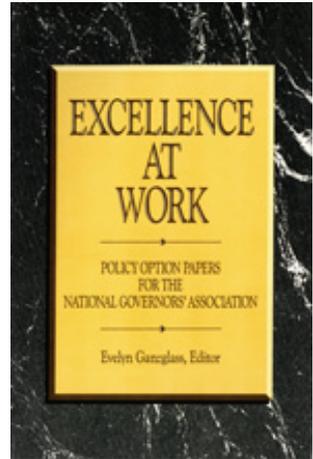


Upjohn Institute Press

Introduction

David Bedford
National Governors' Association

Evelyn Ganzglass
National Governors' Association



Chapter 1 (pp. 1-14) in:
Excellence at Work: Policy Option Papers for the National Governors' Association
Evelyn Ganzglass, ed.
Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1992

1

Introduction

David Bedford and Evelyn Ganzglass
National Governors' Association

No greater challenge faces the United States as we approach the twenty-first century than reinvigorating our nation's economy. Still the most productive nation in the world, this country's leadership in innovation, productivity, and creativity is threatened by aggressive global competitors. The international forces reshaping the economic environment in which the American entrepreneur and worker must compete are characterized by four major trends: internationalization of markets, accelerating technological advances, cost-efficient transportation, and information and communication advances.

At the same time, dramatic changes are occurring in the American labor market. These changes—projected labor and skill shortages, an aging workforce, increased participation of women, and greater reliance on minorities and immigrants—will affect markets for workers, influence the flexibility of the workforce to adapt and relocate, and alter traditional employment relationships. The economic changes and national demographic trends shaping America's future ultimately converge in the American workplace.

The National Governors' Association launched its initiative on Excellence at Work to explore ways to address these diverse pressures affecting the U.S. economy and to recommend state-level strategies for promoting excellence in the American workplace. The initiative was a three-part effort carried out in consultation with the primary players in the economy—business, labor, government, and education. The first step was to catalogue the challenges affecting workers and workplace productivity. These were presented in a report entitled "Excellence at Work: The Issues."

2 Introduction

The second phase of the initiative was a series of roundtable discussions on the issues identified to assess the viability of state policy options for developing a competitive economy. The discussions, conducted during the summer of 1990, included business leaders, union representatives, educators, researchers, and state policymakers. Results of these discussions are reported in "Excellence at Work: Principles and Options for State Action."

The final stage of the initiative was the formulation by the Governors' Forum on Excellence at Work of specific recommendations for state policy action. These were incorporated into the final report of the initiative, "Excellence at Work: A State Action Agenda," and presented at the National Governors' Association 1991 winter meeting. The report suggests ways in which states can better integrate their human resource, economic development, and job-training programs to stimulate increased productivity within the American workplace.

The governors embarked upon the initiative assuming that stimulating economic competitiveness will require multifaceted solutions that cut across the traditional boundaries of state economic development and human resource development policy. They recognized that no single participant in the economy can produce the changes needed. The future economic success of the United States will require concerted action of business, unions, individual workers, government, and education to develop integrated, value-adding strategies to strengthen America's competitive position in the global economy.

The governors concluded that state governments should act as catalysts to encourage and assist small and medium-sized firms to increase productivity and improve quality. To do this, state governments will have to reevaluate the kinds of human resource and economic development services they provide to individual workers and firms and the ways these services are organized and delivered.

In the human resource policy area, the objective should be to create a more flexible and responsive workforce development system out of the fragmented array of programs that now exist to prepare young people for work, educate and train people within second-chance programs, and help members of the existing workforce upgrade their knowledge

and skills. While diversity in service provision is desirable, the diverse missions, performance expectations, and funding incentives driving these programs result in service gaps and other inefficiencies that diminish opportunities for workers and businesses to take advantage of affordable and easily accessible services.

Changes are also needed in how our economic development resources are invested and how private sector modernization and quality improvement efforts are supported. State economic development policies should seek to create a comprehensive support network linking technology, management, marketing, financing, and training assistance for small and medium-sized firms.

In both the human resource and economic development arenas, state efforts should complement those of the private sector, recognizing that the degree to which states can directly influence these issues varies considerably across problem areas. For example, business must necessarily lead the implementation of new ways of organizing work and the introduction of technology, although the public sector can promote and facilitate such change. Conversely, the preparation of the American workforce remains primarily the responsibility of the public sector, even though business invests billions of dollars each year in training programs.

