

Understanding the Disconnect between Economic Development and Workforce Development Systems

2019 Federal Reserve System

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Topic Overview

In 2017, the Federal Reserve System's Investing in America's Workforce (IAW) initiative held listening sessions across the country to better understand how public and private entities are investing in workforce development in their communities and how workforce outcomes are being measured. One challenge the session participants identified was the lack of alignment between economic development and workforce development systems. The economic development system is designed to encourage business and job growth, while the workforce development system works to ensure individuals have the education, skills, and training needed to obtain jobs. When the two systems are aligned, job seekers receive training and skill development that employers demand—resulting in higher wages and career advancement—and employers have access to a skilled workforce that enables growth and increased productivity. Beyond benefiting employees and employers, a functional and aligned system has economic benefits to the broader community.

Research indicates that regional economic growth is dependent upon human capital (development and attraction) and innovation.¹ Some observers argue that the focus should be on policies aimed at the attraction and retention of educated workers², while others emphasize increased alignment of economic development and workforce development systems³ as a way to encourage the skilling up of local populations and the inclusion of populations left out of the traditional economy.⁴ The two are not mutually exclusive, nor is the call for greater alignment a new phenomenon.⁵

In this brief, we focus on increased alignment of economic development and workforce development systems, given that the strength of the current economy offers a unique chance to examine gaps and opportunities that may not be as visible in an environment of high unemployment. We focus on select regions in the Federal Reserve Bank of Cleveland's Fourth District, which includes Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia. Through listening sessions, in-depth interviews, and a stakeholder survey, we collected input from approximately 70 community, economic, and workforce development professionals, educators, philanthropy representatives, government officials, and nonprofit executives. We identify where alignment exists, highlight common barriers, and document opportunities for improved alignment across our metro areas. Further, we identify some best practices to consider when aiming for greater alignment between economic development and workforce development systems. While an overwhelming majority of stakeholders believe alignment is critical to the future, the success of strategies to achieve such alignment is mixed.

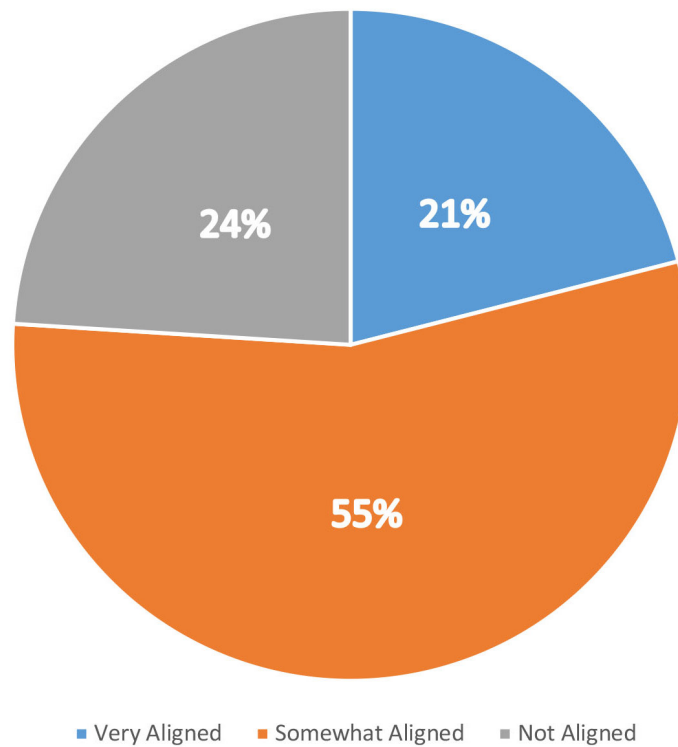
Community Stakeholders' Perspectives on Alignment

To better understand the current state of alignment between economic development and workforce development in our region in 2018, the Federal Reserve Bank of Cleveland gathered input from an array of local stakeholders that are in—or interact regularly with—the economic development or workforce development sectors in the Cleveland, Lexington, Pittsburgh, and Youngstown regions.

Nearly all (97 percent) of the respondents indicated that better alignment of these two systems is critical to the future of the regions they serve. Yet the majority of stakeholders (55 percent) believe economic and workforce development systems are only “somewhat aligned” (see Figure 1).

Figure 1. Workforce and Economic Development Alignment

How would you rate the level of alignment between the workforce development and economic development systems in your area?

