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eGovernment: Serving Small Business in California

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Author
Kartavenko, Anya

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ABSTRACT
Small firms account for a significant portion of the business in the state of California. They face greatest regulatory costs in complying with government regulations. New owners of small businesses are also the ones burdened with sorting through the government complexities on federal, state, and local level. The issue is, of course, that historically government services have not been customer-centric. Due to the intricacies of the organizational structure, these services are often distributed: department-based and not coordinated across responsible parties. Better and more user-friendly service could be provided via a composite application, designed around customer needs rather than the structure of the government.

Ranking among top ten world’s largest economies, the state of California accounts for over 13 percent of the nation’s output and gross product (GP) of nearly $1.6 trillion. While the GP of the state has been steady in the past five years, the ranking itself has been sliding, giving way to the rising economies of China, Italy, and France (Figure 1, Appendix). In this rapidly changing economical landscape, the state competitiveness is based on the “high quality of the State’s intellectual, institutional, and place-based assets.” As U.S. national economy and California state economy give way to the emerging economies of the world, the importance of providing healthy business environment will keep rising. Minimizing negative effects of regulations and rising costs of doing business become evermore important.

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2 According the Wall Street Journal, China’s economy is likely to have expanded 10.5% in 2006. December 28, 2006, p.28.
4 As Peter Drucker puts it in an interview to Fortune, “the dominance of the U.S. is already over. What is emerging is a world economy of blocs represented by NAFTA, the European Union, and ASEAN. There’s no one center in this world economy.” Peter Drucker, Interview by Brent Schlender, “Peter Drucker Sets Us Straight,” *Fortune*, January 12, 2004.
Supporting California economic growth, the number of new business registrations in the state of California is growing. In the period from 2001 to 2006, new business incorporations increased 33%, from 6,700 average monthly registrations in 2001 to 9,000 in the first half of 2006 (Figure 2).

Notably, that is the small firms that account for a significant portion of the business in the state of California: they employ more than half of all workers and are responsible for the majority of the total net job growth in the state economy.\(^6\)

By the same token, small firms, by the nature of their size and resource allocation, face the highest compliance or regulatory costs. Though no studies have been conducted by the State of California on the cost of compliance, a study by the U.S. Small Business Administration (September 2005) showed that the largest per employee costs of federal regulatory compliance falls onto smaller firms: “Firms with fewer than 20 employees annually spend $7,647 per employee to comply with federal regulations, compared with the $5,282 spent by firms with more than 500... [S]mall businesses face a 45 percent greater burden than their larger counterparts.”\(^7\) In addition to federal, there are state and local regulatory costs. Produced and published by different agencies, information is often available via Internet but not particularly well organized or delivered. Its abundance is more of a menace than help, a clear case of “more” being simply “more” and not “better.”

The problem is, of course, that historically government services have not been customer-centric. Due to the complexity of the organizational structure of the government, the services it has developed are usually department-based and not necessarily coordinated. eServices in the state of California have been grown from the rudiments of the earlier days of Internet publishing when merely posting information online was believed to be the answer. As more and more information was added to the online resources, its organization became more complex. For example, for the new business owners, there is a multitude of government resources:

**State Sites**

- California eGovenment Portal: www.ca.gov
- California Business Portal: www.calbusiness.ca.gov
- Secretary of State California Business Portal: www.ss.ca.gov/business
- Employment Development Department: www.edd.ca.gov
- Board of Equalization: www.boe.ca.gov
- Franchise Tax Board: www.ftb.ca.gov

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\(^6\) Innovation, Investment, Collaboration. A Statewide Action Agenda for Economic Vitality from California’s Regional Leaders. Executive Summary, p.3.

Division of Occupational Safety and Health  www.dir.ca.gov/DOSH
Contractors State License Board  www.cslb.ca.gov
Department of Consumer Affairs, professional licensing  www.dca.ca.gov
CalGOLD, catalog of business permits information  www.calgold.gov
California Tax Service Center\(^8\)  www.taxes.ca.gov

**Federal Sites**
Internal Revenue Service  www.irs.gov
Small Business Administration  sba.gov

California Small Business Development Centers, part of the United States Small Business Administration’s national network, are also available for training and guidance. Some of them, however, do not have online presence.\(^9\)

California government Web sites do not provide transactional services to assist new business owners: one cannot file for a business permit online or submit an incorporation document. Electronic PDF forms could be downloaded from most departmental sites, but need to be submitted in person or mailed. Most of the state information services are distributed among its respective departments in a “silos” fashion. The burden of sifting through the regulations falls on the small business owners. Though some efforts at service integration have been made (taxes.ca.gov and calgold.gov are be discussed later in this paper), to this day, not a single truly customer-centric service site has been developed.

