

Investing in America's Workforce

Improving Outcomes for
Workers and Employers

Volume 2: Investing in Work



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**Volume 2
Investing in Work**

Stuart Andreason
Todd Greene
Heath Prince
Carl E. Van Horn
Editors

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Federal Reserve Bank of Atlanta
1000 Peachtree Street
Atlanta, GA 30309-4470

Editors:

Stuart Andreason, Federal Reserve Bank of Atlanta

Todd Greene, Atlanta University Center Consortium

Heath Prince, The University of Texas at Austin

Carl E. Van Horn, Rutgers University, The State University of New Jersey

Contributing Editors:

Ashley Bozarth

Rob Grunewald

Alexander Ruder

Janet Boguslaw

Richard A. Hobbie

Jennifer Schramm

Maureen Conway

Kathy Krepcio

Robb C. Sewell

Stephen Crawford

Karen Leone de Nie

Chris Shannon

Brian Dabson

Emily Mitchell

Steven Shepelwich

Nancey Green Leigh

Edison Reyes

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Contents

Introduction: Investing in Work	1
<i>Prabal Chakrabarti and Jeffrey Fuhrer</i>	
Part 1: Investing in Opportunities to Create Good Jobs	
1 Strategies to Advance Job Quality	17
<i>Maureen Conway</i>	
2 One Fair Wage: Supporting Restaurant Workers and Industry Growth	27
<i>Teófilo Reyes</i>	
3 Playing for Keeps: Strategies That Benefit Business and Workers	43
<i>Liddy Romero</i>	
4 National Fund Employer Profiles of Job Quality	59
<i>Steven L. Dawson and Karen Kahn</i>	
5 How CDFIs Promote Job Quality and Reduce Income Inequality	73
<i>Donna Fabiani</i>	
6 Now or Never: Heeding the Call of Labor Market Demand	87
<i>Steven L. Dawson</i>	
Part 2: Investing in Work and Wealth	
7 Valuing Workers through Shared Capital Investments	103
<i>Janet Boguslaw</i>	
8 Converting Employees to Owners: Deeper Investment for Deeper Impact	115
<i>Melissa Hoover</i>	
9 The Potential of Profit Sharing to Support Undervalued Workers	129
<i>Susan R. Crandall and Catherine Gall</i>	
10 Employee Ownership and Skill Development for Modest-Income Workers and Women	147
<i>Daphne Berry, Joy Leopold, and Anna Mahathey</i>	

11	How Workforce Investments Leverage and Create Employee Value	163
	<i>Janet Boguslaw</i>	
Part 3: Investing in Rural Work		
12	The Rural Dimensions of Workforce Development	183
	<i>Brian Dabson</i>	
13	Skills to Sustain Rural Economies	195
	<i>Stuart A. Rosenfeld</i>	
14	Igniting Rural Entrepreneurship: Where Do Workforce Development Programs Fit In?	213
	<i>Erik R. Pages</i>	
15	Cooperative Extension’s Past and Present Investment in Workforce Development	227
	<i>Kenneth M. Sherin and Cheryl Burkhardt-Kriesel</i>	
Part 4: Investing in Human Capital to Support Local Economic Development		
16	Community and Sectoral Strategies for Vulnerable Workers	241
	<i>Nancey Green Leigh</i>	
17	Workforce Development at the Bottom of the Labor Market	247
	<i>Marc Doussard</i>	
18	High School Manufacturing Education: A Path toward Regional Economic Development	265
	<i>Benjamin Kraft</i>	
19	Youth Job Creation and Employer Engagement in U.S. Manufacturing	285
	<i>Nichola Lowe, Julianne Stern, John R. Bryson and Rachel Mulhall</i>	
	Authors	309

Introduction

Investing in Work

Prabal Chakrabarti
Jeffrey Fuhrer

Much of this volume will consider how to improve outcomes for workers and employers by investing in strategies that either “upgrade the worker” (through training) or “upgrade the work” (increase the quality of jobs). Some chapters in particular will discuss what constitutes a “good” or “high-quality” job from the worker’s perspective, highlighting elements like wages, benefits, and other work conditions (importantly, “worker voice”) that distinguish desirable from undesirable work attributes. Being clear on what we mean when we say “high-quality jobs” is an important step in considering how to ensure that more workers obtain such employment.

While a number of chapters in this volume discuss specific strategies for increasing the quality of jobs, in this framing piece we consider a different question, motivated by considering it from an economic systems perspective: Why do employers offer the combination of wages, benefits, hours/income stability, and workers’ “voice” that we observe? Is it the result of optimal, cost-minimizing, efficient, competitive behavior? Does it properly reflect the full cost to society of employing these workers? Or does it represent a system that (in some respects) is distorted by externalities, or affected by an imbalance of employer/worker power that gives employers more power to set terms than is socially desirable? If so, has that imbalance grown over recent decades?

To be specific, we will consider the question of how the U.S. economic system has consistently delivered the following results:

- A large segment of the population receives low wages, relatively poor benefits, and poor income stability.
- Wages for this segment of the population have been stagnant or declining over the past 25 years.

- The Survey of Consumer Finances (SCF) shows that households in this income stratum live on a household income in the low \$20,000 range, including government supports.¹
- This is a shockingly low income-level number, especially for families with a dependent child or children.

In the process of considering the ways in which job characteristics might be viewed as unsatisfactory, many researchers and policymakers have identified a host of potential issues, and correspondingly a host of potential policy remedies. Singly, many of these remedies are worthy of consideration. But together, they may suggest that a deeper underlying set of factors is at work to produce these outcomes. If so, then perhaps one could address these underlying factors, obviating the need for an array of partial solutions.

WHY DOES THIS MATTER SO MUCH?

To be sure, undesirable outcomes matter to those who work under such dissatisfying conditions and to their family dependents. Moreover, the labor market to date has delivered outcomes that are in a very real sense *unsustainable*. That is, many families with one or two workers employed in such jobs can barely survive on the wages they earn. Critically, they often survive *only* with support from the government. And by “survival,” we do not mean full achievement of the American Dream. We have in mind literal survival—the ability to feed, clothe, and shelter oneself and one’s dependents, so as to avoid significant illness, disability, or death. The standard for survival in these cases is pitifully low. It is in that sense that these jobs are not sustainable, because without government assistance, many such workers might not survive, period.

WHY DOES A MODERN, EFFICIENT CAPITALIST SYSTEM PRODUCE SUCH RESULTS?

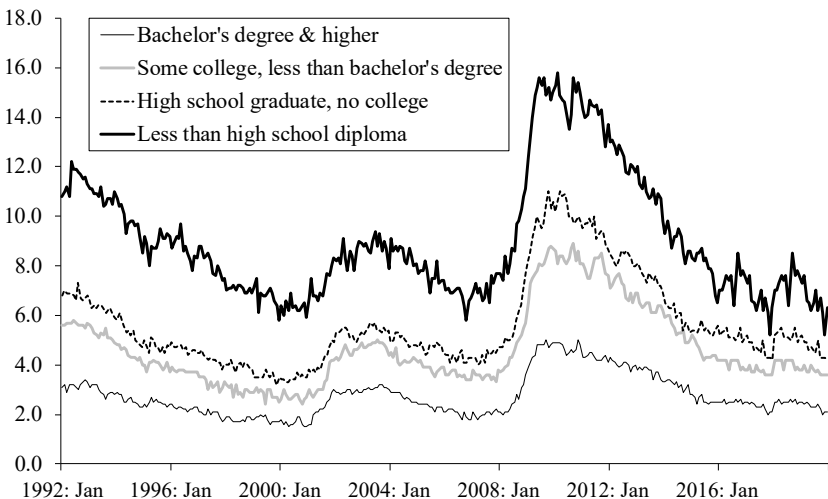
For many, modern labor markets do their job quite well. If you are among the well-educated and technologically proficient, and if

you come from the right geographical area, you stand a good chance of obtaining a job with good pay, benefits, working hours, and worker “voice.” If not, wages and job stability suffer. One simple indication of the stability of work by educational attainment is presented below. Figure 1 shows that during the Great Recession, the least-educated experienced nearly four times the unemployment rate of the most-educated. In times when there’s not a recession, better-educated workers average unemployment rates about one-third those of the least-educated.

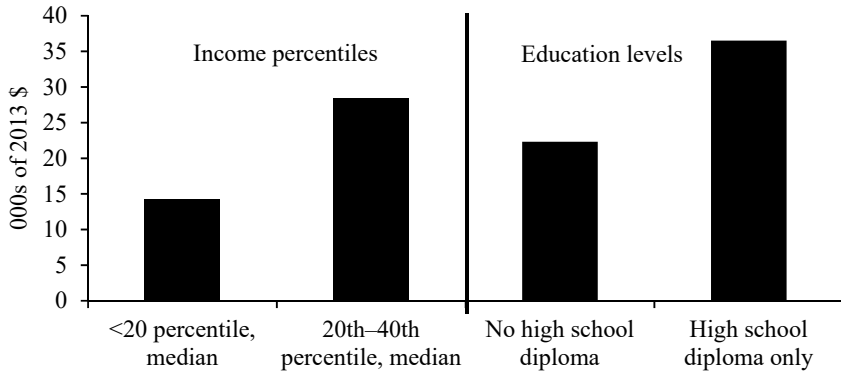
The Survey of Consumer Finances provides a snapshot of family income across selected characteristics. Figure 2 displays household before-tax income (in thousands of 2013 dollars) for the lowest 20 percent of incomes, the next 20 percent, and the median income for families with heads of household without a high school diploma, or with only a high school diploma. Note that the SCF uses a very broad definition of household income.²

These income levels, which include government supports and cover income of all sorts from all members of the household, are staggeringly low. The fact that 20 percent of U.S. working families live on before-tax, after-transfer income of less than \$15,000—which trans-

Figure 1 Unemployment Rates by Educational Attainment (25 years and older)



SOURCE: Bureau of Labor Statistics, Haver Analytics.

Figure 2 Household Income, before Taxes

SOURCE: Federal Reserve Board (2013).

lates to less than \$7.50 an hour for a full-time, 40-hour-a-week job—is sobering (Federal Reserve Board 2013). By the definition above, that’s a large swath of the population that is living on unsustainable wages. Nearly one in five American households used the Supplemental Nutrition Assistance Program, or SNAP (food stamps), in 2016, and most of these households have a working head of household (USDA 2018). And that doesn’t address the lack of benefits or other working conditions that typically go with such low-paying jobs.

Of course, one could then argue that the solution to this problem is education and training—and, as some chapters in this volume contend, education and training would certainly help. For a given labor market structure, education and training will move some workers up the distribution into higher-wage and higher-quality jobs. However, education and training are unlikely to change the characteristics of the jobs themselves. Thus, what we want to draw attention to is the structures that determine the quality of the jobs at the low end of the distribution. The question is why *in absolute terms* do the poorest-paid, least-stable jobs look so dismal? How did this happen?

There are a host of factors that have produced these labor market and social outcomes. We focus on two high-level factors.

First, there exists an externality by which the private sector can pay unsustainably low wages without bearing the full social cost of paying

unsustainable wages. To survive, households that earn such low wages must rely on government support. This cost to society is borne by all taxpayers, so in this sense, employers are imposing an external cost on the rest of the economy by paying such low wages and yet reaping the benefits of production. When producers impose costs on the economy that they do not internalize, economists often suggest that this is an appropriate area for government to work in to rectify the externality, often by imposing a tax that forces the producer to pay the full cost of producing, including the external cost.³

Second, these jobs are characterized by an imbalance of power between workers and employers (in which workers have a diminished ability to share in the profits generated by their labor), perhaps similar to the imbalance that existed in labor markets in the United States in the late nineteenth and early twentieth centuries. In that period, workers organized to exert power over their employers and obtain gains that we today take for granted, in the form of higher wages, shorter work weeks, and safer working conditions, to name a few.

While we have long acknowledged the right of companies to maximize profits and shareholder value (more on that below), we have also acknowledged the tension between achieving that goal and its effect on working conditions. Thus, the resolution of this tension in the twentieth century was a set of policies that regulated employers so as to ensure that working conditions met minimum standards. The ability of employers today to offer jobs with a broad array of poor working characteristics, and the necessity of so many employees to accept such jobs, implies that the balance of power may once again have tilted significantly in favor of employers.

This second factor (a power imbalance) allows the first factor (employers not bearing the full social cost of paying unsustainable wages) to operate. While the structure of the economy has progressed, workforce policies that manage employer-worker tension over distribution may not have kept pace, likely contributing to the labor market outcomes discussed in this chapter.

To be sure, large firms with significant profit margins and leadership that is so inclined may choose to implement a sustainable wage program, and some have.⁴ But a solution that relies on a coalition of the willing is probably not scalable to many employers. In particular, if low-quality job employers operate in industries with relatively low

profit margins and significant competition in their product markets, firms may feel they are unable to raise wages without losing profits, market share, or both. We will return to this implication in a moment.

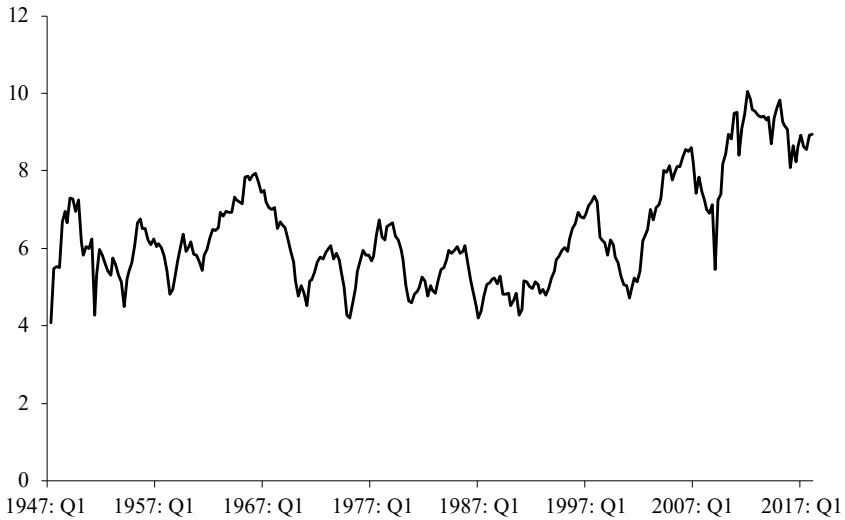
Another trend that likely contributes to the prevalence of poor-quality jobs is increased outsourcing of some functions—maintenance, cleaning, landscaping, security—to third-party contractors. Once the contract is negotiated, the incentive for the primary employer to monitor the working conditions of those workers under outside contract is much reduced, as is the ability to monitor such conditions. Even well-intentioned employers may unwittingly contribute to the rise of low-quality jobs by making a business decision that helps their bottom line, but that may worsen the work characteristics of those performing such functions for them through a third party.

An overarching consideration for employers in publicly traded firms is accountability to shareholders, which may imply a powerful focus on cost-cutting, including labor costs. This incentive no doubt operates to some extent, but recent corporate profits do not display such a strong imperative to cut costs sharply downward. Indeed, the average share of profits in the corporate sector, shown in Figure 3, is near an all-time high of late, and currently lies well above its average over the postwar period.

The link between labor costs and prices highlights another structural factor in the prevalence and persistence of low-quality jobs: in a sense, consumers are complicit in this dynamic. For commoditized manufactured goods and for many services, consumers have come to expect low prices.⁵ In part, such low prices are made possible by the low wage and benefits packages provided to workers in retail, agriculture, and some jobs in health care. Of course, low prices are also made possible by significant advances in technology and productivity over the past 50 years. But given the high profit rates cited above, it is somewhat puzzling why so few of these productivity gains have redounded to workers. Consumers are of course not responsible for monitoring the cost structure for all goods and services they purchase. But if they knew that one implication of some of their low-price purchases is the low-quality jobs that make those prices possible, it might give them pause.

High profit rates also benefit shareholders through higher equity prices and dividend payouts. This is another way in which the distribution of income has worked to the advantage of owners of capital, and

Figure 3 Profit Share of GDP, 1947–Present (corporate profits after tax with inventory valuation adj. and capital consumption adj.)



SOURCE: Haver Analytics.

not to labor. Perhaps institutional investors, such as public-sector pension fund managers, would feel less comfortable earning high returns if they knew they were made possible by low-wage workers at these firms who cannot afford basic necessities, and who derive no benefit from high profits, since they have neither pensions nor meaningful savings in a retirement fund.

WHAT CAN OR SHOULD BE DONE ABOUT THIS LONG-STANDING SET OF OUTCOMES?

If it is appropriate to characterize low-quality jobs as arising in part because of an externality, the solution to this externality could mirror that of other externalities in economic systems: policymakers could develop a mechanism whereby firms bear the full cost of their actions. In this case, a solution would also take into account the difficulties of

coordinating behavior so that no one firm disproportionately bears the burden of moving toward wages that reflect the full cost to the economy of a worker who cannot survive on a very low wage.

Addressing the imbalance of power that we argue lies at the heart of these poor working conditions is much more difficult. Unions were the solution in the earlier era referenced above. They worked because they represented the interests of workers, who, collectively, gained enough power to serve as an effective counterbalance to the interests of many employers. As suggested above, collective bargaining helped employees win important gains in employment characteristics that persist today. Cultural norms within business may also have played a role. For example, the ratio of CEO pay to that of the average worker traditionally was about 20 to 1, but that ratio has grown exponentially (Mishel and Davis 2015). This may be an imperfect measure, but it demonstrates that the relative bargaining power within firms between workers and managers may be a factor in setting low wages for many workers.

Misperceptions may also harm policy prospects for low-wage workers. The work itself is often thought of as a temporary way station held by someone starting out in the labor market or a recent arrival to the country. Yet recent analysis finds that the working poor are more likely to be over 30, or a parent with children at home, than the common narrative suggests (Center for Poverty Research 2018). Sometimes low-wage work is thought of as easily automated, and so must either be maintained at low levels or eliminated. But it is hard to imagine automation for a broad swath of low-wage jobs, including child care, home health aides, and frontline retail jobs where a human presence appears to be vitally important.

In part because of unions' success in making key workplace characteristics the norm, the share of unionized labor has fallen from a high of about 25 percent of private workers in 1974 to less than 8 percent today (BLS 2018).⁶ It seems unlikely that the United States will see a dramatic reversal in that trend. If that presumption is correct, we may need to design other mechanisms to afford workers in low-quality jobs a more powerful voice in negotiating for better terms of employment.

WHAT WOULD BE THE IMPLICATIONS OF HIGHER WAGES IN THIS SWATH OF OCCUPATIONS?

To the extent that any policies or private changes are effective in raising wages (and other costs of employees) for a significant fraction of workers, prices of some goods would likely rise. This conclusion assumes that profit margins are not so large that they could absorb a wage increase without passing some of the increase on in the form of higher prices. While Figure 3, from earlier, shows that average profit rates are high in the United States, for some of the industries in which low-quality jobs exist, lower profit margins may well be a concern. It could be that increases in productivity would arise from improved wages and working conditions, but that these might not completely offset the increase in wages. (Or, put differently, unit labor costs—the difference between wage increases and productivity growth—would still rise.) To the extent that prices rise for goods disproportionately consumed by lower-income people, this would be a partial offset to the benefits of higher wages.

Providing benefits such as advance scheduling notice, more reliable working hours, and health benefits may better support family health and student outcomes, and may address components of the generational nature of poverty among families with low-wage workers.⁷ Poor family outcomes can also be viewed as negative externalities of insecure work, in which the social cost is paid by school funding or other social spending to mitigate effects upon children and health. Some of these proposed improvements in the work environment may be passed on in the form of higher prices. But others may be neutral or even result in greater productivity from lower turnover, better health, and a more motivated and focused worker. Getting to a new equilibrium may be more cost-effective for a business than it appears, especially if the changes are made more or less uniformly over firms. Finding an effective mechanism to address these broader issues, however, is no less complicated than finding one to address low wages.

In sum, too many workers and their families today endure precarious economic conditions because their jobs do not provide sustainable compensation and benefits, forcing them to rely on social programs to survive. Even after receiving such support, family income for these

workers is pitifully low. This phenomenon appears to us to have been worsening, but we are hopeful that it is reversible. We should of course aim for changes in policies and practice that improve working families' financial stability while maintaining an efficient and productive U.S. economy.

An important first step in achieving such progress is recognizing the ongoing tension between (on the one hand) employers' responsibility to shareholders, the competitive structure of the industries in which they operate, the combination of these two to induce significant cost-cutting pressures, and consumer expectations; and (on the other hand) the need for good-quality jobs that provide sustainable economic outcomes. This tension has been with us for more than a century, although it is manifested differently today from what it was a century ago. In an earlier time, we developed policies that resolved the tension in a way that we deemed fair to both employers and employees. In our current circumstances, that challenge remains.

BUILDING AN INVESTING FRAMEWORK

The term *investment* is used in this book in a number of different ways. In one sense, it means actual financial investment in workforce development programs—the act of expanding programs requires additional monetary resources—but this is far from the only type of investment. Workforce development programs need partners that are invested in the success of the program, which includes businesses and economic development organizations as well as community development and social support organizations. Community organizations also can help address existing labor market disparities and challenges that are not completely skill based. It is also critical that future evaluations of workforce programs include cost-benefit analyses that show benefits to workers, businesses, and society.

Investing in America's Workforce: Improving Outcomes for Workers and Employers offers research, best practices, and resources for workforce development practitioners from more than 100 contributing authors. The book aims to reframe workforce development efforts

as investments that can result in better economic outcomes for individuals, businesses, and regions. In the three volumes, we focus discussions of investments on three areas: 1) investing in workers, 2) investing in work, and 3) investing in systems for employment opportunity. Within each volume are discrete sections made up of chapters that identify specific workforce development programs and policies that provide positive returns to society, to employers, and to job seekers.

Investing in Workers, the first volume, discusses all job seekers—and particularly disadvantaged workers—as opportunities and assets rather than deficits. Workers left out of the recovery, such as the long-term unemployed or chronically unemployed youth, are important sources of new talent in a tight labor market. These workers also bring new and different perspectives at any point of the business cycle and can help drive innovation. Seeing these workers as opportunities to build new ideas and competitive advantage is important; it is also important for workers who are mired in poverty. It is vital to invest in core literacy and technical skills so these workers can create wealth and build assets. Several chapters in Volume 1 explore both skill development and supporting workers who have particular barriers to work and economic opportunity.

Investing in Work, the second volume, explores the extent to which firms are able to address human resource challenges and difficulties for their workers by investing in the jobs, fringe benefits, and structure of employment that workers encounter with employers. Many firms have found that offering enhanced quality of work and benefits helps attract more productive workers, boosts the productivity of current workers, and produces other tangible benefits, such as reduced turnover. Investments in work structure also include considering how changes to the employee-employer relationship help build wealth, such as through different models of employee ownership of firms and planned succession of ownership. Finally, investing in work includes place-based and job creation efforts. Volume 2 explores these issues broadly and specifically in rural areas in an effort to better align workforce development and economic development efforts. Considering both the supply of and demand for labor likely will improve the effectiveness of both efforts.

Investing in Systems for Employment Opportunity, the third volume, explores the different ways organizations and policymakers deliver training and support worker and business productivity. The stakeholders involved in these efforts are multiple and varied, including governmental entities, businesses, philanthropies, and nonprofits. Finding ways to coordinate across these different sectors for collective impact is critical. In addition, several important factors and trends could influence the strategies of these programs, individually or collectively. Innovations in technology may change the type of work people do and the products firms create, while also providing a new and different delivery system for training. Access to these technologies is also vital, since many communities are not well connected. New finance models may help attract new players and investors in workforce development and help drive investments toward the most effective interventions. Aligning efforts and aiding them with new innovations and business models could significantly increase the scale and scope of workforce development programs.

As you read this book, we hope you find information that helps you advance initiatives, policies, and worker and employer opportunities in your community or state. Please reach out to the authors and editors if you wish to learn more. We hope that you will see the need to understand workforce development as an investment, and that you discover strategies that will help you make progress in your own organization or in your efforts on workforce policy. We believe this mind-set and further engagement and investment in the workforce development system are necessary to expand opportunity for workers and employers and to promote economic growth in the country.

Notes

1. See Bricker et al. (2014), p. 4, note 7: “The components of income in the SCF are wages, self-employment and business income, taxable and tax-exempt interest, dividends, realized capital gains, food stamps and other related support programs provided by government, pensions and withdrawals from retirement accounts, Social Security, alimony and other support payments, and miscellaneous sources of income for all members of the primary economic unit in the household.”

Because the measure is pretax, it does not include the boost to income provided by the earned income tax credit (EITC). Inclusion of the EITC, however, does not qualitatively change the conclusions presented here.

2. See note 1 for a definition of SCF household income.
3. See Burtless (2015) for an alternative view on government subsidization of low-wage employers. Burtless acknowledges the subsidy provided by programs that directly aid working adults, but he notes that programs that subsidize nonworking adults may reduce the supply of labor, thus raising wages in the relevant labor markets. This chapter is concerned with conditions for the working poor, and the implicit subsidy provided by programs that aid the working poor.
4. Notable examples include members of the American Sustainable Business Council, who commit to being high-road employers.
5. Economists should raise an eyebrow at such an imprecise term as *low prices*. But we have in mind the flat-to-declining prices of many manufactured goods, especially after adjusting for quality improvements, and the very low wages (and thus prices) paid to home health-care workers, for example.
6. The percentages are higher for all workers because public-sector workers have higher rates of unionization than private.
7. See Chetty et al. (2014) for a discussion on the generational nature of family poverty and its relationship with factors such as neighborhood-level income inequality.

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Part 1

Investing in Opportunities to Create Good Jobs

1

Strategies to Advance Job Quality

Maureen Conway

Economic inequality poses a crucial challenge to our economy, our society, and to the American ideal. It is critical that effective practices and policies be adopted to enable people to make a living through their work. Most families rely on earnings from work to sustain themselves, but for many, earnings have stagnated as the economy has grown. Sixty percent of people in the United States do not have sufficient savings to cover an unexpected \$1,000 expense (Tepper 2018). Eight years after the Great Recession, unemployment is below 5 percent, but wage growth remains modest at best. In 2000, median earnings among working people in the United States were \$35,243; by 2016 median earnings had risen only to \$36,586, less than a 4 percent increase in real terms,¹ whereas U.S. GDP per capita grew more than 16 percent.² Although household earnings edged up only slightly over the past few decades, major household expenses such as housing,³ health care,⁴ and higher education⁵ moved up at a brisker clip, at a rate at least as fast as the rest of the economy. That leaves working families in a tightening budgetary bind.

Irregular earnings compound the problems caused by insufficient income, and recent research highlights irregular work schedules (Smith-Ramani, Mitchell, and McKay 2017) as a key driver of income volatility. Changing work arrangements—on-demand scheduling, subcontracting, and platform-mediated independent work—changed the experience of work for many hourly wage and self-employed working people. For some, these arrangements can offer flexibility or an opportunity to supplement income from a primary job, but for others, especially those unable to juggle multiple jobs, income irregularity associated with these arrangements exacerbates the challenge of managing household expenses and puts saving for emergency expenses or future needs out of reach.

Of course, wages are only one component of compensation. Paid family and medical leave, paid time off, retirement savings support, and

a variety of insurances, including health, life, and disability, are valuable to working people. In many other countries the government plays a central role in providing health insurance and other benefits, but in the United States, working people and their minor dependents typically access these benefits through their employment. However, the proportion of U.S. households that receive these benefits from their employers has declined in recent decades. Today, low- or moderate-wage workers are much less likely to have these employment benefits than higher-wage earners (Bureau of Labor Statistics 2015).

Skills and credentials can help some advance into more economically rewarding work. Therefore, one strategy organizations resort to when assisting individuals who struggle in unsustainable employment is to offer them opportunities to attain further education or training in order to improve their skills. Education and training are important, and over the past decade, there has been an increase in the rates of high school graduation and college attendance, and in job training strategies that better align with industry demand. Continued work to improve access to education, reduce costs, and improve quality is certainly important, but education on its own will not change the nature of work or automatically lead to better job quality. Over the past two decades, underemployment among college graduates hovered around 33 percent, and as of September 2017 it remained the case that one in three college-educated workers holds a job that does not require a college degree.⁶ However, for recent college graduates in particular, a second trend has emerged: the diminishing quality of noncollege jobs. The Federal Reserve Bank of New York finds that a declining proportion of college graduates in non-college-degree jobs are in “good” jobs, and an increasing proportion are in low-wage jobs, such as those in the service sector.⁷

The service sector’s role in providing employment to college graduates is not surprising. The economy has been transitioning from production based to service based for quite some time. In 2006, 15.1 percent of jobs were in the goods-producing sector and 77 percent were in the service sector. By 2016, the proportions shifted to 12.6 percent and 80.3 percent, respectively, and the Bureau of Labor Statistics projects that by 2026, goods-producing industries will account for 11.9 percent of jobs and services for 81 percent.⁸ Service-sector employment exceeds goods-producing employment several times over and will continue to do so for the foreseeable future. Although there are well-paying jobs in

the service sector, large segments—such as restaurants, retail, hospitality, child care, and elder care—are mostly low-wage jobs. These service jobs are not declining, either—9 out of every 10 jobs added in the next decade will be in service-sector industries (Bureau of Labor Statistics 2017).

