

**Training That Works:  
Lessons from California's  
Employment Training Panel  
Program**

Richard W. Moore  
Daniel R. Blake  
G. Michael Phillips  
Daniel McConaughy

2003

W. E. Upjohn for Employment Research  
Kalamazoo, Michigan

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## Introduction

In the late 1940s, Leo Fender, a radio repairman in Anaheim, California, invented the first solid body electric guitar to be mass-produced—the Fender Telecaster. Fender guitars became a classic American product like Harley-Davidson motorcycles. They have been played by rock stars from Jimi Hendrix to Bruce Springsteen, and Leo Fender himself was inducted into the Rock n’ Roll Hall of Fame. The company prospered and was sold to CBS in 1965, but by 1981 the company was in desperate straits—losing market share to foreign competitors and plagued by declining quality. In 1985, at a point when almost all Fender guitars were manufactured overseas, company managers bought the company from CBS. In a bid to bring production back to the United States, company management began producing a small number of guitars in a Corona, California, plant with the 60 employees remaining from the original production group. For a long time the plant struggled to achieve acceptable quality at a reasonable cost, but by 1998, the company was in a position to open a new 177,000 square-foot plant in Corona, employing over 400 people. Today, the new plant manufactures over 350 Fender guitars a day, along with Fender amplifiers. The company’s dramatic resurgence is a product of many factors, but one factor always mentioned by local managers is an obscure state-funded training program, the Employment Training Panel (ETP), which provides public funding to train California workers whose jobs are threatened.

The company, which was considering moving its remaining California production to a lower-cost state or overseas, decided instead to invest in a dramatic effort to improve productivity and quality. The centerpiece of this effort was training in state-of-the-art manufacturing techniques, such as total quality management and statistical process control, for Fender’s predominantly Spanish-speaking workforce. Through ETP, the state spent over \$700,000 to underwrite much of the cost of Fender’s large-scale training program.

Quality-control technicians, most of them weekend rock musicians, wail away on each guitar as it comes off the production line. If

it plays well, it is tuned, buffed with a special cloth, and carefully placed in a guitar case. If its quality is unacceptable, it is hung on a rack to be reworked or scrapped. One of the technicians told us that, before the training, they filled up twelve racks with rejected guitars every two days. Since the training and implementation of the quality program, they only fill two racks a week.

## **STATE-FUNDED TRAINING PROGRAMS**

California isn't the only state that sees value in subsidizing the training of incumbent workers. In 1998–1999, 45 states spent \$593 million—7 percent more than the previous year—on customized worker-training programs paid for exclusively with state funds. Put into perspective, this is more than half of the \$950 million the federal Workforce Investment Act (WIA) program spent on training adults in 2000, and about one-third of the \$1.6 billion that WIA spent retraining dislocated workers in all 50 states (Employment and Training Administration 2000). Customized worker-training programs are scattered across the states and vary greatly in size and in how they are managed. California, for example, spent over \$117 million, while Vermont spent only \$570,000. Despite their size and importance, there is little available data on these programs and their impact. A profile of the 45 existing state programs is included in Appendix A, which comes from a survey of the status published in *State Financed and Customized Training Programs* (Duscha and Graves 1999).

Our purpose here is to provide a comprehensive description and evaluation of California's Employment Training Panel Program—the largest state-funded customized training program in the nation, to use this program as a window into these important but overlooked programs, and to draw policy implications for the development of similar programs.

### **Program History**

These state-funded programs are often referred to as customized training programs, or incumbent-worker training programs. The programs were often designed as incentives for businesses to locate, re-

main, or expand in a state. They typically provide funds to companies to train either newly-hired workers (called new hires), or to retrain existing employees (called retrainees or incumbent workers). In 1999, states spent about 60 percent of training funds on retrainees and the balance on new hires. These programs differ dramatically from federal job-training programs in that they do not target individual disadvantaged workers who may be unemployed or have other difficulties in the labor market. Rather, they target groups of workers who are employed by a particular company. Thus, these programs serve a wider array of people than federal programs and, in general, a less disadvantaged population of workers.