The policy option papers presented in this volume were commissioned by the National Governors' Association as background papers to guide the governors, business and union leaders, educators, and policymakers in their deliberations. They explore a number of key issues affecting the economy, as well as state options to address the issues within the context of the American workplace.

A consistent theme running through the papers is that government, along with the private sector, must adopt the principles of continuous improvement, flexibility, high productivity, and a devotion to quality in the way it deals with its customers—the individuals, firms, and communities served by its programs.

For government as well as the private sector, these increased expectations must be achieved without the expenditure of additional resources. Significantly, these papers argue for systemic reforms, not

new programs. They make the case for the importance of setting clear policy goals, targeting resources, and organizing the delivery of services to maximize economic return on the states' investments. The papers explore market strategies to improve accountability and the responsiveness of the services government provides. The papers also focus on ways in which states can use their regulatory powers related to healthcare, workplace safety, worker compensation, and worker pay to create new workplace conditions that are more responsive to the changing needs of workers and employers.

The papers propose new partnerships between government, employers, and workers that would redefine the traditional role of government *vis a vis* the economy. Among these is the role of government as catalyst for forging cooperative arrangements among firms to address common needs.

Consistently, the papers focus on the unique needs of small firms as they try to adjust to changing demographics and competitive pressures. Small firms are the least likely to have the resources or expertise to modernize and make necessary investments in human resource development on their own. Small firms are also the least likely to provide health insurance and other benefits to their employees because of cost and other considerations. The authors argue that state governments can achieve their greatest impact by focusing services and reforms on the needs of this important sector of the economy.

"State Strategies for Manufacturing Modernization," by Brian Bosworth, provides the framework for much of the state action plan that emerged from the governors' initiative. It argues that modernization strategies should be a central feature of state economic development programs. In developing these policies, states should recognize the multidimensional nature of the modernization process and create systems of applied research, technology deployment, finance, education, and training that are responsive over time to the changing requirements of firms. Furthermore, the objectives of these strategies should be defined at the level of industrial sector and services targeted to states with small firms.

“State Strategies for Building Market-based Workforce Preparation Systems,” by Robert Sheets and David Stevens, argues that the challenge for states in the 1990s is to refine and integrate the use of various performance standard systems and other related market incentives into comprehensive market-based workforce preparation systems. The authors urge states to provide leadership in policy coordination through a renewed emphasis on strategic planning, performance objectives and quality standards, national-state competency-based credentialing systems, consumer information systems, competitive contracting, and capacity building.

“The Flexible Workplace: Implications for State Employment Policy and Regulations,” by Barney Olmsted and Stephen Trippe, discusses the changing relationship between employers and employees and the demands of workers for more flexible working conditions to accommodate family and other responsibilities. This paper generated a number of specific recommendations on how states can encourage the adoption of nontraditional work arrangements and continue to provide traditional worker protections to those employed under such arrangements. The issue of family-responsive employment policies has subsequently been identified as a priority area for further policy development by the Committee on Human Resources of the National Governors’ Association.

Finally, “Health Benefits in a Changing Economic Environment,” by John Luehrs, discusses how concerns about health care delivery and financing have impacted the American workplace. Spiraling health care costs have placed some U.S. industries at a competitive disadvantage in the international marketplace and have priced insurance coverage beyond the means of small businesses and individuals. The paper offers suggestions regarding what states can do through health policy development and regulatory reform of the small business insurance market to address these problems. These recommendations and others form the basis for a policy statement adopted by the governors in August 1991. They are also presented in a separate report on options for state action entitled, *Rx for a Healthy America*.

Excellence at Work: The Issues

The issues identified in the first phase of the governors' initiative fell into four categories: work structures, training the existing workforce, workforce preparation, and employment support.

Work Structures

In their efforts to become more competitive, U.S. businesses have begun to explore new ways of organizing work. Business organizations characterized by greater specialization, flexibility, and flatter organizational structure, which provide autonomy to work units and empower employees to take greater responsibility, are becoming more commonplace.

