

HOUSE COMMITTEE ON  
GENERAL GOVERNMENT AND REGULATORY REFORM

Hearing Room  
Tapes 28 - 31

MEMBERS PRESENT:

Rep. Bob Tiernan, Chair  
Rep. Mike Lehman, Vice Chair, Vice-Chair  
Rep. Jerry Grisham  
Rep. Bryan Johnston  
Rep. Bill Markham  
Re. Lonnie Roberts  
Rep. Barbara Ross  
Rep. Charles Starr  
Rep. Ken Strobeck  
Rep. Sharon Wylie

MEMBER ABSENT:               Rep. Ron Adams  
Rep. Cedric Hayden

STAFF PRESENT:

Greg Moore, Committee Counsel  
Kay C. Shaw, Committee Assistant

MEASURES HEARD:               Government Efficiency  
                          Informational Hearing  
                          Les Schwab Tire Centers  
                          Boeing Company  
                          Precision Castparts Corporation  
                          Ashton Photo

These minutes contain materials which paraphrase and/or summarize statements made during this session. Only text enclosed in quotation marks

report a speaker's exact words. For complete contents of the proceedings, please refer to the tapes.

TAPE 28, A

003       CHAIR TIERNAN: Calls the meeting to order at 1:11 pm, reviews Committee progress and gives introductory comments.

LES SCHWAB TIRE CENTERS

020       TOM FREEDMAN, Chief Financial Officer: Introductory comments and submits (Exhibit A).

          DICK BORGMAN, General Counsel: Introductory comments and gives a personal biographical background.

MR. FREEDMAN: Begins presentation and reads from prepared text.

024 Rep. MARKHAM arrives at 01:14 pm.

031 MR. FREEDMAN: Continues presentation by providing historical background (page two).

REP. ROBERTS: When you said 81 member dealer locations, is your business a franchise-type situation?

MR. FREEDMAN: No, but operates similar to a franchise.

REP. BRYAN JOHNSTON arrives at 1:16 pm.

062 MR. FREEDMAN: Continues presentation and explains primary product lines/services, central location, operational/market information, customer service, philosophies. Explains the independent study done by J. D. Powers and Associates.

CHAIR TIERNAN: Inquires about the statement of recent ranking as receiving the highest nationwide score among all other tire dealers for shopping experience by 20,000 customers.

MR. FREEDMAN: Continues presentation by covering successful business practices and programs plus the potential applicability to government (page 5).

142 MR. FREEDMAN: Continues presentation by emphasizing/explaining profit sharing and retirement program; refers to "The \$100 Story" (see page 14 ); and speaks of the potential application to State government.

MR. FREEDMAN: Explains their corporate-qualified retirement plan of contributing 15% of employee's salary into the plan.

CHAIR TIERNAN: Is this retirement plan based on a store-by-store basis?

MR. FREEDMAN: No, it is a corporate plan and employees receive 15% regardless of individual store achievements.

228 MR. FREEDMAN: Continues presentation. Explains the elements of day-to-day decision making and the overall corporate strategies.

CHAIR TIERNAN: Is the computer system for cash handling as well as automatic ordering control?

MR. FREEDMAN: Yes, used for inventory control, accounts receivable, invoice writing, customer billing/rebilling, etc. Describes the computer system.

CHAIR TIERNAN: What would happen if you decided that based on initial research this was a good idea and implemented it in all locations with a directive to deal with it? How would you describe that approach?

MR. FREEDMAN: It wouldn't be good. Problem is that management is not

doing the hands on, day-to-day work at the stores. Any system design should involve employees as employees ultimately need to help solve any problems.

CHAIR TIERNAN: Do you basically try new programs on a pilot basis (i.e., selecting a couple of stores) to make sure it's successful there before proceeding?

MR. FREEDMAN: Yes. Explains the employee involvement and potential affect on customers.

304 MR. FREEDMAN: Continues presentation and explains their efforts to bring as many functions within the operation as possible (e.gs., fully self insured on medical/dental plans).

REP. JOHNSTON: How would you compare your self-insured benefit program with your prior program?

MR. FREEDMAN: Benefits are equal or better. Specifies the advantages gained. Additionally, says their workers' compensation program is self insured/self-administered and comments about the positive elements.

370 MR. FREEDMAN: Continues presentation. Reviews system to reduce paperwork and reports; refers to The Les Schwab Commandments of Good Business (page 13) and The Less Schwab Basics (page 10).

410 CHAIR TIERNAN: Do you have customer comment cards in your stores?

MR. FREEDMAN: No, not consistently.