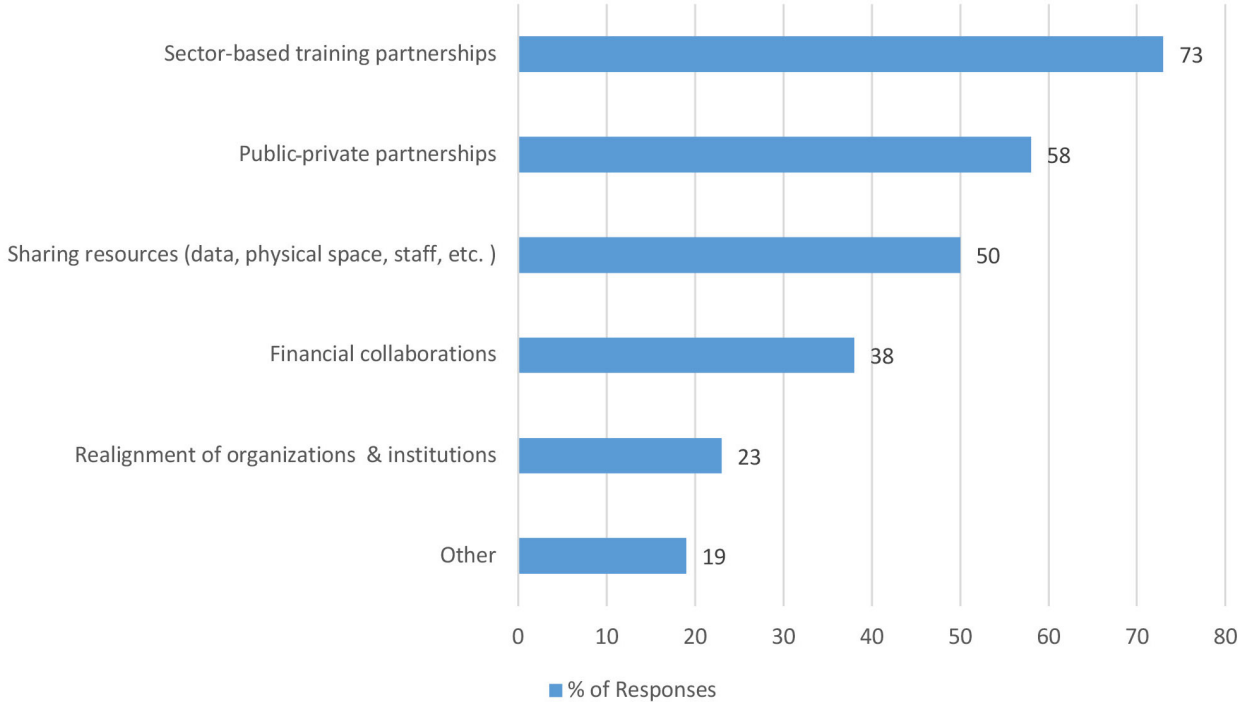


Source: 2018 Federal Reserve Bank of Cleveland Workforce Survey

To clarify what they meant by this characterization of the two systems, respondents described situations in which the two systems worked together on specific, targeted programs (see Figure 2). The most common way that alignment occurs—cited by 73 percent of stakeholders—was sector-based training partnerships. These partnerships bring together employers from an identified industry or industries with education and training providers to ensure that curriculum and trainings are responsive to in-demand skills. More than half of stakeholders (58 percent) cited private-public partnerships generally. Stakeholders also noted that outright collaboration between employers, organizations, and institutions happens less frequently, as funding often determines how and to what extent the two systems are aligned. Notably, only 23 percent cited a realignment of existing ways of doing business.

Figure 2. Types of Workforce and Economic Development Alignment

In which way (s) has your area worked to better align workforce development and economic development? Choose all that apply.



