



UCLA

Human Resources Round Table (HARRT)

**CALIFORNIA
HUMAN
RESOURCES
FORECAST
1994**

Rosalind M. Schwartz

Daniel J.B. Mitchell

**INSTITUTE OF INDUSTRIAL RELATIONS
UNIVERSITY OF CALIFORNIA, LOS ANGELES**



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David Lewin
Director, Institute of
Industrial Relations
Chairman, HARRT
Professor, Anderson
Graduate School of
Management

FOREWORD

Members of the Human Resources Round Table (HARRT), who are the senior human resource executives of their respective California-based companies, are uniquely positioned to provide a forecast of key human resource developments and trends in 1994 in the nation's largest state. HARRT, which is affiliated with the Institute of Industrial Relations at UCLA, began its annual California human resource forecast in 1993, and will continue to generate such a forecast annually.

Unlike econometric forecasts of business and economic activity, which are by definition highly quantitative and which are revised periodically throughout the year, the HARRT human resource management forecast draws on the judgment and qualitative expertise of its members to discern important events, trends, and developments in the year ahead, and the HARRT Forecast is not revised during the year. Thus HARRT members must make important judgments which will stand without revision during the year, and readers will be able to judge the accuracy of the forecast against the realities that unfold during 1994. There is risk in making such a forecast—the risk of being wrong—but we believe that this risk is more than outweighed by the ability of a seasoned group of human resource executives to put before academics, practitioners, policymakers, and the public its views of critical human resource management issues and developments in California.

For their contributions to this effort, we thank the HARRT members, especially the members of the HARRT Forecast steering committee; Professor Daniel J.B. Mitchell, who once again served as the faculty convener of the steering committee; and Ms. Rosalind M. Schwartz, Director of the Center for Human Resource Management of the Institute of Industrial Relations, who performed yeoman service in shepherding the Forecast from its early stages to completion of the final product, the California Human Resources Forecast 1994.

David Lewin
Director, Institute of Industrial Relations
Chairman, HARRT
Professor, Anderson Graduate School of Management

HUMAN RESOURCES ROUND TABLE (HARRT)

The UCLA Human Resources Round Table (HARRT) was established in 1986 and is affiliated with the Institute of Industrial Relations and the Anderson Graduate School of Management. HARRT's mission is to enhance the profession of human resource management by:

- Linking the academic and practitioner human resource management communities.
- Strengthening the connections between human resource management and business strategy, policy, and practice.
- Strengthening the network of senior human resource executives across a variety of industries.
- Involving senior human resource executives in the production and dissemination of knowledge.

HARRT's membership consists of senior human resource executives in leading California businesses. The participating UCLA faculty are drawn from a variety of disciplines and have conducted research in areas of relevance to human resource management.

CALIFORNIA HUMAN RESOURCES FORECAST

This report reflects the outlook on key California human resource issues from the perspective of the HARRT membership. In this forecast, the HARRT members look to 1994 and beyond as they identify and discuss those issues that will challenge business and human resource executives.

UCLA Human Resources Round Table (HARRT) 1994 California Forecast Executive Steering Committee

Christian K. Bement, Executive Vice President, Human Resources, Public Affairs and Administration, Thrifty Corporation

Lee E. Clancy, Jr., Vice President, Human Resources, Sizzler International, Inc.

Wanda A. Lee, Senior Vice President, Human Resources, PacifiCare Health System, Inc.

Valerie Oberpriller, Vice President, Administration, Standard Brands Paint Company

Kevin J. Sullivan, Senior Vice President, Human Resources, Apple Computer, Inc.

James Wade, Vice President, Human Resources, FHP, Inc.

Daniel J. B. Mitchell, Professor, Anderson Graduate School of Management, UCLA; Co-Chair of Steering Committee

Rosalind M. Schwartz, Director, HARRT and Center for Human Resource Management, Institute of Industrial Relations, UCLA; Co-Chair of Steering Committee

1993-1994 HARRT Members

Christian K. Bement, Executive Vice President, Human Resources, Public Affairs and Administration, Thrifty Corporation

Darlene Chandler, Vice President, Organization Planning and Development, SunAmerica, Inc.

Lee E. Clancy, Jr., Vice President, Human Resources, Sizzler International, Inc.

Robert B. Corlett, Vice President, Human Resources, Lockheed Corporation

Arthur F. Dauer, Corporate Senior Vice President, Human Resources, Northrop Corporation

David Elliott, Senior Vice President/Chief Administrative Officer, Technicolor, Inc.

Alan R. Ewalt, Senior Vice President, Human Resources, National Medical Enterprises

Richard A. Fitch, Executive Vice President, Human Resources, California Federal Bank

Randy Gorrell, Vice President, Administrative/Human Resources, U.S. Computer Services

John Hofmeister, Vice President, Human Resources, AlliedSignal Aerospace Company

George R. Horne, Vice President, Human Resources, Dole Food Company, Inc.

Wanda A. Lee, Senior Vice President, Human Resources, PacifiCare Health Systems, Inc.

Teresa E. McCaslin, Vice President, Human Resources, Avery Dennison

Sally Newton, Vice President and Manager of Human Resources, Kaiser Permanente

Valerie Oberpriller, Vice President, Administration, Standard Brands Paint Company

Andy Rich, Vice President, Human Resources, Ingram Micro, Inc.

James M. Richardson, Vice President, Human Resources and Training, Pinkerton

George Scott, Vice President, Human Resources, Nestlé USA, Inc.

Kenneth Sekella, Senior Vice President, Labor Relations, Vons Companies, Inc.

L. Scott Sharpe, Vice President, Human Resources, Computer Sciences Corporation

Charles O. Strathman, Vice President, Corporate Human Resources, Unocal Corporation

Kevin J. Sullivan, Senior Vice President, Human Resources, Apple Computer, Inc.