CHAIR TIERNAN: What did they call the award you received?

MR. FREEDMAN: Explains J. D. Powers and Associates was commissioned by Michelin Tires to conduct a customer service satisfaction survey of business practices/tire dealers, bought the survey and sent a copy to Les Schwab.

CHAIR TIERNAN: Do you have specific suggestions/experience you could provide DMV to help with some of the problems?

MR. FREEDMAN: General observation that someone entering the front door is a customer -- serve them quickly and be helpful.

CHAIR TIERNAN: Do you think private business would entertain an idea of locating perhaps some functions of DMV in private businesses to better serve the customer, have more locations, have better response, etc.?

MR. FREEDMAN: Yes, as a means of efficiency, services would be available to customers at several locations.

MR. FREEDMAN: Yes.

TAPE 29, A

039 CHAIR TIERNAN: What is the average length of employment in one of your store locations. In other words, is the average length of employment four, six or nine years?

MR. FREEDMAN: Says most turnover occurs the first two to four months of employment, that after six months they start the medical/dental plans and that during the first year they receive bonuses. Explains managers have 6 to 30 years' experience.

CHAIR TIERNAN: When an employee is not performing properly, counseling has occurred, do you generally terminate them?

MR. FREEDMAN: Generally. Attempt to make it a joint decision between, store managers and office supervisors.

REP. LEHMAN: What is your overall experience, both personally and as a company, in dealing with state government and regulatory agencies? What have been some good and negative experiences with agencies who have been very responsive?

073 MR. FREEDMAN: Describes the difficulties in the zoning area, especially when trying to locate a new store site, positive experience with DEQ involving junk tires disposal, and most oppressive experience with fines imposed by State's OSHA (safety).

REP. LEHMAN: Over the past ten years, how have you found the readiness abilities/work intent of newly-hired entry folks (i.e., just out of high school or with some community college experience) in this state?

MR. FREEDMAN: Good. Explains employment criteria and new employee orientation/training program.

128 REP. GRISHAM: How often does someone from senior management visit each store?

MR. FREEDMAN: President Phil Wick makes field trips to the stores all week. Merchandising/marketing/operating people strive to visit/meet with store managers at least once a week.

137 REP. JOHNSTON: In the five-states area that you cover are there significant differences between the states and if so/if not, how does Oregon rate in comparison in terms of facilitating or being an obstacle to business?

MR. FREEDMAN: Acknowledges there are similarities/uniformities and not much difference between the states.

CHAIR TIERNAN: Is the OSHA complaint exclusive to the State of Oregon or five-states wide?

MR. FREEDMAN: Admits problems with all; however, notices Oregon mostly due to the operating plant is located in Oregon

CHAIR TIERNAN: Do you have a problem with the violations found or the reasonableness of the fines to the violation?

MR. FREEDMAN: Both; however, it is questionable whether or not some are true violations. Indicates the new fines schedule is very high and most OSHA visits result in some sort of fine.

162 REP. ROSS: Have you taken advantage of, or aware of, the voluntary OSHA

program of visits/consultations with no imposed fines ?.

MR. FREEDMAN: Possibly in the Prineville operation.

187 REP. WILEY: What is your perspective on how to evaluate and make policy decisions on what should be "contracted out" and what should be "tightly controlled"? What pieces in your company are analogous to what should be done at the state level.

MR. FREEDMAN: Illustrates the medical and workers' comp areas are of primary importance in serving their employees and controlling company cost.

Observes they manage more efficiently and at a more personal level.

240 REP. WILEY: Is your return to work program related to your human resources function and is the human resources function centralized or decentralized?

MR. FREEDMAN: Company is centralized in theory (i.e., a department handles paperwork, processing of claims and payroll). Each store works with the employee to get the employee productive as quickly as possible.

REP. STROBECK: Do you have a program with your managers or policy regarding neighborhood relations when located in a residential areas?

MR. FREEDMAN: Says no direct policy; however, they have a general view of trying to be a good neighbor by meeting with neighbors.

REP. STROBECK: What do you do with the used tires?

277 MR. FREEDMAN: Explains their waste recovery program.

REP. MARKHAM: Have you looked at plastic studs?

MR. FREEDMAN: Acknowledges awareness of. Provides background about types of studs.

333 CHAIR TIERNAN: Is there any reason why The Les Schwab Commandments of Good Business should not apply to DMV/DEQ or any customer service entity of the state?

MR. FREEDMAN: No.

CHAIR TIERNAN: Is it regarding state employees or your own attitude that you consider both the customer and the boss?

