



UCLA

Human Resources Round Table (HARRT)

**CALIFORNIA
HUMAN
RESOURCES
FORECAST
1993**

Susan Way-Smith
Daniel J.B. Mitchell

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

THE 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 (IIR) and the Anderson Graduate School of Management (AGSM). 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.

THE CALIFORNIA HUMAN RESOURCES FORECAST

This report reflects the outlook on key California human resource issues from the perspectives of the HARRT membership. In this *Forecast*, the HARRT members look to 1993 and beyond as they identify and discuss those issues that will challenge business and human resource executives.



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David Lewin
UCLA

FOREWORD

It is a distinct pleasure to introduce the *California Human Resources Forecast 1993*, developed by members of the UCLA Human Resources Round Table (HARRT). HARRT is a membership organization, and the meetings of its members with UCLA faculty are typically private in nature in order to facilitate the candid interchange of ideas and views. Considering the expertise represented by HARRT members and some of the critical human resource issues facing California, however, HARRT has decided to prepare and publish an annual California human resources forecast, the first of which is contained in this volume.

The methodology used to prepare this report is described in the Preface to this volume, but it should be noted that this methodology parallels that used by the UCLA National Human Resources Forecast Panel (see UCLA Institute of Industrial Relations, *Human Resources Forecast 1993*). The basic idea underlying the HARRT *California Human Resources Forecast* is that a group of senior practitioner "experts" whose companies are headquartered in California and have enormously high stakes in the California economy can offer important perspectives and advice on dealing with the State's critical human resource issues. This is the key objective of the *California Human Resources Forecast 1993* and of those to follow in the years ahead.

Finally, appreciation is expressed to Professor Daniel J. B. Mitchell, Dr. Susan Way-Smith, and Ms. Rosalind M. Schwartz of UCLA for their sustained efforts during 1992 in coordinating and bringing to fruition the HARRT *California Human Resources Forecast 1993*.

David Lewin
Director, Institute of Industrial Relations
Chairman, HARRT
University of California, Los Angeles



Susan Way-Smith
UCLA



Daniel J.B. Mitchell
UCLA

PREFACE

This report was developed as follows. On October 30, 1992, HARRT's first annual meeting of the executive steering committee was held. This committee was composed of nine members from the following industry sectors: financial services; aerospace; government; natural resources; health care; telecommunications; entertainment/tourism; and retailing. These members provided written responses to questions on issues viewed by the HARRT membership to be important in 1993: California's economy; compensation and employment trends; expectations concerning key legislative and public policy issues; education and training; and political events. The members then discussed their responses and a draft forecast report was developed from the written responses and discussion. That report was then circulated among all HARRT members.

On December 2, 1992, a general HARRT meeting was held at which the draft report was discussed and revised. This *Forecast* represents the combined efforts of the executive steering committee and HARRT as a whole. UCLA faculty and staff served as co-chairs of the steering committee and as facilitators. They provided data but did not participate in the actual forecasting.

Section 1 of the report gives the members' projections for the California economy and includes specific forecasts of unemployment and compensation changes. Section 2 identifies key public policy concerns for 1993 and beyond. Although education and training are also public policy issues, we treat these critically important subjects separately in Section 3. Section 4 suggests a portfolio approach to human resource-related public policy issues. Section 5 highlights several important action areas and issues for businesses during 1993.

A feature unique to UCLA forecasts is their reporting of the accuracy of the predictions. Each quarter, that accuracy will be assessed, and in 1994, we will report back on how well our HARRT members' predictions stood up against actual events.

EXECUTIVE SUMMARY

In a complex global economy and society, the effective management of human resources is key to the success of business organizations. This year and continuing into the future, the UCLA Human Resources Round Table (HARRT) is contributing to the management of human resources with its *California Human Resources Forecast*. This *Forecast* is the first annual outlook on California human resource issues from the perspective of a group of senior human resource executives who are active HARRT members. These executives looked ahead to 1993 and beyond and identified important issues that will challenge both business executives and human resource executives.

In 1993, one of the biggest challenges will be managing in a climate of continued economic stagnation. The year ahead will be characterized by low consumer spending, higher levels of unemployment, more "churning" in California's economic activity as defense cuts continue to work their way through the economy, and a small increase in employment costs.

Public policy issues on both national and state levels continue to demand the attention of human resource professionals. On the national level, the two key issue areas are health care and employment litigation. Amid vying political and interest group pressures, a foundation will emerge for major health reform actions foreseen for 1994. The group also predicts significant litigation concerning the Americans with Disabilities Act (ADA).

On the state level, predictions for progress on important issues are not sanguine. The California state budget crisis is projected to worsen in 1993, little headway will be made in workers' compensation reform, no progress will be made in increasing the efficiency of state regulatory agencies, and the public school crisis will also worsen.

All of these predictions point to certain actions that we believe human resource professionals will undertake in 1993:

- Identify and monitor the effects and opportunities of reduced employee turnover.

- Contain fringe benefit costs through: managed care programs; greater burden-sharing of health care costs; health care cost awareness programs with unions; transfer of fringe benefits from the state to ERISA.
- Actively participate in health care reform.
- Contain employment costs: examine outsourcing possibilities; consider wage freezes.
- Monitor job elimination legislation.
- Prepare for increased employment litigation.
- Assess the distribution of the firm's training dollars.
- Identify training opportunities for an increasingly multicultural workforce.
- Identify the availability of training dollars from public sources (e.g., defense conversion allocations).

Finally, there were two schools of thought on how to "steer" the human resource function during 1993. Some members advocated maintaining the present course and carefully assessing any change in course. Others advocated charting new waters because the current climate provides a major opportunity to reposition for the future. Actual 1993 events will give an indication of which viewpoint was the better choice. In the meantime, as each quarter passes, we will be comparing our California human resource predictions with actual outcomes.

PARTICIPANTS IN HARRT AND THE FORECAST

UCLA Human Resources Round Table (HARRT) 1993 California Forecast Executive Steering Committee

Wellman E. Branstrom, Vice President, Corporate Human Resources, Unocal Corp.