Source: 2018 Federal Reserve Bank of Cleveland Workforce Survey

Challenges and Opportunities to Align Economic and Workforce Development

Despite the potential benefits to aligning systems, such as a skilled workforce that is more in line with employer needs, there were several reasons given as to why alignment was challenging:

- The lack of a lead entity or backbone organization
- Communication, data, and information gaps
- Goals and funding
- Lack of critical support services

Notably, many of these are consistent with a collective impact model (*Stanford Social Innovation Review*).⁶

The Lack of a Lead Entity or Backbone Organization

In listening sessions and interviews, stakeholders identified the most common barrier to greater alignment as the lack of a lead entity, intermediary, or backbone organization. Having a lead organization has been recognized as a best practice: such an entity helps address other challenges to further alignment such as differences in funding mechanisms, goals and objectives, and accountability measures.⁷ Many stakeholders considered a lead entity or a backbone organization imperative for alignment. “An organization that can act as a backbone for better collective impact” would help alignment, stated one stakeholder. More than half of survey respondents reported there was no entity leading the alignment of economic and workforce development in their city. When asked what type of leadership or partnership would be needed to better align economic development and workforce development, one stakeholder noted, “The framework is there; [we] just need a more defined convener.” Respondents cited involvement from the business community, foundations, the public sector, and chambers of commerce as the most helpful type of leadership for advancing alignment.

For example, stakeholders in the Pittsburgh region discussed the value of the [Allegheny Conference on Community Development](#) and the role it plays in leading the alignment between economic and workforce development in the 10-county region. As a backbone organization, the Allegheny Conference on Community Development helps to lead the long-term vision and cross-sector approach that the region has worked many years to create. It does so by fostering collaboration across entities such as the Greater Pittsburgh Chamber of Commerce, Pittsburgh Regional Alliance, the Pennsylvania Economy League of Greater Pittsburgh, and the more than 300 members of the Allegheny Conference’s Regional Investors Council. Or consider the Pittsburgh nonprofit [Partner 4 Work](#), which organizes local workforce investment boards to leverage both public and private capital to address the workforce needs of the region. It is a part of the Allegheny Conference’s Regional Investors Council. In Cincinnati, [Partners for a Competitive Workforce](#) uses public and private funds to align workforce and economic development in the region.

Backbone organizations can work with corporations, educational institutions, government, foundations, organized labor, and social services organizations to strengthen the alignment between economic and workforce development. Many stakeholders stressed the importance

of creating a lead/backbone organization to drive their collective economic and workforce outcomes, but funding that organization may be a barrier in many urban areas. According to the *Stanford Social Innovation Review*, “Creating a successful collective impact initiative requires a significant financial investment: the time participating organizations must dedicate to the work, the development and monitoring of shared measurement systems, and the staff of the backbone organization needed to lead and support the initiative’s ongoing work.”

Communication, Data, and Information Gaps

Numerous communication, data, and information gaps were also viewed as major barriers to improving alignment between the economic and workforce development systems. According to stakeholders, the most concerning gap exists between training providers and employers—trainers may not fully understand what skills employers need in their employees. Relatedly, stakeholders noted that identifying the skills needed over the next few years remains a challenge to educators, trainers, and industry leaders. Communication, data, and information gaps also exist between the public sector and the private sector. For instance, many public-sector stakeholders expressed the need to better understand how the private sector is investing in its current employees. They were uncertain which private-sector employers offered in-house training opportunities and how that training would affect the demand for public workforce training. In parallel, many private-sector stakeholders wanted to know more about the menu of the public workforce programs offered in their regions and wondered how best to collaborate on training and investment opportunities to ensure an adequate pipeline of skilled workers.

Furthermore, the perceptions and attitudes of people in the public-sector workforce system about those in the private sector, and vice versa, contribute to distrust, which negatively affects efforts to collaborate. Stakeholders suggested that the private sector is often hesitant to rely on the public workforce system for workers and reluctant to engage directly with the public workforce system to hire and train workers, because they view the workforce development system as social service rather than a business resource. Another stakeholder hinted at a level of animosity between the two systems: “Those in either system see combining efforts as an encroachment upon their territory.” Investment opportunities that promote increased interaction between the two systems may lead to improved understanding and collaboration.

