

**California's Technology Industry**

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The Golden State of California is home to one of the biggest technology hubs in the world, Silicon Valley. Housing powerful tech companies, including Meta, Apple, and Alphabet Inc., it is no surprise that Silicon Valley had a financial output of \$275B in 2019 (). However, in recent years, we have been seeing major economic shifts in the tech industry that have never been seen before. In the first part of this paper, we will analyze the tech landscape of California and predict how this industry might grow going forward. In the second part, we will provide strategic communication recommendations on how major tech companies and thought leaders should communicate the health of California's tech industry to the general public.

### **CALIFORNIA'S TECH INDUSTRY IN RECENT YEARS**

In this portion of the paper, we will discuss California's tech industry in recent years, analyzing the economic tech trends from the mid-pandemic (2020) to the present day. Key economic changes that we will cover in this section include changes in consumer habits, inflation, and a tech exodus out of Silicon Valley.

### **Tech Boom During the Pandemic**

In early 2020, the entire world went into lockdown following the spread of a respiratory illness known as COVID-19. Although it seemed every industry went to a steep halt during the pandemic, we saw one industry thrive during this unprecedented period: the tech industry. How? Social distancing rules forced people to stay in their homes for endless hours. California, and many other states, announced a state of emergency and mandated a statewide lockdown on March 4, 2020. As a result, the only access to the outside world was through technology. Whether it was working from home or doing online school, both children and adults needed access to a computer and to the internet to keep (things) going. People used digital delivery services, such as DoorDash and Amazon, to get food and products delivered to them. In many ways, tech companies actually *benefited* from the pandemic because of humans' increased reliance on technology.

To conceptualize the change in consumer habits during the pandemic, American adults used a whopping 16 hours of technology a day in 2020, compared to the pre-pandemic 12 hours a day (Wolf, 2020). With no outdoor distractions, such as eating at a restaurant or going shopping, Americans' tech consumption was continuous and overlapping. Other tech companies that surged during the pandemic were gaming companies and streaming services. Why? They

provided entertainment to at-home individuals who needed a distraction. Gaming time increased by 39% in 2019, and streaming services were used 43% more in the same year (Wolf, 2020). As a result, many of the big tech companies located in Silicon Valley, including Amazon, Netflix, and Apple, gained billions of dollars.

During this time, however, we also saw an unprecedented exodus of tech companies in Silicon Valley. Tech companies were moving headquarters out of California to Austin and Houston, Texas. The catalyst of this trend was Hewlett-Packard Enterprises' (HPE) shocking move to Texas in December 2020. HPE was thought of as the father of Silicon Valley's tech hub when it was founded in 1938 in Palo Alto, California (Benveniste, 2020). Soon after, other big tech companies, including Oracle and Tesla, announced their migration to Texas from Silicon Valley. In 2021 alone, over 25 corporations in California relocated their headquarters to Texas (Holmes, 2022). The cause of this mass migration is none other than the high cost of living in California. Analysts cited that the lack of affordable housing, high state tax, and poor governance led to California's rapid tech exodus (Levy, 2021). Texas became a much more affordable option for both the general public and tech companies, causing the rapid growth of Texas cities Austin and Houston. By May 2022, Texas became home to more Fortune 500 companies than California and any other state (Holmes, 2022).

### **Transition Out of the Pandemic**

During the pandemic, the technology industry served as a booming sector for the U.S. economy, amounting to 10.2% of the country's GDP in 2020, a 39% increase in the U.S.'s monetary measure over that time, according to the Department of Commerce. Due to an explosive increase in the sector accompanied by tactics to sustain and capitalize on the growth, big tech companies such as Microsoft, Amazon, and Apple generated a 106%, 53%, and 20% increase in employees between 2019 and 2022. However, in 2022, the U.S. stock market witnessed a 35% decline in tech stock values resulting from uncertain conditions raised by the economy, generating high-interest rates and inflation (Movement, 2023). In November of that year, Meta broke the ice by serving as the first big tech company to implement layoffs in a strategic move to improve profit margins, citing the recession, consumers transitioning back to pre-pandemic habits, and competition engendering a lower-than-expected revenue as the rationales. The cuts executed by Meta were the onset of the comprehensive list of tech companies that would implement its layers of layoffs beginning in late 2022 and continuing to

date. Press releases issued by impacted companies have blamed challenging macroeconomic events, specifically high inflation and interest rates, and the post-Covid slump as the primary sources.