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

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

Jack Driscoll, General Manager, Personnel Department, City of Los Angeles (as of January 25, 1993, General Manager, Department of Airports, City of Los Angeles)

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

James R. Poling, Area Vice President, Human Resources, GTE Telephone Operations - West Area

G. Andy Rich, Vice President, Human Resources, Knott's Berry Farm

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

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

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

Susan Way-Smith, Research Fellow, Institute of Industrial Relations, UCLA; Co-Chair of Steering Committee

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- Christian K. Bement**, Executive Vice President, Human Resources, Public Affairs and Administration, Thrifty Corporation
- Wellman E. Branstrom**, Vice President, Corporate Human Resources, Unocal Corp.
- Darlene Chandler**, Vice President, Organization Planning and Development, Broad 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
- Connie Dotson**, Vice President, Human Resources, U.S. Computer
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- Richard A. Fitch**, Senior Vice President, Human Resources, Cal Fed, Inc.
- John Hofmeister**, Vice President, Human Resources, Allied-Signal Aerospace Company
- George R. Horne**, Vice President, Human Resources, Dole Food Company, Inc.
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Charles W. Thomson, Vice President, Personnel, Federal Express

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

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Karen Stephenson, President

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1. THE CALIFORNIA ECONOMY IN 1993 AND IMPLICATIONS FOR HUMAN RESOURCES

Overview

While the news for the California economy during most of 1993 is not good, there are reasons to expect some recovery toward the end of the year. The members forecast that 1993 in California will see a continuation of the stagnant economic conditions we have experienced in 1992 and will be characterized by:

- low consumer and business spending;
- high unemployment;
- continued “churning” in economic activity as defense cuts work their way through the economy and other industries begin to emerge as replacements to the traditional anchors (e.g., aerospace) of the economy.

The HARRT members expect that the fourth quarter of the year will show a slight recovery with unemployment edging down and business and consumer spending edging up.

However, California's unemployment will still be higher than the rest of the nation's.

Spending

Low consumer spending in California is attributed to a number of factors. Ken Sekella of Vons characterized some of these as psychological, but highlighted the effects of the erosion of wealth that is occurring for home owners in California:

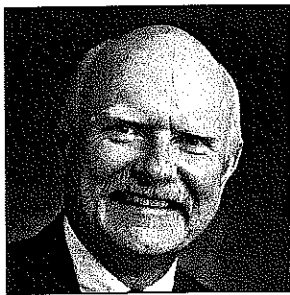
It seems to me that California is further troubled by a phenomenon I would describe as a psychological barrier to spending. Put quite simply, people are afraid to spend as a result of what appears to be an unending unfolding of bad news. The state appears to be in a political quagmire and budget cuts and fear of job loss are causing the consumer to be very conservative in terms of spending. Additionally, the sharp decline in home prices is eroding wealth. In a recent *Wall Street Journal* article, it was noted that the Federal Reserve Board calculates that every \$100 drop in household net worth causes a \$5 reduction in spending.



Kenneth Sekella
Vons Companies, Inc.



Robert B. Corlett
Lockheed Corporation



James R. Poling
GTE Telephone
Operations-West Area



James Wilk
Health Net

Unemployment

Bob Corlett of Lockheed noted that the key elements for recovery are still not evident:

California's unemployment levels will remain higher than the rest of the country for another 18 to 24 months. Aerospace and defense continue the downward trend that began several years ago. Construction is flat, real estate is flat, housing starts are flat. All of which are key elements to California coming out of the worst recession we in California have faced since the Great Depression. Nothing is happening that will cause a positive change in these indications.

Churning and Restructuring

Jim Poling of GTE highlighted the importance of the structural change in California's economy:

California is experiencing a structural change in its economy. California is shifting from an aerospace defense based economy to more of a service sector economy. This shift is causing dislocation of workers and this will continue through the summer of 1993. As California adjusts, new industries will emerge. California is poised to be the leader in the environmental and high tech manufacturing industries. Because of the industrial change, the recession will lag behind that of the nation.

The members forecast some very modest relief to the economic morass beginning in the fourth quarter of 1993. There are many potential rescuers of the California economy. Jim Poling noted that several developments have laid the foundation for the eventual improvement of the economy. Among these are lower debt burdens in the household and corporate sectors and improved profitability of banks. Jim Wilk of Health Net pointed out additional sources of relief:

The fact that we service the Pacific Rim can't be overlooked for long. It's too strong a "plus." The slow but real recovery of Japan and other foreign players will also have positive effects in 1993. In hindsight, one can say that the cutbacks have been made, the budgets reduced and much fat has been tossed away. Looking forward, there will be an upward and onward march—not earth-shattering, but off to a good start.

California Unemployment in 1993

The 1993 economic picture has specific implications for unemployment. HARRT members see unemployment slowly edging down beginning in the third quarter of 1993. Figure 1.1 shows the actual rates of unemployment in California for 1992 and HARRT members' projections through the fourth quarter of 1993.¹ As 1993 progresses, we will track the accuracy of the predictions by comparing the actual unemployment with the median value of the HARRT group's projections.

¹The unemployment rate for the fourth quarter of 1992 is an estimate. This figure will be adjusted when new information is released.

1992 Actual and 1993 Forecasted California Unemployment

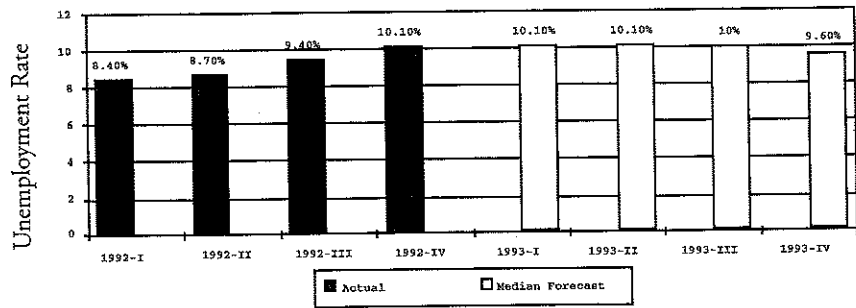


Figure 1.1—A Small Decline in Unemployment by the End of 1993

It is important to note that there is variation among the individual unemployment projections of HARRT members. A few members were a little more optimistic than the rest and forecasted a much more drastic decline in unemployment during 1993. Other HARRT members were more pessimistic and projected unemployment hovering around 10.5 percent throughout 1993. However, the majority clustered closely around the median projection. Figure 1.2 shows the HARRT group's range of expectations concerning California unemployment during 1993.