Popular conception of these jobs is that they are low skill and therefore low wage, but they need not be designed that way. Some business leaders are reimagining the structure of work in these industries, finding paths that yield work that simultaneously is more rewarding for workers and drives better results for businesses. Noted researcher Zeynep Ton (2014) has highlighted companies like QuikTrip, a chain of gas stations and convenience stores, that offer jobs with a compensation package that includes decent wages, reliable schedules, health benefits, and profit sharing. These companies combine a more committed workforce with strategic operational choices, resulting in an improved bottom line. Recently, several large corporations have been moving in this direction—Gap, IKEA, Aetna, and Walmart announced increases in their minimum wage. Walmart and Gap are also developing policies and systems that provide more predictable and stable schedules for their employees (DePillis 2016; Scheiber 2018; Shock and Thurman 2017).

Although the public announcements of major corporations are welcome, it is important to note that these quality jobs strategies can work for smaller companies, too. Relatively small businesses like the restaurants Plum Bistro in Seattle or Zazie in San Francisco offer above-minimum wages while also providing paid sick leave and other benefits. Initially, these businesses were concerned about what such policies might cost when implemented; instead, they found that the policies actually helped their businesses—they reduced turnover and helped stabilize their workforces, which in turn helped them grow their businesses.⁹ The Hitachi Foundation also documents dozens of mainly small- to medium-sized firms in the health care and manufacturing sectors that are outpacing their peers in business and financial performance while offering workers greater stability, improved pay, quality benefits, training, and career advancement (Levine, Popovich, and Strong 2013). As these examples demonstrate, businesses must be involved in creating transformational strategies that can both advance working people and support strong businesses to address the challenge of inequality.

Voluntary change by businesses or workers themselves will be helpful but are likely to prove insufficient to address an economy that has profoundly shifted and where the quality of work and jobs has declined so precipitously for so many. Rahmandad and Ton (2018) demonstrate how a “labor cost minimization” strategy, which relies on low wages and poor quality jobs, can coexist in a competitive market with an “employee productivity and involvement maximization” (EPIX) strategy, which is similar to what Ton describes as a “good jobs strategy” in her earlier work (Ton 2014).¹⁰ In particular, Rahmandad and Ton find that companies applying the EPIX strategy—by investing in their workers’ compensation and designing jobs with “task richness” to maximize productivity—can boost profits and succeed in a competitive market. However, the same can be true for companies that minimize compensation and design jobs to require as little knowledge, skill, or experience as possible. What we learn from this is that we cannot rely on market forces and competition to ensure that “good jobs” business models win the day. Policy change, too, is needed to align business incentives with the public interest in quality jobs. Policy direction can shape a competitive ecosystem such that the economic playing field is tilted toward the advantage of business models that provide good jobs.

Policy has played a major role in improving the quality of work historically in the United States. The Fair Labor Standards Act of 1938 established a minimum wage, child labor standards, and rules for overtime compensation, among other labor regulations. This base was strengthened through further amendments, regulations, and rulings, and resulted in a world of work in which children went to schools instead of factories, and many more workers could enjoy weekends and time with their families. Later, the Occupational Safety and Health Act of 1970 promulgated a set of standards to protect workers from mechanical, chemical, or other dangers and generally promote work environments free from hazard.

Today, a variety of policy approaches aim to improve the lives of working people. Some update existing standards, such as adjusting the minimum wage or eligibility rules for overtime pay. Others advocate new policy standards to address issues that have emerged in a service-oriented economy. For example, a large proportion of the service-sector workforce is working hours that look highly irregular when compared to the industrial era. Fair scheduling legislation can ensure more input

from workers in setting schedules, give them more advanced notice, and limit practices such as “on-call” scheduling, giving working people more control over their time and better ability to balance personal and family obligations with work.

In addition to rules and regulations, governments can incentivize and reward the creation of higher-quality jobs in their role as a purchaser of goods and services and in their work to encourage the development of jobs for its citizens. In procurement contracts, governments can set job quality standards and do business only with companies that meet those standards. Living wage ordinances, such as those passed in San Francisco and Miami-Dade County, are an example of this approach to raising employment standards. Governments can also establish preferences in procurement contracts for a broader range of job quality characteristics. For example, companies that offer employee ownership or profit sharing or meet a certain standard compensation ratio in comparing a CEO to a typical worker could receive extra points in a bid scoring process. In public works projects, governments can also include local hire preferences and incentivize an investment in worker training that promotes local goals of hire and inclusion. Investments in economic development and job creation can include clear job quality standards, with a system to recover investments if targets are not achieved.

Public policy can address rising economic insecurity among working people through the provision of benefits. As mentioned above, it is common that a variety of benefits come from work, but the government can play a role—and has in the past—in helping manage risks of illness, disability, and job loss. For example, the risk of poverty in old age was greatly diminished through the establishment of Social Security and then later, Medicare. Today, many are looking at what government’s role should be in establishing new social insurance systems that can help working people manage risks of ill health, injury, or job loss. For example, California, Washington, and New Jersey have developed paid family leave programs that provide paid time when extended leave is needed for health or family reasons. Benefits could be financed through fees or taxes from a variety of employers: platform companies such as Uber and Handy, which operate technology platforms that match workers with customers looking for a particular service but do not classify their workers as employees; companies that rely on independent or “gig” workers; and companies that have regular employees

on payroll and thus could structure contributions with the current labor market dynamics in mind. Rather than the need for health insurance or other employment benefit guiding employment choices, the provision of benefits allows working people to choose jobs that are the best match for them and thus can lead to a better functioning labor market overall.

Within the context of policy choices, the roles of institutions begin to evolve. What are the roles of organizations that are working to help economically struggling groups connect to quality jobs? How should they work to encourage the creation of jobs that offer a sustainable livelihood? Since there are different operational choices business can make to compete in their industry, what is the role of workforce development, worker advocacy, social investors, and public policymakers in encouraging industry practices that support high-quality jobs and high-quality businesses?

The chapters that follow describe strategies that a variety of different organizations are pursuing to boost job quality. “One Fair Wage: Supporting Restaurant Workers and Industry Growth,” by Teófilo Reyes, describes how worker advocates can affect policy change to improve the quality of jobs. Reyes describes the perspective of Restaurant Opportunity Centers United, a series of worker centers in major urban areas across the country. He makes the case for eliminating the subminimum wage for tipped work, allowing these workers to receive reasonable paychecks rather than depending on tips to compensate them for their labor. Reyes points out that the 19 percent of food service workers in states that preclude subminimum wages fare better economically; they depend less on government assistance when gainfully employed and work in an industry that is thriving as much if not more than that of their peers in other states.

Retention and engagement are noted as core challenges to businesses in Liddy Romero’s chapter, “Playing for Keeps: Strategies that Benefit Business and Workers.” Romero describes a variety of strategies deployed by companies across sectors that address these challenges while also increasing the quality of the jobs they provide. These approaches pay off in more engaged and stable workers, more productive workplaces, and increased returns to employers.

“National Fund Employer Profiles of Job Quality,” by Steven L. Dawson and Karen Kahn, exemplifies the opportunity for companies to choose business strategies that promote high-quality jobs. This

chapter features two case studies of employers addressing a range of job quality issues—leading-edge optics manufacturer Optimax and Kentucky-based materials manufacturer Universal Woods. By investing more in their workers than peer firms, and by designing jobs that engage their workforce and encourage and reward their contributions to firm performance, these companies are benefiting from the high rewards of building a “trust culture.”

Community development financial institutions (CDFIs) are well positioned to incentivize job quality standards, and Donna Fabiani’s chapter, “How CDFIs Promote Job Quality and Reduce Income Inequality” describes how these institutions could enhance their role as business lenders and investors. She also makes the case for ways CDFIs can be better supported to fully realize this potential to influence the quality of jobs.

The section closes with Steven L. Dawson’s call to action and agenda for change in “Now or Never: Heeding the Call of Labor Market Demand,” which outlines how workforce development system intermediaries can better position themselves to go beyond job placement to provide more value-added services to businesses and influence the quality of jobs businesses provide. Addressing job quality is important to all actors in a regional economy, and Dawson calls on a range of institutions to play a part in advancing job quality.

These chapters all offer ideas and, hopefully, inspiration to action. The urgent task before us is to build a positive future of work that enables all who work a chance to make a good living and build a good life for themselves and their families. Strategies focused on public policy, business practice, education and training, social supports, and access to credit all have a role to play. The task is not to discover which of these strategies is best, but rather, how to create synergies across them to get the effective and systemic solutions we need today. Success in this difficult task would offer millions more working people basic economic stability and the opportunity for economic mobility, which should be the hallmark of the American Dream.

Notes

1. Author's calculation based on U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements. <https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-people.html> (accessed June 6, 2018).
2. Author's calculation based on the reported real GDP per capita in the United States, available from the St. Louis Federal Reserve at <https://fred.stlouisfed.org/series/A939RX0Q048SBEA/> (accessed June 6, 2018).
3. The State of the Nation's Housing 2017 report by the Joint Center for Housing Studies of Harvard University shows a decline in low-rent units and growth in high-rent units between 2005 and 2015 (Slowey 2016).
4. Kaiser Family Foundation data show that out-of-pocket health costs increased by 16 percent in real terms from 2000 to 2016 (Kamal and Cox 2017).
5. National Center for Education Statistics data show substantial increases in cost of tuition and fees at public, private nonprofit, and private for-profit higher education institutions. <https://nces.ed.gov/fastfacts/display.asp?id=76> (accessed May 1, 2018).
6. Data from the Federal Reserve Bank New York. https://www.newyorkfed.org/research/college-labor-market/college-labor-market_underemployment_rates.html (accessed May 1, 2018).
7. Data from the Federal Reserve Bank New York. https://www.newyorkfed.org/research/college-labor-market/college-labor-market_underemployment_jobtypes.html (accessed May 1, 2018). According to the table note, "Good non-college jobs are those with a full-time average annual wage of roughly \$45,000 or more, while low-wage jobs are those that tend to pay around \$25,000 or less."
8. Data from the Employment Projections Program, U.S. Bureau of Labor Statistics. https://www.bls.gov/emp/ep_table_201.htm (accessed May 1, 2018).
9. Information gathered when author participated on a panel with owner of Zazie, and when author hosted a 2014 panel with owner of Plum Bistro at the Aspen Institute. Video of Aspen Institute panel: <https://www.aspeninstitute.org/events/time-care-discussion-improving-paid-leave-policies-workers-businesses-our-economy/> (accessed May 1, 2018). More information about Zazie: <https://hoodline.com/2015/05/10-years-in-zazie-owner-jennifer-paillat-still-puts-employees-first> (accessed May 1, 2018).
10. Ton (2014) describes a set of operational choices that support good jobs and business success. The book profiles four major retailers that offer demonstrably better jobs than their competitors and have achieved excellent business results.

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2

One Fair Wage

Supporting Restaurant Workers and Industry Growth

Teófilo Reyes

In 2016, for the first time on record, Americans spent more money on food prepared outside the home than they did on food prepared inside the home (Economic Research Service 2016).¹ This marked shift in consumption patterns over the past six decades demonstrates the durability of a new economy, marked by longer work hours, the multiple job holder, and the two-breadwinner household. This new economy is fueled by the labor of food preparation and serving workers, and the fortunes of the restaurant industry have risen on this tide. Over the past decade, the industry has grown to occupy nearly 10 percent of the total private sector workforce and is on a trajectory to supplant manufacturing as the nation's fourth-largest employer by the end of the decade (Bureau of Labor Statistics 2017a).² Yet that growth has not led to increased prosperity for its workforce. Restaurant workers represent the plurality of minimum wage workers and the vast majority of workers earning below the minimum wage, and they live in poverty at over twice the rest of the workforce (Bureau of Labor Statistics 2016).³ Over one-third of all workers live in states where the subminimum wage for tipped restaurant workers is only \$2.13 an hour, and nearly three-quarters live in a state where the subminimum wage falls below the federal minimum wage of \$7.25. In these states, federal law requires that when the hourly wage, subsidized by tips, does not equal the minimum wage, employers must pay workers the difference, although in practice employers often fail to comply with the law. Only 19 percent of all restaurant workers work in one of the seven states where there is no subminimum wage below the state minimum wage. Yet those 19 percent fare better economically, depend less on government assistance when gainfully

employed, and work in an industry equally or more vibrant than that of their peers in other states.⁴ These seven states represent a natural experiment demonstrating that “one fair wage” for all workers, where there is no subminimum wage for tipped employees, is a desirable policy pathway to improve the lives of a sizable and growing economic mainspring dedicated to nourishing the rest of the workforce.

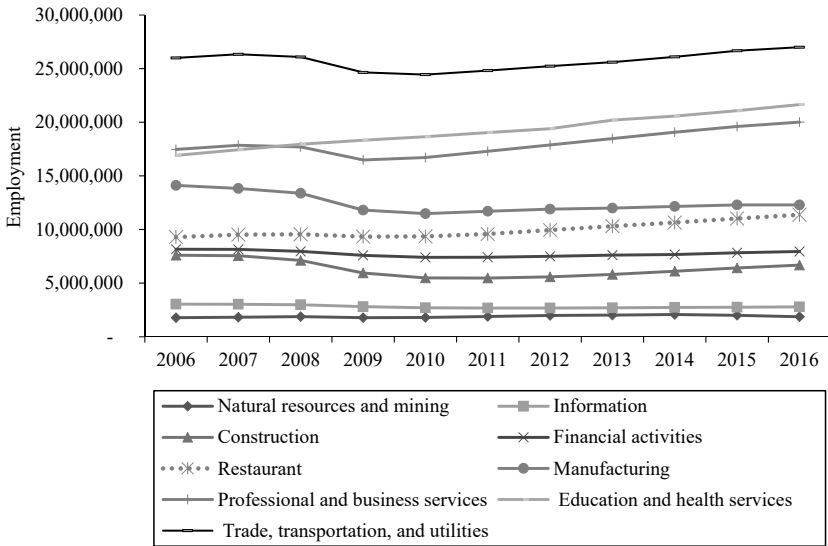
AN ECONOMY IS BUILT ON ITS KITCHENS

The percentage of the family food budget that is spent in restaurants has grown from 20 percent in 1961 to 44 percent in 2016, accompanied by a growing reliance on food prepared outside the home to be eaten at home (Economic Research Service 2016).⁵ Longer hours and precarious working conditions have, paradoxically, meant that Americans increasingly look outside the home for nourishment. In turn, this growth has benefitted the restaurant industry.

The restaurant industry is one of the fastest growing sectors of the U.S. economy. Over 11 million workers are directly employed in food preparation and serving occupations, in over 613,000 establishments around the country. Over the past decade, the industry has grown from 8.3 percent to 9.4 percent of the total private sector workforce (Bureau of Labor Statistics 2017a).⁶ The industry is currently the fifth-largest private sector employer in the country and is poised to overtake manufacturing to become the fourth-largest employer overall (see Figure 2.1). In states such as New York, and in major metropolitan areas such as Boston and the Bay Area, the restaurant industry has already overtaken manufacturing as a primary employer. Only the education and health services sector has seen a faster growth rate than the restaurant industry, and even though restaurants saw a small drop in employment at the start of the Great Recession, the industry quickly regained its rapid growth trajectory while other industries continued to languish for years (see Figure 2.2) (Bureau of Labor Statistics 2017a).⁷

Yet much of the industry’s growth has not been to the benefit of its workforce. Ten of the 20 lowest-paying jobs are in the restaurant industry, and 5 of these are tipped occupations (Bureau of Labor Statistics 2017b).⁸ Restaurant workers comprise 27 percent of all workers

Figure 2.1 Private Sector Employment by Major Industry since 2006



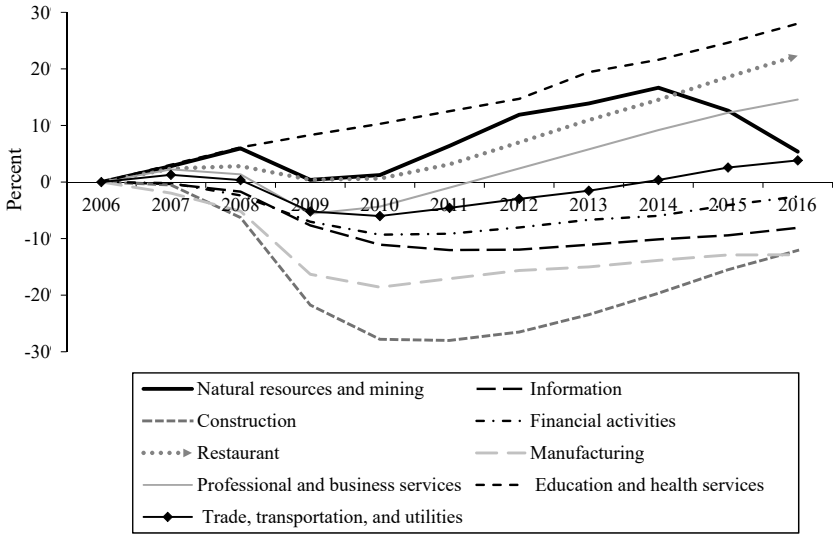
SOURCE: Analysis of Quarterly Census of Employment and Wages, 2006–2016. Bureau of Labor Statistics.

who earn the minimum wage, and 64 percent of all workers who earn below the minimum wage. Combined, 52 percent of all workers at or below the minimum wage are in the restaurant industry, yet restaurant workers make up only 15 percent of all workers in all occupations earning an hourly wage (Bureau of Labor Statistics 2016). In practice, this means that gainfully employed restaurant workers live in poverty at over twice the rate of the rest of the workforce (19.2 percent compared to 7.9 percent).⁹

HISTORY

Poverty and economic insecurity have a long history in the restaurant industry, in part tied to the tipped subminimum wage. Although tipping as a practice existed in the hospitality industry prior to the Civil

Figure 2.2 Change in Private Sector Employment since 2006 in the Nine Sectors with the Largest Number of Employees



SOURCE: Analysis of Quarterly Census of Employment and Wages, 2006–2016. Bureau of Labor Statistics.

War, it proliferated after the war, when the Pullman Company, famous for building and operating sleeper railcars with African American porters—some of the preeminent leaders of the civil rights movement—and the restaurant and hospitality industry took advantage of emancipation and hired newly freed slaves without paying them a wage (Azar 2004). Instead of paying a set wage, the industry left it to patrons to provide compensation. By 1880, 43 percent of all workers employed in hotels and restaurants were African Americans. In 1900, 37 years after emancipation, 25 percent of all African Americans engaged in nonagricultural labor were employed as servants and waiters. Nearly 75 percent of these workers (345,386 out of 465,787) were women. In northern cities such as Philadelphia, over 90 percent of all African American women were employed as servants and waiters (Wright 1913). Although this figure encompasses domestic labor, 43 percent of hotel and restaurant employees were women.¹⁰

Mass movements opposing tipping grew at the turn of the twentieth century, citing it as an affront to human dignity, and several states banned tipping entirely. However, by 1926 all of these laws had been repealed—either by courts ruling they were discriminatory for barring workers but not employers from receiving tips, or by legislatures responding to service industry pressure and the persistence of tipping as a practice (Needleman 1937).

When a national minimum wage was established under the Fair Labor Standards Act (FLSA) in 1938, restaurant workers were excluded. Only establishments that were engaged in interstate commerce were required to abide by the FLSA. The administrator of the Wage and Hour Division at the Department of Labor, created to administer the implementation of the FLSA, ruled that in the case of “chain-store systems” with subsidiaries in multiple states, each individual unit would be considered a separate establishment, excluding all restaurants, hotels, gas stations, and retail stores from the law (Douglas and Hackman 1939). It was not until 1966 that tipped workers were allowed any wage at all through the codification of a subminimum wage for workers that “customarily and regularly receive tips.” As the FLSA was amended, the tipped subminimum wage was set between 50 and 60 percent of the full minimum wage, with the remainder to be paid in tips, until 1991, when it reached \$2.13, or 50 percent of \$4.25 (Allegretto and Cooper 2014). In 1996 Congress revisited the minimum wage, and the National Restaurant Association, under the leadership of pizza magnate and erstwhile presidential candidate Herman Cain, successfully lobbied Congress and the Clinton administration to freeze the subminimum wage at the level of \$2.13 (Liddle 1996). Congress has raised the minimum wage four times since then, yet the subminimum wage has remained frozen at \$2.13 per hour. Tipped workers have not seen an increase to the federal subminimum wage since 1991.

Although the law requires employers to make up the difference when tips are not sufficient to reach the minimum wage, in practice employers often fail to comply with the law. A federal review of 9,000 full-service restaurants in 2010–2012 found that nearly 84 percent had committed wage and hour violations, including 1,170 cases where tipped wages were calculated improperly, and led to \$5.5 million in back pay and \$2.5 million in penalties (Fletcher 2015).

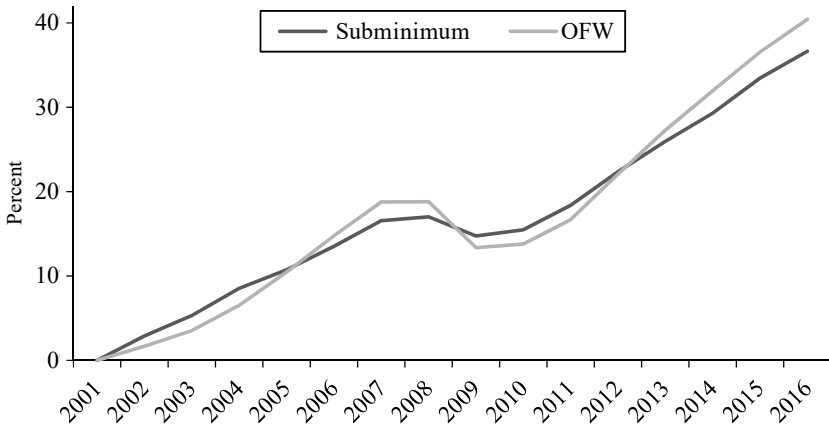
NATURAL EXPERIMENT

Restaurant industry representatives often claim that the industry would not be able to absorb the cost of raising the minimum wage and eliminating the tipped subminimum wage (for example, see Whatley [2016]). However, not every state follows federal minimum wage guidelines. The federal subminimum wage of \$2.13 applies only to workers in 19 states that have not set a higher standard. Twenty-four states have set a subminimum wage higher than the federal subminimum, and four of these states have set the subminimum wage higher than the federal minimum wage but below the state's minimum wage (Wage and Hour Divisions 2017). Seven states—Alaska, California, Minnesota, Montana, Nevada, Oregon, and Washington—have eliminated the subminimum wage for tipped workers. These states, here called the seven One Fair Wage states for offering the same base wage to all workers, form a natural experiment that allows us to observe any differences in the restaurant industry associated with the wage region.

Restaurant industry data show that the seven states have had growth rates similar to or higher than that of the rest of the nation. Weighted to adjust for employment levels, restaurant industry sales growth is higher in these states than it is elsewhere. National Restaurant Association (2017) industry forecasts show that, on average, the seven One Fair Wage states will see growth of 5.1 percent in 2017, compared to growth of 4.2 percent in both the \$2.13 states and the rest of the country overall. Furthermore, employment in full-service restaurants where tipped workers are concentrated has kept pace with and is even growing faster as minimum wage increases accelerate in the seven One Fair Wage states, compared to subminimum wage states (see Figure 2.3).

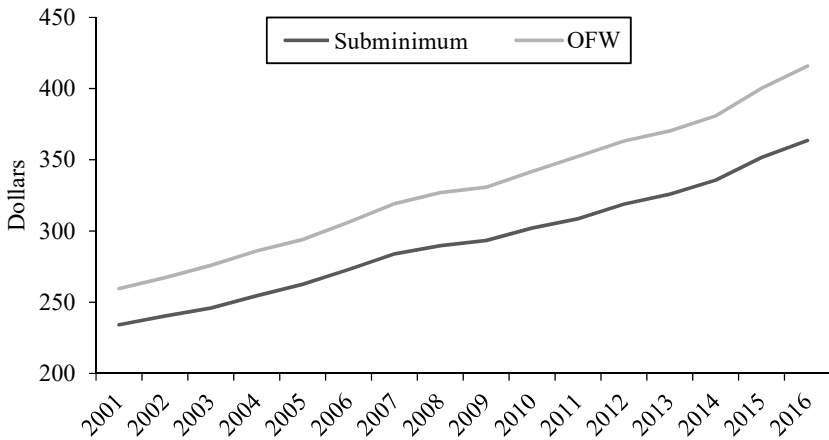
Accordingly, wages are higher and are growing faster in the seven One Fair Wage states than elsewhere (see Figures 2.4 and 2.5). This wage growth has implications for the likelihood that a worker will earn less than poverty-level wages. Among gainfully employed tipped restaurant workers working full time, year round (30 hours or more per week), 14 percent live in poverty and 16 percent rely on food stamps in subminimum wage states, compared to only 9 percent and 11 percent, respectively, in the seven One Fair Wage states. For comparison, only 4 percent of similarly employed workers across all occupations live in

Figure 2.3 Percent Change in Full-Service Restaurant Employment since 2001 in One Fair Wage and Subminimum Wage Regions



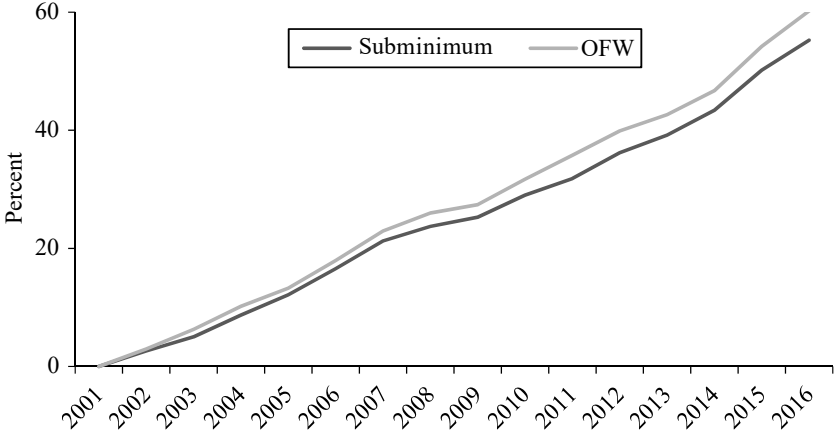
SOURCE: Analysis of Quarterly Census of Employment and Wages, 2001–2016. Bureau of Labor Statistics.

Figure 2.4 Average Weekly Wage in Full-Service Restaurants in One Fair Wage and Subminimum Wage Regions



SOURCE: Analysis of Quarterly Census of Employment and Wages, 2001–2016. Bureau of Labor Statistics.

Figure 2.5 Percent Change in Average Weekly Wage in Full-Service Restaurants in One Fair Wage and Subminimum Wage Regions since 2001



SOURCE: Analysis of Quarterly Census of Employment and Wages, 2001–2016. Bureau of Labor Statistics.

poverty in both regions, 8 percent rely on food stamps in subminimum wage states, and 7 percent rely on food stamps in the One Fair Wage states. Poverty remains a significant problem among restaurant workers in One Fair Wage states, where tipped workers are twice as likely to live in poverty as all similarly employed workers, but this problem is much more severe in the subminimum wage states, where gainfully employed tipped restaurant workers are nearly four times as likely to live in poverty as their similarly employed counterparts across all occupations.¹¹

SEXUAL HARASSMENT

Although women comprise 47 percent of the total workforce, a majority of restaurant workers—54 percent—are women. However, this number increases considerably when we examine tipped workers.

Over two-thirds (67 percent) of tipped restaurant workers are women. When we further narrow our scope to the most populous tipped occupation, the nation's 2.5 million servers, 70 percent are women, and they earn only 79 percent as much as their male counterparts. Women are disproportionately employed in the lowest-paid occupations in an industry where, according to federal law, a primarily female workforce can be paid a subminimum wage that has not increased in over 25 years. Gainfully employed women servers working full time, year round in subminimum wage states toil in poverty at nearly twice the rate of their peers in One Fair Wage states (17 percent vs. 9.5 percent).¹²

One of the most striking differences between the One Fair Wage states and the states with the \$2.13 federal subminimum wage is the difference in the rates of sexual harassment experienced by workers in the two regions. We surveyed 688 restaurant workers around the country and found that, compared to women in One Fair Wage states, women working in tipped occupations in the subminimum wage states are twice as likely to experience sexual harassment, and three times as likely to be told by management to alter their appearance and wear more sexually revealing clothing. Women in \$2.13 states are also more likely to be required to wear sexually suggestive uniforms than women in One Fair Wage states, leading to the highest rates of sexual harassment. Women in the subminimum wage states reported that they have to tolerate heavily sexualized cultural expectations, including inappropriate comments and sexual behaviors while at work to ensure a good tip and to simply keep their job. As a result, women in subminimum wage states report higher rates of depression and anxiety compared to women in One Fair Wage states. Tellingly, all workers in states with a \$2.13 subminimum wage, including men and nontipped workers, report higher rates of sexual harassment than their One Fair Wage counterparts, suggesting that the overall restaurant work environment is at least partially shaped by the subminimum wage system itself. When women in tipped occupations are required to accept intolerable behavior to ensure their income, it creates a negative culture that impacts all workers (Restaurant Opportunities Centers United and Forward Together 2014; Specker 2017).

