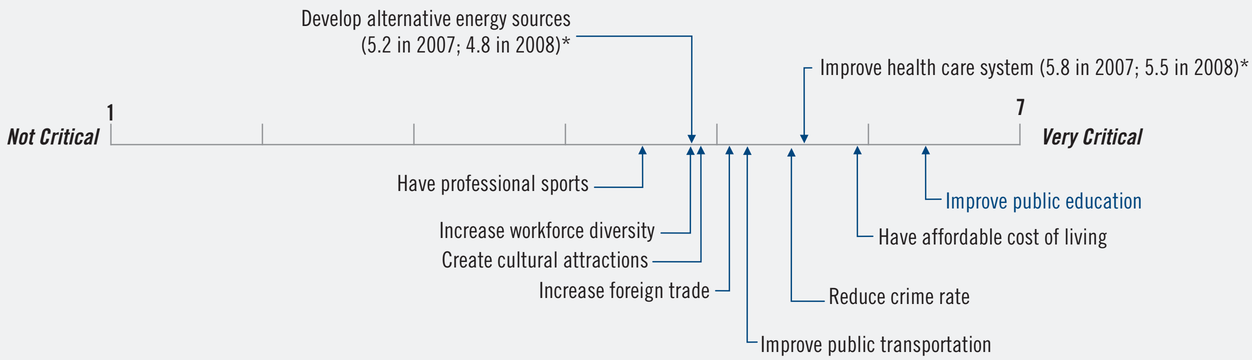
Respondents perceive the state to be somewhat effective in attracting business to the state, somewhat less effective in encouraging business growth, and even less effective in retaining business in the state (although the difference between these last two is not statistically significant). About 65% of the respondents rated "attract business to the state" above the midpoint of "4," while 50% or fewer rated the other two items above "4." Few rated the state a "1" or a "7" on any item, indicating respondents do not have especially strong feeling about this issue.

There are very small, but statistically significant, negative correlations between the likelihood of relocating outside Indiana from Question 2 and both "retain business in the state" and "encourage business growth." This means that the lower a respondent rates the effectiveness of state government in retaining business or encouraging business growth, the more likely the respondent is to report plans to relocate outside Indiana. This relationship was not present in the 2007 data.

Responses to these items are not related to plans to add or reduce jobs. See Figure 2.

The final question in this section asks respondents to rate the importance of several public policy issues for Indiana's economic development. Summary results are presented in Figure 10.

FIGURE 10 CEO Survey Results, May 2008



"Please rate how critical you believe each of the following is to Indiana's future economic development." (Q11)
*Variables shown above the scale are statistically different at 95% confidence from 2007 results.

Quality of life issues top the list of areas critical to Indiana's future economic development, though the ordering of these issues is different than it was in 2007. As was the case last year, "improve public education" is clearly the number one issue. In fact, 59% rate "improve public education" a "7," while only 33% give this rating to the second most critical issue, "have affordable cost of living." Section 5 addresses education in depth. "Improve health care system" dropped from second to being tied for third on this list. "Reduce crime rate" remained stable since 2007.

Next on the list of issues are "improve public transportation," "increase foreign trade," and "develop alternative energy sources." Last year, there was no difference in the rating for "improve public transportation" between those who live in central Indiana versus those living outside central Indiana. This year, however, those in central Indiana rate "improve public transportation" significantly higher than those living elsewhere. Perhaps fuel cost increases and resulting discussion about mass transit around Indianapolis have had a disproportionate impact on central Indiana executives.

Despite the continuing fossil fuel debate, "develop alternative energy sources" has dropped significantly from the 2007 survey. While this decrease is consistent with the drop noted in Figure 2, it is still surprising given the pattern of responses to other questions in the survey.

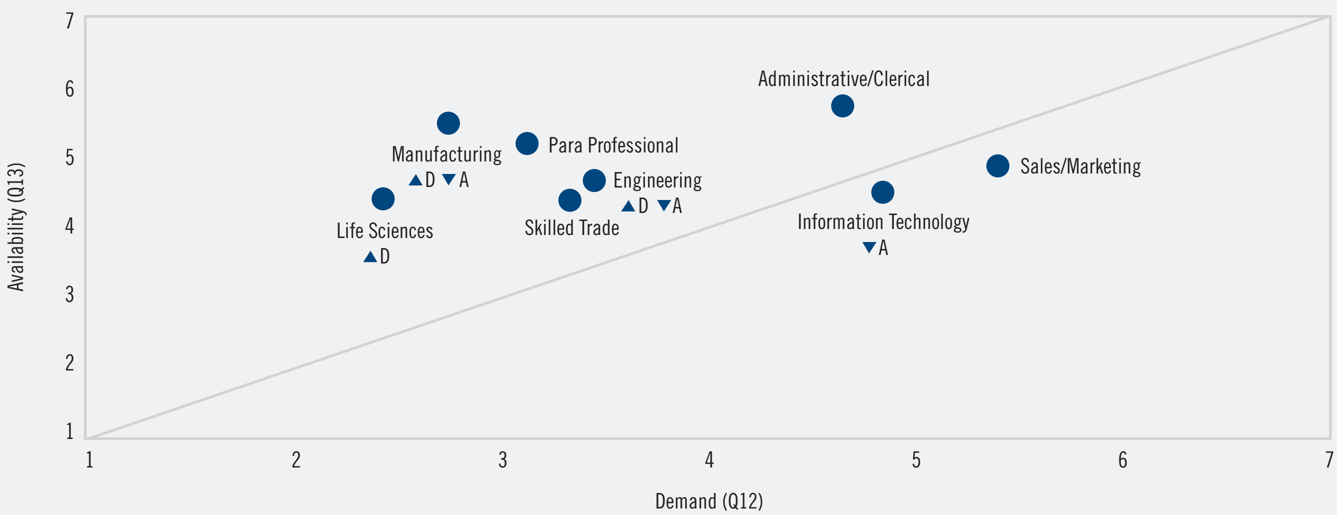
The lower-range cluster of issues includes "create cultural attractions," "increase workforce diversity," and "have professional sports," though it should be noted that even these three issues are rated above the scale midpoint. While these three issues seem to receive attention in the popular press, they are perceived as being least critical of the issues presented. Two of these, professional sports and cultural attractions, have been identified as being important for attracting a talented workforce to an area so it may be a bit surprising to see them ranked where they are. Workforce diversity is one of the key areas addressed in the next section.