Meanwhile, there are more than 300 online services that are offered by the state of Michigan\(^10\) (Figure 3). These include registering to do business in the state, renewing professional licenses, and requesting permits online. Focusing on providing services that are customer-centric, for both citizens and businesses, Michigan IT department is working on “mobile applications for tasks that people want to accomplish on short notice… For example, one future application will let people who book charter fishing tours use handheld devices to buy 24-hour fishing licenses.”\(^11\)

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\(^8\) California Tax Service Center was jointly developed by the Board of Equalization, Employment Development Department, and Franchise Tax Board, the bodies responsible for tax collection in the state of California. For detailed break-down of tax collection responsibilities, please see Table 1 of the Appendix.


\(^10\) Computerworld, November 27, 2006, p.10.

It is not surprising that Michigan was ranked as the top government site by both National Policy Research Council (NPRC), a Washington-based non-profit,\(^\text{12}\) and by 2006 Digital States Survey,\(^\text{13}\) conducted by the Center for Digital Government in Folsom, California. (California eGovernment Portal was ranked number 16 (of 25) by the Digital States Survey, 2006).

The need for better service to small business has been long recognized by the state officials\(^\text{14,15}\):

The pressure on California State Government has never been greater – to be more efficient, cost effective, convenient and accessible to the citizens it serves. It is hard to imagine any significant statewide initiative that could achieve such a transformation in service delivery and state operations without technology as a major component. But today, our technology programs are not capable of meeting these challenges.

Many of our service delivery systems are outdated and inconvenient, internal business systems are antiquated and fragmented, and statewide planning for technology is ineffective. Our technology programs operate with an agency focus and for the convenience of government rather than with an enterprise focus and for the convenience of citizens, resulting in duplication, waste and inconsistent results. Our heavy reliance on outdated legacy systems and decentralized, non-standardized technology architecture dissipates limited dollars and human resources. This situation exposes the state to higher overall operational costs and increased vulnerabilities to security threats and architecture breakdowns.

A number of policy and legislative initiatives took place: Assessment attempts were made to size the problem as early as 2000 by PriceWaterhouseCoopers,\(^\text{16}\) and recommendations for the state enterprise architecture (SOA) were developed. Under the strategic plan of 2005,\(^\text{17}\) the Department of Technology Services (DTS) was formed.\(^\text{18}\) Yet, in over five

\(^{12}\) Computerworld, November 27, 2006, p.10.


\(^{17}\) California State Information Technology. Strategic Plan, Update to the 2004 Plan, November 2005.

\(^{18}\) DTS was established on July 9, 2005, by the Governor's Reorganization Plan Number 2, which consolidated the Stephen P. Teale Data Center, the California Health and Human Services Agency Data Center, and the Department of General Services, Office of Network Services, according to ca.gov. Accessed at http://www.dts.ca.gov/about/default.asp on December 29, 2006.
year period, California, the home of the U.S. economy for innovation and change, has not been able to shape up its service delivery. Aforementioned efforts, though essential, only inched the way to the overall goal of service integration.

In addition to organizational assessments, a legislative initiative to help small business took place in 2006. State Bill No. 1436\(^{19}\) (SB 1436), first introduced in February 2006, went into law in September same year. Recognizing regulatory burdens faced by small businesses, it intended to assist them in complying with state regulations designed to protect the public. Specifically, it mandated Department of Technology Services creating “a link to state agency Web sites at the State of California Internet portal specifically for the use of small business\(^{20,21}\) in accessing information regarding startup requirements and regulatory compliance applicable to the particular business.”\(^{22}\) It also required state agencies that regulate small business to designate a liaison, at least one individual, whose duties would include updating the small business information online, in clear and plain language; receiving and responding to complaints; facilitating in meeting 25% small business participation goal in procurement and contracting processes; and providing “technical advice and assistance to small businesses in resolving problems and questions regarding compliance with agency’s regulations and relevant statues.”\(^{23}\) The agencies were required to utilize their existing funding to comply with this measure.