Range of Individual Forecasts of California Quarterly Unemployment

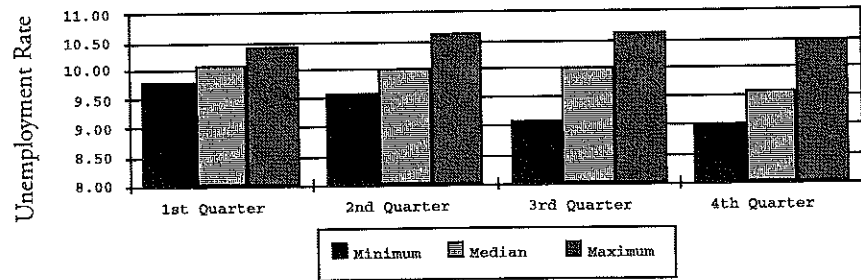


Figure 1.2—A Range of Unemployment Expectations

High unemployment can facilitate recruiting and retention, and many of our members have experienced some positive effects of high levels of unemployment. Ken Sekella notes that recruiting has been much easier and the worsening economy in California has contributed to a 50 percent decline in employee turnover for his firm. The majority of the other members also forecasted a decline in turnover in 1993.



Sally Newton
Kaiser Permanente

The HARRT members recognize that although high unemployment can facilitate recruiting in the short term, there are longer term issues on the horizon. Sally Newton of Kaiser Permanente highlights these issues:

As an employer, high unemployment levels have temporarily eliminated some of the difficult recruitment issues of the past few years. In many cases, attrition is close to zero. When positions are available, often many high caliber individuals compete. This is in sharp contrast to the scarcity of resources experienced in the past few years. While this is positive from a recruitment standpoint, belt-tightening in general is challenging for employers. Labor intensive industries often must achieve reductions in cost through reduction in staff and reduced hours or lay-offs. Thus, the cycle continues.

A Comparison of the HARRT Forecast with Manpower, Inc., Projections

For the last 16 years, Manpower, Inc., has been measuring employers' intentions to increase or decrease their permanent workforce. To produce these measurements, each quarter Manpower conducts a national telephone survey of over 15,000 public and private employers in 468 cities. Representatives of Manpower, Inc., ask employers two questions:

1. How do you anticipate total employment at your location to change during the next quarter of the year as compared to the current quarter?
2. How do you characterize this increase?

Manpower then tabulates the results on a national and regional basis.² The results are in the form of an index which subtracts the number of employers who expect a decline in employment from the number of employers who expect an increase in employment. For the first quarter of 1993, 17 percent of the employers surveyed expect a decrease in their total employment, and 15 percent expect an increase in total employment. The index for this first quarter of 1993 is -2 percent.

At our request, Manpower provided us with their quarterly California data. Figure 1.3 shows both the unadjusted and the seasonally adjusted hiring patterns for California for the period 1988 through the first quarter of 1993. Hiring is very seasonal, but we can compare the same quarters across years. For example, the results of the

²The four regions of the country are: Northeast, Midwest, South, and West. The states included in the West are Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

first quarter of 1992 and the first quarter of 1993 are almost identical. While the seasonally adjusted rates are not as severe, the overall downward trend is very clear. Appendix B describes how we adjusted the data.

Our HARRT forecast closely matches these predictions. The HARRT members predicted continuing high levels of California unemployment, and Manpower's weak hiring projections are a mirror image of this forecast.³

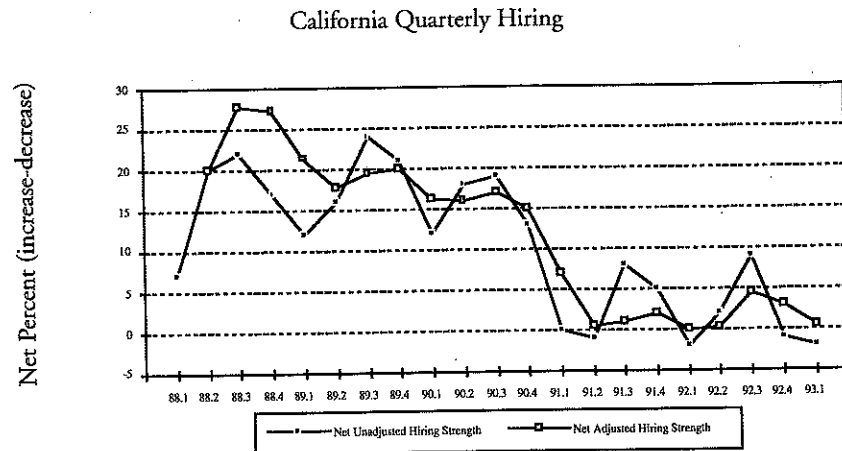


Fig. 1.3—Quarterly Hiring Strength in California

California Compensation Changes in 1993

Unemployment and its implications for human resource management constitute one important economic factor for California in 1993. A second important factor is the projected cost of labor for 1993.

Our forecasts for compensation changes parallel the Employment Cost Index, though they are not budget projections. We use the Employment Cost Index because it is the most comprehensive measure of trends in employee compensation as a cost of production. We included two key employment cost measures in our forecast for compensation changes in 1993. The first is the total compensation component, which includes changes in labor costs for money wages and salaries and non-cash fringe benefits. The second is the wages and salaries component, which includes only money wages and salaries. These measures are available for the U.S. as a whole and by region. We first discuss the projections for total compensation and highlight important continuing trends in health care. We then discuss changes in pay and note key trends for collective bargaining.

³Next quarter we will report the new Manpower, Inc., projections and revisit our unemployment forecast.

Total Compensation

Figure 1.4 shows the actual percentage changes in private sector total compensation measure of the Employment Cost Index for the U.S. and the Western Region; California is included in the West. The far right column in the figure is the members' median forecast for California's total compensation change in 1993. The composite rate shows a modest increase that is slightly above the rate for the entire U.S. and the West during 1992.