ONE FAIR WAGE

The wide range of minimum wage laws regulating the tipped wage demonstrates that a subminimum wage is not a precondition for a successful restaurant industry. Just over a third (34 percent) of the restaurant workforce can be found in the \$2.13 states; 40 percent is employed in the 21 states that have set a subminimum wage higher than the federal subminimum for tipped workers, but below the federal minimum wage of \$7.25; and 7 percent is employed in the two states that have set the subminimum wage higher than the federal minimum wage but below the state's minimum wage. Nineteen percent of tipped restaurant employees work in the seven One Fair Wage states (Census Bureau 2015; Wage and Hour Division 2017).¹³ Yet, the profitability and employment outcome for the industry is either static or positive in these One Fair Wage states, and the earnings outcomes for employees in the industry is unambiguously positive (National Restaurant Association 2017).¹⁴

Prior to the adoption of the FLSA, U.S. Women's Bureau surveys from 1934 found that 89 percent of women servers received tips and that their median earnings were \$3 less per week than women servers who did not receive tips. Seven states (Colorado, Delaware, Kansas, Minnesota, New Jersey, New Mexico, and Pennsylvania) specifically excluded tips from wages when considering workers' compensation, four states (California, Ohio, Oregon, and Washington) did not consider tips as part of wages under state minimum wage law, and four other states either prohibited or regulated the consideration of tips as wages (Minnesota, New Hampshire, New York, and Wisconsin) (Needleman 1937). Prior to their repeal by the Supreme Court, the National Recovery Administration codes of 1933 did not include tips as wages but did set lower wages for service workers. Then, as now, industry representatives claimed that restaurants could not bear the burden of paying their workers' wages (Needleman 1937). After the inclusion of tipped workers in the FLSA amendment of 1966, there was a flurry of activity at the state level during the 1970s, and six of the One Fair Wage states adopted legislation excluding tips from minimum wage requirements. Montana adopted One Fair Wage legislation in 1987.

The last increase in the federal minimum wage was in 2009, and today the rate of \$7.25 seems archaically low as states debate minimum wage laws of up to \$15.00 an hour. Twenty-nine states and the District of Columbia have higher minimum wage laws, eight of those states are already at or over \$10 an hour, and multiple states are on a path to a \$15.00 minimum wage. Similarly, states are slowly moving to redress the subminimum wage. Two states, Hawaii in 2016 and New York in 2017, adopted a subminimum wage higher than the federal minimum wage, and many states have increased the subminimum wage along with their minimum wage (Wage and Hour Division 2017). However, in most of these efforts the subminimum wage remains fixed as a percentage of the minimum wage. In New York State, for example, the gap between the subminimum wage and the minimum wage will grow from a difference of 17 percent to 33 percent, meaning that tipped workers will become “cheaper” over time, increasing perverse incentives in the industry to shift nontipped work onto tipped workers (Restaurant Opportunities Centers United 2016).

Several of the One Fair Wage states have also adopted aggressive minimum wage increases without excluding tipped workers, opening a popular but contentious path toward expanding One Fair Wage. Last November, voters in the state of Maine and in the city of Flagstaff, Arizona, passed ballot measures to phase out the subminimum wage for tipped workers.

Maine would have been the eighth One Fair Wage state and the first on the East Coast. However, state legislators voted to reverse the ballot decision and passed legislation to reinstate the tipped subminimum wage following a vocal campaign by the restaurant industry. The industry argued that it could not absorb the wage increase, and also convinced many workers that they would see a wage decrease, claiming they would lose their tips if the subminimum wage increased (Restaurant Opportunities Centers United 2017). This myth that workers will lose their tips appears pervasive, but restaurant patrons do not adjust their tipping practices as they travel from state to state. San Francisco was one of the first cities to move to a \$15.00 minimum wage, and restaurant workers there enjoy one of the nation’s highest tipping rates, according to the Golden Gate Restaurant Association (Higgins 2016). Alaska, a One Fair Wage state, has one of the highest tipping rates in the nation, and Arizona, where the subminimum wage increased from

\$5.00 in 2016 to \$7.00 per hour in 2017, and Colorado, where the subminimum wage increased from \$5.29 in 2016 to \$6.28 in 2017, both have above-average tipping rates (Johnson 2017; Wage and Hour Division 2017). Restaurant workers in other areas appear to support One Fair Wage policies. Recently in the One Fair Wage state of Minnesota, industry lobby groups failed to mobilize workers against a Minneapolis proposal to raise the minimum wage in that city to \$15.00, with no exception for tipped employees. Similar efforts to roll back tipped wage increases failed to materialize in Flagstaff and New York State.

CONCLUSION

The seven states with no subminimum wage represent a natural experiment demonstrating that One Fair Wage is economically feasible for the restaurant industry and greatly improves the earnings and economic well-being of restaurant workers. Workers in those seven states represent nearly one-fifth of the restaurant workforce and, according to industry data, are employed in the most economically vibrant groups of states. However, the vast majority of workers work in states with a tipped wage below the federal minimum wage, and over a third work in states with a subminimum wage of only \$2.13; together they represent the vast majority of all workers earning at or below the minimum wage. Across the country, and across all wage regions, restaurant employment continues to grow and has become one of the country's primary employers. The restaurant industry is an increasingly important economic engine that delivers over half of the nation's nutrition, based on food budget dollars, and is an industry that cannot easily be outsourced. One Fair Wage is a tool that can help ensure the economic success of restaurant workers and benefit the entire economy.

Notes

1. See, in particular, Tables 3 and 10 from Economic Research Service (2016).
2. Author's calculations of private sector employment by major industry from 2006–2016, and percent change in private sector employment using 2006 as a base year. Restaurant employment (NAICS 722 Food Services and Drinking Places) accounts for three-quarters of employment in the Leisure and Hospitality industry and was examined as a major industry instead of Leisure and Hospitality for the purposes of this article.
3. Analysis based on Ruggles et al. (2015). Poverty, government assistance, and demographic calculations by the author, examining American Community Survey data for all currently employed individuals, individuals employed in all restaurant occupations, and individuals employed in customarily tipped occupations.
4. See Note 3.
5. See Note 1.
6. See Note 2.
7. See Note 2.
8. Author's calculations based on wages sorted by median wage for customarily tipped occupations or other occupations, as noted. Customarily tipped restaurant occupations include bartenders; counter attendants; cafeteria and food concession workers; waiters and waitresses; hosts and hostesses, restaurant, lounge, and coffee shop workers; food servers, nonrestaurant; and dining room and cafeteria attendants and bartender helpers. Other customarily tipped occupations include massage therapists; gaming service workers; barbers; hairdressers, hairstylists, and cosmetologists; miscellaneous personal appearance workers (including manicurists and pedicurists, shampooers, and skin-care specialists); baggage porters and bellhops; concierges; taxi drivers and chauffeurs; and parking lot attendants. Customarily tipped occupations both provide direct service to the customer and must earn a minimum of \$30 per month in tips.
9. See Note 3.
10. U.S. Census data, 1850–1920. Analysis based on Ruggles et al. (2015). Calculations by the author, examining data for all employed individuals, individuals employed in all restaurant occupations, and individuals employed in customarily tipped occupations.
11. See Note 3.
12. See Note 3. The gender wage gap was calculated by comparing mean annual wages for full-time, year-round employees by gender.
13. See Note 3 for demographic data by state.
14. See Note 2.

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3

Playing for Keeps

Strategies That Benefit Business and Workers

Liddy Romero

When the competition for talent is fierce and monopolizes headlines in business publications, it sends a signal to employers to think through current workplace policies and practices to ensure they are competitive—that they are attracting the talent that best aligns with their workforce needs. But it can also be a time to think more strategically, to assess how (or if) workplace policies have adjusted to changing circumstances, and how such policies and practices could impact business beyond next quarter. It is an opportunity to move from reactive planning to proactive, to implement promising practices that directly address business needs while also addressing the needs of workers, improving the quality of jobs to the benefit of all.

THREE KEY TALENT CHALLENGES BUSINESSES FACE AND JOB-QUALITY SOLUTIONS

Attracting and retaining talent is an ongoing business challenge. In this chapter, I consider three key talent challenges businesses face—turnover, engagement, and productivity—and offer potential solutions that would positively impact the quality of jobs.

Turnover

Most companies don't have systems in place that track costs of turnover, including expenses such as recruiting, job posts, interview time, potential customer dissatisfaction, and administrative costs. These sys-

tems depend on collaboration among departments (human resources, finance, operations, etc.), a means of measuring these costs, and reporting mechanisms for which most of America's small and medium-sized businesses simply do not have the resources.

Programs that help reduce dysfunctional turnover have the potential to unlock significant business gains and opportunities for employer partnerships. Turnover rates are as high as 53 percent in the retail trade industry and 73 percent in the accommodation and food services industry (Bureau of Labor Statistics 2018). High turnover rates can be detrimental to businesses, workers, and sectors. The Society for Human Resource Management (SHRM) averages cost per hire across industries at \$4,129 per person, which is compounded by new hire onboarding and training (SHRM 2016). A Center for American Progress issue brief states that turnover costs are at least 16 percent of the annual salary for high-turnover, low-paying jobs (earning under \$30,000 a year), making a \$10/hour retail employee cost \$3,328 in turnover (Boushey and Glynn 2012).

The reasons for turnover vary. A Gallup poll reveals that the top reasons people voluntarily leave a job are pay and benefits, career growth opportunities, manager or management, or fit (Robison 2008). Although the poll did not categorize survey takers into wage grades, a reason like "pay and benefits" is relative to any one person's current needs and situation, like many of the other reasons. Employers embracing these reasons and making intentional investments toward improving their turnover can find solutions within the job quality agenda. According to the Aspen Institute's 2017 Job Quality Fellowship, job quality means that "one's work is valued and respected and meaningfully contributes to the goals of the organization. It encompasses having a voice in one's workplace and the opportunity to shape one's work life, as well as having accessible opportunities to learn and grow" (Aspen Institute 2017). Below are solutions that any employer can execute to increase employee retention. Unless otherwise cited, the "promising practices" offered throughout this chapter come from the author's work, experience, and interactions with employers.

Creative solutions to fill in the pay and benefits gap include fresh approaches to company processes, human resource systems, and basic work scheduling. Solutions to pay and benefits challenges, such as the ones below, can contribute to lower turnover rates of low-wage workers.

- **Challenge:** There are not enough candidates to fill a business's need, or they are hiring just as fast as they are losing employees.
Promising Practices: Businesses can conduct an external wage analysis for positions similar to their highest-turnover, lower-wage positions to understand the wage gap between what they are offering and what others in the sector and ancillary sectors offer.
- **Challenge:** In a small food manufacturing area outside Boulder, Colorado, workers leave their jobs for the ones across the street for \$0.20 more. This happens constantly and is worse during high-production season. In the end, no one wins. The companies keep hiring and terminating the same people, and the workers are no better off in the long term.
Promising Practices: Businesses can consider small incremental increases in wages tied to increase demonstration of job competencies as well as consistent behaviors demonstrating those competencies.
- **Challenge:** Businesses have difficulty addressing short-term or scheduled turnover, such as seasonal work.
Promising Practices: Businesses can consider creating a work-exchange program within their sector and geography that allows them to refer employees across other businesses according to each company's seasonal production cycles. This helps employees work more consistent hours across seasons, so they are more willing to come back and work productively. A small group of manufacturers in Longmont, Colorado, are considering this option as they notice many of the same workers cycle in and out of their companies.
- **Challenge:** There is real or perceived inconsistency in performance reviews and wage increases.
Promising Practices: Businesses can perform more frequent reviews to give opportunities for wage increases or opportunities to increase skills and meet expectations. This goes hand in hand with teaching management to perform interviews without bias. A group of employers in Grand Rapids, Michigan, have subscribed to "Implicit Bias" management training at work in order to make wage and performance decisions based more on actual aptitude

and abilities and not on personal subjectivities. Integrating more frequent reviews with proper training can also help address the other reason people leave—their relationships with management and managers.

- **Challenge:** Employees experience unexpected financial crises that result in missed work, lost productivity, or terminations. **Promising Practices:** Businesses can explore partnerships with credit unions to allow employees a one-time borrowing of up to \$1,200 annually against their paycheck. Connecting pay advances to a credit union provides the opportunity to increase credit score and access to banking systems (versus employees using their employer as the banking system or defaulting to pay-day loan agencies).

Box 3.1 An Aside about Pay

The impact of low pay on frontline workers is no small issue. Before core needs are addressed, the reality for people with financial instability is that the lack of money plays a stressful undercurrent in daily life. Stress itself impacts mental, physical, and emotional well-being. To highlight the avalanche of stress the U.S. workforce may feel in the next 10 years, let us consider the two largest categories of the fastest-growing jobs in the United States—home health aides and personal aides. These two positions lack significant benefits and livable wages and are expected to grow by 1.2 million in the next 10 years, outpacing the growth of the other top eight combined, including mathematicians, statisticians, software developers, physician assistants, and wind-turbine technicians according to Bureau of Labor Statistics projects (2017). Yet, the median wage for these health and personal aides across the country is around \$22,000 per year (Bureau of Labor Statistics 2017). Another report finds that more than 50 percent of home health aides live in households with incomes below 200 percent of the poverty line and thus rely on government assistance (Shaw et al. 2016). There will be no shortage of stressed-out workers lacking the means to meet their core basic needs.

Engagement

Turnover and engagement go hand in hand. Engaged employees are involved in, enthusiastic about, and committed to their work. According to the 2017 Gallup *State of the American Workplace* report, workplace engagement has continued to decline, with most U.S. workers continuing to fall into the “not engaged” category. Level of worker engagement can cripple or strengthen a business. Compared to businesses scoring in the lowest quartile of employer engagement, businesses scoring in the top quartile of engagement experienced 41 percent less worker absenteeism, 70 percent fewer employee safety incidents, and 40 percent fewer work errors and product defects. Those businesses also saw 17 percent higher productivity and 21 percent higher profitability. Gallup research also shows that businesses with more engaged workers have higher earnings per share (Gallup 2017).

Among key factors to engagement are “opportunities to do what you do best,” “opportunities for learning and growth,” “understanding how to be successful,” and “opportunities to do what you most enjoy,” according to findings from the Energy Project and Harvard Business Review (2014). These reasons can all be summed up as career growth opportunities. People are moving on to other jobs when they can’t find what they need from their current jobs.

Job quality efforts make career development a priority, not only because this development is beneficial for the worker, but also because it increases the bottom line for businesses in saved turnover costs and increased retention. Forty-seven percent of Americans in the 2016 job market believed they could find a better-quality job, and just over half of employees were looking for job openings (Gallup 2017). Creating a quality opportunity for an employee—more specifically, a lower-wage worker—can include some of these examples, thus creating a competitive advantage for any business.

- **Challenge:** Frontline workers cannot afford the up-front costs required by most tuition reimbursement programs or may not have the credit score an educational loan would require.

Promising Practices: Businesses can create a collaborative effort between employee, employer, and financial coach that supports coinvestment for tuition reimbursement programs in a more holistic manner. In this model, an employer covers the

costs up front or coinvests with an employee or partnered credit union (through the employer-sponsored loan program mentioned above) as the employees pursue their education. This allows for a grace period, an opportunity to work through the company's financial coaching programs, and a chance to build a supportive set of benefits that help completion of the training program so that all parties believe they've made their return-on-investment. A financial coach could help mitigate loan defaults, increase program retention, and prevent student-loan debt. Ultimately, this strategy will increase employee engagement if employees understand their career pathway opportunities, the credentials and training needed to access them, and the appropriate return-on-investment—such as potential wage increases—they should expect to see as a result of their program completion. Starbucks, for example, partners with the University of Arizona to offer the “College Achievement Plan,” a tuition reimbursement program that provides reduced college tuition (50 percent) and access to financial aid for the rest of the cost. The amount paid up front is immediately reimbursable six weeks after semester's end and before any loan would be due. The program also includes the “Pathway to Admissions” program, an on-ramp of free classes for those with lower initial GPAs, and counselors who provide advice on the academics and finances along the way.¹ Another example is Guild Education, an organization that provides one-on-one academic coaching to build a customized plan that includes tuition assistance provided by the employer. The plan includes an alternative to out-of-pocket pay based on the educational fit.

- **Challenge:** Traditional education and training opportunities conflict with business hours of operation. Training location and hours traditionally are set by the accrediting agency, community college, or technical school.

Promising Practices: Employees need benefits that meet them where they need to be met—such as on the worksite. Employers can work collaboratively with local educational and training institutions to provide more flexible training options, times, and locations, and can tie the skills gained through those trainings to an increase in wages. Nationwide, and specifically in Colo-

rado, industry-focused employer-led groups called sector strategy groups allow the space for which community colleges and employers come together to discuss the challenges they've faced over the past decades when trying to collaborate. Emerging from many of these sector groups are efforts to bring community college certifications, like Certified Nursing Assistance programs, into the workplace. CareerSTAT, an initiative from National Fund Workforce Solutions, provides free “technical assistance, peer learning opportunities, industry-vetted best practices and other critical insights into how health care employers are strengthening their organizations by investing in their frontline” (National Fund for Workforce Solutions, n.d.). Two strategies highlighted by CareerSTAT include 1) leveraging available, flexible learning options to provide work-based learning and enhance basic skill development and 2) highlighting workforce training and education programs to expand talent pipelines and make career advancement more accessible (CareerSTAT 2017).

- **Challenge:** Employees become disengaged as a result of ineffective management practices.

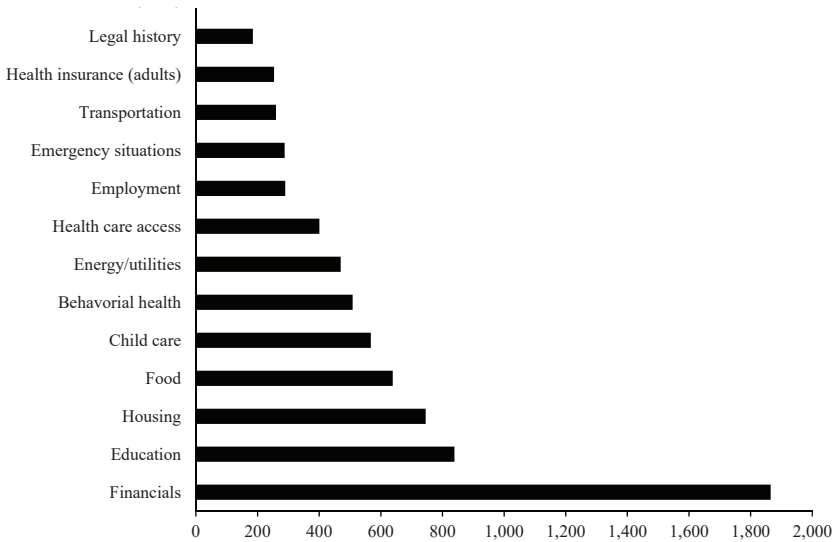
Promising Practices: Employers can provide a third-party career coach who understands the intricacies of the talent management process and career pathways and who can work one-on-one with all employees to help them understand how to advance their careers in the company. Another strategy is to review and implement some of the strategies illustrated in Upskill America’s “Upskilling Playbook for Employers,” a tool for employers interested in improving their policies and practices to educate, train, and develop frontline workers. For example, a 2016 study by the Institute for Corporate Productivity (i4cp) finds that many companies fail to achieve maximum results from their education benefit programs because they viewed “tuition assistance programs only as a benefit that must be provided to remain competitive in recruiting” (Upskill America and Fall 2017). Businesses would be more likely to engage employees if managers approached these programs more strategically, embedding them “as the cornerstone of a learning culture” (Upskill America and Fall 2017). Research from the Chartered Institute of Personnel and Development (CIPD) shows that firms in which all or nearly

all of the workforce receives regular training have higher relative productivity (CIPD 2015).

Productivity

One may assume targeted solutions that address explicit incentives, such as more family-friendly benefits, and implicit incentives, such as better engagement strategies, would automatically increase worker productivity. However, this is not necessarily the case, given the many internal and external stressors lower-wage employees face. (See Figure 3.1 for the types of vulnerabilities many workers experience.)

Figure 3.1 Number of Reported Vulnerabilities, by Issue, January 2015–June 2017



NOTE: WorkLife Partnership captures nonidentifying information on the workers it serves. Between January 1, 2015, and June 30, 2017, a total of 1,787 WorkLife Partnership clients were assessed one or more times to determine the types of vulnerabilities they experienced that are vital for worker stability, retention, and engagement in work. Clients reported a total of 7,919 vulnerabilities, averaging out to 4.43 per assessed client. More relevant benefits are created as employers’ HR departments and WorkLife collaborate to address workers’ vulnerabilities utilizing data sets such as these.

SOURCE: WorkLife Partnership, n.d.

The Energy Project and Harvard Business Review report (2014) addresses employers' productivity and engagement issues by asking them to focus on employees' basic core needs. By taking care of employees, "they will take care of business" (p. 2). The report discusses a study of 20,000 employees in countries around the world that established four predictable core needs at work: "physically, to rest and renew; emotionally, to feel cared for and valued; mentally, to be empowered to set boundaries and focus in an absorbed way; and spiritually, to find a sense of meaning and purpose in their work" (p. 4). Pay turned out to be no guarantee for productivity and engagement, and no amount of money was sufficient to meet all core needs. Out of the 20,000 surveyed, 59 percent stated "no core needs were met" at their place of employment, and only 7 percent said that "all core needs were met."

Perks like workplace gyms, walking paths, meal plans, giving and volunteer opportunities, mindfulness breaks, and mission-driven projects can improve attainment of employees' core needs. Yet, these approaches tend to be less helpful for frontline workers who may lack economical health benefits, whose jobs include laborious duties, and whose workday is outside normal business hours of 8:00 a.m. to 5:00 p.m.. For instance, construction, home health aide, and manufacturing jobs consist of physically demanding shift work, travel on the job, and site-oriented work.

The following job quality strategies can help address some of the external stressors low-wage workers face, which in turn, could increase productivity.

- **Challenge:** Many sectors that need to be responsive to seasonal or daily demand shifts—such as food service, hospitality, and retail—use strategies that result in unpredictable shift schedules or income instability for workers. Unpredictable schedules can create havoc, especially with inflexible options for child care and transportation. Income instability from missed wages can impact one's ability to pay bills in a timely fashion and can jeopardize even the most basic needs for a family. These practices do little to empower individuals and challenge even the best-intentioned workers to remain productive.

Promising Practices: Employers should adjust staffing numbers and schedules not only to meet shifts in service or product demand, but also in a way that is not disruptive to workers. In her

book *The Good Jobs Strategy* (2014), MIT researcher Zeynep Ton highlights examples of good employer practices, including operating with slack and cross-training staff. From Zeynep's perspective, cross-training creates flexibility in how workers are deployed, and operating with slack is necessary because the costs of understaffing are steep, especially when looking at customer satisfaction and loyalty. Although the first strategy, operating with slack, is counterintuitive, Ton makes a compelling argument that cross-training creates a more agile workforce, such that staff may be more likely to address both business demands and internal operational needs. Walmart is currently piloting another strategy, leveraging new software that allows workers to choose from scheduling options ranging from consistent hours to "gigs," (on-demand shifts) in a way that doesn't burden managers or sacrifice the customer experience.

- **Challenge:** For low-wage workers, lack of reliable transportation is often a significant obstacle to finding and retaining work. They may live far from available jobs, struggle to afford transportation costs, or have inadequate access to public transit, especially in rural and suburban areas. If they are able to access public transportation, the hours may not align with shift work.

Promising Practices: Some employers provide carpools or shuttles for workers. Tyson Foods, for example, partnered with a transit agency, union representatives, and a bus company to provide affordable transit options for workers traveling interstate. The partnership has expanded recruitment options and provides workers with access to training they otherwise may not have been able to reach (Community Transportation Association of America 2012). Other employers have partnered with transit to create and finance a dedicated route so that urban-based workers can access jobs available in a suburban setting; such is the case with the partnership between United Parcel Service and the Merrimack Valley Regional Transit Authority. Finally, employers can consider altering second and third work shifts to align with local transit operational hours.
- **Challenge:** Changing care needs, such as for children or aging family, can challenge a worker's ability to focus on the job,

arrive on time, or arrive at all. Yet many employers cannot afford to provide on-site child care options.

Promising Practices: Perhaps the most unspoken opportunity to simultaneously tackle core needs, such as care, is through the concept of “two-generation strategies” in the workplace. “Two-generation strategies” are educational and workforce development approaches that target parents and children together. A program called HomeStart, initiated by WorkLife Partnership and Care@Work, is working to increase the supply of quality in-home child care centers, equip women with tools and resources to run a viable small business, and provide access to local and affordable care options for workers and parents attending training and education programs for whom traditional child care centers can’t accommodate (very few centers offer affordable hourly child care, as the parent needs) (WorkLife Partnership, n.d.). In addition, local policies incentivize employer investment in child care through a local tax credit. By investing in their employees’ children, employers send a clear message that they care about that employee. The feeling of being valued at work, regardless of having a family or not, helps meet core needs and motivates workers to be productive for business.

PUTTING IT ALL TOGETHER: THE SUSTAINABLE WORKFORCE MODEL

Changing business structures, worker needs, and the rapidly changing world of work requires employers to act now on longer-term solutions to dysfunctional turnover, lack of engagement, and low productivity. Improving job quality may extend beyond traditional human resource and management practices and require resources that many smaller businesses do not have. The Sustainable Workforce Model, discussed below, centers on the development of a supportive ecosystem that allows businesses to learn from one another and to pool resources for the benefit of all.

In 2003, manufacturers in Grand Rapids, Michigan, came together to discuss solutions to increase access to child care that would help pro-

ductivity and reduce turnover. The meeting resulted in the formation of an organization named The SOURCE, which is a “collaborative effort providing resources, support, training and advancement opportunities for the member companies’ collective workforce and staff” (SOURCE, n.d.). This network intermediary addresses employee challenges such as housing, transportation, and access to a greater range of training opportunities in a cost-efficient manner. The SOURCE also functions as a best practices group for the human resource directors in each member company, as well as a networking group for the member companies’ CEOs (SOURCE, n.d.).

In 2009, I started a nonprofit workforce development organization called WorkLife Partnership in Denver, Colorado, with the mission to engage employers to invest in their frontline talent. WorkLife was created with Grand Rapids’ The SOURCE model in mind, and with the help of their leadership. WorkLife operates on a fee-for-service model for most of our services and works with businesses to unleash the potential of workers so they can sustainably perform at their best—aptly calling our approach the Sustainable Workforce Model. WorkLife acts as a third-party intermediary by keeping work and life issues out of earshot from managers, supervisors, and human resources, and helping with the logistics of coordinating support.

In the beginning, services provided to employer members focused solely on employee retention by connecting them to applicable government benefits and community resources, and getting them back to work quickly. In the last three years, however, WorkLife has expanded its service menu to include Upskill career coaching, a HomeStart child care program, a specialized Health Insurance Literacy Navigator, intensive financial coaching and well-being, free worksite tax preparation, and a loan program. All services are available to any employee of our employer members, and programs are always created with the frontline workers’ wage restrictions in mind.

Using the data collected confidentially from employees, we were able to define and measure worker well-being, which gave us insight into employee needs and challenges that went unfilled with traditional benefit offerings. Employers had no knowledge of some of these identified key challenges faced by employees. That had us asking, If their employer doesn’t know about these issues, how will they ever be addressed?

That question prompted us to think about partnering with employers to come up with solutions to retention, engagement, and productivity together, such as with the HomeStart child care program and the Health Insurance Literacy Navigator. Our research and design approach allows us to test and retest strategies in the market, and to evaluate effectiveness and impact. WorkLife continues to use this approach with all our data points to deliver services effectively at the right time, in the right way, and in the right place.

Three other organizations in the United States employ the Sustainable Workforce Model—The SOURCE (Grand Rapids), Connect for Success (Seattle), and Working Bridges (Vermont)—and in January 2017, we came together to create WorkLab Innovations. This national nonprofit network supports the advancement, dissemination, and growth of investments that have a positive impact on frontline workers, their employers, and communities. At the core of our work is the Sustainable Workforce Model, an employer-partnered approach to retaining, engaging, and developing frontline talent. We believe that this model serves as a unique platform that helps businesses best initiate solutions for their workers with relatively small investment, which yields benefits in retention, engagement, and productivity.

Note

1. Personal interview with Joshua Schanck, district manager, Starbucks Coffee Company. Conducted on February 6, 2017, by Chris Shannon, deputy director, Regional & Community Outreach, Federal Reserve Bank of Boston.

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4

National Fund Employer Profiles of Job Quality

Steven L. Dawson
Karen Kahn

Understanding the ways that businesses have engaged in implementing job quality strategies is key to understanding the first steps toward implementing employer-led job quality. Some of the changes are tactical and organizationally focused, others are culture based. Trust is a key component of success—trust between employers and employees, but more broadly between employees and the businesses they work for. Firms have found ways to implement these strategies and identify returns to the firm. The following cases developed by the National Fund for Workforce Solutions show how Universal Woods, a specialized manufacturer, and Optimax, an optical prototype manufacturer, approached developing quality job strategies.