To remain competitive, U.S. firms must also continually increase the speed with which they adopt new technological processes and introduce new products. Rapid technological change requires a workforce that is adaptable to learning new machines, techniques, and processes and is sufficiently knowledgeable to contribute to future improvements. An adequate supply of scientists, engineers, and technicians will be critical. Training will become an ongoing process increasingly centered in the workplace. Management will need to become better attuned to changes in technology, understand the advantages of commercialization and deployment, and accept the need for continuous and rapid technological upgrade.

The problem is that U.S. firms have been slow to adopt new production processes and methods of organizing work. It has been estimated that only 5 percent of U.S. companies can be classified as high-performance organizations. This is particularly true of small and medium-sized manufacturing firms, which have experienced the greatest growth in the last several years. There is a 30 percent productivity and wage gap between small and medium-sized manufacturing firms and their larger counterparts, according to the Industrial Technology Institute in Ann Arbor, Michigan. As a result, U.S. companies have had difficulty

in producing higher quality products and responding to rapidly changing markets.

Training the Existing Workforce

In workplaces undergoing modernization, restructuring, and accelerating technological change, workers with adaptable skills and the capacity for retraining are a prerequisite for success. Accelerating demands for new and advanced skills necessary for the competitive global economy will require greater access to relevant skill upgrading for all workers throughout their careers. While business expends billions of dollars each year on training, this investment represents less than 2 percent of total personnel costs. Only 11 percent of workers receive any formal training, and this is generally targeted to those with the most education. Training is frequently not directly connected to the actual processes of technological advance, deployment, and modernization in the workplace.

Finally, workers and employers lack the type of information necessary to make decisions about training and career development. To meet the need of business for the continuous upgrade of the skills of its workforce and the need for workers to gain marketable skills, training and education must be financially accessible, responsive to the marketplace, and able to provide the fundamental learning skills necessary to pursue additional training.

Workforce Preparation

Economic growth has always required a steady stream of new workers equipped with the skills needed to perform in the workplace. With impending labor shortages and demands for greater skills, the education and training of students must produce workers with a high level of adaptability and competence. Business requires a pool of new job entrants who are capable of performing within the work environment, mastering essential job skills, and demonstrating the ability to take advantage of advanced training and skill upgrading to adapt to changing market realities. To ensure employers that new job entrants are pre-

pared for work and to facilitate the success and productivity of new workers, education and training programs must include methods that integrate school and training with the world of work. The confluence of business, workforce, and government interests may be strongest with respect to the basic educational skills provided to the future workforce.

Employment Support

To recruit and retain a stable base of employees among certain segments of the labor force—such as workers who balance their jobs with family responsibilities, single heads of households, and older workers seeking partial employment—employers will need to explore flexible working hours, job sharing, family leave policies, and work-at-home job structures. The availability of qualified and affordable dependent care services is essential to the participation of a growing portion of the labor force.

Health care and retirement are also playing an increasingly important role in employment. As health care expenditures continue to increase at an alarming rate, purchasers are struggling for ways to control costs. Large corporations are looking for ways to limit their financial exposure; small firms are unable to find health insurance at a reasonable price; and governments are trying to limit the growth of public expenditures. Employees are becoming increasingly restive about changes that diminish their benefits. In addition, the issues of attachment of workers to a single employer, integrity of retirement accounts, and the rising costs of provision of benefits have produced concerns about the maintenance of employee-sponsored retirement benefits.

Labor market exchange and unemployment compensation will become more important in an increasingly fluid labor market. In addition to providing temporary income maintenance for workers between jobs, the system of publicly provided labor exchange must have the ability to assess the workforce requirements of employers and the aptitudes, abilities, and skill levels of job seekers to match workers with jobs and employers.

Finally, several workplace regulations, developed in response to corporate activities in restraint of trade and the work practices of the 1920s and 1930s, are proving to be barriers to the implementation of more flexible workplaces. For instance, regulations governing overtime and standard workdays inhibit the ability of employers to offer flexible hours and compressed workweek schedules to some of their employees. Antitrust provisions prevent firms within an industry from collaborating on matters of production. A regulatory environment that is conducive to the more flexible work structures emerging in the current economy and preserves traditional worker protections is necessary to modernize the workplace.

Excellence at Work: A State Action Agenda

The strategic action agenda developed by the National Governors' Association contains specific actions states can take to reshape their existing economic development and workforce preparation systems in order to increase the productivity of workers and firms and maximize the return on public investment.