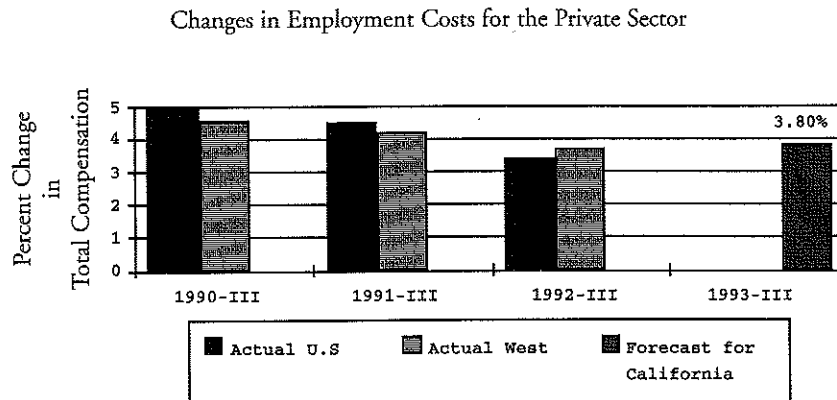


Figure 1.4—Changes in Total Compensation in 1993

Non-cash fringe benefits are included in the total compensation percentage. One of the largest cost items in the fringe benefit area is health care. During 1993, continued cost containment for fringe benefits (and particularly health care) is a key objective and it will be achieved through a variety of mechanisms. The members noted four important benefits cost containment trends that will continue during 1993:

- Continued emphasis on cost control for health care (e.g., through managed care programs).
- Continued health cost burden-sharing with employees (e.g., higher deductibles and larger co-payments).
- Health care cost containment increasingly a focus of collective bargaining (e.g., union premium payment).
- Transfer of fringe benefits from state jurisdiction to ERISA.

Members whose firms are unionized noted that collective bargaining will focus increasingly on health care issues. Some firms will continue working with unions to control the costs of health care through the same programs used for other employee groups. Other firms expect work stoppages as they attempt to shift the costs of health care to unionized employees.

There is also the renewed effort to “manage around” California. Firms are so frustrated by the lack of progress in reforming workers’ compensation that more forceful efforts are being made to test the legal waters and transfer benefits, such as workers’ compensation (and even vacation programs), to ERISA. We discuss this in greater detail in the public policy section.

Wages and Salary Changes

Figure 1.5 shows the actual percentage change in the private sector in the wage and salary component. The members’ forecast is shown in the far right-hand column of the figure. The HARRT group expects that the overall rate of pay increase will be modest.⁴

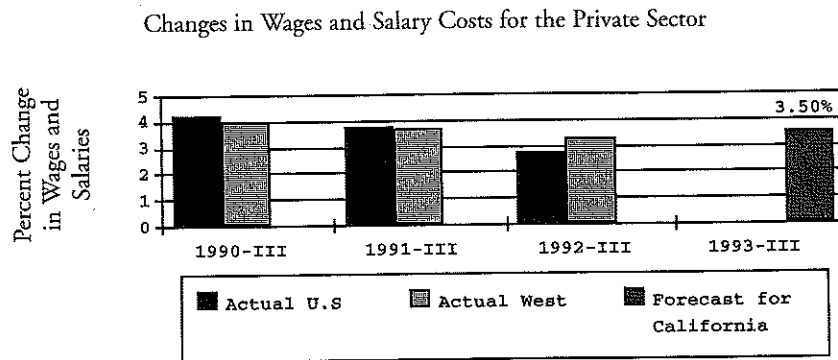


Figure 1.5—Wage and Salary Expectations in 1993

There is also a wide range of estimates for changes in pay during 1993. Figure 1.6 highlights the range of the individual forecasts. The distribution of these estimates mirrors the estimates for unemployment—a few of the estimates are in the low end of the range and a few are fairly optimistic.

⁴Note: This is not a merit budget figure. It is a change in salary structure. Merit budget increases are often 1 percent to 2 percent above salary structure increases. The percentages reported in this forecast more accurately reflect the actual increase in labor costs.

Range of Individual Forecasts

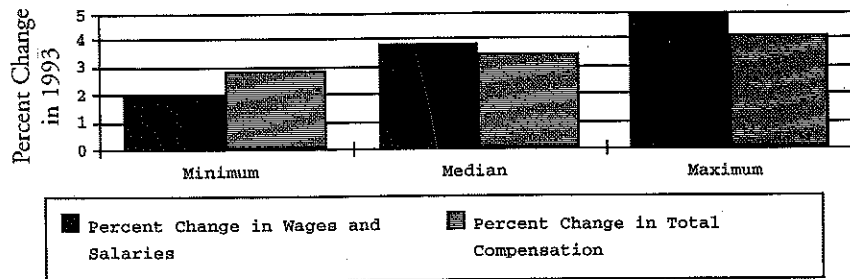


Figure 1.6—The Range of the Projections

Our group predicted that the following employment cost containment efforts will continue in 1993:

- Examination of outsourcing certain of the firm's activities (particularly among unionized firms).
- Hourly wage freezes—however, the group did not anticipate concession bargaining on the horizon in 1993.

One continuing trend in both union and non-union firms is outsourcing. Firms are scrutinizing all aspects of their operation for cost savings opportunities, and when an activity can be performed at lower cost outside the organization, there is the trend to outsource that activity. However, on the horizon looms some potential legislation which is intended to limit this approach. We discuss this in greater detail in the public policy section.

Industry Specific Concerns

HARRT members come from a wide variety of industries which have particular concerns about the California economy in 1993. Here we offer a sampling of some of these concerns drawn from the retail, entertainment, and government sectors of the economy:

The grocery business is experiencing a decline in sales over last year—such that on a same store comparative basis we expect sales growth to be flat or even lightly negative. I believe Southern California's high unemployment will not materially improve in 1993 and may even rise. This has obviously contributed to the industry's sales problems. Customers are spending less on food and wherever possible are trading down to lower cost alternatives. Additionally, in difficult economic times, price becomes an even more important factor in the marketing equation and we see customers looking for ways to reduce their food bill such as using coupons, shopping with a list, and buying more products on sale. (Ken Sekella, Vons)



G. Andy Rich
Knott's Berry Farm

There is significant concern regarding the ongoing vitality of tourism in California. There are an increasing number of obstacles that California must overcome when vacation plans are being made vis-à-vis other vacation alternatives domestically and internationally, e.g., gangs, gridlock, smog, civil unrest, earthquakes, and cost. If one were to devise a "fun factor" index, there are many alternatives that score much higher on the scale. I believe we will see more vacationers leave California. For the same reason, domestic and international travelers will also pass us by. (Andy Rich, Knott's Berry Farm)