UNIVERSAL WOODS

The workforce strategy of Universal Woods starts here: “We trust the people we’ve hired,” says Paul Neumann, CEO.¹ From that premise flows all major workforce decisions:

- eliminate the role of supervisor
- share financial information
- build team-managed teams
- invest in everyone’s education, and
- encourage participation throughout the organization.

The result of this organization-wide business logic is a company that over the past four years has grown 20 percent per year, doubled the size of its workforce, maintained 95 percent customer retention rate for 10 years, and is the leader in its two major markets (Dawson 2017). Headquartered in Louisville, Kentucky, Universal Woods now has operations in Ohio, Australia, and Belgium, serving over 200 customers in more than 80 countries (see Box 4.1).

“Our business strategy,” says Neumann, “is to align the economic interests of all our stakeholders—and you can only do that if you share information transparently across all parties—and treat each with respect. If you do that consistently enough, long enough, then those you work with every day will reward you in turn with their trust. And a trusting relationship is incredibly efficient and productive—you’re not slowed down by lawyers, lengthy negotiations, layers of supervision, or assignment of blame.”

Box 4.1 Universal Woods

Universal Woods manufactures hard-surface panels for the photo, art, and personalized/customized gift markets, as well as high-durability mezzanine flooring for the material-handling industry. Product brands include Unisub® and ChromaLuxe® for sublimation panels, and ResinDek® for industrial flooring.

For the Unisub and ChromaLuxe lines, Universal Woods applies an ultrathin, “sublimatable” polymer coating to a variety of hard-surface substrates. Unlike traditional printing, which applies ink to the surface of an object, sublimation uses heat and pressure to bond the image directly into the coating at the molecular level. After applying the sublimatable coating, Universal Woods cuts the panel to the desired shape—anything from a name tag to a wall panel—and the customer then applies the desired graphic. The final sublimated graphic is remarkably vibrant yet exceptionally durable.

For the ResinDek line, flooring panels are custom-manufactured for Universal Woods’ customers. After applying specialized coatings, the resulting industrial flooring durably withstands heavy equipment, rolling carts, and pallet jack loads.

At the very core of this strategy are the 200 workers at Universal Woods—men and women of 25 nationalities speaking more than 20 languages, diverse in age, religious beliefs, and sexual orientation. Tim Holt, director of human resources, puts it simply: “Employees are not a commodity—they’re our primary opportunity to create value.”

That diversity, combined with continued workforce investments, results in a highly knowledgeable, highly skilled, and very stable workforce, with an employee retention rate of more than 90 percent over the past five years. Holt continues, “We know our product, we know our customers, and we know how to work with each other.”

Of course, not every individual always contributes 100 percent, and sometimes mistakes are made. Adds Paul Wilson, in production, “But since we trust the vast majority of our employees to do the right thing at the right time—given the right support, training, and information—it wouldn’t make economic sense to hobble everyone with inefficient oversight and top-down directives just to ‘manage’ the occasional few.” Within this economic logic, the manufacturing operation has an opportunity to become self-correcting. Here is what that looks like on the shop floor: “Soon after I was hired,” recounts Darrell Ash, a team member in production, “I made a mistake on my machine, and I was really worried I would get written up. When I called over to the technical advisor, I said, ‘Here’s what I did wrong, and this is what I did to fix it.’ My advisor just said, ‘Great!’ and then thanked me for letting him know.”

The resulting organizational structure is flat and lean. Charles Hopkins, organization development, explains, “Each production and administration area is structured into a ‘team-managed team.’ I was the last supervisor Universal Woods hired—soon after, we eliminated that level of expensive oversight. We instead created the role of ‘technical advisor,’ one who acts as a coach and a resource to the teams.” Admittedly, the team structure is still a work in progress: “We started out calling them self-managed teams, but that didn’t have the desired emphasis on ‘team’ concepts,” acknowledges Hopkins. “We now call them team-managed teams to emphasize that we expect team members to collaborate and hold each other accountable.” (See Box 4.2.)

Many employers hesitate to invest in workforce training and education, fearing that their workers will take those new skills and go to work for a competitor. That just isn’t a concern for Universal Woods. “In

Box 4.2 Team-Managed Teams

Team-managed teams are interdependent, highly trained team members who are accountable and responsible for managing the quality of work that needs to be done to exceed customers' expectations and contribute to the success of the business.

fact, we want everyone here to realize their full value, and to work to deepen that value every year," says Holt. Since team members consistently see how the investments made in them open up new opportunities within Universal Woods, they are constantly rewarded for staying at—and growing with—the company (see Box 4.3). Beth Bliss, materials supply, recounted, "I was describing how we invest in our employees to an acquaintance of mine who works at another company. She said, 'Wow, you must have better margins than ours to afford all that!' I told her, 'You've got it backwards—we have better margins because we do all that.'"

Binah Jang's story illustrates Universal Woods' commitment to investing in its employees. Jang emigrated from South Korea in 2011 with a degree in international business. After settling in Louisville in early 2013, Jang took a certified production technician (CPT) class sponsored by the Kentucky Manufacturing Career Center.² At a job fair specially organized for CPT graduates, Jang met Holt from Universal Woods and was soon hired as a second-shift production worker. "Interpersonal and communication skills are always emphasized by Universal's 'continual learning' program," said Jang.

Taking full advantage of those learning opportunities, Jang soon assumed the role of production assistant in marketing. Within a year, she adds, "during an informal 'lunch and learn' with Paul Neumann, I spoke about my idea for a new job responsibility." Jang knew that Universal Woods was an international company looking to expand its Asian markets. The company responded by creating a new role, and Jang now oversees marketing in Japan and Korea, her home country, and has already traveled to trade shows across Asia.

As CEO Neumann emphasizes, "One important lesson about our strategy of trust and respect is this: you never know when and how an

Box 4.3 How Universal Woods Invests in Its Workforce

- Above-market compensation
- Guaranteed minimum 40-hours-per-week compensation for all full-time hourly workers
- Equivalent benefits for both exempt and nonexempt employees
- Quarterly and annual profit sharing
- 401(k) plan
- Emergency loan program
- Applied continual learning—cross-training and classroom, both on- and off-site
- Education scholarships fully paid, whether or not directly related to current position
- Wellness Program—fresh fruit and bottled water, weekly fitness class, reimbursement for all walks/races and more
- Inclusion of all levels of team members at external sales and community events
- Flexibility, with advance notice, for planned absences
- Personal financial planning during first year of employment

investment in the workforce today might result in a business advantage later on. It's just not necessarily a linear process. And in fact, that's its real power: You're not hobbled by having to justify a direct, linear ROI on every decision you make, because you know that benefits will eventually result, often in unforeseen ways."

Here is one story about how investment made within an environment of trust generated a critically important competitive advantage at Universal Woods.

In October 2008, the Great Recession was forcing many companies to lay off workers. Universal Woods took a different tack: first, they assembled the entire company—60 workers at the time—and asked for recommendations on how to create efficiencies. One idea came from a production team member: move to a 10-hour day, four-day work week,

shutting down the plant for the three-day weekend to conserve electrical, heating, and utility expenses.

That strategy helped, but by March 2009, business still hadn't improved. So Universal Woods adopted a wide range of additional recommendations, including a hiring freeze; reduced hours for nonexempt employees to 30 per week, but paid for 35 hours (if employees did not have five hours of vacation leave available to bring them up to 40 hours' pay, they were advanced five hours of vacation leave); and a 10 percent pay reduction for all exempt employees.

The result: no one was laid off. The benefit: just four months later, orders began to pick up, the temporary compensation reductions were restored, and Universal Woods was able to surge back into the marketplace far ahead of its competitors. By not laying off anyone, the company retained not only its production capacity but also its knowledge base within its workforce, allowing it to take full and immediate advantage of the market's rebound. And of course, inviting its workers to participate in solving the company's challenges, and holding the community of workers together during the economic crisis only deepened loyalty and trust throughout the organization.

"There are no closed doors here," says Ben Yaney, engineer, who leads the safety focus throughout the plant. In fact, Universal Woods does everything it can to remove distinctions between "collar colors": they offer identical benefits for both exempt and nonexempt employees, have no reserved parking, provide a companywide bonus plan, and make sure all team members have an opportunity to participate in off-site customer visits and on-site plant tours. "When I first was hired here, I was confused—where are the supervisors?" says Amr Shalaby, a production worker who emigrated to the United States after serving 12 years in the Egyptian military. "Now, I know I am a respected team member here at Universal Woods. I never want to leave."

There is no deeper sign of respect than the company's efforts to keep employees safe. With forklifts around every corner, and massive machines constantly devouring large sheets of materials, safety is a necessity emphasized in every aspect of daily work life. Any worker can stop production for a safety concern or refuse to undertake a task he or she judges to be unsafe. Safety trainings are constantly updated, and the entire operation is kept orderly and uncluttered. The result: Univer-

sal Woods consistently has 40–50 percent fewer accidents than comparable SIC-code businesses.

Returning to the “business logic of trust,” Neumann underscores that respect, transparency, and shared investment reach beyond the workforce, throughout the company’s value chain. “My role is to create an understanding on the part of all our stakeholders that our economic interests are aligned together. For example, we try to limit price increases to no more than material-cost inflation. Near term, that might shave our bottom line a bit, but in the long term we deepen customer loyalty. Along with our investment in continually improving technology and quality, that is the reason that over the past 10 years we have retained more than 95 percent of our customers.”

OPTIMAX SYSTEMS, INC.

Continuous learning is at the heart of Optimax’s business strategy. The company will hire people with no formal credentials beyond a high school diploma and train them to fabricate high-precision optics using advanced manufacturing technologies. These frontline technicians, called opticians, make up over two-thirds of the company’s 300 employees (see Box 4.4).

“We aren’t primarily concerned with credentials; we look for people from our partnerships who want to work with their hands, want to learn, and want to grow with the company,” says human resources manager Alejandro Mendoza. Over time, many of these employees return to school, taking advantage of Optimax’s prepaid tuition benefits, to build their careers.

“Our goal,” says company president Mike Mandina, “is to create a profitable company that provides good jobs and career opportunities for our employees and prosperity for our region.” Mandina witnessed the decline of Rochester’s largest manufacturers, Kodak, Xerox, and Bausch & Lomb, and the consequent loss of jobs for the region. With new technologies emerging in the early 1990s, Mandina saw an opportunity to rebuild the region’s manufacturing base—but this time, through a creative blending of technology and craftsmanship.

Box 4.4 Optimax

Founded in 1991 by a group of moonlighting Kodak technicians, working in what was formerly a barn, Optimax is the largest manufacturer of prototype optics in the United States. The company specializes in quick delivery of high-quality precision optics for aerospace, defense, medical, and semiconductor applications.

Optimax's 60,000-square-foot manufacturing facility, located in Ontario, New York, includes 30 different manufacturing cells producing optics in a range of shapes and sizes. This precision manufacturing requires a highly skilled workforce and innovative equipment including: patented VIBE polishing, two environmentally controlled metrology rooms, high-end finishing equipment, and in-house coating chambers.

Optimax strives to make optics faster, more cost-effective, and of higher precision. The result has been cutting-edge discoveries in materials, manufacturing processes, and coating technologies that have helped the company grow its customer base—and carry on the region's legacy as a global leader in optics manufacturing.

Becoming an Employer of Choice

Believing that people thrive when they have meaningful work, Optimax's leaders have honed a company culture that successfully leverages the inner drive and talents of each employee. "Most people wake up in the morning and want to create value," says Rick Plympton, CEO. "We build on our employees' innate desire to create by helping them to grow their skills and get better and better at what they do."

Optimax hires creative and motivated individuals, and then shapes their performance by

- empowering individuals and teams to make decisions;
- investing in continuous learning and career development;
- sharing information broadly throughout the company;
- rewarding success through generous profit sharing; and
- providing opportunities to work on innovative projects that benefit humankind.

This strategy has propelled Optimax’s business success as well as its reputation as an “employer of choice.” Consistently ranked among the Workplace Dynamics top 10 midsized workplaces in the Rochester area, the company is growing 20 percent per year, while the sector is growing just 3–5 percent. Optimax expects to add another 40,000 square feet in manufacturing space and grow its workforce by about 50 percent by 2025 (Kahn 2018) (see Box 4.5).

Empowering Frontline Innovation

Optimax’s 200-plus opticians, who use computer numerically controlled technology to fabricate high-precision optics, see themselves more as craftsmen than factory workers. Jeff Iorio, one of a small cohort in a three-year apprentice program, says, “Machining is like baking, it’s routine. Optics is like cooking. It is an art.”

That artistry is encouraged by the shop floor design, which is organized into LEAN manufacturing cells. Each cell includes a group of machines on which an optician can take a job from raw material to

Box 4.5 Optimax Employment Benefits

- Holiday pay effective day one
- Gain sharing at 25 percent of monthly profits
- 100 percent tuition assistance
- Direct hire of employees over use of contractors
- Health insurance
- Dental, vision, and life insurance
- Employee Assistance Program
- Long- and short-term disability
- 401(k) retirement plan with match
- Pretax spending benefits
- Paid time off
- Employee earned leave bank
- Access to company vacation home

finished product. Tasked with creating lenses worth tens of thousands of dollars, opticians are provided broad autonomy and therefore take tremendous pride in their work. “I feel fulfilled in what I do, because I’m a maker,” says optician Genny Kingsley. “Every day is a different challenge.”

LEAN manufacturing, pioneered by Toyota, empowers individuals and teams to continuously adjust the workflow process to reduce waste and increase efficiency. “LEAN allows us to maintain our agility, ‘fail fast,’ and learn, so that we can meet our customers’ needs,” says Mendoza.

Increasingly, Optimax teams, which manufacture optics of specified sizes and shapes, are becoming self-managed groups, making decisions regarding training and team development, resource investments, job assignments, and cell organization. The ultimate goal is for all employees to share “responsibility and authority,” says Plympton.

Group Leader Greg Frisch, who has been with the company for 17 years, explains that, in the past, “you needed to get multiple signatures to buy a piece of equipment. Now there is more trust; if we need it, we get it. The people closest to the work have the most information, and we empower them to make decisions.”

“When we take advantage of everyone’s knowledge, we make faster and better decisions,” says Plympton. But, he notes, teams are moving at their own pace. “It’s a journey; we are discovering what works best as we go.”

Improving Systems to Leverage Talent

Good decision making at the individual and team levels requires full transparency and highly disciplined systems to manage information, work flow, inventory, and access to tools. Without these systems, Optimax could not leverage each person’s knowledge and skills to their maximum capacity, says Plympton. “That’s why we are continuously improving these systems: to get people as much information as possible in real time.”

“Sharing knowledge, skills, and information keeps us on the cutting edge,” says Andy Haefner, a manufacturing group leader. Consistent with that philosophy, the company’s financials are displayed on the shop floor wall. A bonus system, in which employees share 25 percent

of monthly profits, makes these numbers meaningful and motivating. Everyone shares in the risks and rewards of innovation, whether an experiment ruins a \$20,000 lens or results in a breakthrough product.

Fostering Individual and Firm-Level Learning

Optimax prioritizes continuous learning to advance its employees' skills and prepare them for the company's goal of continuous improvement. New opticians learn their skills on the shop floor, through job instruction training, where over several months they work side-by-side with a teammate, observing and developing increasingly complex skills. The new optician is only allowed to work on her own when the trainer believes her skill level has sufficiently advanced.

Developing basic competency is only the first step in a continuous learning process. Dylan Dennison, who has been with the company for about a year, says, "I still learn every day. I can get assistance from anyone with the knowledge to help me solve a problem. You are encouraged to learn on your own, but there is always support to fall back on."

That support often comes from company president Mandina, who keeps his desk on the shop floor. Dennison says, "I can go to anybody for help, including Mike. If I am struggling with a problem, he's there." This is of great value to Dennison, both for the opportunity to learn and for the respect the relationship conveys. "It's very different from working at a large corporation, where the CEO wouldn't know I existed," he says. "Optimax has mastered making you feel like you are important, no matter what job you are doing."

This informal coaching is matched by a more formal structure, in which group leaders analyze the skills needed by their team members and work with employees on yearly individual learning plans. Depending on their career goals, employees can take advantage of Optimax's robust in-house training (average of 1,000 hours of training delivered per month) or enroll at local colleges with fully subsidized tuition.

Creating the Right Culture

Developing skills to become a master optician is one-half of the Optimax learning equation. The other is understanding and adapting to a culture that is at once laid back and fun—the company uniform

is proudly identified as a tie-dye T-shirt—and yet fast paced and performance oriented. Optimax doesn't leave this to chance: they are as proactive in shaping their culture as in preparing their employees for lifelong learning (see Box 4.6).

New employees read *The Question behind the Question*, a book that explores “personal responsibility” in the workplace. They are also assigned a mentor outside their team or direct supervisory chain. The feedback loop is strengthened by an annual 360 peer review in which employees are rated on both aptitude (skills, attention to detail, productivity) and attitude (team player, trustworthy, positive spirit).

“You have to grasp the ‘adult contract,’” says optician Dan Buttery. “It’s an unwritten commitment: Be grown up. Be responsible. Have

Box 4.6 Building the Pipeline

The primary limiting factor for growth at Optimax is finding workers. “You won’t learn about advanced manufacturing watching TV,” says Plympton. Nor does your average high school student necessarily learn the basic skills necessary to succeed in optics manufacturing.

To address these issues, Mike Mandina founded FAME, Finger Lakes Advanced Manufacturing Enterprise, a nonprofit focused on developing the talent necessary for reviving advanced manufacturing across the region. FAME has three key priorities:

- 1) Collaborate with local colleges and workforce development programs.
- 2) Build a pipeline of qualified advanced manufacturing technicians.
- 3) Create awareness of employment opportunities.

Optimax offers students tours of their facility as well as summer internships. In addition, Optimax works closely with local schools to ensure educators understand the needs of business. “I’m working with school districts, community colleges, and economic development agencies,” says Workforce Development Coordinator Jim VanKouwenberg, “continuing Mike Mandina’s work to align educational resources and business needs.”

integrity. If you make a mistake, own up to it. If you aren't sure it's a good idea, don't do it."

"Mistakes are not held against you," says Jaeden Powers, team leader for the coating department. "We give new employees a lot of hands-on experience. Mistakes are expected. What people look for is, 'Can you learn from that?'" This culture is reflected across the organization, and senior staff are equally encouraged to acknowledge mistakes and identify lessons.

And as they learn, employees are given increased authority over their work. That motivates them to succeed. Says Apprentice Ben Zeller, "I am excited to get in early, because I am my own boss. I can get guidance from a coach, but I'm responsible for getting the work done."

The ROI of Employee Development and Trust

This is exactly what Mandina and Plympton dreamed of as they built Optimax into a high-powered economic engine for their region. Even during the Great Recession, they did everything they could to keep their employees and maintain their culture. "Rick and Mike didn't want to let anyone go, since our commitment to our team members is so high," says Frisch. At the beginning of the recession, company leaders worked out a plan to share work and to double down on training. When the economy picked up, the company was even better positioned for the future. "We stayed in the game," notes Frisch, "and when the markets turned around, we were able to ramp up more quickly than our competitors."

"Optics is exciting because we make the invisible visible," says R&D optical engineer Brian Myer. "Whether bringing Mars into focus through lenses on the Mars Rover or seeing inside human cells, optics expand our knowledge and understanding of our world."

Similarly, Optimax uses the principle of making the invisible visible to propel its business strategy. By emphasizing transparency, investing in their team members, and giving them the autonomy to get the job done, Optimax has found a winning formula. "By moving to role-based authority and full transparency, we build trust," says Mandina, "resulting in increased innovation and speed, and that's what keeps our customers coming back." As Plympton explains, "Our employees are constantly coming up with new ideas that allow us to take on more chal-

lenging and creative projects—which is good for our team members, good for Optimax, and good for our community.”

Notes

1. This section draws heavily from Dawson (2017).
2. Kentucky Manufacturing Career Center is supported by WIRED65 Regional Workforce Partners, a workforce funding collaborative supported by the National Fund for Workforce Solutions.

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5

How CDFIs Promote Job Quality and Reduce Income Inequality

Donna Fabiani

Since the Great Recession of 2007–2009, income inequality has emerged as one of the leading economic development issues in the United States. The growing gap between the highest- and lowest-income Americans has caught the attention of organizations as diverse as the Federal Reserve Board and Occupy Wall Street.

Community development financial institutions (CDFIs) that support job creation can help bridge this income gap by working with businesses to create quality jobs that offer fair wages, good benefits, meaningful advancement, and wealth-building opportunities. Based on the experiences of four CDFIs, this chapter explains current approaches to quality job creation, identifies barriers to CDFI involvement in this area, and makes recommendations to expand this work.

Our research draws on the examples of four CDFIs that have an intensive focus on quality jobs: 1) ICA Fund Good Jobs, 2) Growth Opportunity Partners (Growth Opps), 3) New Hampshire Community Loan Fund (NH Community Loan Fund), and 4) CEI. We also build on a recent paper—*Moving beyond Job Creation: Defining and Measuring the Creation of Quality Jobs* (2016)—published by InSight at Pacific Community Ventures (PCV InSight).

WHY IS JOB QUALITY IMPORTANT TO CDFIs?

CDFIs are private financial institutions with a mission of serving low-income, low-wealth, and other disadvantaged communities and populations. Many CDFIs create economic opportunity by financing

small businesses. These institutions can increase their impact by focusing not only on job creation but also on job quality.

A CDFI's work toward creating quality jobs can yield ancillary benefits to the institution, one of which is a potentially stronger portfolio quality. There is a growing body of research on the impact of quality jobs on businesses (Brett and Woelfel 2016). If quality jobs do in fact improve business performance through lower recruitment costs, higher employee retention, higher morale, and stronger employee performance, then supporting these businesses may indirectly improve a CDFI's portfolio quality. While more research is needed on the impact of quality jobs on business performance, the four CDFI business clients we interviewed support this hypothesis and agree that the positive outcomes outweigh the costs of higher wages, better benefits, time-consuming performance reviews, and investment in training and recruitment.

WHAT IS A QUALITY JOB?

Before explaining how CDFIs promote quality jobs, we must first define what a quality job is. PCV InSight offers a working definition of a quality job that is based on interviews with CDFIs, impact investors, academics, and others who promote quality job creation (Brett and Woelfel 2016). The organization synthesized what it heard into a single working definition that attempts to capture the spirit of its conversations. PCV InSight defines a quality job as having three or more of the following five components:

- 1) A living wage sufficient to support a decent standard of living or, at a minimum, one that exceeds the median wage offered within the employer's industry.
- 2) Basic benefits that increase economic security, improve health, and promote work-life balance among workers. These include paid leave, health insurance, and a retirement savings plan.
- 3) Career-building opportunities that help employees develop the skills, networks, and experiences necessary to launch a career or advance along a career path. These opportunities can

include training and mentorship—both formal and informal—and avenues for advancement within the company.

- 4) Wealth-building opportunities that enable and incentivize employees to build the assets they need to manage financial emergencies and achieve long-term financial security for themselves and their families.
- 5) A fair and engaging workplace that balances the priorities and well-being of employees with the needs of the business. Examples include offering flexible and predictable schedules, treating all staff with respect and dignity, actively soliciting employees' ideas to improve the business, and helping staff understand how their work contributes to the business's success.

Using this definition as a springboard, we assess how the four CDFIs in our study define quality jobs. They commonly draw on all or most of the components of PCV InSight's definition (see Table 5.1). None explicitly include wealth-building opportunities, although two promote wealth building through training on open-book management, an approach that encourages profit sharing.¹ Three CDFIs explicitly include a component not mentioned in the PCV InSight definition: particular characteristics of *who* is hired to fill a job (e.g., low-income, returning citizen, or disabled populations). One CDFI does not include employee characteristics in its definition but prioritizes jobs that are accessible to individuals who lack a four-year college degree.

This range of definitions expands PCV InSight's framework to include employee preferences and who gets hired, as well as to recognize that employees of a given business may value one or two components much more highly than others.

HOW DO CDFIs PROMOTE QUALITY JOBS?

While some businesses come to CDFIs with quality jobs in place, many need assistance with developing and introducing quality job components. CDFIs offer specialized, intensive development services and

Table 5.1 Quality Job Definitions

CDFI	Quality job definition	Wage definition
PCV InSight	Must have at least three of five components: 1) living wage, 2) basic benefits, 3) career-building opportunities, 4) wealth-building opportunities, 5) fair and engaging workplace	Sufficient income to afford a decent standard of living (as defined by the MIT Living Wage Calculator) or, at a minimum, pays closer to a living wage than its competitors
ICA Fund Good Jobs	Incorporates five core pathways: 1) employment access to those who face barriers to employment, such as race, disability, gender, or a criminal background; 2) a living wage; 3) benefits; 4) a supportive culture; and 5) opportunities for advancement, such as social networking and career ladders	MIT Living Wage Calculator combined with local socioeconomic indicators
Growth Opps	Provides a living wage and at least one other benefit, such as paid leave, retirement, health insurance, or career advancement	MIT Living Wage Calculator
NH Community Loan Fund	No standard definition; customized for each business based on what is important to employees of the business (e.g., flexible schedules or paid leave may be more important than wage)	Exceeds industry median wage
CEI	Depends on community needs (e.g., scheduling or paid leave may take priority over wages); considers wages, benefits, flexible schedules, career advancement, and hiring difficult-to-serve populations	Depends on location (e.g., in some cases, businesses with jobs above Maine’s minimum wage may be “good” in a rural area with high unemployment, especially when other quality job factors are present)

a range of financing products to help businesses establish and achieve quality jobs goals.

Development Services

CDFIs offer a wide range of nonfinancial assistance to businesses committed to creating quality jobs. This is true in terms of topics, delivery mechanisms, and service providers. Assistance tends to be intensive and therefore expensive to provide.

In addition to more traditional business assistance topics—financial management, marketing, and business planning—all of the CDFIs in this case study:

- Educate businesses about the benefits of quality jobs
- Help businesses improve job quality. Examples include:
 - Encourage businesses to cross-train employees to increase job flexibility
 - Encourage businesses to develop a corporate culture that includes soliciting and addressing employee feedback in business strategy and operations
- Work to lower business operating costs by improving efficiencies to help them cover quality job component costs
- Help monitor businesses' finances as quality jobs components are introduced

Improving job quality can include helping businesses with human resource issues such as developing job descriptions, salary scales, recruitment strategies, employee performance plans, and health benefit plans.

Delivery mechanisms can include business accelerator programs, one-on-one business advising, board seats, advisory boards, and peer groups.

CDFIs rely on staff and partners to deliver development services. Partners include volunteer networks, local community colleges, small business development centers, industry-specific consultants, and workforce development agencies. Four examples of CDFIs follow.

ICA Fund Good Jobs leverages an extensive network of volunteers, most of whom are alumni of ICA Fund Good Jobs programs. Subsidized professional services are offered in specific cases. The CDFI's Good Employer Matrix assesses hiring practices, growth rates, and company culture. This tool serves as an entree to extensive conversations with business owners about job quality and how their companies can address community needs.

Growth Opps focuses heavily on helping with human resource issues, such as developing job descriptions and hiring practices, and identifying opportunities for cross-training of employees. It also trains accountants and lawyers (i.e., "centers of influence" in the small business community) to become ambassadors of quality jobs.

NH Community Loan Fund focuses its assistance on employee engagement. Its "Engage Employees" best practices tool guides conversations on the business benefits of engaging employees and serves as a road map to help businesses chart plans to increase employee engagement. The CDFI also encourages most of its business clients to establish advisory boards that can provide expert guidance. While it is labor intensive to establish and provide guidance to these boards, the CDFI finds that they are often more effective, longer lasting, and more economical than working with paid industry consultants.

CEI's Employment Training Agreement (ETAG) specifies a borrower's hiring, wage, benefits, and employee training deliverables. CEI staff use an ETAG assessment tool to track progress toward these deliverables and more. CEI also provides intensive support to help businesses meet their ETAG goals.

While many partner services are provided at no cost to the CDFIs or their business clients, there is a cost to CDFIs in the significant time they devote to managing partner relationships and matching businesses with the right partners.

Financial Products

All four CDFIs provide debt financing. Three provide equity or equity-like products, including growth capital alternatives to debt.

Financing can be used for a wide range of business purposes, some of which are directly tied to creating quality jobs. For example, some loans are used to cover the higher payroll costs of quality jobs. These loans have no prepayment penalty, so businesses can pay them off as soon as their cash flows grow enough to cover payroll.

Many CDFIs provide financial incentives in the form of reduced interest rates or reduced royalty payments if a borrower meets or demonstrates progress in meeting agreed upon quality job promotion targets.

NH Community Loan Fund provides a “good driver discount,” rebating a portion of interest or royalty payments when the business moves forward along its road map to achieving deeper employee engagement and better-quality jobs.

CEI offers an interest rate reduction when a business meets goals set out in its ETAG.

ICA Fund Good Jobs may reduce interest rates when a business hires someone facing barriers to employment.

WHICH BUSINESSES CREATE QUALITY JOBS?

We asked the CDFIs if they think certain businesses are more likely to create quality jobs than others. While too early in the CDFIs’ collective experience to generalize responses, it is instructive to look at the similarities and differences among the four organizations.

Based on the CDFIs’ experiences, the single most critical factor is the business owner’s commitment to job quality. Without this commitment, even growth-oriented businesses with the economic potential to create high-quality jobs will likely fail to do so.