These programs first appeared in Southern states in the late 1950s as these states attempted to move from an agrarian-based to an industrialized economy. One strategy these states employed was to try to attract Northern manufacturing by offering incentives, one of which was free worker training. The programs also helped workers make the transition from agriculture to manufacturing. North Carolina established the first program in 1958 and was soon followed by South Carolina and other Southern states. As the programs grew, existing businesses demanded new services as well (Duscha and Graves 1999).

### **Program Financing**

Programs are usually funded by one of three sources: a) a special tax associated with Unemployment Insurance (UI), b) general revenues, or c) bond financing:

- Ten states, including California (with the largest program), fund their training programs with a UI-associated tax. Here's how the system works: the state reduces UI taxes by a small percentage and creates a new tax equal to the amount of UI tax reduction, then the revenue from the new tax goes into a separate fund to support training projects. Since the net tax burden does not change and the tax is collected through the same mechanism, the tax does not generate the opposition a new tax resulting in a net increase might. For example, in 1982, California reduced the UI tax rate by 0.1 percent and enacted a new 0.1 percent "Employment Training Tax" on the first \$7,000 of annual earn-

ings (the amount subject to the UI Tax), thus generating a maximum per-worker contribution of \$7 (Duscha and Graves 1999).

- Thirty-one states tap their general revenue pool each year to pay for their training programs.
- Four states use bond financing to pay for their training. These systems work by having public colleges, which provide the training, sell bonds to investors. The proceeds from the bonds finance the training, and the bonds are repaid by dedicating new payroll tax withholdings from participating businesses towards repaying the bonds.

Complete descriptive data on the 45 states with incumbent worker programs is provided in Appendix A.

### **Training Providers**

Most states (33 of 45) allow companies to use any training provider they choose. Companies may use in-house trainers, hire private training companies, or contract with public or private vocational schools or colleges. Some states reserve the right to approve specific trainers. In two states, the program is administered through a public training agency, but these programs still allow employers to contract with private providers. Twelve states allow use of only designated training providers, such as community colleges or public vocational programs.

### **PURPOSE OF THIS BOOK**

Despite the size and growing importance of these state programs, there is very little published research on them. Over ten years ago, Leigh (1989) studied existing state programs helping displaced workers find new jobs. The focus of the study was an examination of the services provided and their effectiveness. The study mostly pulled together data from secondary sources to compare the programs' methods and effectiveness, relative to federal programs. The study did not attempt to examine services to incumbent workers. In the intervening decade, research on state programs has been mostly limited to a few descriptive profiles of state efforts. Over the last 15 years, the Califor-

nia Employment Training Panel has commissioned a number of studies of its own performance and of a number of program-related special issues. The primary purpose of this book is to pull together what is known about ETP, use this knowledge to examine the operation and impact of the ETP program, and then draw policy implications for other state programs. Also, we believe ETP's experience can offer some valuable insights to administrators of the new federal Workforce Investment Act (WIA). WIA allows states to spend some of their training funds on "customized training," which is designed to meet the needs of a particular employer. ETP's years of experience in designing and funding such customized training can help WIA managers and policymakers avoid some potential pitfalls inherent in the customized training model.

We begin our analysis by reviewing the history of ETP and examining the forces that shaped its development. Next, we consider what insights theory and research can provide into the motivations of the various groups and individuals involved in incumbent worker-training programs and the policy implications of these motivations. Returning to ETP, we then examine in detail the actual implementation of the ETP program in the field, based on 23 case studies. As part of this analysis, we identify the factors influencing the effectiveness of individual projects and propose a model to explain why some programs have a significant impact on the companies served and others do not.

We then examine the impact of ETP training on the individuals trained, on the growth of companies served by ETP, and on the California economy as a whole. Note that in projects ending in 1998–1999, 95.2 percent of ETP trainees were incumbent workers being retrained on their existing job (called retrainees by ETP), and only 4.8 percent were displaced workers (called new hires by ETP) trained in the hope of finding a new job (Employment Training Panel 1999). In previous research, we have focused equally on retrainee and new hire training (e.g., Moore et al. 2000a). In this book we focus only on retrainees, as they are the vast majority of ETP trainees as well as the majority of workers trained in most other state programs (Duscha and Graves 1999).

Finally, we make a series of policy recommendations aimed at improving the performance of state-funded customized training programs, and suggest evaluation methods that are a good fit for these programs.