Jack Driscoll
City of Los Angeles

All indications are that the California economy will not rebound substantially during 1993. The major reflection of this in my business (government) is the substantial decrease in revenue from sales tax, hotel tax, business tax, etc. The property tax base is eroding; the business tax is lower due to economic downturn or from major businesses leaving California. Defense spending has decreased which has caused a loss of permanent jobs in Southern California which is a further indication of an economy that is in a long-term downward spiral. (Jack Driscoll, City of Los Angeles)

2. PUBLIC POLICY HOT-BUTTONS IN 1993

In this section we cover a range of public policy issues on both the national and state level that are likely to be important during 1993. One reason we discuss both national and state public policy issues is the strong link between the two policy levels, and California frequently initiates measures that address national policy issues. The best example of this is Proposition 166, a measure on the November 1992 ballot, which attempted to mandate health care coverage. Another reason we discuss national issues is because some important outcomes of national public policy changes are likely to be unique to California. For example, California borders Mexico and the effects of a North American Free Trade Act may be different for California than for many other states simply because of its location.

National Issues

Health Care

The general consensus of the HARRT members is that no substantive implementation of reforms in health care will occur in 1993. *However, by the end of 1993, we will see a clear pattern of what will happen in health care reform.* It will be a year of ups and downs with a great deal of fencing among key interest groups (e.g., the American Medical Association, American Association of Retired Persons). In the meantime, firms will need to continue to focus on costs. Darlene Chandler summarized the issue:

The struggle that companies are experiencing with health care costs is becoming debilitating. I can't see how it can continue indefinitely.

Health care remains an important public policy issue. All members agreed that firms need to become politically active in the health care reform arena to insure that employers' concerns are addressed—particularly in this period of recession.⁵ The majority of members also



Darlene Chandler
Broad, Inc.

⁵Some employers are joining national coalitions such as the National Leadership Coalition for Health Care Reform. Others noted that they were participating in President Clinton's employer "cluster groups."

agreed that the only avenue available to them to manage the problem is cost control. As Sally Newton noted:

Compounding the effect of a sagging economy is the fact that health care is a hot political topic nationwide—as well as in California. Employers are experiencing pressure both from the slow economy and from several years of high inflation in health care costs. Employers feel a strong need to control costs to protect their own competitive position and continued viability and are looking for creative ways to shift, control, or cut costs for employee benefits.

Americans with Disabilities Act (ADA)

Assessments of the effects of ADA were at opposite ends of the spectrum. Darlene Chandler represents one end of the spectrum:

We believe that it [ADA] can have a very positive influence on business, specifically with regard to diversity challenges in the workforce.

Those on the other end forecasted that 1993 will be a year of defining the reasonable accommodation provision of ADA. Overall, these members believe that the law will set off a litigation explosion. This is particularly worrisome in a state known for the highly litigious behavior of its residents. Wellman Branstrom of Unocal stated:



Wellman Branstrom
Unocal Corp.

I have concerns about our litigious society when it comes to employment issues. Certainly, I support the protection afforded by the EEO and ADA to prevent improper actions on the part of employers. However, the number of claims that are without merit appears to be increasing, causing employers to spend more time and money in their own defense, rather than using those funds for providing useful goods and services in a productive manner.

North American Free Trade Act (NAFTA)

Most HARRT members believe that NAFTA will pass in 1993. However, NAFTA's effect on employment is the most controversial issue surrounding the agreement. Economists and various other experts disagree with each other about the outcomes of the Act. Some argue that the U.S. stands to lose almost 200,000 unskilled factory jobs by 1995 but could gain over 300,000 jobs from the increased flow of trade. Others claim that NAFTA will slow the growth of high-wage jobs by 550,000 in the next ten years and will also depress U.S. wages. Most of our members are torn between these two views and conclude that it is simply too early to determine the outcome of NAFTA for California. However, there were a number of specific concerns about the Act. One such concern was the large number of regulations facing U.S. employers. According to Wellman Branstrom, these regulations throw roadblocks onto the playing field for U.S. firms:

The U.S. has imposed an extremely large number of regulations on U.S. businesses in the environmental, employee relations, and employee benefits areas. These regulations increase the cost of goods and services sold in the U.S. and export markets. Some of these goods and services could

be at a serious disadvantage if similar regulatory costs do not exist with our Free Trade partners. We will have to be careful that we do not cause the failure of some U.S. businesses whose noncompetitiveness is caused solely by U.S. government controls and regulations, not by a lack of productivity or quality.

Two HARRT members had optimistic perspectives on the Act for California:

The big prize for the Golden State will be the resulting gains to the infrastructure. These gains will accrue to California because it is a border state. The greater San Diego area will flourish. Those California entrepreneurs who have any foresight will also flourish. (Jim Wilk, Health Net)

...the Mexicans spend 60 percent of their export earnings buying goods from the United States. Since Los Angeles and other large cities in California are important ports of trade, given the appropriate trade terms, California may stand to benefit from the trade pact by the resulting increased trade. (Ken Sekella, Vons)

Metzenbaum Bill on Job Elimination

As noted in our previous section on pay changes and challenges for 1993, many firms are considering a number of options to reduce and control labor costs. Outsourcing certain functions is one option that is getting increased play. For example, some firms are considering contracting their distribution activities rather than maintaining their own vehicle fleet. Other firms are using cheaper foreign labor, and NAFTA may facilitate the opportunities for those firms to use cheaper Mexican labor. This activity has not gone unnoticed by members of the Federal Congress, and the Democrats want additional worker protection integrated into the NAFTA. Bob Corlett highlighted one important example of worker protection that transcends NAFTA and goes after employers who transfer any jobs to any foreign country. Senator Metzenbaum of Ohio has introduced a bill imposing significant penalties on firms that reduce employment in the U.S. by sending jobs overseas. A Democratic administration is likely to be sympathetic to such protective impulses. This will be an agenda item for 1993, and employers need to monitor this kind of legislative activity closely.

Defense Reductions and Defense Conversion Dollars

As noted in our first section, further reductions in the defense budget will continue to affect the California economy. Estimates of the indirect multiplier effect on jobs in the economy range from two to three jobs eliminated as a result of one job reduction in the defense industry. Congress has appropriated monies to help deal with this problem. Defense conversion dollars are to be allocated to the states based on need, and many of these dollars will be "earmarked" for training. These monies offer important training opportunities for employers, and a few HARRT members noted that all employers need to keep apprised of the the availability of these funds.