NH Community Loan Fund looks for businesses with high growth potential that want to grow their companies by growing their people and want help finding ways to implement progressive management strategies tied to the bottom line.

Growth Opps works with business owners who are interested in educating and investing in their employees rather than waiting for someone else to train them.

CEI considers a business's leadership commitment to quality jobs when selecting ETAG candidates.

An evaluation of the four CDFIs finds that none of them have size, industry, or age in their funding requirements, although there are concentrations in some portfolios.

Among the CDFIs, there is some agreement that to be in a position to create quality jobs, businesses should be growth oriented and have \$500,000 in annual revenue and at least five employees.²

In terms of industries, there were no real commonalities among the CDFIs. Some do not target specific industries. Among those that do, the industries may have been selected for reasons other than their quality job creation potential. For example, NH Community Loan Fund markets heavily to farm/food businesses because they employ a large portion of the CDFI's market. CEI's concentration in sustainable agriculture, fisheries, nature-based tourism, and renewable energy reflects the CDFI's triple bottom line commitment to the environment rather than its commitment to quality jobs.

ICA Fund Good Jobs was the only CDFI to comment on a business's age. It said that, based on its experience, a business is ready to create quality jobs when it has been generating revenue for several years and is approaching a pivotal point in growth.

What about growth orientation? While ICA Fund Good Jobs and Growth Opps solely target growth-oriented businesses, and CEI devotes its quality jobs efforts to growth-oriented businesses, all recognize that businesses without a traditional high-growth trajectory may have the potential to become quality job producers. The key with these businesses is understanding how to make them more profitable or finding other levers that make quality jobs viable for them. For example,

low-paying jobs can get better if they also provide career advancement opportunities, schedule flexibility, and a respectful work culture.³

ON THE GROUND: WHY CDFI BUSINESS BORROWERS CREATE QUALITY JOBS

Each CDFI introduced us to one of their business clients. Although the four businesses we spoke with are not a representative sample of businesses that produce quality jobs, they all exhibit the general characteristics of high potential quality job producers described by the CDFIs.

The leaders of all four businesses are growth oriented and have a conscious commitment to creating quality jobs. All four have more than \$1 million in annual revenue, five or more employees, and a defined growth plan. They offer:

- Above industry average wages. All but one offer wages above their industry median.
- Basic benefits. All offer paid leave; all but two offer health insurance, and those two plan to offer it in the near future.
- Training and advancement opportunities. All offer training and advancement opportunities, two provide generous tuition reimbursement programs, and most of the businesses take pride in having internal promotion policies.
- Wealth building. All offer some form of wealth building, with direct deposit being the most common product.⁴ The second most common wealth-building option is annual bonuses. Only the largest businesses offered retirement plans.
- Employee-centered culture. Each business described an employee-centered culture that prioritizes a high level of respect for employees. All offer predictable and flexible schedules.

BARRIERS TO PROMOTING QUALITY JOBS

The CDFIs we profiled are some of the industry's leading quality job promoters. Yet, their combined scale is limited: annually, their quality job promotion programs provided development services to several hundred businesses and financed fewer than 100.

The main barrier CDFIs face in quality job promotion is their ability to scale up operations and reduce the overall costly nature of the process. The CDFIs recognize that promoting quality jobs is a time-consuming and expensive business. They are keenly aware of their dependence on private grants, foundations, individual donors, and/or public monies to fund operations. Each hopes to achieve greater sustainability through fee structures or streamlining.

We identified five specific barriers to expanding the industry's quality job promotion efforts: pipeline; cost of delivering development services; staff expertise; data collection, management, and analysis; and funding.

- 1) Pipeline. Building a pipeline of eligible business clients can be challenging for any CDFI business lender, not just those focused on quality jobs. Adding a new criterion—the potential to create quality jobs—further narrows the universe of eligible businesses. As in the larger universe of CDFI small business lenders, pipeline issues vary among the four CDFIs, from posing no constraint at all to being a top concern. Not all see the pipeline as a significant barrier, but all have taken steps to attract more businesses, from expanding geographic markets to introducing new financing products to considering businesses that are committed to quality jobs but cannot immediately afford to provide higher wages and benefits.
- 2) Cost of delivering development services. Active quality job promotion requires CDFIs to form deep relationships and provide intensive development services. In spite of partnerships with skilled volunteers and workforce and business development organizations, CDFIs spend significant time and resources on quality jobs development services. Even when CDFI staff are not directly providing the services, they are

spending time identifying volunteers and partners, screening and orienting them, matching them with businesses, assessing their performance, and managing them on an ongoing basis.

- 3) Staff expertise. All four CDFIs depend on partners to help deliver development services, in part because their staff members lack the necessary technical expertise. This includes expertise in developing job descriptions, hiring practices, health care plans, and stock options; incorporating quality job costs and benefits into financial forecasts; and creating efficiencies, such as work flow analysis, reducing redundancies, and eliminating waste.
- 4) Data collection, management, and analysis. Developing a streamlined process for the collection, management, and analysis of quality job promotion data is a common barrier for CDFIs. CDFIs must consider a complex web of information, starting with identifying and defining metrics for wage levels, core benefits, internal advancement, corporate culture, and wealth-building options, and ending with collecting and comparing the data.⁵ Like any CDFI data collection effort, getting business clients to respond to data requests can be challenging. More difficult yet is measuring changes over time, something that requires greater analysis than simply summing up and averaging numbers. Indeed, while all the CDFIs we interviewed collect data from their quality jobs clients, none were able to provide more than a few of the metrics in the short turnaround time we allowed during the research phase of this chapter.
- 5) Funding. The other side of the cost of providing development services is finding sources to cover those costs. The CDFIs we interviewed use a combination of private grants, individual donations, subsidies from parent organizations, federal and state funding, and earned income to fuel their quality jobs efforts. However, major public and private sources directing monies to the specific use of assisting businesses in quality job creation remain elusive. The CDFIs generally agree that, to date, a focus on quality jobs has not helped them attract substantial additional funding.

NEXT STEPS

In this post–Great Recession time of growing income inequality, lingering high unemployment in some regions, and displacement due to gentrification, job quality should be part of the national conversation. It is particularly resonant for CDFIs, whose collective mission is to increase opportunity for all. Based on our research, we make six recommendations to help advance the breadth and impact of quality job promotion efforts in the CDFI industry.

- 1) Increase awareness of how businesses benefit by providing quality jobs. The CDFI industry can approach this in two ways: share existing research on the benefits of quality jobs and conduct its own research. Existing research on quality jobs is based on analysis of businesses that are larger than typical CDFI clients. New research based on the CDFI experience would offer the added benefit of expanding existing research to include smaller businesses.
- 2) Determine which development services interventions have the greatest impact and find ways to make them more cost effective to deliver. CDFIs provide assistance on a myriad of topics through a web of delivery mechanisms. Research into which ones have the greatest impact could help CDFIs narrow their focus to a more manageable set of development services. With a narrower list, CDFIs can explore ways to deliver them more cost effectively.
- 3) Identify the best business-level metrics to measure quality job creation and create systems to collect, manage, and analyze this data. The PCV InSight research makes clear recommendations for metrics, data collection instruments, analysis, and presentation of findings. It would be helpful if CDFIs could agree on and adopt a common set of metrics. Then, recognizing that systems that promise high response rates and are able to quickly analyze the data and produce presentation charts and tables are lacking, an effort should be made to develop a system or systems. Such a system would save CDFIs time,

frustration, and money, and facilitate research on which interventions are most effective.

- 4) Assess CDFI impact. Using CDFI-collected data, conduct research to determine whether CDFIs' quality jobs interventions are truly making a difference at the business, employee, and even the employee's household level.
- 5) Consider expanding targets for quality job interventions. Businesses with low profit margins and no growth plans employ many unskilled low-wage workers in CDFI markets. These businesses might be candidates for introducing low- and no-cost interventions, such as predictable and flexible schedules, advancement opportunities, and direct deposit. CDFIs that currently prioritize quality job promotion, as well as other CDFIs, could broaden their impact on quality job creation by working with these businesses. Given the high percentage of low-wage jobs in CDFI markets, this approach could yield significant community impact.
- 6) Encourage funders to fully support quality jobs. The CDFI industry and its advocates and key stakeholders should encourage private, public, and philanthropic institutions interested in issues of income inequality to recognize the costs of—and support—CDFIs' quality jobs work. In the short term, funding support can both cover these costs and support the research needed to ultimately lower them. In addition, there may be opportunities to loosen the restrictions on some funding programs so the programs can be used to promote quality jobs among a larger population. For example, programs that target dislocated workers could be loosened to include job loss prevention so that CDFIs could use them to add job quality to their job retention activities.

Today, a few CDFIs actively promote quality jobs. As more CDFIs get involved in this work, it will become easier to accomplish many of these recommended next steps, and more businesses, employees, and communities will thrive.

Notes

1. Definitions of open-book management vary, but it is generally accepted to include the following components: sharing the income statement and balance sheet with most employees; sharing other data with employees (such as productivity and plant utilization/quality data); encouraging employees to use the information in their daily work; training employees to understand financial numbers; and sharing the financial results through a gain-sharing program. See <https://www.nceo.org/articles/open-book-management> (accessed February 22, 2018).
2. This is not to say that microenterprises and family-based “mom and pop” businesses do not or cannot create quality jobs. While a typical goal of these lifestyle businesses is to create a self-employment option for the owner and, for some, jobs for family members, they have options for offering job quality. See Gomez, Thetford, and Klein (2015).
3. For more on this subject, see Conway and Dawson (2016).
4. While direct deposit is not by itself a wealth-building tool, it can be an important first step for both employees and businesses. Direct deposit can make saving easier for employees and allows them to access some external savings programs such as the U.S. Department of the Treasury’s myRA retirement product for employed individuals who don’t have access to another retirement plan. Businesses that are not able to provide wealth-building options directly can provide direct deposit as an indirect way of helping their employees build wealth.
5. See Brett and Woelfel (2016). This publication advances the conversation, providing suggestions for metrics, definitions, analysis, and presentation of findings.

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6

Now or Never

Heeding the Call of Labor Market Demand

Steven L. Dawson

For 45 years, I have worked to create better jobs for low-income workers. I have supported African American enterprises in rural Virginia and North Carolina, worker buyouts of threatened factories in New England, and large-scale service cooperatives in the inner cities of the South Bronx and Philadelphia.

In those 45 years, I have never witnessed a labor market as tight as today's: Hilton Head hotels in South Carolina are bussing workers with five-hour commutes to meet tourist industry demands (Heffernan, Livingston, and Lauderdale 2017). In Wisconsin, one out of seven direct-care positions is vacant, forcing nursing homes to turn away elderly clients or, in several cases, close completely (LeadingAge Wisconsin 2016). And this past summer, President Trump's Mar-a-Lago Club requested U.S. Department of Labor approval to hire 70 foreign workers, stating they could not find enough U.S.-based cooks, waiters, and housekeepers (Fahrenthold 2017).

This isn't just an opportunity for workforce developers, it is a call to action. The self-interests of low-income job seekers and employers are now wholly aligned—a once-in-a-generation convergence. To take lasting advantage of that alignment, job *quality*, not just job placement, must become the primary goal of our workforce field.

For years, many in our workforce community have hesitated, not wanting to talk about “quality jobs” for fear of alienating employers. Yet, those same employers now face arguably the greatest challenge of a generation in finding workers. Workforce practitioners must now help those employers invest in, and leverage, their frontline workers—helping businesses not only create quality jobs but also achieve “operational excellence” to secure and defend their competitive business advantage.

This chapter argues that workforce leaders, and their funders, must fundamentally redefine the very workforce services we offer. We must bridge the gulf that still separates employing low-income job seekers from the building of competitive businesses—by taking equal responsibility for both. And in doing so, we must fundamentally redesign ourselves.

It would be easy to dismiss this historically tight labor market as temporary. After all, the U.S. economy is heading toward an unprecedented ninth year of recovery, and the media are awash in “End of Jobs!” headlines about technology making workers obsolete. However, many labor economists, such as MIT’s Paul Osterman, dismiss this “obsession with robots” by underscoring—as has been true since the Industrial Revolution—that technology will change employment, not obliterate it. Today’s labor market challenge is not the disappearance of jobs, but rather the need to increase the skills of today’s workers so that they can adapt to the high-skill requirements of tomorrow’s occupations (Osterman 2017).

On the labor supply side, profound demographic trends in the United States are now weakening the ability and willingness of individuals to enter the workforce. Since 2007, the participation rate for working-age individuals has dropped from 66 percent to 62.7 percent (Federal Reserve Bank of St. Louis 2017). If participation rates had remained stable since 2007, today nearly eight million additional people would be employed or seeking work (Bureau of Labor Statistics 2017).

The inevitable retirement of the baby boomer generation accounts for more than half that drop in available workers. Yet there are other, more troubling causes as well, including the incarceration of more than 2.3 million individuals—with consequent employment barriers for ex-offenders—and an opioid epidemic metastasizing throughout our communities (Schwartz 2017; Wagner and Rabuy 2017).

One more factor cannot be ignored: the deteriorating quality of frontline jobs. Why would anyone remain committed to a company that pays less than \$10/hour, with unpredictable schedules—resulting in an unpredictable paycheck—few benefits, difficult or unsafe working conditions, inadequate training, and poor supervision? Not to mention perhaps a long, expensive commute and an hourly cost of child care that rivals their paycheck? Offered such punishing daily penance within the

formal economy, turning to public assistance or disappearing into the underground economy looks for many to be an entirely rational choice.

If we cannot forge common cause between workforce practitioners and employers in *this* unprecedented labor market, we never will. Today's insatiable demand for labor offers more to our workforce field than ever before—and it requires in return a fundamental shift in the type of organizations we lead, the strategies we pursue, and the very nature of how we finance our operations.

REDESIGN OUR ORGANIZATIONS

It is now up to us to reenvision a new generation of leading workforce intermediaries—not as conventional training and placement organizations, and not as conventional business consulting agencies, but as a true fusion of the two that will serve the mutual self-interests of both workers and employers.

What would such an organization look like? Unlike most of today's workforce organizations, this new intermediary will require leadership hailing in equal parts from both the business and workforce communities. That means hiring at least as many leaders and professionals who have direct and extensive business experience as those who have traditional workforce backgrounds. The messenger matters: the resulting intermediary must not be perceived as “belonging” exclusively to either the workforce world or the business world, but rather as embodying the combined wisdom of both.

Conceptually, the next generation of lead workforce developers must integrate the power of both sectoral *and* place-based strategies. By focusing on a specific occupational sector, we can develop a depth of sophisticated business and policy expertise that provides genuine, practical value to both workers and employers. And more so than most current sectoral initiatives, the next generation must also deeply identify with a specific region—embracing it as “home” and committing to its prosperity. The deepest knowledge, and the broadest relationships, will be crafted within this fusion of sector and place.

Functionally, the new intermediary must provide both workforce and business consulting services in equal measure, helping employ-

ers invest in *and* leverage their frontline staff. Most importantly, the intermediary must offer not only workforce expertise in redesigning better-quality jobs, but also operational expertise in how to leverage those investments—to forge “operational excellence” into a competitive business advantage.

This unique balance of workforce and business services will distinguish our new intermediaries from mainstream business consulting firms. And be forewarned: those conventional consulting firms are, even now, rushing in to meet the labor needs of the business community, but without any commitment to, relationship with, or true expertise in assisting low-income workforce constituencies.

REDESIGN OUR WORKFORCE DEVELOPMENT STRATEGY

Workforce development leaders must now pursue a comprehensive strategy of employer practice, policy/advocacy, and public narrative—and they must do so in close coordination with allied stakeholders. This new strategy must be designed with the following goals in mind.

Help Employers Improve Job Quality

In this current labor environment, it is tempting for workforce leaders to stay the course, primarily offering employers a more diverse pool from which to draw their workers. Indeed, placement rates from job prep and training programs should soar in this market. However, the next challenge is to help employers not only attract but also retain a more diverse workforce by fundamentally restructuring how they employ their workers.

One critical cautionary note: when selecting which employers to assist, we must not set an exclusive bar. Though minimum standards should be required of any employer—a clean labor law and safety record, and wage rates that are at least average for the industry—insisting on a *static definition* of job quality will prove counterproductive. A definition that is too restrictive will foreclose assisting the thousands of workers who are employed within a range of low-wage sectors, and many companies that would love to improve their job quality but

face considerable challenges—such as start-up entrepreneurs or publicly funded service agencies—may well feel unfairly branded as “bad employers.”

Workforce leaders should instead craft a *dynamic definition* of job quality, one that starts wherever a willing employer might be, and over time helps that employer along a continuum of improvement. Since job quality extends far beyond wages and benefits, this dynamic definition should include the countless ways in which a job can be improved. Those additional job quality elements fall within a hierarchy of needs, and Figure 6.1 offers an extensive, though far from exhaustive, list of job design components.

The power of a dynamic job quality definition allows workforce practitioners and their allies to employ strategies that are practical, gradual, and tailored not only to particular sectors but even to specific businesses within those sectors.

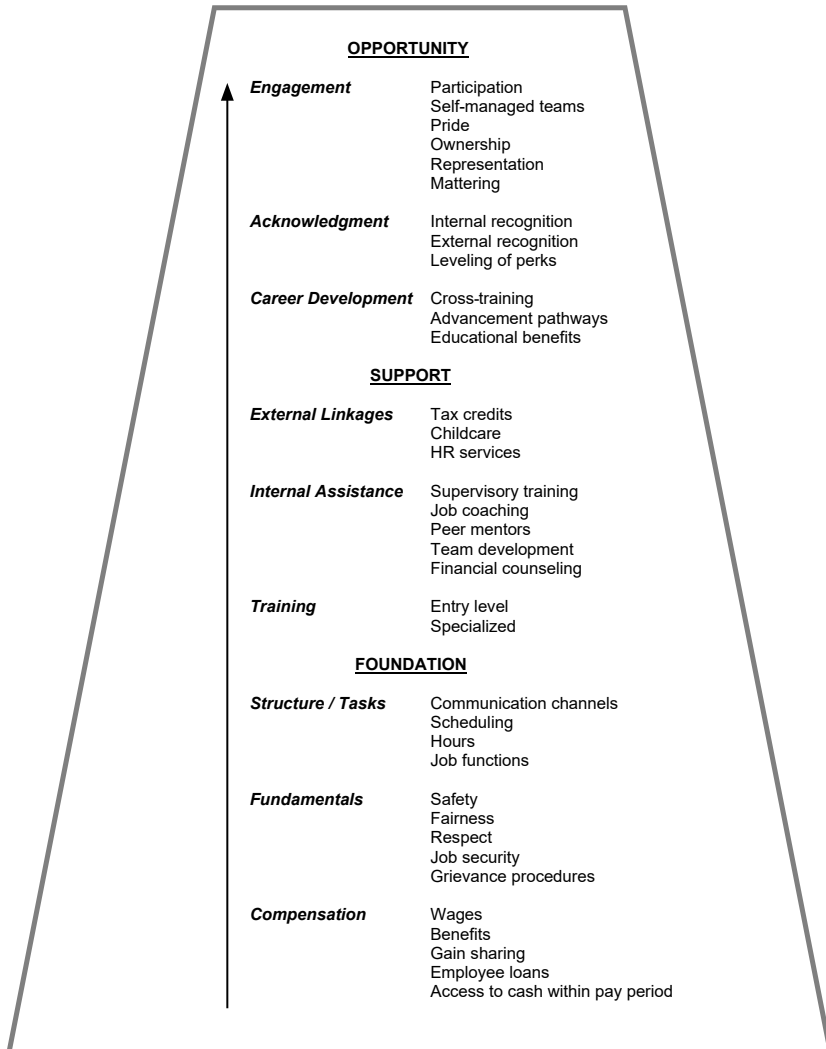
Fight for Policies That Encourage Job Stability and Retention

The United States long ago abandoned any serious commitment to workforce policy. Federal funding has been reduced by more than 20 percent in real dollars since 2010, and even though the Trump administration has proposed an expansion of worker apprenticeship programs, the president has called for a further 40 percent reduction for all federal training programs outside apprenticeship funding (Gillespie 2017; National Skills Coalition 2017). At the time of this writing, the resolution on these budget proposals remains unresolved but follows a long history of disinvestment in traditional, federally funded workforce development programs.

Given that the labor market squeeze is now so visible—just search the Internet for “massive job fair” and scroll through the multiple listings from across the country—it is perplexing that many politicians continue to call for policies as if business demand was still the problem, when what limits us now is labor supply.

For example, New Hampshire’s newly elected governor announced that in his first 100 days he would meet with 100 out-of-state companies in an attempt to lure them over the border into a state where the unemployment rate hovers at just 2.7 percent, and local employers can’t fill current contracts due to widespread labor vacancies (Office of Governor Christopher Sununu 2017). Nationally, the Trump

Figure 6.1 The Job Design Hierarchy



NOTE: Read from the bottom up. This job-quality hierarchy is more a menu than a mandate. Not every element is relevant for every business: a quality job in a start-up bakery will be very different from one in a mature food processing plant, which in turn will differ from a child care center or a seasonal hotel. And workers within each of these enterprises may well value these elements differently—a good job for me may not be a good job for you.

administration is insisting on immigrant deportation policies, forcing some workers underground and out of the formal economy, further destabilizing essential U.S. sectors such as agriculture, manufacturing, and construction.

Instead of policies designed to spur demand and disrupt labor, we should articulate a comprehensive strategy that does everything possible to encourage the availability, and stability, of our nation's workforce. And since so many states rely wholly on federal dollars for their workforce programs, our policy agenda should include not only resisting federal cuts but also insisting that state and local policymakers commit their own tax monies to workforce programs, generating additional funds free of federal restrictions.

Change the Public Narrative about Employer "Success"

Unfortunately, today's image of a savvy employer remains a businessperson who minimizes labor costs. Despite decades of evidence to the contrary, that image is still embraced not only by the public but by many employers as well.¹

When labor was abundant, perhaps that image was justified. If your competitor down the street is paying \$9.00 an hour for store clerks—scheduling those workers with "just-in-time" software, and failing to train them adequately—why should you do anything differently? That is, as long as neither of you is having trouble recruiting workers. The calculation changes, or at least should change, when the labor market tightens and people are no longer lining up for your jobs.

Workforce organizations can reverse the prevailing public narrative about what makes a smart businessperson: today's successful entrepreneur is one who creates a market advantage by building a quality workforce. Today's smart employer not only invests in her workforce, but then leverages that investment to maximize productivity, efficiency, and market share.

The second half of that equation—knowing how to leverage investment in the frontline workforce—is all too often forgotten. As Zeynep Ton of MIT has emphasized, compensating and supporting frontline workers well is essential but insufficient. To leverage those investments, the wise employer must also redesign other core operations, from information systems to inventory control, and from cross-training to front-

line decision making. Only then will the costs of higher investments in job quality be justified by generating the efficiencies and opportunities necessary to secure higher productivity and profitability (Alvarez and Ton 2017).²

Simply paying people more, but then failing to create “operational excellence,” is exactly what gives job quality strategies the reputation for being softhearted, if not simply softheaded. Our workforce field must instead articulate and drive a hard-nosed, sophisticated public narrative that emphasizes both sides of the job quality equation. Essential to that narrative will be profiling small- and medium-sized employers who are already implementing successful job quality strategies. There are several examples—such as the 200-worker Universal Woods manufacturing company headquartered in Louisville, Kentucky—and we must position these pioneers to share their own stories directly with other employers (see, for example, Dawson [2017]).

Strengthen Coordination with Other Key Stakeholders

Finally, our workforce community cannot hope to respond to this call alone. We must assume leadership in organizing other stakeholders to join together in improving job quality. At the top of the list should be community development finance institutions (CDFIs), which have long played a role in providing capital to local businesses to create and save jobs.

In fact, several pioneer CDFIs have already gone beyond counting simply the number of jobs they save or create. Pacific Community Ventures of California,³ Coastal Enterprises, Inc. in Maine,⁴ the New Hampshire Community Loan Fund,⁵ and the ICA Fund Good Jobs of California⁶ are all taking the lead in pursuing job quality strategies. Those strategies range from offering borrowers a discounted interest rate when quality-job targets are achieved, to CEO roundtables where entrepreneurs explicitly help each other become labor market “employers of choice.”

Community foundations should be next on the list, particularly those that are redesigning their strategies to be “100 percent mission driven”—dedicating not only their grant budgets but also their investment portfolios and program staffs toward their place-based strategies. One powerful example is Encourage, the community foundation of

southern Wood County, Wisconsin, which is combining program leadership, grant dollars, and investment funds to generate high-quality jobs through its “Workforce Central” initiative.⁷

Workforce leaders must enlist other stakeholders as well: for example, the 50-state network of federally funded Manufacturing Extension Partnerships provides quality-improvement consulting services to small and medium manufacturers. Taking the lead among them, the Illinois Manufacturing Excellence Center (IMEC) has launched the “Genesis Movement,” which focuses explicitly on job quality through a set of “people, process, and product” assessments and redesign interventions.⁸

And certainly, we must reach out to our full range of allied workforce stakeholders. For example, worker centers—such as the National Guestworker Alliance, formed in New Orleans in the aftermath of Hurricane Katrina—organize worker-rights campaigns targeted in low-income communities.⁹ These centers not only raise the floor of job quality but also plug holes in that floor by monitoring labor law violations, including wage theft and employee misclassification. And in those regions where organized labor has retained a strong presence, workforce leaders should join forces with union training and education funds such as the SEIU 775 Benefits Group, which today provides training services to more than 45,000 home care aides annually in Washington State.¹⁰

REDESIGN OUR FINANCING

The workforce field can no longer rely primarily on philanthropic and government sources to remain the primary funders of our lead workforce organizations. At a minimum, we must acknowledge that the old model of “philanthropy incubates, governments adopt” is no longer reliable—at least not in this political environment. Funders must now pursue a very different approach: to help build a next generation of workforce intermediaries that can take root and prosper within a competitive, fee-for-service marketplace.

Let us face the reality that the business community does not always see the value in the services of workforce development organizations.

The business community often appreciates those services, but appreciating and valuing are two very different things. In some ways, that failure to value workforce development services is unfair. The workforce field offers important expertise in how workers can be sourced and prepared. But to the extent that the business community appreciates those services, they haven't had to value them because government and nonprofits have offered them for free. And free rarely gets the credit that, in this case at least, it fully deserves.

The business community undervalues workforce services because, at best, we are solving only half of the equation. While we help businesses find and train employees, most workforce organizations have not learned how to help businesses redesign their operations, leveraging their investments in their frontline workers so that they can achieve operational excellence.

Public agencies and philanthropies will always have an important role, funding services that remove employment barriers for low-income job seekers. Yet, philanthropy, in particular, must now undertake an additional role: rather than incubating organizations designed to be handed off to government—or perpetually subsidized by philanthropy—foundations must help create a next generation of intermediaries designed to become primarily market oriented and market supported.

Only when the “market leaders” of the workforce development community become truly market based will we ever bridge the divide between the workforce community and the business community. Only when lead intermediaries are staffed by both business and workforce leaders—not simply advised by businesspeople on their boards—will they engender trusted employer relationships. And only when lead intermediaries offer job redesign services that help companies fully leverage their investments in frontline staff toward operational excellence will they be able to demand market rates for their exceptional job quality expertise.

It is fair to ask if the entire workforce field is prepared to assume such a challenging role. Clearly, for the majority, the answer will be no. Most workforce organizations are simply not structured, not staffed, and not funded to move beyond the already demanding role of training and placing their constituents. Engaging employers in a discussion of job quality—and then offering practical value in helping employers

redesign their internal operations—requires an entirely different set of skills, experience, and relationships.

Fortunately, changing the entire field is not required, or even desirable. There is still much important work to be done by job recruiters, trainers, placement experts, and job coaches across the country. Instead, the call here is for a new breed of *lead* intermediaries, one that would dramatically redefine the type of operational services the workforce community can deliver to employers—personified by a new blend of staff leadership and expertise.

Some of this new breed will likely emerge from sophisticated intermediaries that already have strong employer relationships, and others must be created. Undertaking such profound change, within an environment of reduced public funding, will require hard choices by organizational leaders and funders alike.

We may now be seeing the creation of just such a new “market-leading, market-embedded” intermediary in the form of Semper Fidelis Young Adult Leadership Academy. Launched in September 2017, Semper Fidelis will train military veterans and young adults within a leadership development program tested and refined for 15 years within the corporate sector. The organization’s founders—Paul Ortega, former director of training and development of the international Swiss Post Solutions corporation, and Lou Miceli, former executive director of the nonprofit JobsFirstNYC—reflect an important blend of business and workforce development expertise. Their goal is to contract their leadership and training programs on a fee-for-service basis to a wide range of business, government, and philanthropic clients.

Semper Fidelis and its affiliate, Motivation Check, will be headquartered and dedicated within the New York City region, and will combine their placed-based strategy with a sectoral strategy targeting the retail and business services industries. Their core focus will marry exemplary customer-service training with leadership development that emphasizes “servant leadership.” And on point to this chapter, the new intermediary will consult closely with its employer clients to redesign frontline occupations into quality jobs. In fact, Semper Fidelis intends for much of their job quality redesign impact to come from the veterans and young adults themselves, as they begin to assert their servant-as-leader roles.