MR. FREEDMAN: Yes. Opinion the theory would help the State.

CHAIR TIERNAN: What is your position/synopsis on whether legal reform is-necessary?

MR. BORGMAN: Responds by explaining the company is self insured for all liability claims and, therefore, administers claims. Views the system of civil justice/jury system as not working particularly well in resolving civil claims. Careful review needs to be given to how awards are granted, leeway/limits for juries, and some disincentive for filing frivolous or spurious lawsuits may be appropriate.

TAPE 28, B

BOEING COMPANY

025 MS. ELIZABETH WARMAN, Public Affairs for Boeing Company (Portland):  
Introductory comments and submits (EXHIBIT B).

MR. RANDY BONNER, Lead Man in large assembly and CQI (continuous quality improvement): Provides background information and introductory comments.

MR. JOHN SHIH, Process Technology: Provides background information and introductory comments.

055 CHAIR TIERNAN: Requests input about performance management system.

MS. WARMAN: Begins reading from prepared text (page 1).

083 MS. WARMAN AND MR. SHIH setup and run a nine-minutes videotape about celebrating success of Continuous Quality Improvement (CQI) activities.

219 MR. SHIH: Explains performance management -- management by policy.

276 MR. SHIH: Describes initiative process to reduce costs.

331 CHAIR TIERNAN: Do you feel your company can reduce costs without sacrificing quality and service?

MR. SHIH: We cannot sacrifice quality, but we can reduce service. Says cost of "unquality" is at least 20% of the operating budget.

363 MS. WARMAN: Discusses the issue of Boeing work, the need to compete for the work and the necessity for being as good or better than a competing vendor outside the company.

CHAIR TIERNAN: Would Boeing contract out to somebody else if there was a better deal on some of the parts they make?

MS. WARMAN: Says the Fabrication Division makes such decisions daily. Goal is to ensure Boeing is the supplier of choice.

CHAIR TIERNAN: Do you subcontract out small jobs?

MS. WARMAN: Explains the subcontract program in the State of Oregon. States the company contracts about \$83\_million worth of vending activities each year.

TAPE 29, B

004 MS. WARMAN: Explains the use of cross-functional design-built teams and the advance interaction involved.

043 MR. BONNER: Presents testimony using overheads to illustrate their customer satisfaction team visits. Provides information about the lead man's role.

MS. WARMAN: Interjects/explains that the lead people, union representatives and management are the company leaders.

REP. ROBERTS: Do you feel that you are getting involved in customization?

MR. BONNER: Yes.

154 MS. WARMAN: In driving down costs, reducing flow time is an important element.

167 CHAIR TIERNAN: Refers to evaluation of contracting out certain State services. Asks if they have any incentives or plans in place for employees to reduce costs/waste?

199 CHAIR TIERNAN: Do you have any specific suggestions to the state for efficiency?

MS. WARMAN: Privatization is a good conversation. Cautions about the care needed to evaluate whether or not taking it outside actually makes it better for the taxpayer in reduced costs. Suggests regulatory agencies that offer technical and problem-solving support.

MR. SHIH: Explains that in order to reduce costs, reorganization is necessary or quality may suffer.

292 REP. GRISHAM: How do you maintain a high level of employee morale contractions in the work force occasionally?

MS. WARMAN: Explains that in a downsizing environment, maintaining morale is difficult and acknowledgment of positive results is necessary.

REP. LEHMAN: What do you find the work force like, particularly people coming out of our public education system?

MS. WARMAN: Explains entry-level requirements. Acknowledges support for 3565; however, public education may not meet the needs of business to be competitive.

TAPE 30, A

001 REP. WYLIE: Shares experience as co-director of a rape crisis center and application of Boeing management tools to a non-profit social service agency.

MS. WARMAN: Shares components of their 360-degree review process that all managers undergo.

PRECISION CASTPARTS CORPORATION

031 ROY MARVIN, Vice President and Corporate Secretary, in charge of public relations, environmental issues, government relations, shareholder relations and miscellaneous issues; introduces DICK STRATHERN, HRManager, Small Structures Facility (Clackamas), and provides background and introductory comments.