Charles W. Thomson, Vice President, Personnel Services, Federal Express

James Wade, Vice President, Human Resources, FHP, Inc.

Lucy Wander-Perna, Senior Vice President, Human Resources, Sony Pictures Entertainment

Brenda Welsh, Vice President, Human Resources, Automobile Club of Southern California

Ted G. Westerman, Vice President, Human Resources and Administration, Hughes Aircraft Company

James Wilk, Vice President, Human Resources and Administrative Services, Health Net

Jeffrey P. Wilkens, Vice President, Human Resources, TRW Space and Electronics Group

UCLA Faculty Associated with HARRT

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Christopher Erickson, Assistant Professor, AGSM; Research Associate, IIR

Connie Gersick, Associate Professor, AGSM; Supervisor, Arts Management Student Interns, AGSM

Sanford M. Jacoby, Professor, AGSM; Associate Director, IIR

Archie Kleingartner, Professor, AGSM; Chairman, Public Policy Task Force, UCLA

Barbara Lawrence, Associate Professor, AGSM; Research Associate, IIR

David Lewin, Professor, AGSM; Director, IIR; Associate Dean, AGSM; Chairman, HARRT

Fred Massarik, Professor, AGSM

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CALIFORNIA HUMAN RESOURCES FORECAST 1994



Rosalind M. Schwartz
Director, HARRT



Daniel J. B. Mitchell
*Professor, Anderson
Graduate School of
Management*

The second annual *California Human Resources Forecast* attempts to frame the issues that challenge the management of human resources in California companies. These issues are identified and presented from the perspective of senior human resource executives.

This year's effort was initiated by canvassing the members of the UCLA Human Resources Round Table (HARRT) for the most important human resource issues for 1994. HARRT members are the senior resource management executives in leading businesses headquartered in California. HARRT staff developed questions around these issues, which were sent to members who formed the *Forecast* steering committee. Committee members replied to these questions in writing. On October 29, 1993 the steering committee met at UCLA for the day to discuss these issues. A draft report based on these discussions and written responses was prepared and distributed to the HARRT membership. At the November 17th HARRT general meeting, the draft was discussed, and this broader group elaborated on the issues. The report was revised on the basis of these discussions.

The set of concerns to which our members address themselves reflects the complex environment in which California human resource professionals operate: declining staffing levels in the firm, problems in local jurisdictions affecting the firm, the state's

uncertain economy and business climate, emerging national legislation on health care, and pressing international issues of trade pacts and immigration.

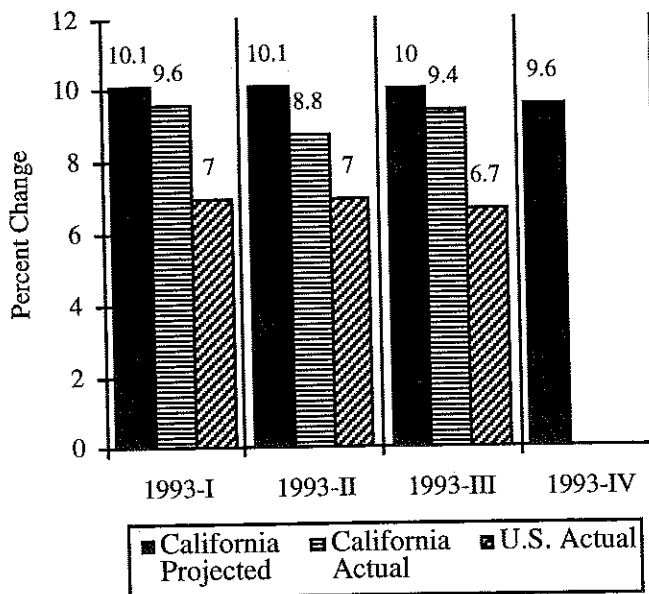
We share these viewpoints of our HARRT members with other business and public policy makers in attempting to provide the critical thinking of human resource management leaders in a time of great complexity and uncertainty.

The California Employment Picture

With the California economy still in recession and lagging behind the national economy, the employment picture remains bleak. 1993 saw additional layoffs in defense and aerospace as the U.S. continued its transformation to a "peace economy." Other industries are now suffering from the fallout. With a decreasing tax base, state and local public jurisdictions face severe budget crises, thereby impacting public services and employment.

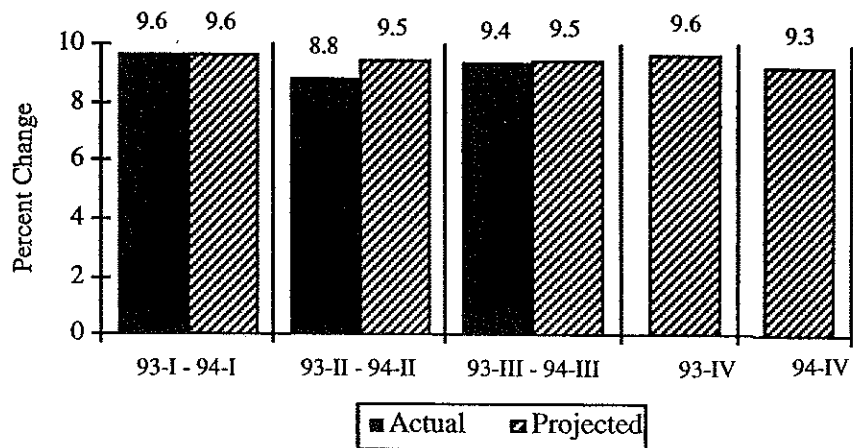
The average unemployment rate for California for the first three quarters of 1993 was 9.3 percent, compared to 6.9 percent for the nation. These actual figures are shown in Figure 1 along with those projected for California in the 1993 HARRT Human Resources *Forecast*.