Given the repeated cuts in funding for training and employment services, it is clear that public policymakers have placed less priority on workforce development. Yet jobs are now the central issue of our time. Look no further than the deteriorating quality of jobs over the past decade to explain the depth of insecurity and fear within our communities.

Job market uncertainty will increase unless having a job once again means securing stability, dignity, and self-worth for workers and their families. And no other strategy is more central to achieving that goal than our own efforts within the workforce field to create quality jobs. Workforce organizations can and should be at the very center of our nation's efforts to achieve economic security and community prosperity.

To seize that mantle of leadership, however, those in the workforce field cannot continue to stand apart from the employer community—appreciated but not valued. We must redesign how we structure and staff the next generation of lead intermediaries, fusing workforce and business expertise into services that create both quality jobs and operational excellence.

Our country's unprecedented demand for labor offers an extraordinary opportunity. It is a call not only to reshape the field of workforce development, but to reposition our organizations into the vanguard of national economic reform. It is a call to action. Nothing less will fully serve our employer customers, or fully benefit those who first drew us to this field—our low-income constituents.

Notes

This chapter is adapted from the sixth paper in the Pinkerton Papers series, available at http://www.thepinkertonfoundation.org/paper_type/job-quality-series.

1. See <https://www.greatplacetowork.com/> (accessed June 28, 2017).
2. The research of MIT's Zeynep Ton, author of *The Good Jobs Strategy*, has been essential in emphasizing this second half of the equation. Most recently, Alvarez and Ton (2017) wrote a compelling article for MIT's Sloan School, titled "Whole Foods CEO's Poor Excuse for Poor Performance." In it, the authors write that "Whole Foods may be paying its employees more than competitors do, but it has not created an operating system that leverages that investment."
3. See <https://www.pacificcommunityventures.org/> (accessed June 28, 2017).
4. See <http://www.ceimaine.org/> (accessed June 28, 2017).

5. See <https://www.communityloanfund.org/> (accessed June 28, 2017).
6. See <https://www.icafundgoodjobs.org/> (accessed June 28, 2017).
7. See <https://incouragecf.org/> (accessed June 28, 2017).
8. See <http://www.imec.org/genesis-movement-launched.cfm> (accessed June 28, 2017).
9. See <http://www.guestworkeralliance.org/> (accessed June 28, 2017).
10. See <http://www.myseiubenefits.org/> (accessed June 28, 2017).

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Part 2

Investing in Work and Wealth

7

Valuing Workers through Shared Capital Investments

Janet Boguslaw

Expanding wealth inequality and economic precarity have sparked broad debates about how shifts in the structure of work affect workforce development and the assets of low- and moderate-income workers and low- and moderate-skill workers. Changes driven by technology, private equity ownership, and the globalization of markets challenge traditional ways of working and learning for work. Those changes can also lead to an undervaluing of the skills, knowledge, and capabilities of the existing workforce, as well as the potential workforce of underemployed and unemployed individuals. This undervaluing increasingly translates for the workforce into low wages, limited benefits, unpredictable scheduling, and underemployment. Combined, this undervaluing produces economic insecurity, an inability to save and invest for the future, limited skill development, and challenges to fully participating in family and community life. There are particularly important impacts related to issues of gender, race, and ethnicity for income, wealth, and well-being. This undervaluing and underinvestment in the workforce reduces firm competitiveness and community economic stability. All of these factors affect the nation's collectively shared economic and social prosperity.

Within the context of these changes, there are opportunities to produce different outcomes for both the workforce and our nation. Shared capital firms can overcome these negative consequences of change and prosper, in part because they value their workforce and provide value to the workforce in a variety of ways, reaping business benefits and providing an important public value (Kruse, Freeman, and Blasi 2010). Shared capital firms have the potential to broaden wealth in communities, stabilize families, and, as this section reviews, are an important location for targeted workforce investments to produce real returns to business,

communities, and the workforce. Investments in employees not only as workers but also as owners leads to new skill development, career advancement, and wealth building—all the shared goals and objectives of traditional workforce investments. The section begins with an understanding of what we mean by “undervalued workers” and a discussion of shared capital, making the connection to the public interest in workforce development investments and to the chapters in this section.

UNDERVALUING THE WORKFORCE IS EXPENSIVE FOR BOTH EMPLOYEES AND BUSINESSES

The traditional structure of the workplace and institutional decisions about what and who is of value produces conditions that devalue workers based on gender, race, education, field, age, and other statuses. A few descriptions illustrate this point. Older workers, for example, are increasingly undervalued. Many employers will not hire older workers, often due to anticipated higher wage levels or the perception of antiquated skills. The Federal Reserve Bank of St. Louis reports that in January 2015, those 55 and older were nearly 20 percent more likely to be unemployed long term than those in the 25–54 age group; yet, with greater longevity and resource needs, these older workers seek another 10–20 years of employment (Monge-Naranjo and Sohail 2015). For those who employ older workers, data show they are more frequently laid off, fired, or pushed into early retirement, paving the way for a less experienced but less expensive workforce (Johnson 2007; Truxillo et al. 2018). While older employees may not always be on the cutting edge of technology and that gap may lead to justifications for dismissal, firms that invest in maintaining their workforces invest to keep everyone ahead of the curve. Older workers possess skills in leadership, mentoring, and problem solving, and those contributions to the workplace are undervalued when the bottom line shifts only to a focus on wages.

Female workers and workers of color are particularly vulnerable. In 1976, 1 in 20 women were the sole earners in their households; by 2013, it was 1 in 4. Women are either the sole earner, primary earner, or coearner in nearly two-thirds of families with children (Chang 2015; Hegewisch, Phil, and Williams-Baron 2018). Although women’s work-

force participation has increased and women play a more vital role in the financial well-being of their households, neither work nor family structures have kept pace with these changes. Sixty-one percent of caregivers nationwide are women (Women's Institute for a Secure Retirement 2015). Women who have primary caregiving responsibilities are often at risk of losing their jobs when a family crisis arises. They often work part-time to ensure flexibility around family needs, and they earn less for full-time work because of occupational gender segregation and lower pay for "women's work" in fields such as home care, teaching, and the service industry. Data also indicate that women are often paid less for comparable work (Auspurg, Hinz, and Sauer 2017; *Economist* 2017; Family Caregiver Alliance, n.d.).

Frontline workers in these caregiving and service fields are critically important for the immediate care of young children, older adults, people with disabilities, and those with illnesses. Their good care produces indirect impacts on the rest of the workforce's ability to operate seamlessly. However, employees' physical and emotional labor in these fields is undervalued and undercompensated. Characterized by irregular work schedules, the field of caregiving limits earnings and benefits, inhibiting employees' abilities to plan and contribute to meet personal and family needs. Irregular work is a reflection of undervaluing the employee as a regular contributor to a work setting as well as for the other roles and responsibilities that employees hold outside the workplace.

Underpaid and low-wage workers who do not feel valued through their compensation leave their jobs with greater frequency. Voluntary turnover has a negative impact on the morale of remaining employees, on their productivity, and on company revenue. Recruiting and training a new employee requires staff time and money. For example, the average cost to replace an employee is 16 percent of the job's annual salary for high-turnover, low-paying jobs (under \$30,000 a year), making the cost to replace a \$10-an-hour retail employee \$3,328. It costs 20 percent of a job's annual salary for mid-range positions (those paying \$30,000–\$50,000 a year), making the cost to replace a \$40,000 manager \$8,000 (Boushey and Glynn 2012). For the employee, transitions mean continuously starting over and having limited advancement opportunities. This often creates stress and health problems. The Bureau of Labor Statistics (2018) reports that turnover is highest in industries such as trade

and utilities, construction, retail, customer service, hospitality, and service, with some variation by wage and role of employee. Instead of investing dollars in training replacement workers, firms would be better off investing their funds and energies in the current workforce, thus helping to retain and build workers' skills, which affects employees' professional and personal health and contributes to the firm's bottom line. Conversely, when employees' skills are underutilized and their skill training is limited or stopped, the firms, the employees, and the economy suffer.

Employees often have unique skill sets beyond their job descriptions—skills that, if employees were given the opportunity to display them, they could utilize to improve their job performance, drive innovation, and reduce business costs (Pendleton and Robinson 2011). When leadership does not take advantage of existing or potential skills, the firm is undervaluing its employees and leaving value within the organization on the table. Increasingly, this is a public policy concern. Workforce development dollars can contribute to building a stable workforce that will have career advancement opportunities, become self-sufficient, and contribute to the overall health of the economy. When skills are underutilized and skill training is limited or stopped, the firms, the employees, and the economy suffer.

WHAT IS SHARED CAPITAL?

In an environment in which work structures shift and many workers remain undervalued, “shared capital” firms—those in which all employees hold some percentage of ownership—provide employees a variety of opportunities both to be valued and to provide value to the firm in unique ways. The shared capital model, when compared to traditionally organized firms, appears to strengthen business profits and operations, increase the mutuality of interests, share financial wealth more broadly, and create a more productive and invested workforce (Kruse, Freeman, and Blasi 2011; Employee Ownership Foundation 2014). Shared capital firms take the form of employee-owned companies with employee stock ownership plans (ESOPs), cooperatives, and profit-sharing plans. The U.S. tax system legislatively supports ESOPs,

providing opportunities to shift relations between business, capital, and ownership structures, and potentially to shift how we think about and invest in workforce development. Participatory shared capital firms contribute to broad-based workforce development and to asset development among working poor and middle-income workers—building the combination of financial, human, and social capital that constitutes wealth. Table 7.1 lists companies that are at least 50 percent employee owned, demonstrating their wide representation across sectors and the nation (National Center for Employee Ownership [NCEO] 2017a).

A recent study conducted by the NCEO suggests that employee ownership interventions at the workplace can contribute to the goal of rebuilding the middle class. The NCEO took its data from the National

Table 7.1 Illustrations of ESOP Sector Variations and Employment Levels

Company	State	Plan	Start date	Business	Employees
Publix Super Markets	FL	ESOP & Stock Purchase	1974	Supermarkets	188,000
Penmac	MO	ESOP	2010	Staffing	24,470
Amsted Industries	IL	ESOP	1986	Industrial components	18,000
Lifetouch	MN	ESOP	1977	Photography	15,440
Parsons	CA	ESOP	1974	Engineering & construction	15,000
HDR, Inc.	NE	ESOP	1996	Architecture & engineering	10,500
EmpRes Healthcare Management	WA	ESOP	2009	Post-acute long-term care	10,000
W.L. Gore & Associates	DE	ESOP	1974	Manufacturing	10,000
Austin Industries	TX	ESOP	1986	Construction	9,000
Davey Tree Expert ^a	OH	401(k)SOP & ESOP	1979	Tree & environmental services	9,000
Schreiber Foods	WI	ESOP	1998	Dairy company	7,000

^a100 percent employee-owned.

SOURCE: National Center for Employee Ownership (2017a).

Longitudinal Surveys, which were collected on a cohort of workers aged 28–34. The data compare workers with employee ownership to those who are without this workplace structure. The study finds that the employee ownership group attained 92 percent higher median household wealth, 33 percent higher income through wages, and 53 percent longer median job tenure. Employee owners who were not college graduates had 83 percent greater median household wealth, employee owners of color had 30 percent higher income from wages, and employee owners in general were 3.6 times more likely to secure tuition reimbursement from their employers (NCEO 2017b).

WORKFORCE DEVELOPMENT AND SHARED CAPITAL FIRMS: A MULTIDISCIPLINARY APPROACH

Shared capital firms help us take a multidisciplinary approach to reducing wealth inequality and economic insecurity and revaluing the workforce. Three areas of work intersect to inform these issues: 1) asset building, 2) labor and employment relations, and 3) workforce development.

The asset field focuses on wealth inequality and poverty through the premise that income alone will not move people out of poverty.¹ The field emphasizes the importance of access to financial capital and savings opportunities (with limited focus on ownership of capital) and on improving skills and the knowledge to enable career advancement and empowerment. The goal is to create structured opportunities that enable working people to advance, despite the obstacles of a fissured and global economy. Shared capital values low- and moderate-income/skill employees and engages them in ways that can reduce wealth gaps and move employees out of poverty and precarity (Birkenmaier et al. 2016; Duran, Brooks, and Medina 2013).

Labor and employment relations research increasingly focuses on examining macro shifts, such as the role of private-equity ownership and management, and their impacts on issues of inequality (Applebaum, Batt, and Clark 2013). At a more micro level, a challenge for organizations and human resources with regard to workforce development is the free rider dilemma: If an employer invests in an employee's

human capital development, can the employer retain and leverage that investment when the employee becomes more valuable in a competitive marketplace? Despite evidence that links good-quality jobs (“quality” includes the opportunity for workforce development) to better firm performance, employers overall look for individuals to self-invest in education while on the job, or they seek to hire those who have already self-invested (Kalleberg 2013). By increasing the value of workforce skill and transferring knowledge from the firm to the individual worker or the public sector, shared capital workplaces have less risk in this arena. They experience less turnover and greater employee commitment.

Current workforce development policy ties economic success to the knowledge economy and elevates the relationship between work and learning. Simultaneously, workforce development practices remain dominated by training—not learning—and often function within a transactional supply-and-demand framework. Opportunities to reduce wealth inequality are limited because traditional training-based solutions no longer fit the changing structure of work and worksite practices. Furthermore, the increased demand for credentials creates barriers to advancement and extends the time frame for lower-income and lower-skilled workers to achieve certifications required for job advancement or retention, even though they often have the requisite skills for advancement. Shared capital as part of a workforce development strategy downplays the focus on individual deficiencies and skill gaps, and it highlights the role of work structures, capital ownership, and continuous learning (Guery 2011; Knight 2014). Focusing on the ties between workforce development and ownership is critical to unbundling the sources of the problems and their solutions.

NEW APPROACHES TO EMPLOYMENT CAPITAL CREATION

The chapters in this section document how shifts in the structure of work (such as shared capital) intersect with workforce development, to understand how investments in both create asset-building opportunities for traditionally undervalued employees. From these perspectives, workforce development comprises the investments in education, skills,

opportunities, engagement, workplace knowledge, and infrastructures that enable employees to build wealth and economic security. The workforce brings value to the workplace through expertise, attention, participation, and engagement, and receives value from the firm that is both psychological and monetary: the firm is a good place to work, and employees gain wealth through profit sharing and share in the gains of the firm. These chapters help us to

- understand how and to what extent shared capital firms may contribute to revaluing the workforce by producing public goods—such as reduced poverty, wealth inequality and economic precarity—through workforce development;
- identify opportunities to expand successful practices in workforce development and asset building through a focus on leveraging and valuing the workforce in shared capital firms; and
- conceptualize new linkages between public-sector investments in workforce development by linking organizational structures, workforce development, and asset building.

Each of the following chapters focuses on different intersections of workforce development investments and shared capital. They illustrate how this marriage of interests and investments renews the value of the workforce at work in producing important public goods.

Melissa Hoover examines the importance of skill building and education for ownership for incumbent workers to enable firm buyouts from retiring owners, thus helping keep work and ownership within communities. Workforce development for and within employee ownership is a critical economic development strategy, as it saves jobs, anchors businesses for worker and community benefit, and addresses workplace inequality at its root.

Susan Crandall and Catherine Gall argue that profit sharing creates a structure that values employees for their existing skills and enables them to have greater advancement and skill development within the context of the workplace, providing benefits to low-wage workers, slowing the use of contingent work, and improving business outcomes. They provide an example of public workforce investment in a profit-sharing firm and takes a close look at Open Book Management, which values employee input.

Daphne Berry, Joy Leopold, and Anna Mahathey examine how shared capitalism benefits women and low-wage workers through training, education, and leadership development. They help specify the workforce development education and skills that improve firm and workforce assets and well-being.

In a final piece, I write about employment capital and examine how workforce investments in employee ownership can accelerate the wealth building and stability of lower-skill and low-income employees.

Collectively, these chapters demonstrate how public investments in workforce development might expand beyond traditional approaches to include ownership education and development, helping to produce greater job stability, security, and mobility. Reconnecting education and skills training to the growth and development of firms and the economic stability of regions combines the interests of the public and private in new ways. A strong workforce is a valued, educated, and engaged workforce. Shared capital firms provide a unique way to recognize and leverage the value of the workforce, to strengthen employees, employers, and the broader economy. As the chapters suggest, shared firms could grow, do more, and go farther through new partnerships with and investments from the nation's workforce development system.

Notes

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1. See <https://inequality.org/facts/wealth-inequality>; <https://iasp.brandeis.edu>.

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8

Converting Employees to Owners

Deeper Investment for Deeper Impact

Melissa Hoover

This chapter builds on the work to date that connects workforce development to employee ownership. It makes the case that targeted investment in training that prepares undervalued low-income and middle-skill workers to become employee-owners can have a profoundly positive impact on employees, firms, industries, and places.

In his compelling case study of the employer-embedded training program at New York City's Cooperative Home Care Associates (CHCA), Steven L. Dawson argues for an expanded view of workforce development. "True workforce development," he says, "is not only a matter of training workers to fit the company, it is also re-designing the company to fit the workers" (Dawson 2017). CHCA is an employee-owned company structured as a worker cooperative: its more than 1,000 homecare worker-members (2,000 employees total) each own a share of the company, are entitled to a portion of its profits, and can participate in its governance. On a daily basis, this worker-centered method informs a holistic approach to worker recruitment, training, hiring, and retention. The company makes a deeper investment in its workers and as a result reaps great success in the placement and retention of its employees.

Recent worker cooperative growth in low-wage sectors, alongside clear data on the impacts of employee ownership for low-income workers (Blasi, Kruse, and Weltmann 2013), compels a deeper examination into how the goals of workforce development might be achieved by investing in workers not only as employees but also as small business owners.

A deeper investment in workers as owners is a strategy that could be used to retain middle-skill jobs and increase the quality of low-wage jobs by enabling the survival of businesses that are increasingly at risk

of closure. As a generation of baby boomer owners faces retirement with little or no succession plan, hundreds of thousands of small and medium-sized enterprises may close their doors or sell to competitors who will consolidate or liquidate their holdings, laying off undervalued workers and disinvesting in community wealth (Alperovitz 2013).

However, viable community-serving businesses do not have to close their doors, and the millions of jobs they provide don't have to be lost. Such businesses could transition to worker ownership instead. Doing so could increase the quality of jobs retained and broaden access to ownership for low-wage and middle-skill workforces.

As baby boomers reach retirement, the United States faces the largest generational wealth transfer in history. Because of that, the business environment is ripe for rethinking how to invest in the small-business workforce. To do so, a systems-level investment that values workers enough to build their capacity for ownership is required. The workforce development field has the opportunity to play a critical role in building the capacity of workplaces, particularly those employing low-income workers, to transition to employee ownership along a systematic and well-supported pathway. In doing so, the field as a whole could begin to see results like those documented at CHCA: stable, long-term employment in higher-quality jobs for a broad cross-section of the American workforce.

AN ESTABLISHED MODEL WITH WELL-DOCUMENTED BENEFITS

There are more than 8,000 employee-owned companies in the United States, from worker cooperatives to employee stock ownership plans (ESOPs) to other forms of worker trusts. They span industries, sectors, and geographies. ESOPs tend to be implemented in companies with more than 100 employees, and they are concentrated in manufacturing and professional services. They are solely a broad-based ownership form, with no requirement for employee participation in management or governance, though many ESOPs do implement participatory management practices (NCEO 2017). Worker cooperatives tend to be smaller companies averaging under 100 employees, and recent growth

has been concentrated in the service sector, care jobs, and transportation. Worker cooperatives are guided by a set of cooperative principles that emphasize member and community benefit and stipulate democratic participation on a one-member, one-vote basis. Some large worker cooperatives, however, use a generally conventional, if more participatory, management structure, concentrating employee member voting rights on elections for the board of directors (Palmer 2017).

Employee-owned companies cultivate clear benefits for workers by creating stability and building skills and leadership among workers who may otherwise have limited access to these opportunities (Blasi, Kruse, and Freeman 2017). These companies make higher-than-average investments in their workforces, emphasizing participation, skills cross-training, governance and board training, and business and financial education for employees. They also experience higher productivity, and workers report greater job satisfaction than in conventional workplaces (Blasi, Kruse, and Weltmann 2013). Recent research by the National Center for Employee Ownership, focusing on employee ownership and economic well-being, finds significant financial benefits for employee-owners: median household net worth is 92 percent higher for employee-owners overall, 79 percent higher for employee-owners of color, and 17 percent higher for low-income employee-owners (Wiefek 2017). Finally, employee ownership has been shown to offer greater protection against layoffs, increased mobility for workers, and, at scale, upward pressure on industry standards (Artz and Kim 2011).

With such successful outcomes, investments in creating more employee-owned jobs will yield a stronger, more equitable workforce.

Getting There: Conversion of Existing Businesses to Employee Ownership

The clearest pathway to growing employee-owned jobs is to make existing businesses employee-owned. The method for creating more employee-owned firms differs with each form of employee ownership. ESOPs are implemented in varying percentages in existing firms and have often been used as a tool for employees to buy out a single owner when the owner retires (NCEO 2017). Increasingly, worker cooperatives are being used for similar owner buyouts (Palmer 2017). The Workers to Owners Collaborative of technical-assistance providers and lenders

was formed by the Democracy at Work Institute in 2016 to develop a nationally coordinated strategy and standardized tools for converting businesses to employee ownership, specifically to worker cooperatives. In the 18 months since its formation, the member organizations of the collaborative have together increased the pipeline of businesses exploring conversion to cooperatives by more than 150 percent (Democracy at Work Institute 2016; Kerr, Kelly, and Bonanno 2016).

The landscape is replete with opportunity to continue expanding worker ownership. In the next 15 years, hundreds of thousands of small businesses, employing millions of people, will be sold or will go out of business as the seven million business owners of the baby boomer generation reach retirement age (PricewaterhouseCoopers 2017). That means that an average of 35,000 middle-market businesses a year, and an even greater number of smaller businesses, will close. Nearly half of all business owners over 55 years old are looking to sell, and yet 83 percent of business owners have no written exit strategy. In general, they will not pass the businesses along to their children, and even if they do, only 30 percent of family business transfers are successful (PricewaterhouseCoopers 2017).

Since the owners are unlikely or unable to pass down the businesses through family, these otherwise viable businesses are likely to close. If they *are* bought, the purchase will likely be made by a competitor, which often means the business will be consolidated and downsized, with layoffs, cuts, and unfavorable changes for workers. Writ large, these transitions will likely result in large-scale job losses, decreases in local ownership, and growth in economic inequality (Mitchell 2016). The numbers are even starker for minority-owned businesses, which, while employing people of color in higher numbers, also lack access to capital, have smaller professional networks of potential buyers, and tend to be smaller than the industry average by both revenue and workforce (Fairlie and Robb 2008).

With small businesses employing half of the private-sector workforce and creating 60 percent of new jobs since 1995 (Mills and McCarthy 2016), these transitions present substantial challenges. The impact of closures goes beyond simply numbers of workers: small businesses are a crucial source of dwindling middle-skill jobs, which do not require formal education but can pay a family-supporting wage, such as construction, production, and clerical work (Parrish 2015). When hardware

stores, funeral parlors, small food manufacturers, and other community-serving businesses close, they, and the jobs they provide, will be gone forever. In rural areas, their closure may contribute to the shrinking of small towns and the migration of young people to cities (Glasgow and Brown 2012). Among minority business owners, key community economic anchors will be lost, potentially accelerating neighborhood change and displacement (Boston Urban Symposium 2014).

The workforce development field must determine at this critical generational inflection point whether wealth will be siphoned out of vulnerable communities through job loss and the creation of more low-wage, low-quality jobs, or whether the field will instead anchor small businesses and the jobs and wealth they create in the community by sharing ownership with employees.

OWNERSHIP IS A WORKFORCE DEVELOPMENT ISSUE

In the past, some segments of the workforce development field operated within a supply-and-demand framework. These models of the past, however, risk failing to address—or even deepening—inequality if they disregard the dynamics of today’s workforce (Rosenfeld 1992). In an environment where middle-skill jobs are vanishing and low-wage work is growing, the workforce development field faces the challenge of retaining middle-skill jobs and value and investing enough in low-wage workers and jobs to make entry-level positions into good-quality jobs and to create career pathways that are open and accessible (Conway and Dawson 2016). Employee ownership can provide a means to accomplish both aims.

Data outcomes from organizations like CHCA, mentioned above, demonstrate the capacity of employee ownership to build good-quality jobs, provide opportunities for skill building, and retain employees. In the wake of deepening inequality, a widening racial wealth gap, and a growing concentration of low-wage and contingent jobs (Asante-Muhammad et al. 2016), investing in broad-based ownership of business could be a meaningful component of a larger strategy to build assets and strengthen communities. When workers become business owners, they tap into the second most significant source of asset-building (Klein 2017).

Employee ownership not only provides a way to establish greater equality, it is also a good business investment. The Ohio Employee Ownership Center, which supports employee ownership transitions with technical assistance and financing, estimates that its organization alone has created 15,000 employee-owners at an average cost per job retained of \$772 (compared to estimates in Javits [2011] that range from \$1,000 to \$230,000 per job created through typical workforce development strategies). In France, where the government has undertaken a decade-long initiative to encourage cooperative conversions, early data show that five years after ownership transitions, 66 percent of employee-owned companies were still in business, compared to 50 percent of conventional companies (European Confederation of Cooperatives 2013).

To date, and with a few notable exceptions such as CHCA (cited above), employee ownership has been implemented largely outside the workforce development system. The ESOP community has never explicitly or strategically focused on low-wage work or low-income workers as beneficiaries of employee ownership. Worker cooperative conversions, which are increasingly focused on enterprises with low-wage workforces and workers of color, have relied on philanthropic funding to provide the education and technical assistance necessary to prepare employees to become owners. Many efforts have been ad hoc and underresourced. As a result, the opportunity to implement broad-based ownership where it is most needed has not been fully realized.

Developing a strategy that aligns broadened employee ownership with deepened workforce development requires simple investments in employee skill-building and employer education programs that focus on building the capacity of employees to assume ownership of their workplaces. Such investments include the following three approaches:

- 1) Induce current third-party workforce training programs to incorporate skills training relevant to employee ownership, including
 - business and financial education;
 - corporate governance;
 - participatory management, organizational development, and change management; and
 - on-the-job communication, conflict resolution, and peer coaching.

- 2) Expand employer-embedded training programs to include workplaces that are considering conversions, are in the process of implementing conversions, or have already completed conversion to employee ownership. More advanced workplace-specific training would prepare future employee-owners with the skills and knowledge they will need to be effective. These include
 - business financial management and strategy;
 - industry conditions and analysis; and
 - process improvement and workflow planning.
- 3) Incorporate peer-learning supports and peer-coaching approaches that have demonstrated success at building robust organizational culture among diverse workforces with varying educational and skill levels. Where possible, build on and replicate the Paraprofessional Healthcare Institute’s “coaching approach” to supervision in a worker-centered workplace. This approach seeks to embed coaching skills throughout an organization from senior leaders on down through supervisors to staff (PHI 2017).

Deeper systemic investments to grow an ecosystem of support include the following:

- 1) Sector-based approaches that aggregate and leverage industry-specific expertise in management, governance, training, and support relationships, such as
 - an early-warning system to identify enterprises that may be in danger of closure or sale because of owner retirement, but that are good candidates for employee ownership;
 - union contracts that include employees’ right of first refusal for purchasing the business;
 - industry and labor partnerships to implement a standard, employer-based training curriculum that goes beyond job skills to include participatory planning, workflow, management, production and service standards, and peer coaching; and
 - academic partnerships to study and assess industries that

may be particularly well suited to a partnership of employee-ownership and workforce-development practitioners.

- 2) Place-based approaches that partner with educational institutions and policymakers to create a critical mass of high-capacity employee-owners to effectively implement employee ownership, such as:
 - state and local employee-ownership centers that play a key role in educating workforces and connecting employee-owned businesses to technical assistance providers,
 - partnerships with local community colleges and other educational institutions to develop needed curricula, and
 - a workforce development fund dedicated to employee ownership conversions that can be bundled with the capital financing for the sale of enterprises to employees.

Nearly all of these approaches both require and reinforce strong relationships with employers and thus require a reconception of the employment relationship. It is important to note that there is deep experience in the employee ownership field to support this reconception. Even in the absence of systemic workforce development supports, employee ownership practitioners have identified the training needs of employee-owners and developed methods for meeting those needs. The employee-ownership field has reinvented and reconceived the traditional employment model since its inception and can lead the way to creating a similar reconception in the workforce development field. Doing so would bring a rapidly evolving workforce development world into contact with proven models for increasing job quality and employee engagement. It would also allow employee ownership practitioners to focus their energies and resources specifically on low-income workers, who are those most in need of employee ownership benefits.

Case Study

The employee ownership transition of A Yard and A Half Landscaping illustrates both the potential of cooperative conversions and the need for systematic supports for low-wage workers to assume ownership responsibilities, as shown in the following example, which expands on a case study from the report *The Lending Opportunity of a Generation*

(Cooperative Fund of New England, Democracy at Work Institute, and Project Equity 2016):

Eulalio is one of the founding worker-owners of A Yard and A Half Landscaping Cooperative, where he has worked as Maintenance Sales Manager since 2008. Like many of his co-workers, he came to the Boston area from El Salvador in 1999 in the aftermath of years of war. He lives in East Boston with his wife and son. As a graduate of UMass Green School who is a Certified Master Gardener and is NOFA-accredited in organic land care, Eulalio has a relatively high level of skills and education compared to most of his co-workers.