Section 4: Human Resources and Diversity

The fourth section of the questionnaire asks respondents their opinions about the demand for and availability of specific types of workers, employee-related areas of concern, and workplace diversity.

The next two questions ask about the demand for and availability of specific types of workers. Results of responses to both questions appear in Figure 11.

FIGURE 11 CEO Survey Results, May 2008



"In the next five years, how much of a demand do you anticipate your company will have for the following types of workers?" (Q12)
"How would you rate the availability of the following types of workers?" (Q13)
*Variables shown in bold (blue) are statistically different at 95% confidence from 2007 results.
▲D or ▼D indicates workforce demand that is statistically higher (▲)or lower (▼) at 95% confidence than 2007 results.
▲A or ▼A indicates workforce availability that is statistically higher (▲) or lower (▼) at 95% confidence than 2007 results.

Note that responses to Question 12 regarding demand appear on the horizontal axis while responses to Question 13 regarding availability appear on the vertical axis. The presentation of responses to both questions in a single graph allows the reader to simultaneously assess perceptions of demand and availability. However, it is worth emphasizing that the questions are somewhat asymmetrical in that Question 12 asks about demand for a type of worker by the respondent's organization specifically, not demand for that type of worker in general, whereas Question 13 implies a more general availability for that type of worker.

The diagonal line represents an exact match between perceptions of demand and availability. Worker types above the line would represent those for which perceptions of availability exceed perceptions of demand, while those below the line indicate a perception of demand exceeding availability.

It should be apparent that availability for all types of workers is perceived to be relatively high, ranging from means of about 4.2 (life sciences) to about 5.2 (administrative/clerical). However, there is significantly wider variability in perceived demand, ranging from a low of about 2.4 (life sciences) to a high of about 5.1 (sales/marketing).

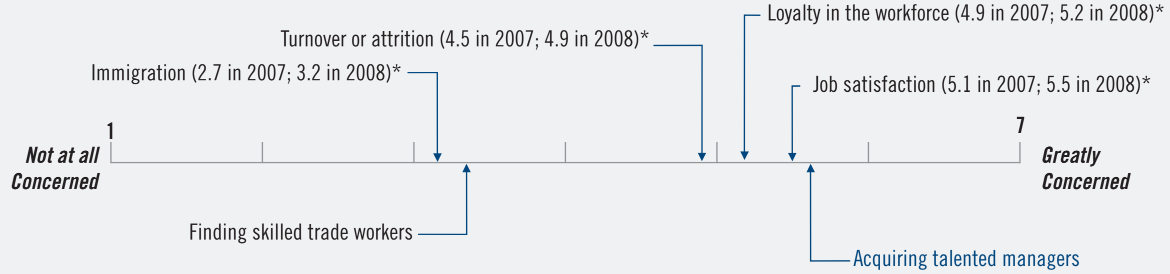
According to Figure 11, respondents believe that demand will slightly exceed availability for sales/marketing and information technology workers. Availability is expected to slightly exceed demand for administrative/clerical workers, engineers, and skilled trades workers. Respondents expect availability to exceed demand by a wider margin for workers in the life sciences, para-professional and manufacturing classifications.

Apparent "mismatches" between availability and demand may be due to a variety of factors including a potential under-representation in our sample of organizations that are likely to employ specific types of workers. In other words, one should definitely not conclude that within the state as a whole, there will be a surplus of workers in categories above the diagonal line.

Finally, it is interesting to look at the changes in ratings from last year to this year. Most significantly, there has been a drop in the perceived availability and an increase in the perceived demand of engineering and manufacturing workers. Although both professions are still above the diagonal line (signifying that availability exceeds demand), a continuation of this trend may indicate a potential tightening of labor markets for these professions. There has also been a decrease in perceived availability of information technology workers, and an increase in the perceived availability of life science workers.

The next question asks executives to rate their level of concern with each of several issues related to the organization and its workforce. Responses to this question appear in Figure 12. Note that concern is significantly higher for four of the six issues compared with the 2007 ratings.

FIGURE 12 CEO Survey Results, May 2008



"Please indicate how concerned you are about the following issues, as they impact your company and its workforce." (Q14)
*Variables shown above the scale are statistically different at 95% confidence from 2007 results.

"Acquiring talented managers" remains the highest rated item as a workforce concern, though it must now share that ranking with "job satisfaction." Also high on the concern scale are "loyalty in the workforce" and "turnover or attrition."