As mass hiring was one significant effect of the Covid-19 pandemic, remote work served as another, with lockdowns and quarantines forcing companies to transition their employees to work from home. However, with the economy on the road to recovery, many companies are reducing the number of days employees are enabled to work at home. For example, Tesla's strict office policy implemented by Elon Musk demanded its office workers return to in-person work for at least 40 hours per week or risk dismissal as he believes remote work has "damaged worker productivity" (Hamilton, 2023). When return-to-office (RTO) mandates were issued, it took a toll on power structures within companies. To expand, in February 2023, less than a month after Amazon announced plans to lay off 18,000 employees, the company issued a mandate calling for employees to return to the office three days a week. However, the company was met with heavy criticism, resulting in approximately 30,000 Amazon employees signing a petition for the company to retract the mandate. The petition encompassed phrases such as "shattering trust" in the company's management, citing that it may be a strategy for more employees to leave the company (Perman, 2023). Despite evident opposition to RTO mandates from impacted employees at companies such as Amazon, Tesla, Apple, and Google, that has not stopped other tech firms from pushing employees back into the office.

Despite layoffs and RTO mandates serving as two factors that are in control of impacted tech companies, macroeconomic and global uncertainties such as issues regarding supply chains, trade restrictions, and raw material shortages have impacted the once thriving industry. Approximately 80% of electronic components comprising gadgets, patents, and semiconductors, to name a few, are manufactured in Asia, which has posed a complexity of challenges and uncertainties for technology companies. According to the Boston Consulting Group (BCG), national policies intended to "incentivize targeted sectors and protect strategic technological advantages" are becoming prevalent globally. To expand, in October 2022, the U.S. began implementing export controls and restrictions "to limit China's access to the most advanced elements of the semiconductor value chain" (Varadarajan, 2023). Such restriction aims to slow China's modernization and reduce its access to manufacturing tools and advanced chips. In a precedent event on August 2022, U.S. President Joe Biden signed the CHIPS and Science Act,

which provides approximately \$280 billion for domestic research and manufacturing of semiconductors in the United States, strengthening supply chains and creating new jobs in the technology sector. Currently, most semiconductor companies are located in Silicon Valley, with Intel and Nvidia taking the lead. Although the new act will support the semiconductor sector of technology, that is not to say that it will reverse other disruptions the tech industry is experiencing caused by global supply issues.

With that being said, investors and economists fear a recession is coming based on suggestions from the latest U.S. economic data, signaling trouble ahead for tech stocks. Moreover, with the Fed not planning to slash interest rates until 2024, many worry the tech industry will continue to see significant dips in stock throughout the coming months in tandem with additional waves of layoffs (Movement, 2023).

### **Crisis in Big Tech**

On February 28, 2023, California Governor Newsom announced that the state was no longer under the Covid-19 State of Emergency. Throughout the year before this announcement, companies had begun to return employees to in-person or hybrid work, as well as surveying the divisions that would not continue to grow post-pandemic. In recent history, there have been several instances of mass layoffs due to change. The most prominent examples are the “dotcom bubble burst” of 2000 and the financial crisis of 2008. However, the most recent mass tech layoffs are a special case because they occurred in response to multiple factors, mostly brought on by the changes that have come with the COVID-19 pandemic ending. This most recent wave of layoffs is heavily centered in Silicon Valley where most tech companies are headquartered. During the height of the pandemic and the sudden boom of the industry, most companies now cutting back expanded their workforce extensively to keep up with users being at home and online. The big shift is now over, and companies are attempting to return to their pre-pandemic sizes. Each company, especially those amongst the largest, faces unique challenges. Currently, Meta still faces fierce competition from TikTok, another company that boomed through the pandemic. Having invested billions of dollars into the Metaverse in attempts to keep users engaged and interested in its platform, Meta has still not seen the same excitement or buzz that has continued to surround TikTok. Twitter also faces a unique challenge in its new leadership, as Elon Musk continues to make surprising moves, including laying off half of the workforce and making big changes to the social media platform.