How effective this legislation will be? The future will tell. However, a quick analysis shows that it still follows the old service “silo” delivery model and unlikely to substantially mitigate small business burdens. First, “a link” (as in one link) on a state portal (Figure 4) cannot provide access to multiple agencies serving small business. It could only serve as an “entry point” to a service designed to provide that information. It would require significant information architecture efforts to present small business regulatory information in comprehensive manner. Moreover, one link could not provide access to all of the state agencies that might affect a particular business. For one, it needs to be determined based on the type of business and locale, what regulations affect

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\(^{20}\) “Small business” is an independently owned and operated business that is not dominant in its field of operation, the principal office of which is located in California, the officers of which are domiciled in California, and that, together with affiliates, has 100 or fewer employees, and average annual gross receipts of $10 million dollars or less over the previous 3 years, SB 1436, Bill Analysis, April 17, 2006, p.6. Accessed at: [http://info.sen.ca.gov/pub/05-06/bill/sen/sb_1401-1450/sb_1436_cfa_20060418_094706_sen_comm.html](http://info.sen.ca.gov/pub/05-06/bill/sen/sb_1401-1450/sb_1436_cfa_20060418_094706_sen_comm.html) on December 12, 2006.

\(^{21}\) Small Business Administration classifies small business as one that: (1) is organized for profit; (2) has a place of business in the United States; (3) makes a significant contribution to the U.S. economy by paying taxes or using American products, materials or labor; and, (4) does not exceed the numerical size standard for its industry (see Table 1). Accessed at: [http://info.sen.ca.gov/pub/05-06/bill/sen/sb_1401-1450/sb_1436_bill_20060912_chaptered.html](http://info.sen.ca.gov/pub/05-06/bill/sen/sb_1401-1450/sb_1436_bill_20060912_chaptered.html) on December 12, 2006.


\(^{23}\) SB 1436, p. 94.
business entity’s operations. And even then, providing a dry list of agencies with their contact information without any explanation of why or how the agencies affect the entity operations is not helpful.\textsuperscript{24} SB1436 again shifts the burden of sifting through that information onto the small business owner and does not constitute a user-friendly service.

Second, mandating to designate a liaison\textsuperscript{25} without additional funding will most likely result in tackling these responsibilities on top of an existing job. How helpful could a government official be in this capacity if they already have a set of duties to fulfill? How likely would they be to deliver a timely quality service? Charging one person with providing “technical advice assistance” in this manner will likely result in long response times. To avoid overburdening them resulting in negative customer experience, that service might not be widely advertised. In business world, an enterprise would be setting up a call center to deliver such service. (But it, undoubtedly, would have access to more resources than the state does.) But most importantly, each liaison will only be able to answer inquiries about their respective agency. That, in turn, would result in the old fragmented service delivery.

So, how effective could SB 1436 be? Is it just another measure with great intentions but uncertain outcome? A measure that is aimed at solving the issue but in effect will just distract agencies’ efforts and limited resources from a problem at hand: contributing to a design of a customer-centric government service for small business. Such approach, of course, would require a strong leadership and new—customer-oriented—mindset. It is also likely to require additional resources. Not resources scrambled from the agencies, but resources centralized and dedicated to assist small business in completing their tasks, be that registering a business, paying taxes, or filling and renewing licenses. Aside from the business registration, all tasks are repetitive in nature. All could be greatly aided by eServices.

Precedents of customer-centric applications exist in other jurisdictions: Utah’s One-Stop Business Registration portal\textsuperscript{26} (OSBR) is one such example. Aimed at helping a user complete a particular task, OSBR (Figure 5) is a step-by-step guiding wizard that integrates services from federal and state agencies. Each page is dynamically generated based on the information supplied by the user in previous registration steps. All users progress through the five main areas of business registration: declaring the business entity; naming the business; describing the business and its activities; providing business

\textsuperscript{24} CalGold (calgold.ca.gov) is an example of such service. The acronym stands for California Government Online to Desktops. It is a site started in 1997 by the California Environmental Protection Agency (Cal/EPA) to assist businesses with access to the information they need to ensure proper compliance with environmental and other regulatory and permitting requirements. It offers direct links and contact information to state, local, regional, and federal permitting authorities for more information.

\textsuperscript{25} Small business liaison role is reinstated from regulations that existed earlier.

\textsuperscript{26} OSBR site is available at https://secure.utah.gov/osbr/user. Accessed on November 20, 2006. Launched by the Utah state government in the summer of 2003, OSBR portal spans across twelve federal and state agencies. Instructions are provided for local license filings.
addresses and locations; defining the management/ownership. However, users only answer questions that pertain to the kind of business they are registering.

Utah’s OSBR site was recognized by the NASCIO (National Association of Chief Information Officers of the states) and received association’s awards in 2003. It is an example of a targeted user-centered application, aimed at solving a particular problem.

In California, no composite registration service has been attempted. One may argue, that this is partially a scaling problem: California is the largest state economy in the United States and it is also has a very complex tax and legal structure under which businesses must operate. Some states might have higher taxation of business, but there are few, if any, with more comprehensive business regulations than California. 27 As it was mentioned earlier, there are three separate agencies administering tax collection for various types of taxes (Table 1).