Figure 1. Unemployment: 1993 Actual California and U.S., and Projected California



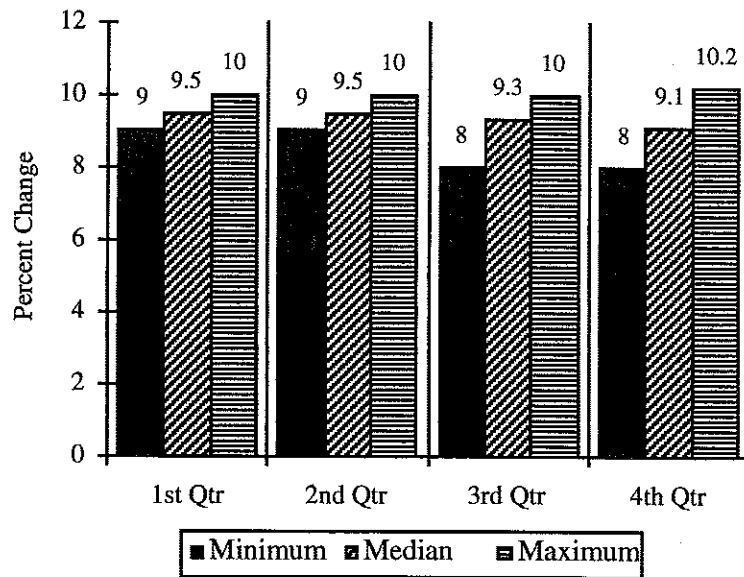
Although actual unemployment was lower than HARRT projections, some portion of the decrease reflected in recent unemployment figures is due to people dropping out of the labor market ("discouraged workers") or taking part-time jobs. It may also reflect continued out-migration from California to states where the employment picture is better.

Figure 2. California Unemployment Rate: 1993 Actual and 1994 Projected



HARRT's unemployment projections for 1994, shown in Figure 2, suggest a small decline in unemployment over the next year. While this decline may indicate some optimism regarding the state's economic performance, there is variance among individual member predictions that illustrates the great uncertainty about the pace of economic change in 1994. Figure 3 shows the range of individual projections of 1994 California unemployment increasing over time.

Figure 3. Unemployment Rate: 1994 California Range of Projections



Employer Hiring Intentions. The Manpower, Inc.

Employment Outlook Survey for the first quarter of 1994 provides a useful comparison for our projections. This forecast is obtained by a national telephone survey of some 15,000 public and private employers in 470 cities in which employers are asked if they plan to maintain or change the size of their workforce during the next quarter of the year. The net change (anticipated increase minus anticipated decrease) can be used as an index to gauge and compare employment trends.

The latest survey, released November 29, 1993, shows a net change of 1 percent for California, with 15 percent of employers reporting that during the first quarter of 1994 they will increase their workforce, and 14 percent reporting that they will decrease their workforce; 64 percent plan no change and 7 percent don't know. These data indicate no significant change in the state employment picture for 1994:I, corresponding to the HARRT prediction for little change in the first quarter of the new year.

It should be noted that the Manpower, Inc. data show great variation across the state. The San Francisco area is anticipating an upsurge in hiring: of the San Francisco employers canvassed, 29 percent intend to increase their workforce the first quarter of 1994,

with none expecting reductions. The anticipated increase in jobs will be found in construction, manufacturing (durable and non-durable goods), transportation/public utilities, wholesale/retail trade, finance/insurance/real estate, and services.

But all is not rosy even in Northern California. Table 1 shows the average expected net hiring increase for the first quarter of 1994 to be 2 percent. The Southern California picture is gloomier, with a -1 percent net change in hiring intention and a -3 percent net change for the Greater Los Angeles area.

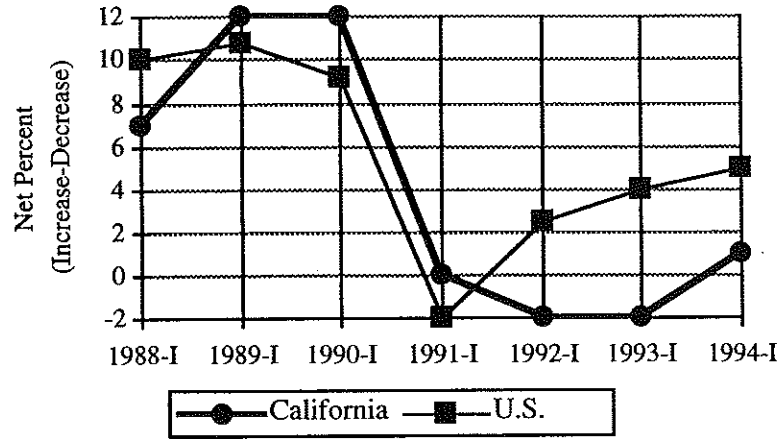
Table 1. Anticipated Hiring Trends: 1st Quarter 1994

	Increase	No Change	Decrease	Don't Know	Net (Inc.-Dec.)
Greater Los Angeles	10%	73%	13%	4%	-3%
So. Calif. Average	13%	66%	14%	7%	-1%
No. Calif. Average	17%	61%	15%	7%	2%
Calif. Average	15%	64%	14%	7%	1%
U.S.	18%	66%	13%	3%	5%

Source: Manpower, Inc. Employer Outlook Survey, First Quarter of 1994

While first quarter net hiring is usually low, what is nevertheless discouraging is the weakness of this employment measure in California in comparison to other urban areas and, of course, in terms of the hoped for signs of local and state economic recovery. Figure 4 presents Manpower Inc.'s first quarter hiring index for California and the U.S. from 1988:I through 1994:I.