The collapse of Silicon Valley Bank highlights the volatility of the tech industry and how it may struggle moving forward. Founded in 1983, Silicon Valley Bank was born as an essential engine behind the tech industry's success, and grew to be the 16th largest bank in the United States just before its collapse in March 2023. SVB worked closely with many Venture Capital-backed startups. On its website, the bank claimed to be "the financial partner of the innovation economy." SVB benefited hugely from the pandemic-induced tech boom, and the increased demand for digital services. After years of buying government securities at the lowest interest rates (post-2008), Silicon Valley Bank ended up with tons of assets that were worth much less money if interest rates went up. When the Federal Reserve rapidly increased interest rates in an attempt to tame aggressive post-pandemic inflation, SVB's long term bonds became even riskier investments as their prices fell. When the bank announced that they sold huge amounts of securities at a loss and would continue to do so to fund their breakdown, depositors panicked and immediately withdrew their money in large numbers. This led to an inevitable overtake by the government, who stepped in and ensured that those people would get their money. Then, it was nearly two weeks before First Citizens Bank stepped up to purchase the remaining assets, deposits, and loans of Silicon Valley Bank. SVB's collapse has created a ripple effect in the tech industry, signaling a weakness in the sector that could spell trouble for the state of California.

### **Going Forward**

The collapse of Silicon Valley Bank, one of the tech industry's biggest investors, has served as a warning to California and its reliance on the once-booming tech industry. One of the biggest challenges the tech industry faces after the collapse is the way the world sees and thinks of Silicon Valley (Thorbecke, 2023). What was once viewed as a community of open-minded, creative thinkers and innovative engineers is now in the middle of being saved by the government, with its future being heavily questioned.

While the collapse of SVB is a heavy topic surrounding California's tech industry today, there are several issues impacting the success of the industry even more. The state's tech industry accounts for more than 10% of the state's economy (Commerce Department, 2023). The greatest struggle California's tech industry will face is the sustainability of its talent force with the issues plaguing the state, such as lack of funding for universities where California's largest tech companies source talent, and the lack of accessibility to housing in the state, due to both low availability and skyrocketing costs (Randolph, 2023). This furthers concerns surrounding Silicon

Valley's future as the leading tech industry hub, as new thriving cities such as Houston and Austin Texas are more cost-efficient for both businesses and the employees within them. Cities like these are attractive due to the benefits they provide for stakeholders. The Texas exodus has presented competition for Silicon Valley, which has the potential to worsen as people flee the state for more affordable living costs. California's state government will have to address this factor to fully address the issues on the horizon for the state's tech industry.

Surprisingly, many business media and its analysts believe the collapse has also highlighted that the future is not entirely grim from California's tech industry. There has been some positive growth early this year, shown by the tech-leading Nasdaq's 115% growth rate since hitting a low point in October 2022. In addition, leading Silicon Valley companies have continued to grow steadily. Meta's share price, for example, has risen 122%, though still not near its highest point in 2021. Analysts also find enthusiasm in the layoffs of cutting costs and labor. While not ideal for the broader economy, the layoffs allow for California's largest tech companies to scale back and redirect in a time of change post-pandemic. This is a pivotal time for the industry and the state as a whole, and direct, open communication with those affected is extremely important. The approach taken by communicators spearheading this situation can make or break the future of California's once unshakeable Silicon Valley.

### STRATEGIC COMMUNICATION RECOMMENDATIONS

In this portion of the paper, we will recommend two communication strategies that tech companies and industry insiders should pursue. Due to recent events that have shaken the tech industry, our two communication strategies are focused on appeasing people's worries about the uncertainty of the current tech industry and fostering trust with stakeholders.