In any other landscaping company, Eulalio and his 20 co-workers, most of whom are Salvadoran immigrants, would be out of a job right now. In 2013, after 25 years in business, the sole proprietor/owner of A Yard and A Half Landscaping was ready to retire. She spent the previous ten years building a strong management team, and she felt a responsibility to her workers, so she offered to sell the business to her employees.

The employees were skilled landscapers and construction workers, but they were not yet ready to own a business together. Employees were concerned that if they could not buy the business, the owner would have to sell to an outside entity. They had witnessed the sale of a close competitor's business to a national company and watched wages and culture suffer as jobs were lost. But as a predominantly low- to moderate-income and Spanish-speaking workforce, they lacked access to capital and culturally appropriate technical assistance.

After much searching and anxiety, several employees with professional contacts engaged nonprofit business advisors and attorneys specializing in cooperatives to lay out the transition process, help access capital, and connect them to a growing community of peers in converted businesses. Workers from A Yard and a Half relentlessly pursued training opportunities on their own, attending every worker cooperative conference they could, viewing webinars, and translating existing training materials into Spanish. They sought and persuaded a lender to finance the transition. The lender was initially hesitant about the deal, uncertain the workers and management had the skills and knowledge to run the business well. They persuaded the lender in part on the strength of their own initiative in seeking supportive training.

A Yard and a Half Cooperative was formed in 2013 to transfer ownership to the workers, a nearly half-million-dollar deal financed by a regional cooperative lender. All the employees, from field workers to mechanics to office workers, not only kept their jobs, they became the company's owners, serving on the board, making decisions about growth, and becoming more engaged in the management of the business. Since then, the business has thrived. As of 2016, it is 50 percent larger by revenue and workforce, and individual wage growth for field staff has increased by 15 percent. The company has borrowed working capital for expansion and accessed additional training where possible through grant funding. Owners continue the long process of building the strong organizational culture necessary for a growing employee-owned business to thrive.

A Yard and a Half Cooperative recognizes the difficulty of not just building business ownership skills and capacity in employees from marginalized communities with limited education, but also of reorienting employees' mindsets toward future planning and deeper investment in work to foster the trust and alignment to make decisions together. With the cooperative's support for sharing his knowledge and experience, and driven to make sure no other immigrant-owned conversions have to struggle as they did, Eulalio has joined a peer group of other immigrant worker-owners, providing peer technical assistance to other cooperatives and converting workplaces.

A Yard and a Half's success story is inspiring but also frustrating. Here we have a willing seller with deep commitment to an ownership transition, a skilled workforce with deep commitment to the business, and a healthy enterprise with strong growth potential. Yet it took two years of research and patching together pro-bono and low-cost technical assistance to complete the transition. Workers are still accessing training wherever they can and, more importantly, building the trust and capacity that undergirds the strong organizational culture necessary for shared ownership. With a slightly less committed owner or workforce, or one operating under greater time pressure; the opportunity would have been lost, and with it the jobs, culture, and business would have been lost, too.

Conversely, had the owner and employees been able to access workforce development training supports for their conversion, they

could have sent a management team to a standardized training course at the local community college to prepare them for the transition. Alternatively, they could have accessed workforce development funds as part of their transition to design and implement an employee-owner training program in Spanish. With a more robust partnership between workforce development and employee ownership, workers could have connected to a cooperative or employee-ownership peer network that supports organizational development. The business conversion to cooperative ownership could have been made easier and quicker. With basic technical assistance, the business may have been able to grow faster and bring on even more worker-owners. To sustain long-term growth, cooperatives need to invest in organizational development processes that knit together a workforce into a shared ownership body and build a worker-centered culture in a systematic way.

CONCLUSION

In order to scale the benefits realized at worker cooperatives like A Yard and a Half Landscaping and CHCA, workforce development must be part of the employee ownership picture. Workers, small businesses, and communities can all benefit from coordinated, systematized efforts to retain higher-quality, locally rooted jobs in multiple bottom-line business entities. When local businesses keep their doors open through conversion, they can do more than simply save jobs: they can anchor business for worker and community benefit, and they can address workplace inequality at its root—democratic ownership of productive assets.

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9

The Potential of Profit Sharing to Support Undervalued Workers

Susan R. Crandall
Catherine Gall

Profit sharing is an employer pay practice that awards employees part of the firm's profits. Employers and workers alike benefit from sharing profits generated from their joint efforts. Employees in companies with profit sharing typically earn higher wages than those in comparable companies without such arrangements. Profit sharing also facilitates skill development and opportunities for workers to learn about the business, to participate in problem solving, and to contribute to decision making. At the same time, profit sharing also benefits the workplace. It fosters employee engagement and loyalty, reduces turnover, and boosts productivity and profitability (Blasi, Kruse, and Freeman 2017). In 2011, slightly over 40 percent of *Fortune* magazine's annual list of the 100 best companies to work for had some kind of profit-sharing program (Kruse, Blasi, and Freeman 2011). Despite the demonstrated benefits, profit sharing is currently available to only about one-third of U.S. private-sector workers (Kruse, Blasi, and Freeman 2015), and, of these, a greater percentage of nonexempt are eligible for profit sharing compared to frontline or hourly employees.

Research studies indicate that certain employer practices and workplace structures are essential in order to provide lower-paid workers with opportunities that ultimately move them out of poverty and into economic security and stability, benefiting the firm in the process (Combs et al. 2006; Lower-Basch 2007). A few workforce development initiatives have explored the impact of new practices such as job shadowing, career coaching, and supervisory training (Crandall 2014; Wilson 2017). However, there has been limited attention specifically given to altering pay systems to boost wages and to provide skill devel-

opment. Profit sharing is a fundamentally different approach from existing workforce efforts because it directly affects wages. It immediately increases take-home pay while simultaneously improving worker skills and enhancing job quality. Furthermore, profit sharing can be structured to benefit all employees, not just the few who successfully complete education and training programs or those who have had prior educational advantages.

The large-scale implementation of profit sharing calls for a significant paradigm shift. Rather than creating substantial increases in pay for a select few who are able to advance into middle-skill jobs in traditional workforce programs, profit sharing could be implemented to increase pay for existing low-paid frontline jobs, all while providing additional skills to enable employees in low-wage sectors to access future opportunities for advancement. Research has shown that the majority of low-paid workers are likely to remain trapped in poverty because of a lack of opportunities in their low-wage service sector (Andersson, Holzer, and Lane 2005). A shift in focus in workforce development, from training and initial placement to incumbent workforce strategies that are focused on profit sharing, enables greater income gains to be targeted toward the majority of low-wage workers. Such a shift expands efforts beyond the basics of job quality (i.e., better wages and benefits) to encourage work that is not only empowering and skill enhancing, but also ties the value of employees' contributions to a value share of the firms' profits. Profit sharing has been shown to increase wages, skills, and the bottom line, benefiting both employers and employees (Blasi, Kruse, and Freeman 2017). This approach to workforce development enables more wealth building to a broader population, especially for low-paid workers, and is a critical way to demonstrate the value of traditionally undervalued employees.

THE PROBLEM: THE WORKFORCE LANDSCAPE AND CURRENT WORKFORCE DEVELOPMENT STRATEGIES

Half of the U.S. workforce is employed in jobs that pay less than \$15 an hour (Oxfam America 2016), with the vast majority of these employees (71 percent) working in service-sector positions that provide

few opportunities for workplace advancement (DeSilver 2016). The result of such constraints is limited economic mobility for low-income workers (Chetty et al. 2016). For that reason, it is imperative to invest in workforce development initiatives that will create real opportunities for advancement for low-wage workers.

Over the past decade, sector initiatives and career pathway strategies have dominated workforce policy in the United States. These strategies are premised on the theory that in order to close the “skills gap” and provide more opportunities for low-wage workers, employees should be trained for high-demand and higher-wage middle-skill jobs in sectors with opportunities for advancement (Fein 2012). When successful, these initiatives benefit both workers and employers, who experience increased productivity, greater innovation, and lower employee turnover. The Workforce Innovation and Opportunity Act is the major federal policy that influences state policy and other actions. The state policies, coupled with private philanthropic investment, have rallied behind these workforce strategies as a primary mechanism to increase economic advancement.

While this approach demonstrates improved employment and earnings outcomes for some, it leaves behind those in the lowest-paid positions, who often face multiple barriers to succeeding or participating in career advancement opportunities. It is challenging for low-wage employees to learn about internal or external advancement opportunities. Even when an employee is aware of these opportunities, unpredictable schedules, the cost of education (tuition, supplies, time, and potential lost income), caregiving, and current skill sets render it nearly impossible to retrain for a new, higher-income position or industry (Seefeldt, Engstrom, and Gardiner 2016). Furthermore, even when workers access training and obtain credentials, these workers are not guaranteed mobility through an identified career pathway to higher-paying employment. For instance, a recent national evaluation across four sector-specific workforce programs revealed that the programs were successful in helping workers obtain vocational credentials, but only one site showed statistically significant gains in employment (Copson et al. 2016).

One of the primary reasons workforce development programs struggle to garner success in securing higher-wage employment for workers is that the training-based solutions used do not align with the structure of

the economy or the lived experience and workplaces of low-wage workers. Currently, workforce investment typically focuses on increasing the supply of workers for middle-skill jobs, such as occupations in health care that require an associate or bachelor's degree, which involve years of postsecondary education but ultimately pay family-sustaining wages.

While these strategies have achieved some success, they ignore several difficult truths. First, in spite of the demand for middle-skill jobs, low-wage work is not going away. On the contrary, the low-wage job market is growing; 48 percent of projected job openings from 2013 to 2023 pay less than \$15 per hour, leaving even full-time workers at this rate living in conditions of poverty (Soni 2013). Second, current workforce development strategies reach only a fraction of workers and often do not help the lowest-paid workers, but rather those with fewer barriers. A related factor is that the increased demand for credentials exacerbates barriers and extends the time frame for lower-skilled workers to achieve the needed certifications and to advance on the job. For example, most frontline health care training puts individuals into poverty-wage jobs as certified nursing assistants or medical assistants, whose opportunities for growth are limited (Morgan and Farrar 2015). According to the American Association of Colleges of Nursing, registered nurse positions that once required an associate degree now require a bachelor's degree, which puts this middle-class job out of reach of many low-earning, low-skill adults. Solutions are needed that help even the lowest-paid workers establish economic and workplace stability.

Workplace structures and practices play an important role in employee advancement and economic security. Profit sharing is an underexplored and underutilized means to improve job quality, wage levels, and skill development, and it does not put the full responsibility for these gains on the employee. Rather than requiring workers to leap into middle-skill, higher-paying jobs, or onto career pathways with the hope of achieving these middle-skill jobs, profit sharing creates real opportunities that form a partnership for success. In these firms, an actual wage ladder is built by directly increasing pay and skills for current low-wage jobs, meeting employees where they currently are with their existing skill set, and establishing internal career advancement opportunities that focus on development of the whole individual. This is a new area, ripe for incumbent worker investment consideration from the workforce development system.

A SOLUTION: PROFIT-SHARING WORKFORCE DEVELOPMENT STRATEGIES

Profit sharing links employee pay to the performance of the workplace, whether at the level of the individual, team, or company (Kruse, Freeman, and Blasi 2010). When profit sharing is a component of employer pay plans, employees earn a portion of profits, depending on the firm's performance. Such arrangements can be formal, fully discretionary, or a combination, and at times they can be part of a deferred retirement program. Approximately 40 percent of U.S. employees participate in profit-sharing programs (Blasi et al. 2010).

For employees, profit sharing offers the opportunity to earn higher incomes and accumulate new skills, which leads to higher productivity and employee satisfaction (Bryson and Freeman 2016). Typically, the profit share value depends on the company's size and volume of sales. For example, in February 2017, General Motors announced that the profit share to each of its hourly workers would be \$12,000 (Snavelly 2017). In 2013, a furniture construction firm whose lowest-paid employees earned \$13 an hour gained the equivalent of a retroactive \$4-per-hour raise through end-of-year profit sharing (Downs 2013). While critics of profit-sharing programs argue that the model puts workers' wages at risk during business downturns, studies reveal that gains are an additional bonus to fair wages, not a replacement for them (Blasi et al. 2013).

For employers, the benefits of profit sharing are similarly clear: workers at companies that offer profit sharing or employee ownership perform better, are less likely to seek new jobs, and are more likely to monitor fellow employees to improve their coworkers' performance and work quality. Employers benefit from employees' greater willingness to work hard and offer ideas for business improvement when those employees share the profits of their work (Blasi, Freeman, and Kruse 2013; Bryson and Freeman 2016).

While profit sharing has proven beneficial for both employees and employers generally, not all employees have access to profit-sharing programs. In fact, employees in service industries, where the majority of low-wage jobs are concentrated, are the least likely to have access to shared ownership or profit-sharing programs. Only 5 percent of service

workers, compared to 26 percent of sales workers and 23 percent of management workers, have access to such programs (Blasi et al. 2010). These lowest-wage jobs are also less likely to provide opportunities for skill development, promotion, and advancement. Thus, finding ways to increase profit sharing in the service industry through targeted workforce investments will accelerate the increasing wages and skills for the majority of low-paid employees. Box 9.1 gives three examples of companies that found innovative ways to share profits with employees.

Open Book Management: A Form of OBM That Values Employee Input

Open book management (OBM) is a type of profit sharing that has shown promise in terms of increasing wages for employees in occupations that don't require high levels of formal education. The premise of OBM is that financial information (including revenue, profit, cost of goods sold, and expenses) provided to employees should not only facilitate the development of skills that will enable them to do their own jobs more effectively, but it should also help them understand how the company is performing overall (Case 1995; Stevenson 2014). At the core of OBM is the philosophy that all employees, including frontline workers, will perform better if they know how the company is doing financially, are empowered to make changes, and have a stake in the company's success.

In order to motivate employees to achieve high performance, managers share with them the key measures of business, including how to understand and interpret financials, focusing on a "critical number" that represents a core indicator of profitability. Companies develop a "scoreboard" that displays all the numbers needed to calculate the critical number. The scoreboard is a prominent visual and is open to all employees to view. Regular meetings take place to discuss how employees can influence the direction of the score. With such direct involvement, employees are able to have an impact on performance as it relates to the critical number, thus creating a direct stake in the company's success—and in the risk of failure.

While profit sharing in general and OBM in particular are most prevalent in manufacturing firms, some food service establishments have implemented it, most notably Zingerman's Deli (Feloni 2014).

Box 9.1 Three Examples of Companies with Profit Sharing

Market Basket. In addition to annual bonuses, the Massachusetts-based company's profit-sharing plan sets aside as much as 15 percent of an employee's annual salary in a retirement account. That set-aside is available to anyone who works more than 1,000 hours a year, meaning even employees working an average of 20 hours a week can build a nest egg.

Zingerman's. Open-book management gives the more-than-500 employees of this Ann Arbor, Michigan, community of 11 interrelated businesses a chance to see, on a weekly basis, how the company is doing. They work together to set goals for the future, and they share in the profits when they surpass those goals.

Springfield ReManufacturing. The company got its start in 1983 when former employees of International Harvester bought a portion of their old company in Springfield, Missouri, in order to save their jobs. Open-book management and profit sharing turned the new business into a massive success and a shining example of the benefits of its management policies.

Leaders in profit-sharing companies believe that the more information a frontline employee has, the better decisions that employee will make, which allows management to harness the intellectual and creative abilities of employees, thus valuing the employees' knowledge and insights.

PRELIMINARY EVIDENCE FOR SUCCESS: A CASE STUDY OF THE PARIS CREPERIE

A case study of an OBM implementation at the Paris Creperie, a Boston-area restaurant, conducted by the Center for Social Policy at the University of Massachusetts Boston, finds that since implementation of OBM the Paris Creperie has increased employee compensation, enhanced skills, and reduced staff turnover (Crandall 2017). The train-

ing for OBM was financed in part by a grant from the Massachusetts Workforce Training Fund Program.

At the time of the study, the Paris Creperie employed 11 full-time and 11 part-time employees. It is a nonunion business. The Paris Creperie employees have a higher level of formal education than the average for the industry. More than half of Paris Creperie employees are college students, and of the other half, nine are college graduates. Most employees are in their early to mid-20s, and about two-thirds are women. Approximately 20 percent of employees are people of color. Employees receive hourly wages and a share of tips that are pooled and divided evenly among the nonmanagement staff at the end of each shift.

The impact of employees' participation through the OBM model was substantial on profitability. Primarily by reducing the cost of goods sold, the café tripled net operating profits, from 4 percent to 12 percent, over the course of its first year. At the end of Year One, the Paris Creperie had a total of \$67,000 in a pool to distribute to employees. Bonuses were distributed based on hours worked, with full-time, year-round employees receiving up to \$6,000. The bonuses were, for most employees, a very significant amount of money. When interviewed, one employee said that it was more money than she had ever had at any one time. She used her bonus to build savings, pay off student loans, pay rent, and take a vacation.

Through use of the Open Book Solutions and resulting bonuses, the Paris Creperie achieved the goal of reducing employee turnover from 82 percent to 60 percent (OECD 2017). Employees reported that they expanded their knowledge and skills in myriad ways that helped them at their current workplace and enabled them to access opportunities within and outside the business (see Box 9.2).

IMPLEMENTATION CHALLENGES: PARADIGM SHIFTS REQUIRED

In order to strengthen business productivity and profits while at the same time providing opportunities to workers, solutions that enable immediate work-based skill development and wage gains must augment the training-centric solutions of career pathways and sector ini-

Box 9.2 Skills and Knowledge Built through a Profit-Sharing Workplace Model

Employees report the following gains:

- Learned how to develop and track a personal budget; improved their personal financial literacy.
- Increased business financial skills, including the ability to understand and interpret financial data and statements such as profit and loss, balance and income, and cash flow.
- Learned how to measure progress, including selecting indicators, developing scorecards, and doing basic forecasting.
- Improved problem-solving skills such as the ability to analyze financial data and identify challenges and opportunities.
- Developed entrepreneurship skills, including developing and implementing new growth opportunities and learning to decrease inefficiencies and lower costs.
- Built communication skills by learning to manage social media, marketing campaigns, and vendor negotiation, and through participation in the committee structure.
- Broadened leadership skills, including delegation and management of team members and mentoring and building new leadership.

SOURCE: OECD (2017).

tatives. In order for profit sharing to take root and achieve sufficient scale as a workforce development solution, there needs to be greater openness and a cultural shift in the field. Such a shift would broaden the prevailing narrative from attributing the root cause of workforce challenges entirely to a “skills gap” and therefore viewing education and training as comprising the whole solution. This paradigm shift needs to occur in many different realms: within the political context, in the popular press, in the public workforce development field, and in the beliefs of employers.

Each year, government agencies invest nearly half a billion dollars in training for roughly one million low-wage adults (National Skills Coalition 2018), efforts that reach only a fraction of the poor. While participants do gain skills, their wages and job prospects often remain stagnant, reflecting current economic conditions. In contrast, profit-sharing programs are shown to increase profits for employers while creating opportunities for employee skill growth.

Furthermore, most of the public training and education dollars allocated do not affect workers in the service sector. Public training funds, such as those allocated by the Workforce Training Fund Program in Massachusetts, typically are distributed to large private-sector employers such as manufacturing. Small businesses pay into the Workforce Training Fund but do not benefit to the same extent as larger firms. Businesses with fewer than 50 employees make up 95 percent of all businesses in Massachusetts and employ 38 percent of the state's workforce (English for New Bostonians 2013). However, those businesses receive, on average, only 34 percent of general program grant awards. Meanwhile, philanthropic investments in sector workforce development programs also are primarily allocated to non-service-sector occupations.

Employers are less likely to invest in their frontline workforce: overall, low-wage workers are less likely to receive formal training by employers than are college-educated employees and managers. Carnevale, Strohl, and Gulish (2015) reported that 17 percent of workers with a high school degree received formal employer-based training. A recent survey by NSC supports these findings: only 15 percent of service-sector workers reported any financial support for formal education (Bergson-Shilcock 2017). Thus, the employees who need training and financial support the most are most often denied it, further holding them back and contributing to race, class, and gender inequity.

Opportunities exist within the current policy environment to create this needed shift toward helping low-wage workers. For instance, the language in the recently reauthorized Workforce Innovation and Opportunity Act (WIOA) could permit on-the-job profit-sharing training programs. Compared to previous policy, the reauthorized WIOA provides more incentives for improving the quality of jobs by placing more emphasis on higher wages and advancement opportunities. For example, it allows for the establishment of job-quality criteria in

order for employers to receive work-based training placements (CLASP 2015). Additionally, states and local workforce boards are permitted to establish job-quality standards as part of the performance expectations for workforce-training service providers. As such, workforce boards can establish higher wage standards for job placements, indirectly promoting employers who share profits with employees.

The grant from the Massachusetts Workforce Training Fund program was essential to finance the initiative at the Paris Creperie. However, improvements could be made to increase the accessibility and impact of the Workforce Training Fund, especially for small businesses in the food services industry. As the policy is currently structured, it is challenging for small local businesses to secure the match for the training program, given their thin profit margins. The grant requires a one-to-one match, with the majority of the match being in-kind in the form of worker wages paid during training time. Because most workers are low-paid, it is difficult to make the match equivalent to the expense of the training programs. Exacerbating this challenge is the fact that not all employees can attend training at one time, as the restaurant must operate while training is being conducted. Thus, the match requirement for the Workforce Training Fund in Massachusetts—and similar programs in other states—should be waived or reduced for small businesses that are targeting service employees.

INCENTIVES TO SHIFT THE PARADIGM

A variety of incentives exist to promote profit sharing and workforce development. Private philanthropy could leverage program-related investment (PRI) to support training intermediaries who offer profit-sharing programs. PRIs allow foundations to make investments in order to recoup their capital in addition to making a reasonable rate of return. While PRIs have traditionally been used for affordable housing development, they have also been used to stimulate private-sector innovation in fields such as nutrition and biotechnology (Motter 2013). Philanthropy could make use of PRIs to provide seed money or otherwise support the capacity for training intermediaries to offer profit sharing for employers of lower-paid employees. This would enable

such employers to expect a return on their investment. In order for this strategy to be successful, there could be a long period allowable for loan payback.

Intermediary training organizations who offer shared ownership and profit sharing could be eligible for a special tax status as part of entities known as benefit corporations (B Corps), which are for-profit companies certified to meet rigorous standards of social and environmental performance, accountability, and transparency. The certification and documentation process could be streamlined and accompanied by technical assistance to encourage uptake by training providers.

Policymakers could advance policies to incentivize profit sharing and couple it with workforce development. For example, during her election campaign, then-presidential nominee Hillary Clinton proposed a tax credit to incentivize profit sharing. Under this plan, companies that share profits with their employees would receive a two-year tax credit equal to 15 percent of the profits they share, with a higher credit for small businesses. After two years, companies that have established profit-sharing plans and enjoyed the benefits of them would no longer need the credit to sustain the plans (Merica 2015).

The tax credit was designed to phase out for higher-income workers, and it would be available only to firms that share profits widely among employees. Moreover, the benefit for any single company in a given year would be capped to prevent an excessive credit for very large corporations. According to Clinton, this investment would create a significant boost to the economy by increasing the wages of millions of working Americans. Workforce development could be an added investment in this arena, maximizing the value of the tax credits by helping to raise incomes while simultaneously raising skills and knowledge.

CONCLUSION: REFLECTIONS ON INVESTMENTS IN UNDERVALUED WORKERS

New approaches are sorely needed to address stagnating wages and a poverty trap that perpetuates staggering wealth inequality. While training and education programs appear to offer a pathway out of poverty, the majority of workforce programs require longer-term training

and credentialing in order for their participants to earn a sustainable wage. Low-paid workers face a number of barriers to accessing formal training programs, including cost, transportation, and the need for child care.

Compared to traditional workforce approaches such as sector initiatives and community college programs, early evidence suggests that profit sharing can be implemented at a lower cost, in a shorter time frame, and can have a positive impact on significantly greater numbers of low-wage workers. It provides alternatives to credentialing and instead favors earn-and-learn models in which learning occurs on the job, mitigating transportation and child-care challenges. Profit sharing values employees for their existing skills and enables employees to attain a relatively quick gain in income and assets. Additionally, workers do not incur debt, a growing problem that has a disparate impact on women and people of color. Finally, profit sharing provides a much-needed boost to minimum wage adjustments, which, even with increases, have not kept pace with the cost of living.

To be clear, occupational advancement and workplace stability are rarely issues of capability or motivation. Rather, they have to do with the capacity to harness and manage, outside of one's work time, the resource complexities that create barriers to advancement. They are also about altering the traditional workplace structure, which may not value employee input. Thus, advancement and skill development within the context of the workplace, for those who still have such attachments, form a critical area of focus for low-skill and low-income worker advancement. The benefits to employers through profit sharing occur because it is a method of workforce development that facilitates a return to workplace-based employment, lowering turnover and increasing productivity.

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10

Employee Ownership and Skill Development for Modest-Income Workers and Women

Daphne Berry
Joy Leopold
Anna Mahathey

Employee ownership, or ownership of stock in a company by its employees, carries a long history in the United States and abroad as an intervention for wealth distribution, reducing inequality, and increasing economic security for lower-wage workers (Kruse and Blasi 1995). In some models of employee ownership, employees are granted greater decision-making power within their firm, which results in increased job satisfaction, organizational commitment, and motivation in the workforce (Berry 2014; Freeman 2007; Kuvaas 2003). Because employee-owned companies place a high value on education and skill development, they have become a model for developing sustainable, high-quality jobs with incomes and benefits that enable people to move out of poverty and gain access to relevant career pathways. Workforce development strategies, which at their core seek the same goals, could benefit from the integration of employee-owned business models. These models serve to disrupt multigenerational poverty in impoverished communities, where traditional workforce development models have left people underemployed, and where a lack of additional skills bars people from career advancement. Because women and people of color are disproportionately represented in low-wage positions (Bhaskaran 2016), the gender and racial wealth divides continue to grow wider (Asante-Muhammad et al. 2016; Mahathey 2016a), warranting a nuanced exploration of the benefits of employee ownership and workforce development integration. This chapter considers two forms of employee ownership—worker cooperatives and Employee

Stock Ownership Plans (ESOPs)—and explores how their cooperation with workforce development initiatives might benefit workers who are traditionally devalued in formal organizations. Its specific focus is on benefits for modest-income workers and women.

Women's Economic Insecurity

In 2017, women still earned, on average, only 79 cents for every dollar that a white man earned. When wage data is broken down by the race of the women, the situation is even more disheartening, as African American and Latina women, respectively, earn only 63 and 54 cents for every dollar earned by white men (USDOL 2017). Although women now make up 47 percent of the paid labor force, their participation is unevenly distributed on the wage spectrum, as most of their jobs are in the lowest-wage positions. These include child-care workers and home health aides, jobs in which they often don't have access to crucial benefits such as paid leave, flexible work schedules, retirement accounts, opportunities for education and training, or opportunities for career advancement (USDOL). Partially because of the gendered division of labor, more than one in seven women nationwide (14.7 percent) lives in poverty, compared to 10.9 percent of men. Women of color face greater hardship; one-quarter of African American and Latina women live in poverty (Eichner and Robbins 2015).

Because employment and wages play a significant role in people's ability to build wealth, women face not only the stark gender wage gap but a gaping gender wealth gap, too. Currently, women own, on average, only 32 cents for every \$1 that a white man owns (Chang 2015). Chang cites figures that show that women of color own even less: the median wealth for single white men is \$28,900, whereas for single African American women it is \$200 and for single Latina women it is \$100. This means that single African American and Latina women own, on average, less than one cent for every \$1 that a single white man owns.¹ Because of wealth discrepancies across their lifetime, women enter retirement with 26 percent less wealth than men and are 80 percent more likely than men to live in poverty in their retirement years (Brown et al. 2016).

Such a dramatic portrait of economic instability warrants economic and political investment. In his discussion of the past failures of many

workforce development programs for impoverished people, Vorgetts (2014) identifies a need for best practices in reaching disadvantaged populations. Specific past problems include a perception of ineffectiveness, lack of clear identification of target groups, lack of data on progress made by various programs, the exclusion of women, and a general need for programs targeting people by demographic as needed (e.g., by age and gender). In employee-owned companies, there is some progress being made across industries for targeting unemployed workers, lower-wage workers, and those historically disenfranchised, including women and people of color, by providing extensive training on financial decision making, teamwork, leadership, and public speaking to allow and enhance broader participation in decision making about the work and the business. The skills developed in employee-owned firms are transferable and thus help build the capabilities of the entire workforce rather than the capabilities of higher-level employees, as is often the case in traditional firms.

Initiatives to develop sustainable jobs, with incomes and benefits that enable people to move out of poverty and build career pathways, can benefit from examining worker-owned models. Because employee-owned companies place a high value on education and skill development, a national workforce development investment strategy that complements current successful strategies and involves participatory employee ownership models could be a natural fit and so bears examination. Both models of employee ownership discussed below offer great possibilities for interventions in the multigenerational poverty in some impoverished communities, where traditional models have left people underemployed, and where lack of additional skills are an issue.