State Issues

The HARRT group expressed unequivocal frustration about how policy issues are being handled in the State of California. They are tired of gridlock, buck passing, and inconsistency. Most of the group forecast no positive change in 1993 in how the state conducts its business and how it relates to business interests. Darlene Chandler summed it up this way:

To put it bluntly, California is no longer the undisputed land of opportunity—it is just a state, a very big state, with bigger problems than most states will ever encounter. I believe that as we move through 1993 the California resident will become shell-shocked by the continuing unsolved issues.

Business has been using both its lungs and its feet to express its anger about the business climate in the state, and a few HARRT members believe this is making a difference. Jim Poling said:

In 1993, there will be more and more legislative activity to keep businesses in California and to find ways to improve the economy. After many years of a very strong anti-business climate in California, hard times have come. Many businesses, large and small, are leaving California for better business climates in other states. States such as Arizona, Utah, Nevada, Georgia, and Kansas (not to forget Arkansas) are actively recruiting California companies to move to their states, where they promise no permit problems or delays, no workers' compensation problems, low corporate taxes (some have no state income tax), good business climate, affordable housing, and other attractive offerings.

The California Assembly Democrats realize the problem and created a committee named ADEPT (Assembly Democrats for Economic Prosperity Team), chaired by Assemblyman John Vasconcellos. They have been trying to work with business leaders to improve the economy.

The group mentioned a number of specific state public policy concerns that we will now address.

State Budget

Many members of the group expressed concern over the 1992 state budget battle. The budget battle was important because it demonstrated to business how willing the governor and legislature were to identify priorities for the state and act on those priorities. The outcome of the battle was very disappointing to the HARRT members. The consensus was that not only will there be a repeat performance in 1993, but the outcomes will likely be even worse than in 1992.

Bob Corlett summarized it as follows:

As long as the state's revenue picture continues to be bleak, we will have a budget crisis. California for too many years has lived off revenue based on growth. As long as growth was upward, the state's revenue picture was upward, and the various programs that were enacted were funded. When the state's economy turned down and revenues with it, legislators were reluctant to make the tough choices needed to balance the state's budget. California will face the same crisis in 1993.

Sally Newton pointed out that the state's fiscal problems have a direct effect on a number of businesses. Health care is just one example:

Continuing fiscal difficulties for the State of California are likely to involve further program cuts which would have an impact on the health care industry. As an example, reductions in support for Medi-Cal and indigent care programs will place increased pressure on the private health care system to absorb more of the burden of uncompensated health care. Another example is that reductions in public employee compensation have led to pressure for reductions in health benefits costs, resulting in a squeeze on health care insurers and providers.

Workers' Compensation

Close to the top of the list of state policy concerns is workers' compensation. California workers' compensation is expensive—600,000 employers pay \$11.5 billion to cover 12 million workers. In terms of average cost per worker, California workers' compensation represents 47 cents for every payroll dollar. But, the major problem is that workers aren't getting the benefits.

There are several points that need to be highlighted concerning California workers' compensation in 1993:

- Most executives believe there will be little legislative relief for business in the workers' compensation arena in 1993.
- Just as was the case with health care, there is a push to internally control costs.
- Unions are beginning to work with employers to control the abuses and costs of workers' compensation.
- Employers are pushing to "manage around" workers' compensation and place relevant programs under ERISA.

Jack Driscoll of the City of Los Angeles represents the consensus of the group on workers' compensation reform:

Key legislative changes related to workers' compensation appear doomed for 1993. There is growing sentiment among community leaders to change the system in a way that would provide more for injured workers and less for doctors and attorneys. The governor is supporting that change.

The governor is supporting one major change in workers' compensation that the group felt was critical. This change is the job-related stress claim threshold. Currently, only 10 percent of a stress claim needs to be job related. Governor Wilson wants this changed to 50 percent, although he intends to allow less for life-threatening jobs such as police and firefighters. While the governor summoned the State Assembly to a special session on October 8, 1992, to find a way to reform the system, the HARRT group was doubtful that much would happen in this regard in 1993.

One ray of hope for reform was noted, however. It seems that the legislature may be leaning toward restricting the worker's choice of physicians for a compensable injury. The group thought this was something to monitor in 1993.

Ken Sekella of Vons noted two important items concerning workers' compensation. The first is an approach to control workers' compensation costs:

We have refocused our efforts to improve our communication with injured workers so that they believe we have their best interests at heart. It is critical to make quick contact so that questions are answered, confusion resolved, and the perceived need to contact an attorney is minimized.

The second is the trend for organized labor to recognize the harmful effects of runaway workers' compensation costs.

Interestingly, it is my recent experience that organized labor is beginning to appreciate how the high cost of doing business in California is beginning to affect them at the bargaining table. I can see labor increasingly working more closely with management to control costs and abuses in the short-run, and perhaps putting more coordinated pressure on the legislature for meaningful change.

Jim Wilk raised the issue of integrating workers' compensation into a total health care approach. Others noted this as a potential way of managing in the tumultuous California workers' compensation climate. One member said:

I never thought I would call ERISA my friend, but I sure am looking to it to potentially help me out of the workers' comp bind in California.

The Environment

From a human resource perspective, the California climate and its natural resources are powerful recruiting incentives that need to be preserved. The heart of the environmental issue for HARRT is not the need for any relaxation of regulations, but rather the need for coordination among government bureaucracies. The following highlights two perspectives on this issue:

It is not a question of whether to relax the regulations or not, but to streamline the permitting and reporting requirements. There are multiple environmental agencies with overlapping jurisdictions and different permitting and reporting requirements. The permitting and reporting requirements are often burdensome and overly time consuming. If this is not corrected, the cost of doing business in California will continue to increase. (Jim Poling, GTE)

The single most important element that could take place to improve the California environment is to create a more efficient way for companies at both the state and local levels to deal with regulatory agencies. Currently, there are numerous public agencies that corporations must deal with in obtaining approvals needed to respond to environmental concerns. The number of agencies all with different applicant processes causes delay and excessive cost for business. "One-stop-shopping" would allow a more efficient and rational way to deal with the numerous environmental laws that we have in California. (Bob Corlett, Lockheed)

There was not much optimism that any streamlining would occur in 1993. As a result, there was a concern that leaner and leaner staff departments were required to deal with more and more bureaucratic red tape.