Figure 4. 1st Quarter 1988-1994 Anticipated Hiring: California and U.S.

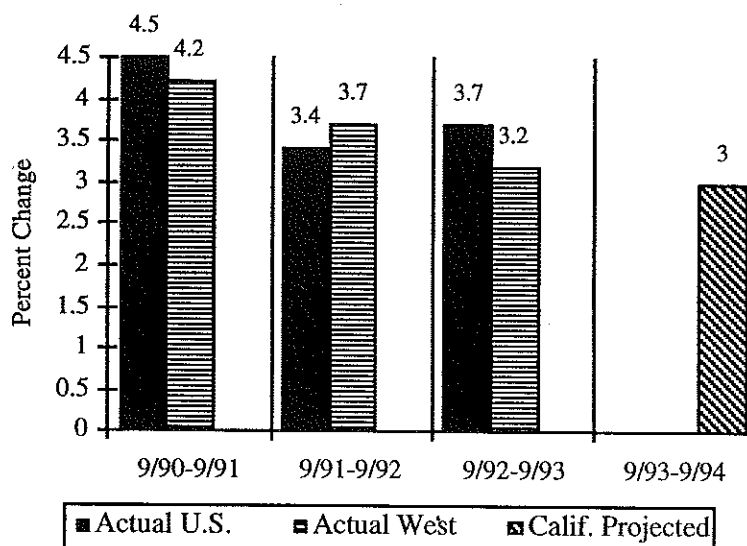


The Compensation Picture

The cost of labor in California is important to firms' decisions about employment. We treat labor cost in terms of total compensation and wage and salary costs. For historical data we consider the Bureau of Labor Statistics' Employment Cost Index, which shows changes in private sector total compensation as well as wages and salaries for the private sector in the U.S. and the West (of which California is a portion). HARRT members were asked to project both sets of labor costs for California in 1994.

Total Compensation. Total compensation includes wages, salaries, and fringe benefits. Figure 5 shows the annual percentage change in total compensation for the three preceding years for the U.S. and the West and the change for the next year for California as projected by our members.

Figure 5. Change in Total Private Sector Compensation: 9/90-9/93 Actual U.S. and West, 1994 Projected California

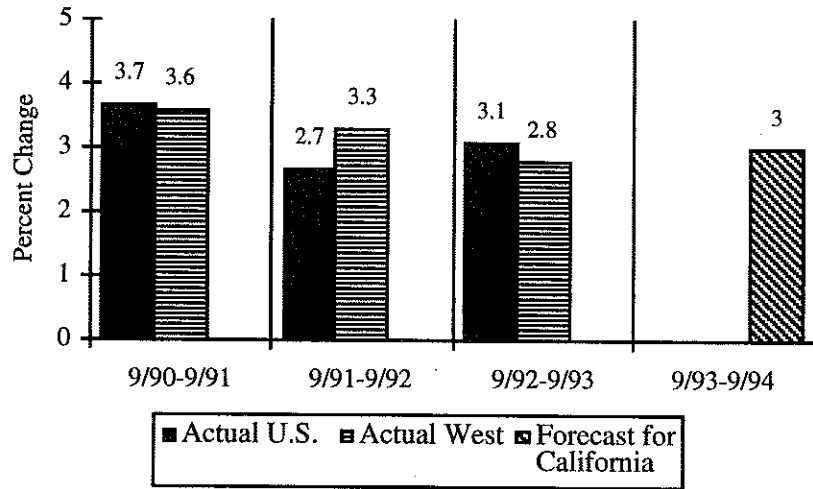


Our median forecast last year was for a 3.8 percent change in total compensation over 1993, which was not too different from the previous year's actual 3.7 percent rise in the West. However, total compensation rose only 3.2 percent in the West. Our median prediction for the percent change in total compensation for 1994 is 3.0 percent.

Wages and Salaries. The California wage and salary median increase predicted for 1994 is also 3 percent (see Figure 6). This represents an increase over the actual 1993 change in the West of 2.8 percent.

The largest fringe benefit factor in total compensation is health care. The rapidly rising cost of this benefit accounts for the greater increases in total compensation than in wages and salaries for recent years. Our identical percent rise in both wages and salaries and total compensation may indicate that our firms are implementing the health care cost control plans they reported to us last year, and feel that costs will be held in check this year. The variance we note in the predictions of total compensation may well show uncertainty on the issue of health costs, particularly in this period immediately preceding health care reform.

Figure 6. Change in Private Sector Wages and Salaries: 9/90-9/93 Actual U.S. and West, 1994 Projected California

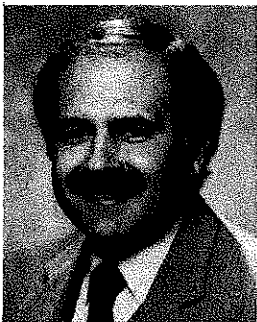


Trade Negotiations

Trade negotiations are occurring on a number of fronts, from the North American Free Trade Agreement (NAFTA) and the General Agreement on Trade and Tariffs (GATT) to the Asian Pacific Economic Cooperation (APEC) and the ongoing discussions with Japan about opening more markets. Meanwhile, the European Economic Community (EEC) is still formulating its arrangements for economic integration, including trade. These negotiations are occurring in the context of a weak economy, a condition that often drives protectionism. But our *Forecast* steering committee says we may need to successfully negotiate freer trade in order to stimulate our economy.

Given Mexico's proximity to California, NAFTA will have the greatest effect on the California economy. Uncertain as to its passage at two-and-a-half weeks prior to the House vote, the steering committee felt that economic interaction with Mexico will increase regardless of the legislative outcome. The larger HARRT group, meeting on the evening of NAFTA's passage in the House of Representatives, concurred with the steering committee's views.