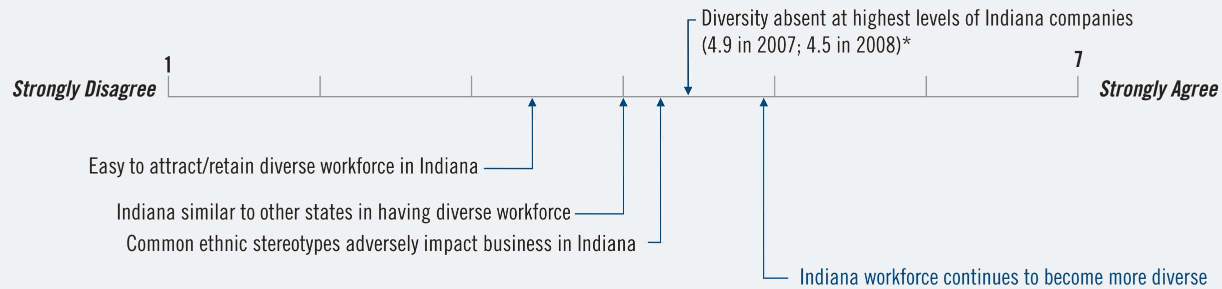
"Acquiring talented managers" receives a significantly higher rating from respondents outside of central Indiana (6.0) than from those in central Indiana (5.5), perhaps indicating some difficulty in attracting managers outside of the Indianapolis metropolitan area. Likewise, larger companies are more concerned with hiring managers than are smaller companies (5.8 versus 5.3). Women executives express a higher level of concern with hiring managers than do their male counterparts (6.1 versus 5.5).

While "job satisfaction," "loyalty in the workforce," and "turnover or attrition" are all rated moderately high across all respondent groups, larger companies appear to be significantly more concerned with "job satisfaction" and "turnover or attrition" than do smaller companies.

"Finding skilled trade workers" and "immigration" both receive ratings below the scale midpoint indicating these issues are of less concern to our respondents. These concerns are more important to larger companies than they are to smaller companies. Respondents outside central Indiana once again register higher levels of concern than do central Indiana respondents on the issue of finding talented workers, in this case, skilled trade workers.

The final question in this section addresses diversity (see Figure 13 for mean responses). Perceptions of diversity issues in Indiana workplaces appear to be mixed with some apparently seeing improvement on this front while recognizing Indiana organizations still have much room for improvement.

FIGURE 13 CEO Survey Results, May 2008



"How much do you agree or disagree with the following statements about diversity?" (Q15)
*Variables shown above the scale are statistically different at 95% confidence from 2007 results.
Note: These statements are paraphrases of original statements.

All statements receive ratings statistically equivalent to ratings received last year with one exception. Overall, respondents agree to a lesser extent that diversity is absent at the highest levels of Indiana companies. It is unclear whether this decrease is due to an actual increase in diversity in Indiana organizations, a perception of an increase, or perhaps due to increased visibility of diverse business and organizational leaders. In addition, respondents tend to agree that the "Indiana workforce continues to become more diverse."

However, on average, respondents seem to only slightly agree that "common ethnic stereotypes adversely impact business in Indiana" and slightly disagree that it is "easy to attract/retain a diverse workforce in Indiana." These results indicate a recognition that Indiana has much room for improvement on these issues.

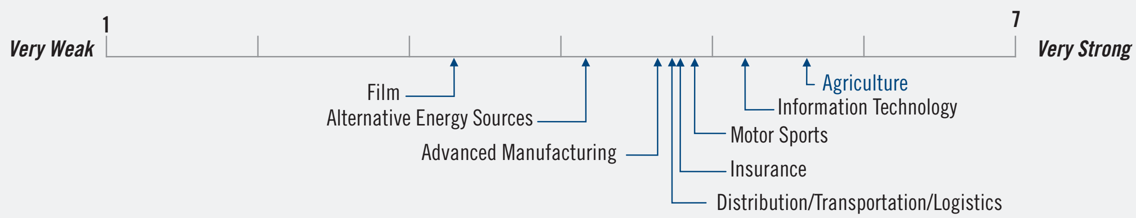
5

Section 5: Education

The fifth section of the questionnaire asks respondents their opinions about education both in general and in terms of its ability to serve the needs of the business community.

The first question of this section asks about the strength of educational programs that train people to work in specific industries, most of them associated with the state economic development initiatives. Results for this question appear in Figure 14.

FIGURE 14 CEO Survey Results, May 2008



"How would you rate the strength of educational programs in Indiana that train people for work in the following areas?" (Q16)

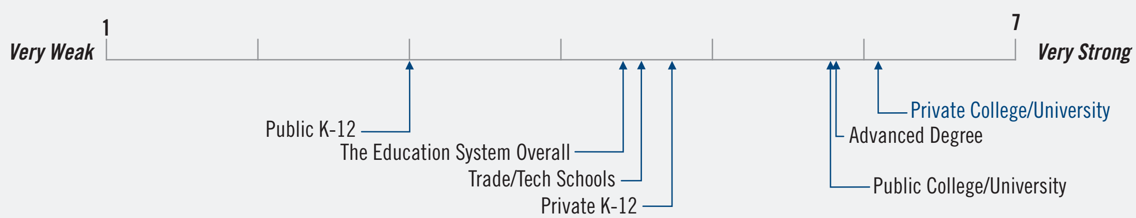
Ratings for all eight educational program areas are statistically equivalent to the ratings from 2007, indicating that perceptions of these programs remain stable. Once again, "agriculture" and "information technology" are perceived to be moderately strong, while "film" is perceived to be moderately weak. Mean ratings for all other programs are just above the scale midpoint of "4," indicating slightly positive perceptions of these programs.

Respondents from central Indiana rate several of the programs higher than do their non-central Indiana counterparts: "information technology," "motor sports," "insurance," and "distribution/transportation/logistics."

It is important to consider that large minorities of respondents indicate they are unsure about how to rate specific programs. A low of 10.6% indicate they are unsure about the rating for "information technology," while nearly half (45.4%) say they are unsure about how to rate the strength of "film" educational programs. In short, the results presented reflect the averages of those who expressed an opinion, not the ratings of the entire sample.