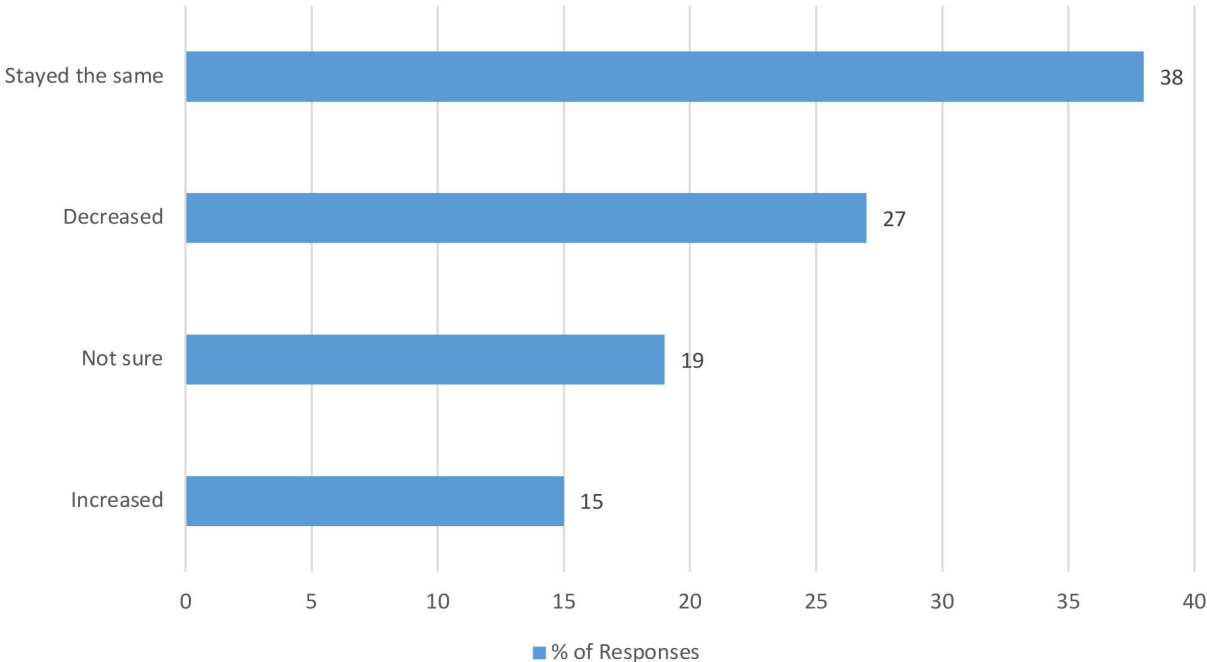
Goals and Funding

A major challenge to further alignment among public, private, and nonprofit stakeholders is their separate funding streams, with different goals and objectives tied to each. Despite good intentions, economic and workforce development systems often operate with different outcomes in mind.⁸ Stakeholders noted that funding often dictates the organizational structure and alignment of economic and workforce development organizations in a region. Stated differently, “stringent regulations that separate funding sources and hold each side to disconnected measures of success...limit their ability to create and implement unified strategic efforts” (Harper-Anderson, 2008a). Alternatively, flexible funding sources, often from philanthropy, can be used to pilot customized programs to meet the evolving needs in today’s economy. One effort was tried in northeast Ohio in 2013 to align funding and strategy of both the business community and philanthropy around a few, high-level goals anchored in jobs and labor force participation. The Regional Economic Competitiveness Strategy, or RECS, achieved mixed success.⁹

Most stakeholders indicated that general funding levels either stayed the same or decreased over the previous year (see Figure 3). While the lack of funds presents new challenges, it also underscores the urgency to think more creatively about new funding sources as well as to maximize existing sources.

Figure 3. Funding for Workforce Development

In the past year, has funding for workforce development in your area decreased, increased, stayed the same, or not sure?



Source: 2018 Federal Reserve Bank of Cleveland Workforce Survey

Lack of Critical Support Services

In addition to the systemic challenges identified above, just as important were the needs and challenges of individuals participating in workforce development training. Stakeholders stated that those seeking support services for employment and skills training often need transportation, childcare, and affordable housing options during training. Respondents also mentioned the role of support services such as tuition assistance, health care, and flexible work schedules. Many of these critical support services were cited by stakeholders as being inaccessible or underfunded for individuals seeking employment and skills training, especially for those in low- and moderate-income communities. Locally, the Cincinnati Foundation’s Women’s Fund has elevated the discussion about workforce supports by creating an “employer toolkit”¹⁰ that helps employers identify a variety of ways to help support employee training and advancement that can offer benefits to both employee and employer. Nationally, the Source¹¹ has emerged as a resource for employees that also helps employers improve “bottom-line results.” Improved alignment between the economic and workforce development systems can help to raise awareness of the importance of wraparound support, and it has the potential to connect employees to advancement opportunities and employers to ways to stem productivity losses and increase savings and revenue.