#### **Recommendation 1**

During uncertain times, the best way to pacify people's worries is by communicating initiatives and strategies that will be used to conquer these external obstacles. Although it is a simple concept, it is quite effective. We have seen this many times before in history. Whether it was Winston Churchill's "We Shall Fight on the Beaches" speech or President Franklin D. Roosevelt's *Fireside Chats*, it is clear that a strong leader who communicates clear and precise strategy is effective in reassuring people during times of crisis.

For our first strategic communication recommendation, we recommend executives within a tech company launch a transparency initiative. Executives of these companies can hold public bi-weekly or monthly sessions (e.g., interviews, meetings, podcasts) to communicate to the public about current company affairs and future projects. Each session would focus on different challenges in the tech industry, how the company is affected by this obstacle, and how the company is tackling the problem. To focus on recent events, the company could spend time talking about the mass layoffs plaguing the tech industry, the looming recession, and even Silicon Valley Bank's collapse. The public, routinely-scheduled meetings can be posted on the company's website so that the general public has access to the information.

This strategy also gives the spokesperson the opportunity to solidify him- or herself as a thought leader within the tech industry. By being the first to address complex and sensitive issues, stakeholders and the general public would start to pay attention to what the executive has to say in times of industry crises. In other words, this creates value for the spokesperson's opinions and analyses. This can be seen with Roblox's CEO David Baszucki and his podcast *Tech Talks*. Baszucki created his own platform where he interviews management within Roblox and gives updates on the company's current projects. This podcast allowed Baszucki to solidify his personal brand and attract loyal listeners. Other tech company executives can follow suit and publish regularly scheduled sessions to become an influential thought leaders in this industry.

### **Recommendation 2**

For decades, Silicon Valley has served as the epicenter of technological innovation, housing big tech companies, such as Apple, Google, and Facebook, with campuses spanning millions of square footage of land. However, with California having one of the highest housing costs, tax rates, and strict work regulations, tech companies have moved their bases to Texas. For instance, in 2021, Elon Musk announced that Tesla would be moving its corporate headquarters from Palo Alto, California, to Austin, Texas, after the business magnate and investor was prohibited from restarting manufacturing operations at its factory due to local Covid-19 restrictions set by Alameda County. In addition, Musk highlighted to shareholders that his employees were struggling to find housing in California due to high costs, as the median home price in Silicon Valley is approximately \$1.4 million.

With California holding strict labor laws and high living costs and taxes, compared explicitly to Texas, many tech companies, such as Oracle, are opting to follow Tesla's direction



and relocate their headquarters to the Lone Star State, in what is known as a “tech exodus.” However, before this alarms remaining California-based tech companies to commit a similar move, we recommend thought leaders in tech, such as Evan Kistel and Harold Sinnott, to reassure shareholders, stakeholders, and tech companies that Silicon Valley will remain the hub for technology and innovation. To expand, although Austin has served as a popular relocation site for tech companies, industry experts state that San Francisco Bay Area will remain “the innovative center of the U.S. tech industry” as they classify Austin as nothing but “a colony” (Canon, 2020).

In February 2023, Elon Musk announced during a joint press conference with Governor Gavin Newsom that Tesla’s engineering headquarters would return to California, two years after the automotive and clean energy company exited the Golden State. Although the corporate headquarters will remain in Austin, Newsom commended Musk’s decision to bring Tesla back to California, citing that the “state remains on the forefront of discovery and new ideas and innovation” (*Yahoo*). Moreover, with infrastructure and resources for technological innovation, Silicon Valley serves as a flourishing marketplace for startup companies and established tech firms to build their business, with proximal access to talent pools educated at prestigious universities such as Stanford and Berkeley. As a result, we recommend top analysts, thought leaders, and notable voices in tech to set the tone as to why Silicon Valley will permanently remain the hub of technology. We believe this strategy will not only strengthen the region’s position as the global center for high technological innovation, but help tech companies maintain or establish their ground in Silicon Valley.

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