The next question asks respondents to rate the various levels of Indiana's educational system on a scale from "very weak" to "very strong." Responses appear in Figure 15.

FIGURE 15 CEO Survey Results, May 2008



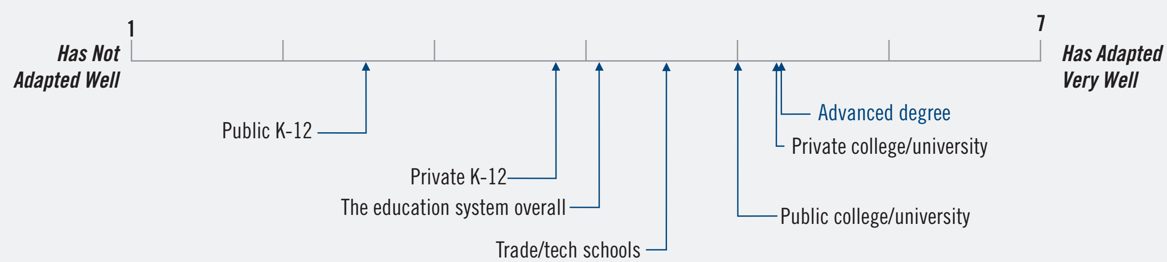
"How do you rate Indiana's educational system at the following levels?" (Q17)

All ratings are consistent with last year's ratings, and there is once again wide variance in the average ratings of Indiana's different educational levels. Undergraduate and graduate education, both public and private, is perceived to be very strong. Public elementary and secondary education is perceived to be weak. Private primary and secondary education, as well as trade and technical education, is rated near the middle of the scale. Unlike the previous question, very few respondents are "unsure" about their ratings for any educational level. In addition, these ratings appear to be consistent based on organization size, revenue, location, executive education level, and gender; therefore, we can conclude the perceptions are widespread and not traceable to any particular group of respondents.

When asked to rate the "education system overall," it appears that respondents were most heavily influenced by their perceptions of public primary and secondary education. This may be due to the large amount of publicity this level of education has received over the past several years as ISTEP, No Child Left Behind, and other initiatives have been implemented. Most coverage in mass media has focused on performance problems of city school systems, and such coverage may be driving these perceptions. However, once again, there are no statistically significant differences between those from central Indiana versus those outside central Indiana for any of the levels tested.

Next, respondents were asked to rate how well these same educational levels have adapted to a changing business climate in recent years. See Figure 16 for mean responses.

FIGURE 16 CEO Survey Results, May 2008



"How well do you feel that Indiana's educational system at the following levels has adapted to the changing business climate in recent years?" (Q18)

Perceptions of adaptation are statistically equivalent to the 2007 perceptions indicating stability over time. Also, it is clear that ratings of adaptability mirror the relative ratings of educational strength presented in the previous figure, with colleges and universities being perceived as adapting well and public primary and secondary education being perceived as not adapting well. All adaptability ratings are slightly lower than are strength ratings indicating perhaps that our respondents believe all levels of education could improve the degree to which they adapt to the changing business climate.

Because educational issues were rated as "critical" to Indiana's future economic development and were perceived as a "big disadvantage" for the state relative to surrounding states in last year's survey, the 2008 survey included additional questions on this topic (Questions 19–23).

First, respondents were asked: "What do you and your business have to offer to schools that would possibly help yield the results you seek from K-12 schools?" Nearly half (47.6%) responded with at least one suggestion. As might be expected, there were a wide variety of responses offered. The two most common responses were offers of internships and mentoring programs.

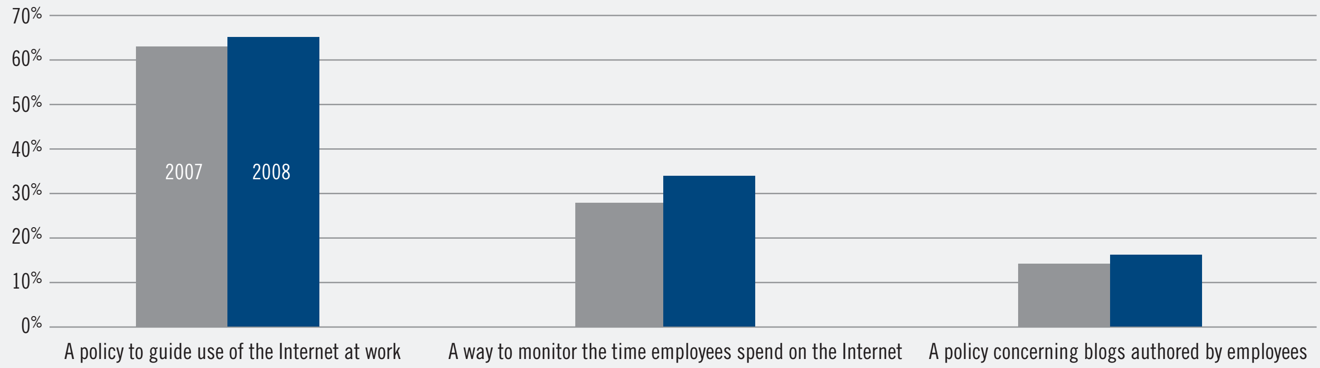
Next, we attempted to get some idea of the degree to which these business leaders were personally involved in the education system. Over half (57.1%) were engaged as a volunteer in either public or private schools, or had some other specific form of involvement (other than simply being the parent of a student attending school). Level of engagement does not appear to be related to region, gender or level of education of the respondent. There does, however, appear to be some relationship to age, with those 50 and younger, or 70 and older, being more engaged with K-12 schools.

These two questions seem to indicate that the business community is both professionally and personally active in improving Indiana's schools, though it appears that these efforts might not be coordinated as well as they could be. We plan to continue evaluating the data associated with this issue.