063 MR. MARVIN: Continues presentation. Explains origin of business in the forest industry; initial product line was cast cutters, file holders and sprockets; original staff of 20 employees; and sales of several thousand dollars. Effective in 1956, the company assumed its present legal form and

relocated to Johnson Creek Boulevard (near Multnomah/Clackamas County lines). Due to limited expansion prospects in the forest industry; therefore, the company expanded into aerospace sales (primarily in Seattle), Los Angeles, San Diego and Phoenix. By 1956, the company became an Oregon corporation with 90 employees and a 28,000 sq. ft. facility with sales exceeding \$1 million. Changes over the past 40 years: a major supplier of aerospace components, components for industrial gas turbines, pumps, compressors and for surgical bone repair; a \$4 million to \$5 million

company with manufacturing facilities in Oregon, France, Ohio, Pennsylvania, Georgia, North Carolina and Colorado; employment in excess of 4,000 people (one-half located in Oregon); and a highly engineered job shop.

CHAIR TIERNAN: Everything built is sold?

MR. MARVIN: Explains that production of a part does not begin unless the customer says "When it is done I will buy it."

114 MR. MARVIN: Continues presentation and relates some elements that have made them better competitively (i.e., focus on business endeavor, customer service, constituencies, technical leadership, financial controls, effective management information systems, and employee empowerment).

159 MR. MARVIN: Introduces DICK STRATHERN.

184 MR. STRATHERN: Introductory comments about empowerment (both from plant management and human resource management perspective) and gives his background work experience. Continues presentation and reads from prepared presentation. Recommends reading 1991 book by Allen S. Blinder, Growing Together, Alternative Economic Strategy for 1990.

221 MR. STRATHERN: Continues his presentation by emphasizing that a competitive strategy for the '90's and a world class organization is the ability to develop, utilize and mobilize the work force (i.e., human capital formation).

247 MR. STRATHERN: Continues presentation and states about work ethic ". . . bottom line is once that organization was established as a team based organization, given the proper tools, and the proper training and developing the proper flexibility . . . and the empowerment --- don't think anybody, anywhere could compete with them."

286 MR. STRATHERN: Continues his presentation and focuses on the problems of change.

CHAIR TIERNAN: Are you producing as much or more product with fewer people?

MR. STRATHERN: Explains the typical cycle time for product flow (i.e., design to ship) and innovative programs (e.g., quality cash bonus as need to move beyond fixed salaries).

TAPE 31, A

001 CHAIR TIERNAN: Do you think the State could reduce 10% of its employee



staff if operations are redesigned more efficiently?

MR. STRATHERN: A problem that a customer is passed through a myriad of decision makers and ultimately the person closest to the customer doesn't have the necessary decision-making authority.

MR. MARVIN: Interjects and clarifies what is necessary when downsizing.

057 CHAIR TIERNAN: If, based on your experience, your president directed you to reduce the work force by 6% and produce the same quality/quantity, would you tell him "No"?

MR. MARVIN: Must downsize, be more effective and do it with fewer people.

087 MR. STRATHERN: Characterizes one weakness in American industry is the spending of only 1-2% of budget for training. Expresses concern with massive layoffs and the cost involved.

CHAIR TIERNAN: Have you ever seen an incentive/bonus program that you could recommend for the State that could reward or bonus people based on an incentive system?

MR. STRATHERN: Describes their company's incentive program and future goal.

CHAIR TIERNAN: Do you feel an incentive program could be developed for the State that could be tied to efficiencies, waste/cost reduction, etc.?

MR. MARVIN: Explains need for a measurable result and tying the reward to the improvement in the measurement.

174 REP. STROBECK: Is Precision Castparts a union? Are the employees unionized?

MR. MARVIN: Oregon-based employees are not unionized. Ohio and France operations are unionized. Answer is "Yes and No".

REP. STROBECK: Does that present different challenges in the application of rewards?

MR. MARVIN: Unionized employees participate on the same basis as all employees in the reward system. The company's philosophy is to pay competitive community wages and to reward performance.

198 REP. LEHMAN: Do you have some ideas to change an organization that is not a true profit motivated organization?

MR. STRATHERN: Opportunities to eliminate waste are the same. Suggests a major improvement would be to organize departments into small teams with the tools for identifying/eliminating waste.

REP. LEHMAN: Where would you recommend starting?

MR. MARVIN: Says assessment of conditions is true -- people are under motivated/highly paid and overly motivated/underpaid. First step is use a consultant to help to get people involved in the process. Programs designed by involving people who work toward a common goal tend to last longer.

ASHTON PHOTO

297 STEVE ASHTON: Presents from a prepared text and submits (Exhibit C). Provides an historical organizational structure of the company.

387 MR. ASHTON: Continues his presentation about customer service and focuses on problems when there is a lack of effective employee interrelationships/communication.

TAPE 30, B

011 MR. ASHTON: Continues presentation and explains changes in company culture over the past eight years, the results gained, labor costs, and compensation.