Best Practices to Help Improve Alignment between Economic and Workforce Development

Improving the alignment between economic and workforce development systems is not a one-size-fits-all challenge. Nonetheless, there are some best practices or guiding principles that can be helpful when looking to improve alignment. While participants in the survey, listening sessions, and interviews offered a variety of approaches to align the two systems throughout the Federal Reserve Bank of Cleveland's region, they pointed to having a lead organization responsible to connect and piece together the many components of the economic and workforce development systems as the most promising practice. This lead organization would be responsible for more comprehensive, long-term strategies and goals, which often includes improving regional competitiveness supported by both the economic and workforce development systems. Having such an organization allows those in each system to evaluate the intersections of economic and workforce development in their region in order to produce better outcomes. Additionally, having a backbone organization that supports consistent communication among all partner organizations and helps to close existing data and information gaps is critical.

In addition to having a backbone organization, there needs to be a mechanism in place to measure progress toward alignment across the two systems. Having such a framework encourages the many stakeholders in the economic and workforce development systems to jointly develop and track metrics that assess progress toward their alignment goals, whether they be related to policy, programs, or funding. The complexity of the economic and workforce development systems makes collaboration a challenge, but laying out specific alignment goals with a clear timeline to address agreed-upon goals is important for improving outcomes for both workers and employers. Ultimately, a unified vision and purpose is what is needed to align economic and workforce development systems.¹²

Finally, there exists a clear recognition that there are obstacles to potential employees' training and advancement that go far beyond the classroom or shop floor. Building this acknowledgment into the support systems seems to be an increasing part of the alignment equation.

Conclusion

Nearly all stakeholders recognized that better alignment between economic development and workforce development systems is critical to the future of the areas they serve. Over half of the stakeholders we spoke to in our region indicated that the local economic and workforce development systems were somewhat aligned. According to the survey, listening session, and interviews, establishing and maintaining a lead entity that is responsible for facilitating collaboration between these systems is both the biggest challenge and the most promising way to promote further alignment. Although better alignment between economic development and workforce development will likely involve a major systemic change, both research and outreach demonstrate that bringing together these systems will be beneficial to individuals, businesses, and the local economy. Alignment does happen, and if done well, it can work for everyone.

Acknowledgments

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The views expressed in this special topic brief are those of the interview, listening session, and survey participants, as summarized by the authors, as well as the authors' own insights, and do not necessarily reflect the views of the Federal Reserve System.

Methodology

In 2017, the community development departments at each of the 12 Federal Reserve Banks organized regional meetings at locations around the country with nearly 1,000 workforce development leaders to confer on the status of the nation's workforce development system and the challenges it faces. The community development team at the Federal Reserve Bank of Philadelphia gathered and analyzed the information from those meetings, and it subsequently published [Investing in America's Workforce: Report on Workforce Development Needs and Opportunities](#).

In 2018, the Federal Reserve's community development departments conducted a second series of regional meetings with stakeholders across public, private, and nonprofit sectors. The meetings focused on several workforce-related topics that impact communities, which originated from themes captured in the 2017 report. A series of special topic briefs were created based on regional meetings and community development research interests. Briefs include research and insights from workforce development organizations, experts, and community development staff.

About the Initiative

Investing in America's Workforce is a [Federal Reserve System](#) initiative in collaboration with the [John J. Heldrich Center for Workforce Development](#) at Rutgers University, the [Ray Marshall Center for the Study of Human Resources](#) at the University of Texas at Austin, and the [W.E. Upjohn Institute for Employment Research](#). Led by the community development function of the Federal Reserve System, the initiative aims to reframe and reimagine workforce development efforts as investments that can lead to scalable solutions and measurable outcomes. Components of the initiative to further this goal include:

- A series of listening sessions and [subsequent report and special topic briefs](#) aimed at gathering and analyzing information and ideas from people who work at the intersection of workforce training, recruiting, and finance.
- A [national conference](#) in Austin, Texas, in October 2017, where over 300 attendees discussed promising approaches to workforce development.
- A [three-volume book](#) that offers research, best practices, and resources on workforce development from a wide range of experts in various fields.
- A training curriculum for Community Reinvestment Act bank examiners on qualifying workforce investments under new Interagency Q&A clarifications for the regulation.
- For more information about the initiative, and to read chapters from the three-volume book and other special topic briefs, please visit www.investinwork.org.

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