Section 6: Technology

The final topical section of the survey focuses on technology. Questions focus broadly on management of information technology functions and likelihood of outsourcing those functions in the future. Question 24 asks about company policy regarding the Internet. Responses appear in Figure 17.

FIGURE 17 CEO Survey Results, May 2008



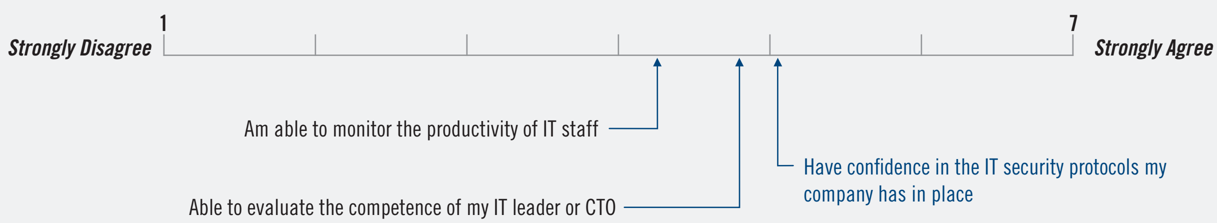
"Does your company have any of the following in place regarding use of the Internet? (select all that apply)" (Q24)

Note once again that there are no significant differences between 2007 and 2008.

A majority of respondents (63.6%) report that their organization has a formal policy to guide use of the Internet at work. About one-third (33.5%) have a way to monitor the amount of time employees spend on the Internet, and about 16% have a policy concerning blogs authored by employees. Larger companies are significantly more likely than smaller companies to answer "yes" to each of the three questions. It is unclear whether lack of perceived need or high associated costs or some other reason is responsible for the low percentage of companies engaging in the latter two practices.

The next question asks about information system security, productivity, and evaluation. Results appear in Figure 18.

FIGURE 18 CEO Survey Results, May 2008



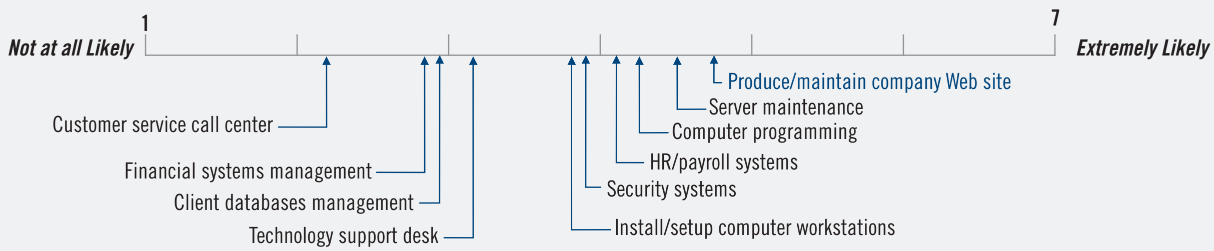
"How much do you agree or disagree with the following statements about information technology at your company?" (Q25)
Note: These statements are paraphrases of original statements; see original questionnaires for actual wording.

Mean responses indicate weak to moderate agreement with each of the statements. Executives appear to have more confidence in their organizations' information technology protocols than in their personal abilities to evaluate the competence of information technology managers or the productivity of information technology staff. Again, these agreement levels are similar to those expressed last year to these same questions, and again, it seems that executives are not particularly confident in their abilities to monitor this important function.

Levels of agreement appear to be similar across organization size, sales level and location. In addition, levels of agreement do not vary by education level of the executive.

The final question in this section asks about the likelihood of outsourcing a variety of information technology functions within the next year and a half. Figure 19 presents summary responses to this question.

FIGURE 19 CEO Survey Results, May 2008



"Over the next 18 months, how likely is your company to outsource the following information technology functions?" (Q26)

"Production/maintenance of company Web site" and "server maintenance" are the only two information technology functions which have mean likelihood ratings above the scale midpoint. Four functions, "technology support desk," "client databases management," "financial systems management," and "customer service call center," have means significantly below the scale midpoint. The remaining functions are clustered around the midpoint.

However, if we look at disaggregated data, a slightly different picture appears. Most of these items have bimodal distributions in which respondents tend to answer at one end of the scale or the other (with relatively few answering near the mean). Thus, sizable minorities indicate strong likelihoods (a "6" or a "7" on the scale) for outsourcing many of these functions. Specifically, more than 30% of our respondents indicate a strong likelihood of outsourcing "production/maintenance of company Web site," "installation/setup of computer workstations," "HR/payroll systems management," "server maintenance," "security systems," and "computer programming."

Description of the Respondents and Their Organizations

The final section of the questionnaire solicited additional information which describes the respondents and the organizations for which they work. Detailed results of this section of the survey may be found in Appendix 2 (Respondent Characteristics). In general, the profile of respondents to the 2008 survey is identical to the profile of respondents to the 2007 survey. The only two differences are 1) there are fewer "health care" organizations in 2008 versus 2007 (2.4% versus 12.2%, respectively); and 2) there are fewer firms with less than 25 employees in 2008 versus 2007 (41.0% versus 54.3%, respectively). The first of these may simply be an artifact of changes in methodology (for example, in 2008 we required the respondents to pick a single industry classification, while in 2007 we allowed respondents to pick multiple industry classifications). The second is likely a real change and might reflect our efforts to recruit large firms to the study.