Jim Wade feels that, should foreign trade negotiations be successful, a number of industries in California will have considerable opportunity to take advantage of an expanding global market.



James Wade
Vice President,
Human Resources FHP, Inc.

Strategically, California is in an ideal geographic location to conduct business with Pacific Rim countries and a rapidly emerging Mexican economy. In fact, exclusive of a NAFTA agreement, the Mexican economy is continuing to grow and become stronger, and California industries would be remiss in ignoring its neighbor to the south.



Valerie Oberpriller
*Vice President,
Administration,
Standard Brands Paint
Company*

The experience of Standard Brands Paint Company affirms this view. Valerie Oberpriller reports that their stores on the border are among the most successful and that there are plans for additional border stores. This kind of experience encourages companies wanting to expand into Mexico.

Companies with manufacturing operations might consider expanding into Mexico given the difficulties and delays inherent in starting manufacturing facilities in California. Other types of operations that firms might locate south of the border could well include distribution facilities.

The issue of Mexico's differential in production costs that may be due in part to the difference in workplace and environmental laws and regulatory enforcement has been a rallying point of NAFTA opponents. Although there will always be opportunists trying to take advantage of situations, responsible employers are aware of the laws and customs and the true costs of operating in Mexico. They are aware of employee protections not found in the U.S. (such as legally mandated severance pay arrangements) and the responsibility of adhering to good personnel and environmental practices (and perhaps assisting Mexico in dealing with its problems).

The majority of our group sees positive gains for California in the long run with the passage of NAFTA, but has concern for the short run. It is felt that companies (not necessarily our group's firms) that could move some of their operations to Mexico might do so in order to take advantage of lower wage rates and escape the heavy California regulatory burden, including the workers' compensation system. The resulting job loss ("another peace dividend") would further inflate California's hefty unemployment rate. By comparison, implementation of the European Economic Community (EEC) was planned to be gradual, with job loss taken into account.¹

Retail businesses in California worry that if NAFTA means additional California job loss even for the short term, it would further decrease sales. This could be disastrous for businesses already hit hard by the current recession. Further, if NAFTA passes and serves as a catalyst to improve the Mexican economy, and the flow of Mexican workers to the U.S. in time slows down, it would also mean a slowdown of potential customers for companies with a large immigrant consumer base.

More general concerns about our involvement with Mexico via NAFTA were raised. Would it become "a kind of Marshall Plan, where the U.S. bears some unknown costs so that Mexico's economy can be developed?" Or would making our neighbor's economy stronger, and thereby raising its standard of living, reduce the problems coming across the border, such as disease and pollution that endanger us and use our tax dollars?

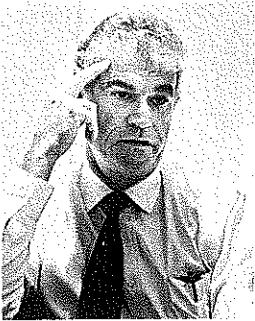
An improved Mexican economy, together with the expansion of the California economy due to increased trade and investment in Mexico, would increase overall employment as well as open the possibility of more positions for middle managers (many of whom are victims of reorganization) as U.S. companies expand to Mexico.

The effect of the GATT negotiations are not seen as directly impacting the general California economy as much as NAFTA, but as having a definite effect on some California industries with the reduction of tariffs and the opening up of new markets. The GATT accord as subsequently negotiated benefits agriculture, wine making, and the chemical industry. Protections of intellectual property will benefit our high-tech industries, particularly software and semiconductors, although the hoped-for elimination of tariffs didn't occur. Aerospace, particularly civilian aircraft, did not get the concessions it needed; nor did the entertainment industry. A timetable for allowing financial services to expand internationally should, in time, greatly benefit the industry. Some segments of manufacturing should prosper with the lowering and eventual elimination of overseas tariffs.

Immigration

The majority of the steering committee feels that immigration, both legal and illegal, has had a positive effect on the California economy. Immigrants have been willing to take lower-paying jobs, keeping costs, and thus the prices of goods and services, down. They are not seen to have taken these jobs away from U.S. citizens.

Whether we want to publicly admit it or not, and in spite of the burden placed on California's social system, legal and illegal immigrant labor has fueled the success of California for decades, and will probably continue to do so in the future. (Jim Wade)



Christian K. Bement
*Executive Vice President,
Human Resources, Public
Affairs and Administration,
Thrifty Corporation*

A HARRT member reports touring a California high-tech facility that recently won a prestigious quality award. He noted that the assembly employees were primarily immigrants.

U.S. immigration policy is viewed by panel member Chris Bement as a double-edged sword. In good times, the immigrants are vital in agriculture, manufacturing, and service industries. During economic downturns, with high unemployment and lower tax revenues, "immigration becomes a nightmare that is often used as a scapegoat and is blamed for over-utilization of the underfunded social services."

In the current environment illegal immigration is seen as a heavy burden on the social system, particularly in the areas of health and education.² There are some employment situations, particularly low-skilled jobs, where immigrants and citizens appear to be competing. Immigration legislation is expected, possibly within the year. Although California cannot have an independent immigration policy, there will be increasing pressure for residency tests for services. There is concern that lobbying by special interest groups will prevent real change in terms of more stringent regulation.

As noted earlier, NAFTA is seen as a preventive measure in terms of large-scale immigration—a growing Mexican economy will produce more jobs, reducing the need for workers to migrate. It is felt that the burden of immigration control should be with the government and at the border; however, business will still have some policing responsibility since the employment site is an effective control point.