Modernization

To increase the percentage of U.S. firms that are high-performance work organizations characterized by quality, flexibility, and productivity, states can:

- promote the concept of total quality and provide education and technical assistance to firms implementing quality improvement programs;
- encourage the development of participatory workplaces;
- develop a state delivery system that links technology, management, marketing, financing, and training assistance for small and medium-sized firms;
- organize services for groups of firms rather than individual establishments;

- support the creation of industry-managed intermediary organization;
- promote collaboration among firms.

To ensure that small firms have adequate access to information on domestic and foreign markets, states can:

- facilitate access to market information.

Technology

To facilitate the deployment of technology and modern management practices, particularly in small and medium-sized firms, states can:

- make technology diffusion an integral component of state development strategies;
- link technological assistance with training, marketing, and management assistance.

Financing

To ensure the availability of capital to meet the needs of small modernizing firms, to acquire new equipment and machinery, and to invest in worker training, new market development and new distribution and service systems, states can:

- redirect state development financing programs to include financing for modernization efforts;
- create new financial institutions/mechanisms to make higher risk capital available for modernization.

Workforce Quality

To ensure that the workforce development system is responsive to the ongoing needs of firms and workers, states can:

- establish an ongoing dialogue with employers to establish workforce competency standards that reflect the changing skill requirements of the workplace;

- work with business to reach consensus on what skills and levels of proficiency should be achieved by those preparing to enter the workforce and by existing workers.

To encourage firms to enhance their employee training efforts, states can:

- provide technical assistance to businesses in planning, conducting, and evaluating retraining programs;
- use customized training programs to provide financial incentives to companies who undertake quality work-based retraining programs on a scale and timetable that otherwise would not occur;
- aggregate the demand for training among small and medium-sized firms so that the public sector can more effectively help them address their training needs;
- work with employers and educators to expand opportunities for structured work-based learning.

To create an easily accessible, comprehensive service delivery system for individual workers and firms, states can:

- promote better integration of workforce preparation services.

To assure quality workforce preparation programs, states can:

- establish measurable performance standards;
- create a common framework for skill assessment within the public and private sectors;
- use competitive contracting to stimulate improvement in service provider performance;
- promote informed consumer choice to encourage system responsiveness and efficiency;
- strengthen counseling, assessment, and information services.

Employment Support

To maintain the participation of employers in the health care system by ensuring access to coverage at an affordable cost, states can:

- encourage the development of insurance and employer arrangements that facilitate the provision of employer-based health insurance.

To increase the involvement of employers in enhancing workers' access to child care services, states can:

- develop a comprehensive child care policy for employer-sponsored child care;
- help employers establish job-site care centers.

To continue providing traditional workers protections to those employed under nontraditional work arrangements, states can:

- revise labor standards policies to account for emerging employee-employer relationships.

To encourage the adoption of nontraditional work arrangements, states can:

- develop family-responsive employment policies.

Conclusions

Restoring American world leadership in productivity requires addressing issues as diverse as job training, child care, workers' compensation, and technology deployment. State programs housed in a variety of agencies deal independently with most of these issues. For state governments to contribute more effectively to economic growth, they will need to change the way they do business.

Since increasing productivity depends upon making multiple improvements simultaneously, states must organize themselves to provide essential services in a coordinated, comprehensive manner. Integration of services will require organizational structures that facilitate client access and awareness of needed services, regardless of the initial inquiry point. Complementary services provided by more than one agency should be coordinated in such a way as to maximize the effect of each on increasing productivity.

States must be dedicated to improving the quality of the services that support the productivity of the economy. State government must explore ways to promote an ongoing dialogue between government and its clients, and modify its services to meet those needs. Perfor-

mance management systems should be used in all programs, with performance standards providing the basis for program evaluation and funding decisions.

Finally, states must increase the productivity of state services to maximize the return on public investment. Whenever possible, public investments should leverage or complement private resources. In an era of limited resources, states should target efforts to those businesses and sectors for which state services can be most helpful in adding value to the economy.

A world-class economy will require high-performance firms and workers. Consequently, the public and private sectors must make a commitment to increase the quality of goods and services produced. For states, this means integrating human resource and economic development policies to foster an economy of excellence.