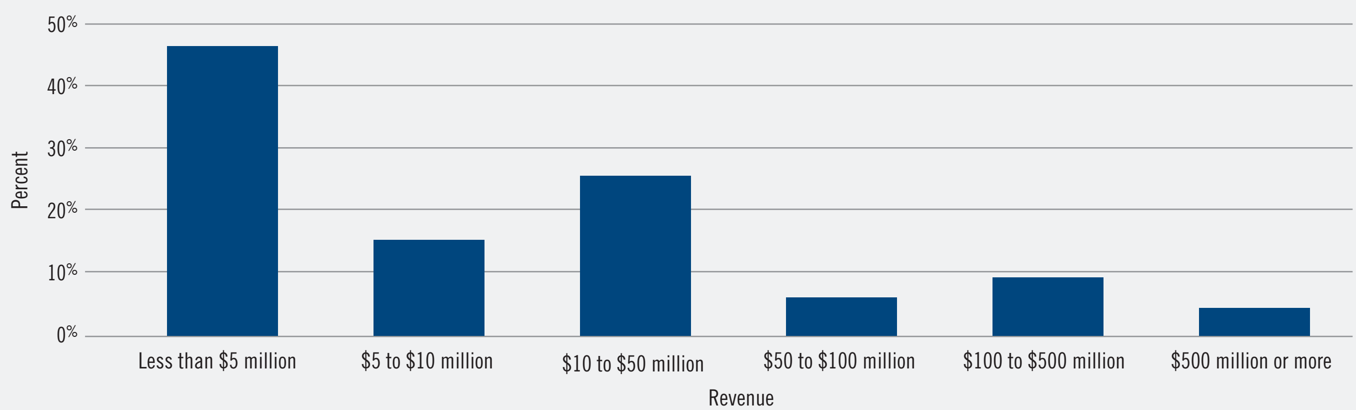
Organizational Characteristics

Respondents represent a wide range of industries but a relatively concentrated geographic area. Key industries represented include: professional services (20.5%), manufacturing (13.7%), not-for-profits (14.6%), information technology (5.4%), construction/skilled trades (5.4%), life sciences (4.9%), and logistics (4.4%). No other industry was represented by more than 4% of our respondents.

Slightly over three-fourths (77.1%) of respondents are from organizations headquartered in central Indiana. The remaining respondents are from organizations elsewhere in Indiana, indicating a potential for geography-based bias in the reported results.

About 45% of our respondents are from organizations with revenues of less than $5 million, while about 4% have revenues exceeding $500 million. See Figure 20.

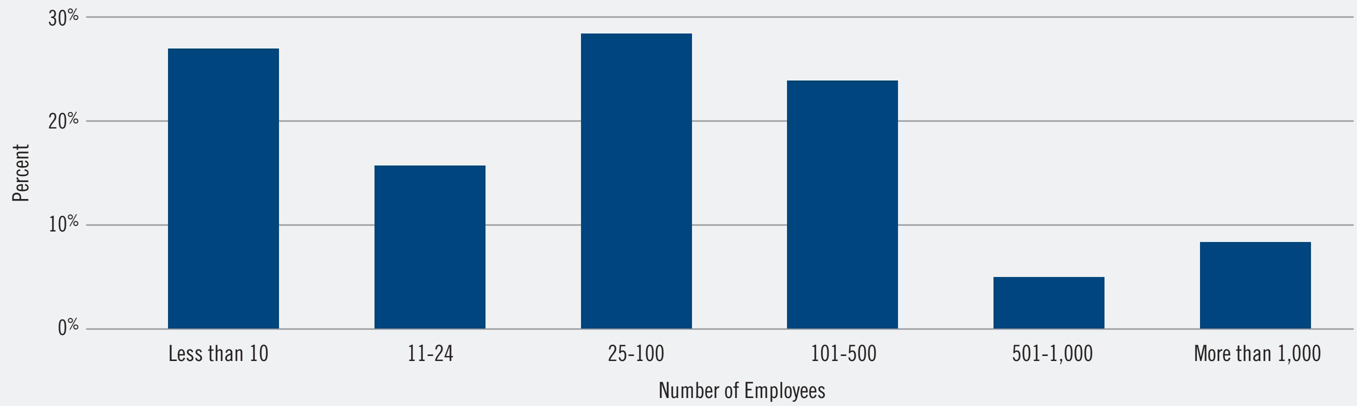
FIGURE 20 CEO Survey Results, May 2008



"What was your company's 2006 revenue?" (Q30)

A similar pattern emerges when looking at the number of employees: about one-quarter have fewer than 10 employees and just over 7% have more than 1,000 employees. Figure 21 presents these data.

FIGURE 21 CEO Survey Results, May 2008



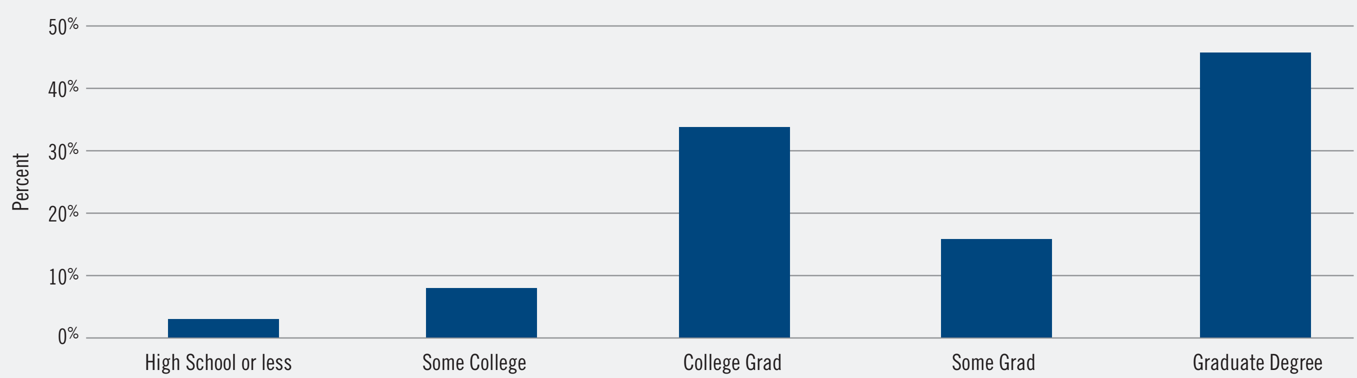
"How many people does your company employ?" (Q31)