If employers are given this enforcement responsibility, they should also be given effective tools: this might include a national identification card that could not easily be forged (unlike the documents required by the current I-9 procedures). Although the notion of identification cards raises civil liberties concerns, panel members were willing to trade off some individual rights in order to get the illegal situation in hand.

Reductions in Force, Jobs, and Displaced Workers

Downsizing or reducing the workforce is a frequent firm response to decreases in demand for specific products or services, an industry downturn, or a general economic slowdown. California has suffered through all of these, with a recession and defense downsizing in the last few years. We are also seeing downsizing in relatively healthy firms. Employment usually increases with recovery. We, however, are now engaged in a "jobless recovery," where national employment has increased very slowly relative to other economic signs that do indicate some recovery. Among the many problems this raises is that of a growing pool of unemployed workers, including many from the aerospace industry. Chris Bement laments:

Aerospace is severely affected by the 'peace dividend'. It is imperative that we utilize the workers and the facilities of this industry in a peacetime economy. Our state and federal legislation did us a tremendous injustice by not planning for the effect on the job market caused by the 'peace dividend.'

Reflecting the dilemma of society as a whole, there is no agreement among our panelists as to solutions and responsibility. There is a belief that government and business must work together to create jobs. Among solutions offered for displaced workers is the establishment of programs to redirect workers' skills to badly needed public works programs funded by both public and private sectors. Developing and building mass transportation was an example put forward.

Others believe that the problem is best left to time and market forces. Government could help to cushion the transition, but is seen as too fractionalized to be effective. The market has led and will



Wanda A. Lee
*Senior Vice President,
Human Resources,
PacifiCare Health System, Inc.*

continue to lead some people out of California to states where the employment picture is rosier. However, it is noted that despite this exodus, the state's population is still growing.

The problem with displaced aerospace workers is seen as two-pronged: the reluctance of mid-career, highly trained, experienced professionals to retrain unless they are convinced there are absolutely no other options; and the unavailability of any industry in California large and healthy enough to absorb this workforce. Wanda Lee reports:

As part of a workforce task force, I have talked with engineers. Unfortunately, many feel that retooling themselves is an impossibility. They fail to recognize that basic aptitudes and skills do provide the basics of their retraining for today's jobs... We see skills transferable to our own organization as we do an increasing volume of business with the government.

The New Downsizing

Our firms see changing the size of an enterprise's workforce (usually downward) as a continuing phenomenon. Chris Bement reports that his company has gone through a major downsizing (or "rightsizing"), reducing the workforce by 26 percent—over 4,000 employees. Bement believes that:

'rightsizing' is an evolutionary process which when done correctly is continually monitored. When a company goes through rightsizing efforts, a humane approach must be followed; this includes reviewing the entire organization for transfer opportunities, providing for out-placement benefits, and concentrating on the morale of the surviving workforce. Communication is a key element.



Kevin J. Sullivan
*Senior Vice President,
Human Resources,
Apple Computer, Inc.*

Kevin Sullivan maintains that downsizing is becoming a core competency in human resources. In responding to rapid external changes, today's company will continually reshape itself. Apple Corporation has kept in place a resource center it had created to assist employees during a major reduction in force, anticipating continuing changes. The company offers its employees counseling, internal and external job search assistance, and ongoing programs to assist them to manage their careers and increase their employability.

Managed health care as an industry is doing well. However, as the industry reorganizes it is expected that downsizing by some firms will occur. Re-employment by other health care companies in a short period of time should also occur. PacifiCare's experience illustrates these trends. While negotiating three acquisitions, the company sold off an entity that was not doing well relative to the company's core business. A group of 80 employees about to be laid off was offered inplacement and outplacement services as well as severance pay. Eighty-five percent of these employees will be placed.

Companies are aware of the effects of downsizing on remaining employees. At a macro level, the trend of frequent downsizing and the proffered wisdom that people should be prepared for several jobs/careers in their working life lead to employee self-interest at the expense of company loyalty. Where downsizing occurs, the "survivors" suffer a loss of morale, may resent the company, and have fears about their own jobs. Some companies are using their employee assistance programs and outplacement firms to deal with survivors' concerns. Ongoing skill development programs and career management programs are seen to address the problem, and increased communications with employees, explaining the need for downsizing and sharing plans for the future, are given great importance.³

Concerning any impact the Worker Adjustment and Retraining Act (WARN) might have had, some companies adhere to the notice requirement by routinely giving the 60 day notice or by providing the 60 days' pay and notice of immediate layoff. The 60 day period is used by some firms as a transition period, with placement services made available. Other companies have changed their layoff strategies so as to minimize liabilities and improve the package of transition assistance to all employees in layoff situations. It was felt that many small and mid-size companies were not aware of their liabilities under WARN.

Significant outsourcing of goods and services is reported by our companies. In many cases, outsourcing is expected to increase this next year as companies concentrate on their core businesses. Outsourcing is associated with decreasing the firm's workforce, as goods and services are purchased from outside suppliers rather than produced within the firm by its own employees. However,

employment is increased in supplier firms. There are issues raised about the quality of these new jobs, often in smaller companies offering lower wages and fewer benefits than do large firms. The outsourcing phenomenon does, however, offer opportunities for entrepreneurs to start up small businesses supplying needed goods and services.

Job Creation and the California Business Climate

There is general agreement that the number of jobs in California must be increased. How this happens and whose responsibility it is remains a subject of intense debate. Wanda Lee sees the responsibility to create jobs

as a collaborative effort of various segments of the private and public sectors. We must be seen as providing a 'comfortable home for business in a balanced regulatory environment, with a skilled workforce and affordable real estate.