Today, most helpful resources for business registration are provided by the Secretary of State California Business Portal, CalGOLD, and California Tax Service Center.

California business portal 28 that is operated by the Secretary of State (Figure 6) provides 5-step general framework on registering a business, 29 generic list of state agencies and a few other resources that are “most often referenced” 30 by business entities contacting the office in efforts to ensure proper compliance with state regulations.

CalGOLD site (Figure 7) provides a catalog of information on permits and licenses that is aimed at helping users to narrow down regulatory measures that might apply to them, but it does not issue permits or licenses. CalGOLD site is referenced at the California Business Portal, but the California Business Portal is not referenced to the CalGOLD site.

California Tax Service Center (Figure 8) offers the most comprehensive set of links to federal and state resources on planning and starting a new business. However, it is still built under the assumption of user wading though what is relevant.

As we have seen, there is no single truly customer-centric service for California small business owners. Cross-linking is often the extent of integration between the state sites. But such approach cannot improve the service usability and efficiency. Providing service via customer-focused applications on the basis of enterprise SOA with clear measures of customer satisfaction has been long adapted by the industry as an ultimate solution to providing quality information services. Success of portals such as OSBR, Michigan.gov that followed recognized best practices in eGovernment services is yet another proof of

this old concept. Adapting best industry practices might be more efficient than delivering on “quick fix” via legislative measures. There is no “quick fixes” in redesigning services. There is only planning, sourcing, and executing.

In conclusion, we would like to add that this research came as a discovery step in an attempt to develop a framework for designing small business registration service for the state of California. The spin-off project will analyze existing business registration system in the state of California and provide design recommendations for eServices Office to improve the service that the state provides to new business registrants. We hope that it will lay the groundwork for future collaborations between the School of Information of University of California, Berkeley and eServices Office of the California State government.
Appendix.

**Figure 1.** California’s gross product ranks among ten world’s largest economies; 2001, 2003, 2005.\(^{31}\)

**Figure 2.** New business incorporations, seasonally adjusted, January 1990–June 2006.\(^{32}\)


Figure 3. Official Portal for the State of Michigan, michigan.gov.

Table 1. California State Agencies administering Tax Collection.33

<table>
<thead>
<tr>
<th>Franchise Tax Board</th>
<th>Administers the individual state income tax and corporate income and franchise taxes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Board of Equalization</td>
<td>Administers sales and use taxes, state property taxes, and various other special taxes.</td>
</tr>
<tr>
<td>Employment Development Department</td>
<td>Collects employee wage withholding taxes, as well as withheld SDI tax and unemployment taxes.</td>
</tr>
</tbody>
</table>

### Table 2. Small business size standards, abridged.\(^{34}\)

<table>
<thead>
<tr>
<th>Industry Group</th>
<th>Size Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>500 employees</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>100 employees</td>
</tr>
<tr>
<td>Agriculture</td>
<td>$750,000</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>$6 million</td>
</tr>
<tr>
<td>General &amp; Heavy Construction (Except Dredging)</td>
<td>$28.5 million</td>
</tr>
<tr>
<td>Dredging</td>
<td>$17.0 million</td>
</tr>
<tr>
<td>Special Trade Contractors</td>
<td>$12.0 million</td>
</tr>
<tr>
<td>Travel Agencies</td>
<td>$3 million (Commissions and other income)</td>
</tr>
<tr>
<td>Business and Personal Services</td>
<td>$6.0 million</td>
</tr>
<tr>
<td>Except:</td>
<td></td>
</tr>
<tr>
<td>Architectural, Engineering, Surveying, and Mapping Services</td>
<td>$4.0 million</td>
</tr>
<tr>
<td>Dry-cleaning and Carpet Cleaning Services</td>
<td>$4.0 million</td>
</tr>
</tbody>
</table>

\(^{34}\) Accessed at: http://www.ccr.gov/sizestandard.asp on January 27, 2006. For the full list of small business size by North American Industry Classification System (NAICS) in accordance with Small Business Administration, see http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=b6e780955530049be4cc0d0a0e391115&rgn=div5&view=text&node=13:1.0.1.1.15&idno=13#13:1.0.1.1.15.1.232.9
Figure 4. California State Portal, ca.gov.
Figure 5. One-stop business registration portal (OSBR), from utah.gov.
Figure 6. Secretary of State California Business Portal, http://www.ss.ca.gov/business/resources.htm.
**Figure 7.** CalGOLD, calgold.gov.
Figure 8. California Tax Service Center, taxes.ca.gov.