Respondent Characteristics

Individuals who responded to this question primarily have job titles associated with chief executive status such as CEO, president or owner (93.2%). Small minorities are in positions titled managing director or partner (5.8%) or chief operating officer (1.1%). About half (51.2%) have held their position for more than 10 years, while about one-quarter (22.4%) have held their position for less than 5 years. Three-quarter are male (78.5%).

The group is highly educated. About four in ten (40.5%) have graduate degrees, 14.1% have completed at least some graduate schooling, and 32.7% have completed an undergraduate degree as their highest level of education. See Figure 22 for a complete summary of respondent educational levels.

FIGURE 22 CEO Survey Results, May 2008



"What is your highest level of education?" (Q39)

Respondents report working just over 50 hours per week on average, with 25.4% working more than 60 hours per week. Virtually all respondents (99.5%) also report taking at least some vacation days, with the majority taking between 6 and 15 business days off per year. Sixty-four percent report having a commute time of less than 20 minutes.

Long Term Outlook

We plan to continue repeating this survey annually so that we may identify and track changes over time. While the basic structure and content of the survey remains constant, we plan to make the project even more useful by implementing a few modifications.

First, we plan to continue increasing the sample size by expanding the number and variety of sources containing required contact information. A larger sample will enable us to conduct more robust subgroup analyses.

Second, we will attempt to increase the geographic representation of the sample. This will enable us to assess more accurately the degree to which there are or are not significant and systematic regional differences within the state of Indiana.

Third, we will continue to make a few alterations to the questionnaire itself. Some of the new questions will reflect new issues as they arise, and others will provide more usable information by altering response categories to reflect actual variations in the population.

Finally, since so many of the responses were extremely consistent from 2007 to 2008, we believe that many collective opinions are stable or change very slowly. Thus, we will begin to ask some questions every other year. This will shorten the questionnaire substantially and should make the task of responding less onerous.

Appendix 1
Methodology

Qualitative Research

In fall of 2006, MBA students at Butler University conducted the qualitative research needed to focus and develop the study. These students analyzed two CEO weblogs hosted by Inside INdiana Business, observed a quarterly CEO roundtable discussion, and conducted in-depth interviews with Indiana CEOs. The information gathered was used to identify issues of concern to Indiana executives.

Simultaneously, students gathered secondary information about the Indiana business environment from a variety of governmental and private sources. This information included descriptive information of companies (e.g., number of employees, revenues), as well as information about industry classifications and geographic distribution of organizations.

Quantitative Research

A total of 1,187 CEOs and executives of Indiana-based organizations were identified and comprised the sample frame for this project. Potential respondents were identified from a variety of sources including a database maintained by Ice Miller, as well as a list of other potential respondents identified by members of the project steering committee. Inside INdiana Business contacted each potential respondent by e-mail, requested their participation in the project, and provided a link to the online survey.

Of the original sample frame, 165 of the e-mails distributed were returned as "undeliverable" for a wide variety of reasons including a non-functioning e-mail address, a full inbox, a "spam" filter bounce, etc. Additional contacts were directed to those who originally had undeliverable e-mails with functioning e-mail addresses. Of the 1,082 usable e-mail addresses, we obtained 227 responses yielding a response rate of 21%.

Most of the 227 who responded to the request to participate actually completed the survey. Two hundred five respondents answered all questions.

Several caveats are necessary for interpreting survey results. First, the original sample frame was not a complete and accurate listing of all CEOs of Indiana-based organizations and thus the resulting convenience sample may not provide an accurate representation of all CEOs of Indiana-based organizations. As the project continues to expand, the sampling frame will become more complete and thus the sample should become more representative over time.

Second, because the sample may not be technically representative in a statistical sense, computations of statistical significance are presented for illustrative purposes only. A formal discussion of statistical significance in this context follows.

Finally, we have not conducted a formal assessment of nonresponse bias associated with the obtained sample, so those who responded may be systematically different from those who did not.

Despite the limitations of this second iteration of the Indiana CEO/Executive Officer Survey, we believe the results will prove useful in multiple regards. First, the project provides a "snapshot" of issues of concern to Indiana's corporate leaders. Thus, it can provide a platform for discussion and analysis of a wide variety of topics critical to the economic future of the state.

Second, while there may be large error ranges around reported parameter estimates, the relative rankings of key variables are probably accurate. For example, while the reported mean importance rating of 6.73 for "corporate reputation" may actually be higher or lower in the total population, it is clear that "corporate reputation" has a higher perceived importance level than does "natural resource prices" to Indiana CEOs and other executive officers.

Third, this is the second in a series of annual reports focused on Indiana CEOs. One key strength of this endeavor is the ability to track changes over time and thus to focus future discussions on trends rather than on one-time observations. This should make the project more valuable to policy makers and strategists.

Technical Notes on Statistical Significance

The term "statistical significance" is often misunderstood by managers and other policy makers. This misunderstanding seems to be rooted in two sources: confusion about the technical statistical meaning of the term and confusion surrounding the word "significance."