CHAIR TIERNAN: What is your type of business? What do you produce?

MR. ASHTON: Produce graphic images (e.g., photographs) and other custom-manufactured products.

043 MR. ASHTON: Continues his presentation and with the use of overheads explains the four structural changes they have undergone to increase viability.

104 MR. ASHTON: Continues his presentation. Explains company management principles.

CHAIR TIERNAN PASSES GAVEL TO REP. LEHMAN AND LEAVES MEETING AT 04:10pm.

194 MR. ASHTON: Continues presentation. Explains the third structural change whereby the focus is on actual product creation rather than the outcomes, logic for the structural change and cycle time/costs. Uses overheads to illustrate production data.

263 MR. ASHTON: Continues presentation. Explains team operations, cycle time controls, percentage reductions and market share.

291 MR. ASHTON: Continues presentation. Explains fourth structural change (see document labeled Budgeting).

287 REP. JOHNSTON: Have you given any thought to cross-functional teams from a State perspective (i.e., Children's Services, Adult & Family Services, Police)? Do you think we could do such implementation?

MR. ASHTON: Absolutely. Cautions, however, about problems with territorialism, people protecting their "turf", etc. Suggests starting off small (i.e., one team).

TAPE 31, B

006 REP. JOHNSTON: Due to each team's ability to hire/fire independently, does that open up employment-type liabilities?

MR. ASHTON: Explains what happens (i.e., team training about various legalities and capability to "shop" other teams and match personalities).

REP. JOHNSTON: Were you in state when Ballot Measure 8 discussion occurred? Does the apparent impact of the morale of State employees surprise you?

MR. ASHTON: Not surprised -- would have expected such a reaction.

ACTING CHAIR LEHMAN: How would you diagram a management structure to look?

034 MR. ASHTON: Explains the company's management structure as three overlapping circles (i.e., production creation, customer concerns and people concerns). Every employee can operate in whichever circle they want.

ACTING CHAIR LEHMAN: Was this a structure read about or created by the employees?

MR. ASHTON: Extracted pieces from others, visited other companies, conducted research, etc. to meld the pieces.

REP. TEIRNAN RETURNS AT 04:00 AND ANNOUNCES THAT REP. LEHMAN WILL CONTINUE AS ACTING CHAIR FOR THE MEETING.

057 ACTING CHAIR LEHMAN: When they come to visit, what is the feedback that you receive when they are visiting?

MR. ASHTON: Feedback is a zeal for the structure, but inability to implement, because the Legislature won't let us.

REP. TIERNAN: In what way wouldn't the Legislature allow such a program?

MR. ASHTON: Individual legislators say the Executive Branch wouldn't go for it.

REP. STROBECK: How did you begin to build trust between management and workers?

What happened to the company's/employees' approach to make the change?

083 MR. ASHTON: Explains the gradual change to eliminate the complaining/blaming and to build/develop trust.

REP. STROBECK: In respect to the problem of trust, how did you handle personality differences?

MR. ASHTON: Initially the company lost 35% of employees at the management level. Describes current hiring practices that require high communication skills, acceptable intellect, sense of humor and a skill basis from which to build. Says 8% of the operating budget is on-the-job training.

REP. TIERNAN: Suggests a return visit/presentation, perhaps a tour of the facility by the committee members and follow-up presentations from some State agencies.

REP. STROBECK: Restates and asks for authentication regarding the comment that their pay and rates were the highest in the industry. How would that play with the voters and how could we demonstrate they are worth it based on the productivity? How do you do budgeting in light of the current service level budgeting criteria?

REP. JOHNSTON: Acknowledges the old system worked, but it just isn't good enough. Hence, the need for change.

REP. TIERNAN: Comments about productivity, maintaining the current level of work force and providing incentives to encourage working more efficiently.

MR. ASHTON: Remarks that financial rewards incent positive behavior. Peer pressure and the intrinsic rewards are far more motivating to get the job done. Explains the TIPS program.

REP. TIERNAN: Reviews the Committee schedule.

ACTING CHAIR MIKE LEHMAN ADJOURNS THE MEETING AT 04:45 pm.

Submitted by,      Reviewed by,

Kay C. Shaw      Greg Moore  
Committee Assistant      Committee Counsel

EXHIBIT SUMMARY:

- A - Government Efficiency, prepared statement, Tom Freedman, 14 pages
- B - Government Efficiency, prepared statement, Liz Warman, 6 pages
- C - Government Efficiency, prepared statement, Steve Ashton, 15 pages