Many of the same programs and experiments that are currently in place to deal with the pressures placed on firms by the Air Quality Management Districts will continue in 1993. However, it is also interesting to note that some firms view these programs as serving a dual purpose—quality of life and environmental protection:

As an employer, we are exploring all types of initiatives in the area of alternative work schedules. We believe this makes sense as a way to address work/family and quality of life issues for employees as well as a way to address environmental issues. (Sally Newton, Kaiser Permanente)

Litigation

A number of individuals in the HARRT group forecasted a significant increase in litigation over the next year. Their reasoning was:

- Under any circumstances, California residents are a litigious group.
- California juries hand out very generous awards which fuel the system.
- Under conditions of severe recession and unemployment edging toward 10 percent, employees will use employment claims as a way to retain their jobs.

However, Darlene Chandler offered some hope for progress in resolving disputes during 1993. This progress involves extending the arbitration approach to other groups of employees and other settings. While this has been occurring for a while, there is a chance for increased use of this alternative dispute resolution mechanism in 1993 as more and more courts validate the approach.

...arbitration is a legitimate means of resolving disputes arising over statutory issues as well as contractual rights. Arbitration agreements between employers and employees can have potential benefits for employers in reduced costs and quicker resolution. (Darlene Chandler, Broad Inc.)

3. CALIFORNIA EDUCATION AND TRAINING IN 1993

In 1992, education in California was dealt a severe budget blow, and in 1993 we project that there will be little improvement. Some areas of education are hurting more than others. K-12 education is bloody, and is "down for the count." The community colleges and university system are severely bruised, but are still standing.

Nevertheless, HARRT companies continue to contribute resources and manpower toward a multitude of programs that are designed to address the problems in the schools. Many HARRT members feel that their efforts are, in some limited ways, ameliorating the problem, but they believe the real need is for leadership in education policy. To be successful, the educational leadership needs to recognize the systemic social and economic nature of the problem.

Without the necessary leadership in education policy, the group forecasts that the products produced by the California K-12 school system will continue to fail to meet basic employability standards. As the public school systems' products get rejected in the labor market, more and more parents and students will seek viable educational alternatives. By default, several HARRT members think we are moving toward privatization of the California public school system.

The clearest manifestation of the (K-12) education problem is in recruiting. The following is a sampling of problems encountered by our firms:

Knott's Berry Farm hires thousands of teens and young adults annually. Most are employed in low skill and semi-menial positions. Most jobs simply require a clean, well-presented image, good eye contact, ability to carry on normal conversation and, sometimes, simple math skills for cash handling positions. Current selection/hiring rates for these positions are 1:10-1:13. Only one applicant in 10-13 is deemed hireable based on limited criteria. What happens to those we cannot employ? What work can they do? (Andy Rich, Knott's Berry Farm)

Nearly half of business investments for capital equipment now go for computers and related technologies. This results in fundamentally altering the number, type, and skill requirements of occupations. The gap

between the skills of new employees and the skill requirement of the businesses for new jobs will continue to widen absent intervention. Out of 22,900 telephone company applicants, only 3,206 (14 percent) passed the requirements for entry-level proficiency in English and problem solving. (Jim Poling, GTE)

Our rigorous recruiting/assessment process screens out more than 90 percent of the applicants we meet. Most of the "cutting" is due to basic skills failure (language skills; following oral directions; calculations). The rest of the cutting comes from inadequacies in the values area (service mentality, sense of urgency, sociability). We still find we are looking for the "spotted zebras" in the marketplace; the schools and most companies don't produce the kinds of people we need. (Darlene Chandler, Broad Inc.)

With the restructuring of the economy and the loss of traditional employment anchors, such as aerospace and electronics, there is a growing mismatch between job requirements and the skills workers possess. These employment anchor firms provide a large number of highly paid medium to low skill routinized jobs. Firms that are surviving and growing in this restructuring period need employees who are flexible, well-trained in high technology tools, and continually retrainable. Jim Poling highlighted one of the major problems in obtaining employees with these characteristics:

One of the main problems with getting future employees with the proper training is that the current educational process is set up to get students from high school into college. This is true even though only 30 percent of students will enter jobs requiring at least a college degree. The majority will require a high school degree or one to three years of post-secondary education. If future workers are to be adequately prepared to meet the demands of the future entry-level jobs, a greater share of available resources must be directed to skill development.

Several HARRT members noted that it isn't just educational resources that need to be redistributed toward skill development. They felt that their own internal training resources needed to be diverted to different population groups than those that have traditionally received the bulk of the training dollars. Figure 3.1 shows the distribution of private sector training expenditures nationally. Several of our firms mentioned that they were changing this distribution and placing more emphasis in 1993 on areas of the pie that have traditionally received fewer resources.

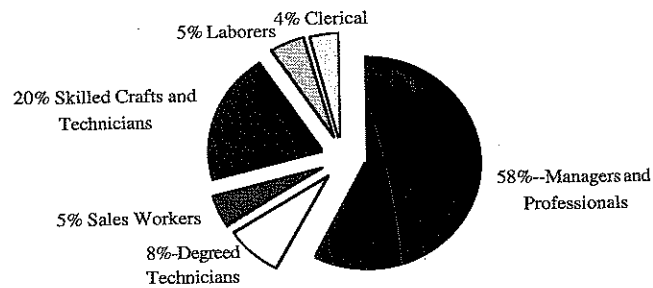


Fig. 3.1—Distribution of the Private Sector's \$30 Billion Training Pie
(Source: American Society for Training and Development.)

One training area that will continue to be emphasized in 1993 is diversity training. Firms located in Los Angeles are particularly sensitive to this training need after the upheaval during spring 1992. Sally Newton summarized the actions of her firm in the aftermath of the Los Angeles unrest:

Inside our organization, we have made available counseling and other support services to help our own staff deal with the impact and their personal feelings about the incidents. We are lucky to have an active Employee Assistance Program as well as many mental health and social service professionals to provide assistance to our staff. In many cases, we have also provided intervention in departments where the unrest triggered interracial tensions. Our efforts to implement cultural diversity programs have been stepped up to provide formal minority support groups as well as education and training in how to surface and resolve differences in a multicultural work environment. Although our minority support groups were started before the events this spring, interest and activities to get them off the ground intensified in response to the perceived need for positive action.