First, the term statistical significance simply refers to information obtained from a sample which we have reason to believe is different from information that we may have obtained by chance alone. For example, if we say that high revenue companies are statistically significantly more likely than are lower revenue companies to pursue alternative energy sources (Question 2 in the survey), we are saying two things: 1) in our sample, the mean response for high revenue companies is higher than it is for low revenue companies; and 2) that this difference is likely due to a REAL difference between high and low revenue companies. In other words, we are not just "unlucky" in our choice of who to talk to in each group and therefore, have obtained results which are really not true. Several factors influence statistical significance including how sure we want to be that we are finding real differences or real relationships, how large the sample is, and the actual survey results.

Statistical significance is thus about making inferences from a sample to a population. To make such inferences accurately, we need to have a randomly selected sample from a population of interest. In this project, our sample is not random because we did not have access to an accurate listing of all Indiana CEOs (an accurate population listing). Thus, it is not possible to determine statistical significance in a formal sense. However, we have reported "statistical significance" for our results as if we had obtained a truly random sample in order to highlight results which we believe have a higher likelihood of being "real."

Second, there is a difference between "statistical significance" and "managerial significance." Managers often think that if a difference is "statistically significant," it is somehow necessarily important and deserving of managerial attention. This may or may not be true. We use the term "managerial significance" to mean that a manager ought to consider the information in making some decision. While a piece of information must be statistically significant before it can be considered to be managerially significant, not all statistically significant information is of managerial significance. For example, if we were using an extremely large sample, even small and relatively meaningless differences would be "statistically significant." In many circumstances, it would be a mistake for managers to make decisions based on such information because although it is "real," it is too small to be of practical value. In short, a piece of information needs to be statistically significant before it can be considered managerially significant, but not all statistically significant information is managerially significant. Managers must exercise judgment in deciding when to use or ignore statistically significant information.

Appendix 2
Respondent Characteristics

Table 1: Corporate Revenue

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than $5 million	92	40.5	44.9	44.9
	$5 million to $10 million	30	13.2	14.6	59.5
	$10 million to $50 million	49	21.6	23.9	83.4
	$50 million to $100 million	11	4.8	5.4	88.8
	$100 million to $500 million	15	6.6	7.3	96.1
	More than $500 million	8	3.5	3.9	100.0
	Total	205	90.3	100.0	
Missing	System	22	9.7		
Total		**227**	**100.0**		

Table 2: Respondent Time in Current Job

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	46	20.3	22.4	22.4
	5 to 9	54	23.8	26.3	48.8
	10 to 15	32	14.1	15.6	64.4
	More than 15	73	32.2	35.6	100.0
	Total	205	90.3	100.0	
Missing	System	22	9.7		
Total		**227**	**100.0**		

Table 3: Respondent Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	44	19.4	21.5	21.5
	Male	161	70.9	78.5	100.0
	Total	205	90.3	100.0	
Missing	System	22	9.7		
Total		**227**	**100.0**		

Table 4 Respondent Education Level (Highest Obtained)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High School or less	5	2.2	2.4	2.4
	Some College	21	9.3	10.2	12.7
	College Grad	67	29.5	32.7	45.4
	Some Grad	29	12.8	14.1	59.5
	Grad Degree	83	36.6	40.5	100.0
	Total	205	90.3	100.0	
Missing	System	22	9.7		
Total		**227**	**100.0**		

Table 5: Respondent Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than or equal to 30	1	.4	.5	.5
	31 to 40	13	5.7	6.5	6.8
	41 to 50	62	27.3	30.2	37.1
	51 to 60	80	35.2	39.0	76.1
	61 to 70	41	18.1	20.0	96.1
	More than 70	8	3.5	3.9	100.0
	Total	205	90.3	100.0	
Missing	System	22	9.7		
Total		**227**	**100.0**		

Table 6: Respondent Average Commute Time

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than or equal to 10 min.	54	23.8	26.3	26.3
	10 to < 20 min.	78	34.4	38.0	64.4
	20 to < 45 min.	63	27.8	30.7	95.1
	45 min. or more	10	4.4	4.9	100.0
	Total	205	90.3	100.0	
Missing	System	22	9.7		
Total		**227**	**100.0**		

Table 7: Respondent Average Hours Worked per Week

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 40	3	1.3	1.5	1.5
	40 - 49	51	22.5	24.9	26.3
	50 - 59	99	43.6	48.3	74.6
	60 - 69	42	18.5	20.5	95.1
	70 or more	10	4.4	4.9	100.0
	Total	205	90.3	100.0	
Missing	System	22	9.7		
Total		**227**	**100.0**		

Table 8: Respondent Number of Vacation Days Taken per Year

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	none	1	.4	.5	.5
	1 to 5 days	24	10.6	11.7	12.2
	6 to 10 days	58	25.6	28.3	40.5
	11 to 15 days	64	28.2	31.2	71.7
	16 to 20 days	44	19.4	21.5	93.2
	More than 20 days	14	6.2	6.8	100.0
	Total	205	90.3	100.0	
Missing	System	22	9.7		
Total		**227**	**100.0**		

Table 9: Respondent Planned Retirement Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	45 to 49	1	.4	.5	.5
	50 to 54	12	5.3	5.9	6.3
	55 to 60	25	11.0	12.2	18.5
	60 to 64	38	16.7	18.5	37.1
	65 to 70	88	38.8	42.9	80.0
	Older than 70	41	18.1	20.0	100.0
	Total	205	90.3	100.0	
Missing	System	22	9.7		
Total		**227**	**100.0**		

Table 10: Respondent Planned Retirement in Indiana

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	121	53.3	59.0	59.0
	No	27	11.9	13.2	72.2
	Unsure	57	25.1	27.8	100.0
	Total	205	90.3	100.0	
Missing	System	22	9.7		
Total		**227**	**100.0**		

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