Lee E. Clancy
*Vice President,
Human Resources,
Sizzler International, Inc.*

State government is the focus of Lee Clancy's remarks:

The state rode the golden wave for many years. As other parts of the country suffered economically from time to time, California kept on cruising along. During what seemed to be perpetual good times, legislation and the overall attitude were not in the best interests of business. Although legislators can watch the 11 o'clock news and see governors from other states visiting firms in our state and utilizing all kinds of enticements to woo those firms to their states, California legislators sit on their hands.

To the consensus that the state bears much responsibility for a climate unfriendly to the attraction and development of business, one of our panelists adds, "Every voter in California needs to step up and make these issues known in no uncertain terms."

While federal assistance is seen as needed, particularly in regard to the losses stemming from defense downsizing, there is skepticism that any significant help will be forthcoming. While it was federal action that led to our "peace dividend" problem, there appears to be no serious attempt to provide appropriate assistance in the aftermath.

Although California does have a large block of electoral votes, it appears to be irrelevant to federal decision-making as further action is taken to reduce the federal budget. Some felt that California was not using its leverage in this matter, and should take action.

Other Legislative Issues

Beyond NAFTA and health care reform, no new significant employment-related legislation appears to be imminent. Stronger Americans with Disabilities Act (ADA) regulations, which would require disability accommodations resulting in greater remodeling costs as well as higher legal defense costs, cause some concern at this time.

On the compensation front, a rise in the minimum wage would be a threat to some industries and might result in a loss of jobs. However, minimum wage is not yet seen to be in the legislative forefront, although it is on Secretary of Labor Reich's agenda. The recently proposed Financial Accounting Standards Board (FASB) regulations concerning the reporting of the value of stock options as compensation when the options are granted could dampen efforts to try risk- and reward-sharing compensation plans.

The recently enacted workers' compensation reform legislation is a step in the right direction. Risk managers in the retail industry note a significant reduction in reported claims. However, our panel feels that these measures alone are not adequate: we need additional measures simplifying and clarifying the process and providing for objective standards. The current system is still an "entitlement system" rather than the no-fault system it was intended to be.

To really impact California job retention and expansion, large-scale legal reform must take place. The high rate of litigation in this state translates into higher business cost. HARRT members believe tort reform should be considered as one response to this crippling problem. Firms now show a greater interest in alternate dispute resolution (ADR), including mediation and arbitration as a reasonable attempt to discourage litigation.

A problem area for practitioners is the articulation of a number of regulations—particularly the Family and Medical Leave

Act (FMLA) with the state family leave and disability leave acts, the ADA, and workers' compensation. Companies are struggling with integrating these regulations. There is also concern that the lack of clarity about their integration provides room for more litigation.

As for the FMLA itself, Lee Clancy represents most employers in his beliefs:

Although it seems onerous and will create isolated problems, I don't anticipate massive problems from the Family and Medical Leave Act. In this day and age, I feel the loss of income will be a strong deterrent to taking extended leaves.

Some on the panel are concerned about potential problems, including a push for paid leave. Utilization of leave by groups of employees in short supply would be problematic for some firms. However, the long view is taken by Kevin Sullivan in stating that "FMLA is a positive step toward recognizing the realities of working in the 21st century."

Health Care

Employers have long expressed the need for controlling health care costs. As the push for health care reform heats up, our panelists are glad to see the issue addressed but are lukewarm on a number of aspects of the latest version of the Clinton plan, as well as what they believe the eventual legislated health plan might be. Although most firms prefer a managed competition plan, and believe we will get a managed competition plan, they think the plan will be over-regulated, with costs much higher than predicted. There are some suggestions that, given the extreme willingness of the administration to negotiate the plan's provisions, the final product may bear little resemblance to the original plan. The President's dealings to get NAFTA passed may have used up bargaining chips he could have used for health care reform. The bill may turn out to be a much watered-down plan, but one holding to the original intent of universal coverage.

There is some debate over when the bill will be presented. Presentation prior to the 1994 elections will give some support to the Democrats in Congress and show that the President is delivering on his

pledges. But on the other hand, those up for election will have to face talking about costs. Rather than the 7.8 percent of payroll cost for health care to the employer that Clinton's group is estimating as the cost factor, the steering committee believes that 12 percent is a more realistic figure. Companies with lower-paid workers and who are bound to certain levels of health benefits by union contracts see these 7.8 percent to 12 percent levels as beneficial to them. But companies with large numbers of part-time employees, most of whom don't currently get benefits, will be shouldering an additional economic burden that will be difficult to carry. In some cases, the proposed 8 percent of payroll cost for health care would double a firm's benefit costs. Firms with high turnover will also have to bear higher administrative costs. Some industries do not know how they can absorb (or pass on) these costs. Companies with more highly paid workers who want to continue the high level of benefits they now offer are concerned about a tax on the portion of benefits above the legislated cap. It raises the question of the government backing into the taxation of benefits.

It was suggested that the government might want to tax employees on the value of health benefits over the mandated minimum, but because it would cause problems with organized labor, will shift the burden to the employer instead (the "politically correct" solution). There was some speculation as to whether some companies might reduce their benefits to the mandated level. Another issue arises from the proposed payroll tax type of assessment. A company with highly compensated workers will be paying significantly more than a firm with the same size workforce composed of low-wage workers. This variation in payment for "purchasing" specific and similar services is perceived as a glaring inequity despite experience with a variety of contributions based on payroll.

Most large firms are anticipating maintaining their own plans rather than joining a regional alliance. It is suggested that the retail food industry, the retail industry in general, and unionized manufacturing might be better served by joining a regional alliance. Each firm, however, will have to study its own costs to make that decision. It is predicted that unionized firms will take tougher stands on benefit issues once there is a standard plan in which other local

companies and competitors take part. Where unions need the benefit issue for political reasons, companies may be bargaining about supplemental health benefits.