One issue that was raised as a corollary to the unrest in Los Angeles was the growing incidence of violence in the schools. The violence with which disputes are resolved in the schoolhouse may have a high probability of graduating to the workplace. The human resource function needs to be prepared to deal with this probability of increasing violence through the identification of areas of vulnerability and the application of appropriate training and related programs.

4. A PORTFOLIO APPROACH TO HUMAN RESOURCE-RELATED PUBLIC POLICY?

A general problem in the public policy area is a tendency to approach each policy question separately. Several HARRT members thought that at both the national and state levels, it would be better to view the “portfolio” of human resource-related policies collectively. Many of the issues are interrelated. It may be time to re-examine the overall employer-employee relationship and address the following:

- Who owes what to whom?
- What is the role of public policy in defining that relationship?

A new administration in Washington can create opportunities for addressing these fundamental questions.

5. 1993 AND BEYOND

As a wrap-up to our human resources forecast, we present our “laundry list” of issues and actions to consider for 1993 and beyond:

- Identify and monitor the effects and opportunities of reduced employee turnover.
- Contain fringe benefit costs through:
 - managed care programs;
 - greater burden-sharing of health care costs;
 - health care cost awareness programs with unions;
 - transfer of fringe benefits from the state to ERISA.
- Actively participate in health care reform.
- Contain employment costs:
 - examine outsourcing possibilities;
 - consider wage freezes.
- Monitor job elimination legislation.
- Prepare for increased employment litigation.
- Assess the distribution of the firm’s training dollars.
- Identify training opportunities for an increasingly multicultural workforce.
- Identify the availability of training dollars from public sources (e.g., defense conversion allocations).

Finally, among HARRT members there were two schools of thought on how to “steer” the human resource function during 1993. One group advocated maintaining the present course and carefully assessing any change in course. The other advocated charting new waters because the current climate provides a golden opportunity to reposition for the future. Perhaps next year we will have an indication of which viewpoint reflected the better choice.

Appendix A

Questions for the 1993 California Human Resources Forecast

1. Please describe your expectations about the California economy in 1993. Enhance your response by including signals or symptoms that you are experiencing your industry. Things to consider in your responses:
 - The state's political quagmire and budget cuts.
 - Squeeze on credit.
 - Unemployment levels in California.
2. Please describe your expectations about key legislative changes in the next year or the continued impact of existing legislation. If there are any bills pending that affect your business, please forecast the outcome of these bills and the effects on your industry. Things to consider:
 - Any potential for substantive changes in workers' compensation?
 - If not, what are your initiatives in the near term to control workers' compensation costs?
 - What other initiatives are you sponsoring that address political issues such as health care?
3. Education and training are critical to the competitive success of California businesses in many ways and there are both short- and long-term ramifications. Currently, education in California is faced with funding cutbacks coupled with tremendous growth in the K-12 student population. This crisis may or may not be affecting your firm (e.g., the ability to recruit and retain employees with school-age children). However, is your firm undertaking any specific measures within the next year to address education? Education and training are critical in the long term in order to ensure that the right skills exist in the labor force. There are a number of public policy initiatives in the area of education and training. Some of these are the voucher system and community-based education centers which serve business, government, academia, and the military. What changes are likely to be made in public policy (what you think will really happen and not what you would like to see)?
4. There are persuasive arguments on both sides of the North American Free Trade Act debate. If the Act passes, what do you forecast the ramifications to be for your California operations? If the Act does not pass, what does this mean for your California operations? In general, do you see this legislation as being beneficial or detrimental to California?
5. There continues to be a tension between economic recovery and concern for the California environment. Some argue that there should be a relaxation of environmental regulations so business can get back on track. Others argue that there should not be any

relaxation of the regulations because the major attraction of California is the environment and employers have other options—such as telecommuting, flex-time, etc. What is your forecast of the consequences for your firm if there is not a relaxation of the environmental regulations next year? Will you pursue initiatives in the areas of telecommuting, etc.? What is your forecast of the consequences if there is some relaxation of the regulations?

6. The civil unrest this spring had significant social, political, and economic ramifications. Please elaborate on the short-term economic ramifications of the unrest in your firm. What has been your firm's short-term response? What longer term solutions do you think will be implemented—by your firm and by government? (Again, not what you would like to see, but what you forecast to be implemented.)

Appendix B
Adjustments of Manpower, Inc., Quarterly Data of
California Hiring Strength

Year	Quarter	Delta	E_t	T_t
88	1	7		
88	2	20	20.00	13.00
88	3	22	27.50	9.70
88	4	17	27.10	3.64
89	1	12	21.37	-1.98
89	2	16	17.69	-3.00
89	3	24	19.35	-0.21
89	4	21	20.07	0.35
90	1	12	16.21	-2.18
90	2	18	16.02	-0.99
90	3	19	17.02	0.20
90	4	13	15.11	-1.06
91	1	0	7.02	-5.28
91	2	-1	0.37	-6.10
91	3	8	1.14	-1.98
91	4	5	2.08	-0.23
92	1	-2	-0.08	-1.38
92	2	2	0.27	-0.35
92	3	9	4.46	2.38
92	4	-1	2.92	0.03
93	1	-2	0.47	-1.46

Table B.1—Holt-Winters Forecast Model

In adjusting the Manpower data, we used an extension of the exponential smoothing method. The Holt-Winters forecasting model consists of both an exponentially smoothed component (E_t) and a trend component (T_t). The trend component is used in calculating the exponentially smoothed value:

$$E_t = wY_t + (1-w)(E_{t-1} + T_{t-1})$$

$$T_t = v(E_t - E_{t-1}) + (1-v)T_{t-1}$$

The equations require two smoothing constants, w and v , each of which has a value between 0 and 1. The w controls the smoothness of E_t . The v controls the weight of T . The value for w in this case is .5. We equally weighted past and current values in the series. The value for T is .6, which gives more weight to the current change in levels. Table B.1 shows the series by quarter. The delta heading is the Manpower, Inc., index figure (net increase minus decrease in employment). The E_t column represents the values for the smoothed component. The T_t column represents the values for the trend component.