The role of the human resources function when a firm joins an alliance is under question. It is felt that the benefits function will be downsized as claims administration moves to the alliances (and that overhead cost is shifted). Issues like quality of service will probably come to human resources. HR people will have to be knowledgeable on content, rather than administration. An additional fallout of the new system may well be that supplemental benefits like dental care insurance plans will become competitive.

If there is a California perspective on the proposed health care plan, it's one of advantage since California is so far ahead on HMO and managed care modes of health care delivery. It will be easy for the state to meet requirements.

Health care providers who favor managed competition voice concern over the price and fee controls in the Clinton plan that stifle competition, reduce the incentives to keep costs down, and reduce industry accountability. A true managed competition plan will work well for the providers, the employers, and the public. A highly bureaucratized plan will serve no one well. Jim Wade notes:

There will be a shake-out and consolidation in the health care industry, regardless of the Clinton plan. Employers are driving health care toward reform, and the momentum will not subside even if no legislation is produced. Traditional indemnity insurance giants are rapidly moving into the managed care arena and have the financial power and size to swallow up managed care companies without missing a step. In order to survive, managed care companies will go through a series of mergers and acquisitions in an effort to remain as viable independent organizations.

Workforce Values

There is a wide range of opinion and experience regarding younger workers and their values. Kevin Sullivan believes that younger workers may just be more vocal than their co-workers. He believes that the biggest value change in the workplace has been women working in a career role and industry not yet adjusting to it.

Other employers note an increased employee emphasis on time issues and quality of life.

The younger generation has tended to cast a jaundiced eye at the baby boomers above them, expressing disdain for the workaholic 'win at any cost', 'he who dies with the most toys wins' mentality, and instead are focused more on quality of life and environmental issues, striking a balance between social, recreational, and family needs. (Jim Wade)

Wanda Lee sees younger workers interpreting the corporate support for work and family balance as going beyond flexible hours and child care, to a "normal 40 hour work week," which for exempt workers is not feasible in the current competitive marketplace.

Discussion concerning new job entrants supports Chris Bement's belief:

Individual values change with the circumstances surrounding a generation. There is a different set of values in our younger workers—time off has become more important. However, this phenomenon is changing with more severe economic times. California has always attracted individuals who enjoy the outdoors and who live more for today than tomorrow. However, during recent years this philosophy has changed, again due to the difficult economic situation in California.

An additional value change is alluded to in our discussion on downsizing. Loyalty to an employer is not a pragmatic value in an age of frequent downsizing and restructuring. It is expected that employees will be looking for opportunities and will make a number of job changes during a career (or careers). Its mirror image is the reduction in the value of seniority to the employer. Pay and other rewards are more closely tied to performance. In non-union firms, employee performance, rather than longevity, is the primary factor in layoff decisions.

Local Issues

Our panel identifies local conditions that might be affecting employment levels and recruiting efforts in California.

Valerie Oberpriller sees the issue of air pollution regulation as a help to her company since newcomers from the same industry face myriad problems starting competitive plants.

The quality of our educational system is still a major concern for business. The ability of our schools to produce graduates who will be able to meet changing workforce needs remains at issue.

It is heartening to note some efforts at change, such as the willingness of the Los Angeles Unified School District to adopt the Los Angeles Alliance for Restructuring Now (LEARN) proposal. LEARN is a community-business-education coalition which, after studying successful schools across the country, fashioned a plan to reform Los Angeles public schools. Several schools have already begun to participate in the reorganization under the plan. But there is still a massive job to be done and limited resources to do it with.

Kevin Sullivan finds that the following factors make it difficult for his company to recruit to California: congestion, erosion of the education system, cost of housing, air pollution, and crime. He notes that his company can no longer offer high wages to offset these quality of life factors.

Chris Bement also cites crime and adds the 1992 riots as factors causing recruiting problems, particularly for senior executives. He blames the national and local press for sensationalizing crime and the riots, doing a "great disservice to Los Angeles."

There is hope that the growing extent of public discourse about local problems, the greater involvement of business and citizens in problem-solving efforts, and new political leadership at the local level will provide the impetus and energy for change.

Conclusion

While California's economic recovery is not in immediate sight, our HARRT companies move forward, reshaping themselves to meet a rapidly changing environment. With greater formal recognition of globalization as seen in the range of trade negotiations, and pragmatic knowledge that this globalization has grown and will continue to grow and define the economy, these firms see some threats but more opportunities. They appear to be in a mode of preparation: defining their core competencies and matching these to current and future markets, shedding components that weaken their readiness to compete, and strengthening those components that will enhance their competitive posture. Their concerns cluster around the

climate for business. They hope that policymakers will be responsive to their needs and be partners in revitalizing the California economy.

NOTES

¹ For a discussion of developments around this issue, see Christopher Erickson and Sarosh Kuruvilla, "Labor Costs and the Social Dumping Debate in the European Community," Mimeo, Anderson School of Management, 1993.

² For a review of research on the economic costs and benefits of U.S. immigration, see George J. Borjas, "Immigration Research in the 1980s: A Turbulent Decade," in *Research Frontiers in Industrial Relations and Human Resources*, eds. David Lewin, Olivia S. Mitchell, and Peter D. Sherer, Industrial Relations Research Association, Madison WI, 1992, 417-446.

³ For further discussion, see Joel Brockner, "Managing the Effects of Layoffs on Survivors," *California Management Review* 34, 2, Winter 1992, pp. 9-28; and Morris M. Kleiner and Marvin L. Louillon, "Providing Business Information to Production Workers: Correlates of Compensation and Profitability," *Industrial and Labor Relations Review*, July 1988, pp. 605-17.