Employee Ownership for Low-Wage, Modest-Income Workers

Employee ownership is one way that firms seek to create greater balance and equity across an organization. Defined as “the ownership of a company, directly or indirectly, in part or in whole by some or all of its employees” (NCEO 2017a), employee-owned firms provide ownership opportunities to a broad base of employees, ranging from “rank-and-file” employees to upper-level management. Employee stock ownership plans (ESOPs) and worker cooperatives are two of the most common forms of employee ownership. Research is replete with examples of

employee ownership making a difference in the lives of people living on the margins of society economically—particularly for worker cooperatives, given their long history and cooperative values. Specific research on modest-income employees at ESOP companies is more recent. Table 10.1 identifies a small sample of companies whose workforces have been positively impacted by employee ownership. The list is limited to companies where there is a significant population of employees working for modest wages who would be notably affected by a broad-based employee share ownership program. As evidenced, employee ownership is found across many industries, but heavily in service and retail. These industries are disproportionately occupied by women, who often have relatively little education and are usually underpaid as compared to men of similar stature in the same professions.

ESOPs: A Closer Look

An ESOP is a form of defined contribution retirement plan through which the employer purchases company securities for worker retirement accounts. The employer makes contributions to the trust in the form of company stock or cash to buy stock, and trust assets are allocated to employee accounts based on each employee's compensation. The employee is entitled to the value of the account upon retirement or departure from the firm, subject to the company's vesting requirements (Kruse and Blasi 1995). Currently, more than 14 million employees, including teachers, gardeners, and brewing manufacturers among many others, participate in ESOPs throughout the United States in companies like Cedarwood School, Gardener's Supply Company, New Belgium Brewing, and Publix Super Markets (NCEO 2017b). ESOP company sizes range from tens of employees to a few tens of thousands, with some, like Publix Super Markets, employing more than 180,000 people. The average balance in individual retirement accounts of ESOP member companies is more than \$13,000, and nearly 94 percent of ESOP firms also offer 401(k) plans (ESOP Association 2017).

ESOP regulations do not mandate employee participation in governance, such as decision-making processes. However, to build a stronger standard for what constitutes a good ESOP, researchers at the American Sustainable Business Council maintain a list of ESOPs that offer decision-making votes as well as a variety of development benefits to

Table 10.1 Snapshot of Worker Cooperative and ESOP Company Industries and Workforces

Organization	Industry	Type of employee ownership	Number of employees, member/employee profession
Prospera	Primarily cleaning	Worker cooperative	90+, cleaning
CHCA	Direct care	Worker cooperative	2,000+, home health aides (primarily female workforce)
Alvarado Street Bakery	Baking	Worker cooperative	80+, baking
Namaste Solar	Solar energy	Worker cooperative	100+, residential, commercial solar panel products, installation
Evergreen Cooperatives	Laundry, solar energy, hydroponic food	Worker cooperative	120+, professional laundry services, urban farming, solar panel technicians/installers
Houchens Industries	Grocery, convenience stores, construction	Worker cooperative	18,000 +, retail sales
New Belgium Brewing	Brewery	ESOP	300+, brewery manufacturing, sales
Carris Reels	Manufacturing	ESOP	500+, primarily manufacturing employees
King Arthur Flour	Baking	ESOP	340+, retail service/baking product employees
Gardener's Supply Company	Gardening	ESOP	150+, retail gardening employees
Cedarwood School	Education (preschool to seventh grade), private school	ESOP	43+, teachers

SOURCE: Authors' compilation.

employees, like education reimbursements for trainings that include basic tenets of employee ownership, best practices, and leadership training. These participatory ESOPs also delineate and provide opportunities for career advancement.

Forthcoming research from the Rutgers School of Management and Labor Relations notes the positive impact participatory ESOPs have on employees' personal and professional well-being, particularly for women and people of color who, as low-wage workers, often cannot access such benefits in traditional firms. The wealth held in ESOP accounts is especially important within the greater context of Americans' retirement insecurity. Currently, half of Americans aged 55 and older do not have any retirement savings, and the median retirement savings for working-age Americans with savings is only \$5,000 (Mahathey 2016b). ESOPs help build wealth for a secure retirement even for lower-wage employees, which is particularly crucial for women, given their financial vulnerability in retirement, based on their longer life spans and caretaking responsibilities. For instance, Marta, a 50-year-old divorced Latina with less than a high school education, works at an ESOP company where she has devoted 18 years of her life and is currently a supervisor. Though she earns only \$15 an hour, her ESOP account currently holds \$160,000. Lisa, a 37-year-old African American woman in the rural south with a high-school education, is a supervisor at a firm that has had an ESOP for 15 years. She has worked there for 22 years. Her salary is \$18.84 an hour, and her ESOP account has a value of \$34,471. At the time she started, she began a 401k account, which now has accumulated \$64,018.

In addition to the financial security ESOP firms provide these women, the companies also grant decision-making power to them and help them advance in their careers. Lisa shared that her company paid for her to attend conferences and trainings to obtain the skills and credentials necessary to advance from an entry-level certified nursing assistant position to the supervisory position she now holds. Allowing employees to participate in decision making at work is not required at ESOP companies, but some do adhere to broad-based employee participation in this way. Levels of participation at such ESOPs vary, with some even having individual-contributor-level representation on the company's board of directors or becoming members of advisory com-

mittees to the board or to executive decision makers (Berry and Fitzgerald 2017; NCEO 2017c).

Worker Cooperatives: A Closer Look

A worker cooperative is a participatory democratic business by charter that is premised on the shared decision-making knowledge of employees and includes a great deal of workforce development strategies, like training and support. Cooperative members are employees and owners of the business who purchased it jointly and run it democratically on a one-member/one-vote basis. There are approximately 300 worker-cooperative businesses in the United States. The largest worker cooperative, Cooperative Home Care Associations (CHCA), has just over 2,000 employees, though most worker cooperatives in the United States have many fewer worker-owners. The impact of a cooperative model is considerable, especially for women and people of color, for whom entrepreneurial endeavors are otherwise less available. The United States Federation of Worker Cooperatives (USFWC) highlights the long history that cooperative organizations have as a means of creating dignified jobs for working people, particularly those lacking access to business ownership and stable work options:

Organizations undertaking economic development to build wealth in poor communities and communities of color have used worker cooperatives as a powerful vehicle for addressing economic inequality. Worker cooperatives have been shown to provide better working conditions and wages for typically low-wage work, and to increase household wealth for low-income workers. . . . As institutions where real democracy is practiced on a day to day basis, they are a model for the empowerment we will need to create the change we envision. (USFWC 2017)

A key point in the running of employee-owned workplaces is the type of input required from each employee. Well-informed, knowledgeable employee input necessitates a well-run education and training process within the company to enable informed and empowered decision making. Education and training become an asset for the company and for the community. Most importantly, shared ownership does not mean that individual-contributor employees are suddenly making decisions that should be made by management. Instead, shared ownership means

that employees are valued for their contributions and as key contributors to the success of the firm. Employee ownership in worker cooperatives signals value and respect for the workforce by recognizing and acknowledging that investment in and development of the workforce produces greater returns to employees and to the firm's bottom line.

Employee Ownership Helps Build Wealth

An NCEO study commissioned by the W. K. Kellogg Foundation (NCEO 2017d) examines the wages and wealth holdings of employee-owners compared to non-employee-owners. Sampling 28- to 34-year-olds, Table 10.2 highlights differences in the median wage between those working for employee-owned companies and those working for non-employee-owned businesses. Employee ownership is associated with higher wages for all groups profiled below. Multivariate regression analyses show significantly higher wages (and longer tenure) after controlling for the predictors shown in Table 10.2 (NCEO 2017d).

Of those sampled, 92 percent had higher median household wealth, and 53 percent had longer median job tenure than those who are not

Table 10.2 Median Wages from Income of Employee-Owners vs. Non-Employee-Owners (000s of \$)

Median wages from income	Employee-owners	Non-employee-owners
Overall	40	30
Single women	31	25
Single women of color	28	24
Workers of color	35	27
Child 0–8 in household	40	30
Families of color with young child	35	26
All parents	39	30
All single parents	33	23
Single mothers	28	21
Non-college graduates	35	25
Under 50k income from wages	30	25
Under 30k income from wages	22	18
Under 25k income from wages	17	14

SOURCE: NCEO 2017d.

employee-owners. Additionally, when workers' wages were examined over time, research showed that wages started out the same; therefore, these differences cannot be attributed entirely to employee-owned companies hiring employees who can demand higher wages (NCEO 2017d). Workers in employee-owned companies, because of their shared ownership and shared decision-making responsibilities, often receive increased education and training associated with such ownership responsibilities.

WORKFORCE DEVELOPMENT: BUILDING FINANCIAL, HUMAN, AND SOCIAL CAPITAL

Some employee-owned firms already integrate workforce development initiatives with varying methods of addressing economic and social problems in underinvested and overlooked communities. They can do this through investments in education, skill development, participatory decision making, and innovation (see Box 10.1).

Cooperative Home Care Associates

Established in 1995 as a sectoral strategy to provide jobs to inner-city women, many of whom are unemployed (Inserra, Conway, and Rodat 2002), Cooperative Home Care Associates (CHCA) strives to maintain its “culture of training, supporting, and valuing employees” (PHI 2010). The company provides a minimum of 150 hours of training for entry-level workers, which is double the current federal minimum requirement. Such extensive training is imperative to the development of workers as business owners because, through this training, the company provides women with access to resources they otherwise lack. Through individualized training and professional learning, employees participate in role playing, case studies, effective communication sessions, and a minimum of three months of on-the-job training. In addition to professional training, the women at CHCA receive support for their material needs, like child-care arrangements, accessing union benefits such as education, and maintaining their health care eligibility. They regularly participate in work groups addressing specific needs of

Box 10.1 Workforce Development Investments: Targets of Opportunity

Education

- Seminars and meetings related to
 - Business development
 - Leadership training
 - How financial budgets work
 - Personal financial planning
- Support for formal training outside the company, such as classroom education and training (toward certifications or degrees)

Skill development (company-paid)

- On-the-job training in the applicable industry

Participation in decision making

- Workgroups addressing job-related problems
- Hiring processes for potential coworkers

Innovation

- Empowering decision making/risk taking
- Budgets to try new approaches
- New technology trials

home care workers, such as safety in clients' homes, new technology, and issues to bring to the attention of state lawmakers in their industry through lobbying efforts. This teamwork polishes their speaking skills and boosts their confidence in their ability to effect change for themselves and others in the industry. Through worker cooperatives like CHCA, workers in otherwise low-income, precarious jobs can initiate secure employment, develop confidence in their rights as workers, and access a variety of training and education to advance their careers and their lives.

Prospera

Prospera is a nonprofit organization that partners with low-income Latina women, many of whom are immigrants, to build cooperatives,

from the startup phase through business maturity. To date, Prospera has incubated five successful businesses, including ecofriendly house-cleaning services and a party supply store. The goal is to ensure that women maintain autonomy over their work lives and incomes. In addition to stable employment, Prospera provides ongoing education and training opportunities, including internships, general management, and leadership development training. In these jobs, worker-owners can earn starting wages that are as much as double the starting wages of those in traditional firms, and they have average business assets of \$8,700, 22 times their initial investments (Prospera 2015). Prospera is part of a network of organizations dedicated to supporting cooperatives. One of these is the Co-op Readiness Institute, which provides training and workshops related to cooperative business development, democratic systems, and leadership.

Evergreen

Based in Cleveland, Evergreen maintains a cooperative model that is committed to “building a local economy from the ground up” (Evergreen Cooperatives 2017). The company identifies new businesses to transform into cooperatives, recruits workers, and trains workers to fill needed positions. Evergreen supports businesses such as commercial and residential solar-panel energy solution companies, urban hydroponic greenhouses, and laundry service agencies. Through cooperative transformation, Evergreen builds financial capital, develops social capital, and nurtures human capital to transform a Cleveland neighborhood previously known for its unemployment and associated problems into a vibrant, stable employment hub.

CURRENT SUPPORT FOR EMPLOYEE OWNERSHIP EDUCATION AND TRAINING

In the employee-ownership community industry, associations are a method to widely disseminate best practices for running an employee-owned company, including maintaining a culture of ownership, and making training and education available, desirable, and accessible to

employees. In the case of ESOP companies, the ESOP Association, a nonprofit education and advocacy organization for ESOP companies, provides support for ESOP businesses and funds research on employee ownership. The association sponsors several national conferences every year that provide education and training for employees. Conference topics include what it means to be an owner, best decision-making practices, rights and responsibilities of employee-owners, leadership training, and policy initiatives in support of ESOP businesses. Regional affiliates of the ESOP Association provide similar content annually or biannually at smaller gatherings. The National Center for Employee Ownership (NCEO) is a research and advocacy organization that also provides support and training, primarily for ESOP companies. Its research and training activities on ESOPs, and to a lesser extent on worker cooperatives, include organizational culture, board governance, decision making in ESOPs, and turnover reduction.

On the cooperative side, the United States Federation of Worker Cooperatives (USFWC) and an affiliate, the Democracy at Work Institute (DAWI), host meetings and training sessions throughout the year in which worker cooperative members and supporters meet to share best practices and further their education and skill sets. Topics similar to those of ESOP support organizations are addressed, and heavy attention is devoted to democratic decision making, start-up training for aspiring business owners, necessary policy work, and making known the history and possibilities of these types of workplaces. Finally, the National Cooperative Business Association (NCBA) is also a support and advocacy organization for cooperatives more generally, not just worker cooperatives. Since the type of federal tax-based incentives afforded to ESOPs are not in place for cooperatives, cooperative advocacy organizations are working on public policy initiatives for the support of these organizations (NCBA 2017; USFWC 2017). Part of the purpose of organizations such as the ESOP Association, the USFWC, and the NCBA is to seek to influence legislation in favor of employee-owned businesses in ESOPs and cooperatives as one way to address gross disparities in income and wealth equality.

CONCLUSION

In July 2015, California Governor Jerry Brown signed a law facilitating the creation of worker cooperatives and improving operations for some existing ones. The bill's sponsor noted worker-owned and -managed businesses provide an effective way for rebuilding local economies in communities characterized by high unemployment and low wages (Oatfield 2015).

Other local, state, and federal policymakers, as well as advocates in the nonprofit and social enterprise sectors, need to closely examine employee ownership as a viable means of intervention in the nation's problems related to poverty and social and economic inequality. Some organizations have already started the work. For instance, the New York City Employment and Training Coalition works with local worker education organizations—such as the Consortium for Worker Education and the Murphy Institute for Worker Education and Labor Studies—to help develop collaborative relationships between their members and to work with the mayor's office in support of the establishment of worker cooperatives (NYCETC 2017). The Democracy at Work Institute is also working actively with the Murphy Institute toward strategic workforce development and worker cooperative initiatives (Murphy Institute 2016). Women in Government is a nonprofit organization focused on state policy actions needed to offer low-income families opportunities to improve their educations. The organization advocates for worker-friendly business models such as ESOPs and benefit corporations (a type of social enterprise business, such as worker cooperatives). Women in Government cites a need for workers to have a voice and a platform for communication, organizing, and engaging in collective action. Worker cooperatives provide this, as do many ESOP companies, in which women and people of color have access to opportunities for personal and professional development.

Through policy change and collaborative efforts, organizations, their employees, and thus their communities can reap the innumerable benefits of employee ownership and workforce development integration. Workers gain skills, build confidence, access career pathways, and build wealth for long-term financial stability. And the positive effects ripple beyond individual workers. Once—economically tumultuous

communities will experience greater financial stability, and the nationwide racial and gender wealth divides may begin to shrink. Workforce development investments can develop and target strategies to create meaningful growth and stability for low-wage workers by integrating employee-ownership models to maximize benefits for all.

Note

1. These figures cited by Chang are taken from Hao (2007). Median wealth for single white women is about half as much wealth as single white men—\$15,640 to \$28,900.

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11

How Workforce Investments Leverage and Create Employee Value

Janet Boguslaw

Concentrated in jobs that do not pay well and that society does not appear to value are the very people who need structures of opportunity to grow and thrive. These opportunities start where access to jobs occurs. Low-income individuals, women of color, formerly incarcerated people, people with disabilities, and many others are routinely undervalued for their potential and actual work contributions (Jammaers, Zanoni, and Hardonk 2016; Jones 2016; Shaw et al. 2016). They may enter into work, but their ability to thrive, advance, and build economic and social stability and security is limited, in large part due to this undervaluing, which manifests in low wages and limited work-related benefits. For low-income and low-skilled working individuals, the characteristics of their employment—the benefits, the flexibility, the consistency of work, and the opportunities for skill and knowledge advancement—converge to facilitate a pathway to accumulating wealth that income alone does not provide. These collective work-linked, wealth-building characteristics can be termed *employment capital* because it is a form of capital building that goes beyond income and plays a critical and comprehensive role in the advancement opportunities that lead to present and future economic security, stability, and wealth building.¹ Others may talk about this as the key nonwage components or compensation of a quality job, the combined elements of basic benefits, career-building opportunities, wealth-building opportunities, and a fair and engaging workplace (Pacific Community Ventures 2016). Employment capital as a concept links these elements of job quality to ensure they work together to have impacts of wealth building and economic security. These are the outcomes that provide for self-sufficiency and often seem to be beyond reach for those with low incomes and skills. Workforce

investments are a critical element of employment capital. They can increase the efficient use of valuable and undervalued human resources, improve economic mobility opportunities for employees, and produce more stable businesses and communities.

There is significant and important literature examining the value of access to benefits, career mobility, wealth building, and economic security, but they often are not discussed comprehensively, limiting the development of structures of opportunity that are comprehensive and embedded in the relationship between work and the workplace (Applebaum and Milkman 2011; Aspen Institute 2014; Sattelmeyer and Elmi 2017; Urban Institute 2017; Weil 2014). We live in an era characterized by the expansion of contract and contingent work, wealth inequality, incomes falling short of living wages, and uncertainty about the role of technology in relationship to jobs and job growth. Within these contexts it is important to understand and revisit how the broad changes that are shaping and reshaping the connections between work, learning, and wealth building affect opportunities for building individual, family, community, and national economic security, stability, and well-being. This chapter examines how elements of jobs provide value to and demonstrate value of employees, helping to build wealth and economic security. Shared capital workplace models serve as a basis to examine these issues.

EMPLOYMENT CAPITAL

Employment capital is more than simply nonwage compensation. It is an interactive process of resource leveraging that enables the opportunity to build and protect wealth and economic security. Employment capital includes job benefits, job flexibility, consistent work, and employer-based or -supported education, training, and mentoring. For those with access, it helps to build wealth in multidimensional ways. It provides the direct means to build wealth—for example, through access to retirement fund opportunities like 401(k)s and often to an employer “match.” It helps to preserve income for savings or other consumption or investment use through health insurance group rates and employer subsidies. Job flexibility and consistent work make a difference in the

types and hours of employment secured, affecting income thresholds and access to employment capital opportunities. For example, when access to health insurance, 401(k)s, and accrued time off (vacation, personal days, sick days) are tied to numbers of hours worked, those with more ability to get the hours in through flexibility and consistent work benefit not just from earned income. This means that when out sick or on vacation, the 401(k) continues to accrue and build value, the health insurance is covered, and income is stable. Job mentoring, tuition and expense support, and career coaching and positioning for advancement opportunities ensure that learning links to real opportunity. When expenses for these are covered by the firm or firm/public partnerships, no personal income is forfeited or debt incurred as advancement gains are made, a critical issue for those with limited income and wealth.

INCOME AND WEALTH: WHY IS THE DISTINCTION SO IMPORTANT?

Employers use employment capital to incentivize employees to join a firm or enhance retention or compensation. Alternatively, employees consider the features of employment capital as the “extras” that make for a good job (Mehta, Kurbetti, and Dhankhar 2014; Miller 2016). Yet employment capital serves a function that goes beyond these issues. It helps employees build wealth, self-sufficiency, economic security, and opportunities to invest in the future. Whereas income mainly consists of money that people earn at work, wealth is defined as the difference between savings—bank accounts; retirement accounts; the value of goods, such as cars; and housing—and debt.

We know that 12 percent of the working population, those who work full-time year-round, live in poverty, and that 8.6 million individuals were among the working poor in 2014 (Proctor, Semega, and Kollar 2016). These poverty numbers reflect income thresholds. These workers, as well as many of those who earn just above poverty wages, are also asset or wealth poor; they don’t have the basic resources or assets to draw upon to weather a crisis, invest in their future, or pass on to their children (Boguslaw et al. 2013; Aratani and Chau 2010). Wealth inequality is a widespread problem, with the wealth gap between upper-

income people and the rest of America wider than ever before (Pew Research Center 2017). In 2013, the median net worth of the nation's upper-income families was 6.6 times that of middle-income families, and nearly 70 times that of lower-income families (Desilver 2015).

Since 1983, virtually all the wealth gains made by U.S. families have gone to the upper-income group (Pew 2015). Wealth is also racialized and gendered. For example, in 2012, African American women and Latinas earned, respectively, 64 percent and 54 percent of white men's wages, compared to 78 percent for white women. In 2007, white women had a median wealth of \$45,400, while African American women and Latinas had a median wealth of \$100 and \$120, respectively (Richard 2014). From an employment perspective, white women in the prime working years of ages 36–49 had a median wealth of \$42,600, the median wealth for women of color was only \$5, and only 1 percent of single Hispanic women and 4 percent of single black women owned business assets compared to 8 percent of single white women (Chang 2010). White households in the middle-income quintile (those earning \$37,201–\$61,328 annually) own nearly 8 times as much wealth (\$86,100) as middle-income black earners (\$11,000) and 10 times as much wealth as middle-income Latino earners (\$8,600) (Asante-Muhammad et al. 2017). And, while compared with other racial-ethnic groups, Asian Americans in the aggregate tend to have higher incomes than other communities of color, whites in the bottom half of the income distribution have more than twice the wealth of Asian Americans in the bottom half of the income distribution (Asante-Muhammad et al. 2017).

This disconnect between income earned and wealth owned is visible across the entire income continuum among these groups (Asante-Muhammad et al. 2017; Weller and Thompson 2016). The forces exacerbating wealth inequality are many, but one important factor is the link between employment and building wealth that is not income specific. Common narratives suggest that if incomes rise wealth will rise, but the data tell us otherwise. Unequal distribution of wealth-building job characteristics among racial, class, and occupational divides clearly contributes to the problem. Attention to the role of employment capital may contribute to reducing these wealth divides (Thomas et al. 2013). Those workers who provide important roles in our economy but have low income are the most likely to also have limited access to employment capital.

SHARED CAPITAL FIRMS ACCELERATE EMPLOYMENT CAPITAL IMPACTS

In an environment in which many workers remain undervalued, participatory “shared capital” firms, those in which all employees hold some percentage of ownership, provide employees greater employment capital than in most traditional firms, leading to a variety of opportunities both to be valued and to provide value to the firm. The shared capital model, when compared to traditionally organized firms, appears to strengthen business profits and operations, increase the mutuality of interests, share financial wealth more broadly, and create a more productive and invested workforce (Blasi, Freeman, and Kruse 2014). Shared capital firms take the form of employee-owned companies with employee stock ownership plans (ESOPs), cooperatives, and profit sharing plans. The U.S. tax system legislatively supports ESOPs, providing opportunities to shift relations between business, capital, and ownership structures, and potentially shifts how we think about and invest in workforce development (Snyder 2003). Participatory-shared capital firms contribute to broad-based workforce development and to wealth building among the working poor and middle-income workers by tying employment capital to building the combination of financial, human, and social capital that constitutes wealth. Table 11.1 demonstrates how shared capital firms compare to non-employee-owned firms in areas of several elements of employment capital for those earning \$30,000 or less in annual wages overall, and for those with at least one child under the age of eight in the household. The data find that employee owners have greater access to employment capital benefits than nonemployee owners and that it is a work structure that particularly benefits households with children. Table 11.2 reveals that employee-owned firms help provide consistent work, across all population, income, and education levels.

Additionally, research from the National Center for Employee Ownership (2016) shows that privately held ESOPs, including over 3,000 ESOPs with 760,000 employee owners nationally, have measurable positive effects on company performance, growth, jobs, and local communities. This research shows that ESOP companies “generate 2.5 percent more new jobs per year than these same companies would have

Table 11.1 Benefits, by Wages and Children in Household

	Below \$30k from wages		At least one child 0–8 in household	
	Employee- owners (%)	Non- employee- owners (%)	Employee- owners (%)	Non- employee- owners (%)
Flexible work schedule	46	32	50	33
Medical, surgical, or hospitalization insurance that covers injuries or major illnesses off the job	96	53	97	68
Life insurance that would cover your death for reasons not connected with your job	80	34	86	52
Dental benefits	91	45	94	60
Paid maternity or paternity leave	58	21	64	33
Unpaid maternity or paternity leave that would allow you to return to the same job, or one similar to it	50	21	60	34
A retirement plan other than Social Security	83	34	90	53
Tuition reimbursement for certain types of schooling	50	14	62	26
Company provided or subsidized child care	19	4	22	6
Employee stock ownership plan(s)	100	0	100	0
<i>n</i>	268	1,454	471	1,961

SOURCE: National Center for Employee Ownership (2017, Table 9).

generated if they did not have an ESOP; employee-owners are one-third to one-fourth as likely to be laid off compared to nonemployee owners, and; ESOPs distributed close to \$92 billion to participants in local communities across the nation during 2013” (p. 1).

As noted at the beginning of this chapter, those working in low-valued and low-paying jobs are the very people who need structures of opportunity to grow and thrive. Participatory-shared capital firms demonstrate how the structures of work through employment capital

Table 11.2 Job Tenure at Current Job in Years, by Demographic Characteristics

	Employee-owners		Nonemployee-owners	
	Average	Median	Average	Median
Overall	5.5	5.2	4.5	3.4
Single women	5.0	4.4	4.0	3.1
Single women of color	4.8	4.2	4.0	3.1
Workers of color	5.2	4.5	4.3	3.3
Young child (0–8) in household	5.4	5.2	4.6	3.6
Families of color with young child	5.1	4.2	4.2	3.2
All parents	5.5	5.2	4.5	3.4
All single parents	4.9	3.4	3.9	2.7
Single mothers	4.6	3.3	3.8	2.8
Single mothers of color	4.6	3.7	3.7	2.7
Noncollege graduates	5.5	4.7	4.5	3.3
Under \$50k income from wages	5.1	4.4	4.4	3.3
Under \$30k income from wages	4.3	3.1	3.8	2.8
Under \$25k income from wages	4.0	2.8	3.5	2.3

NOTE: All respondents are aged 28–34.

SOURCE: National Center for Employee Ownership (2017, Table 11).

provide opportunities where access to jobs occurs. Even when income is not large, the wealth-building opportunities provide important gains for individuals, families, and communities. Workforce investments can play a critical role as a form of employment capital in maximizing the opportunities for building skills and knowledge that can be directly applied within the workplace to both enable advancement and job stability.

WORKFORCE INVESTMENTS AS EMPLOYMENT CAPITAL TO BUILD WEALTH AND ECONOMIC SECURITY

Several types of job-related skills, such as critical thinking, management, technology, and idea generation, help the growth of good

jobs and positively affect the growth and productivity of regions (Gabe 2017). Other types of job-related skills that one might learn in a business school program such as understanding financial statements and business costs, teamwork and participation, problem solving, innovation, and cost accounting not only improve business operations, they lead to workforce advancement, and they can be learned within the workplace. Employee ownership can serve as an opportunity structure for building the employment capital element of workforce development that is so critical to individual and business success.

Public sector investment in workforce development within the context of shared capital firms, in partnership with the firm and employee, can add value to undervalued workers and lead to economic success in the business, community, and/or region. Two areas discussed below provide insight into how this kind of shared investment can have big impacts, particularly for low-wage and low-skilled workers.

Investments in Education for Ownership and Management

One direction for investing in education is through the Workforce Investment and Opportunity Act (WIOA, 2013), which promotes the alignment of workforce development programs with regional economic development strategies to meet the needs of local and regional employers and employees. Local areas can use funds for demonstrated effective strategies that meet employers' workforce needs, including incumbent worker training. The legislation states that

Incumbent worker training (IWT) under WIOA provides both workers and employers with the opportunity to build and maintain a quality workforce and increase both participants' and companies' competitiveness. It is a type of work-based training and upskilling designed to ensure that employees of a company can acquire the skills necessary to retain employment and advance within the company, or to acquire the skills necessary to avert a layoff.

. . . It provides resources, services, and leadership tools for the public workforce system to help individuals find good jobs and stay employed and improves employer prospects for success in the global marketplace. It ensures that the public workforce system operates as a comprehensive, integrated, and streamlined system to provide pathways to prosperity for those it serves. (U.S. Department of Labor 2016, p. 56,072)

Providing workforce development activities that increase employment, retention, and earnings of participants and that increase postsecondary credential attainment and as a result, improve the quality of the workforce, reduce welfare dependency, increase economic self-sufficiency, meet skill requirements of employers, and enhance productivity, and the competitiveness of our nation. (U.S. Department of Labor 2016, p. 56,080)

Workforce investments are designed to improve the economic competitiveness of the nation and in doing so increase individual self-sufficiency. Low-skilled and low-wage workers can benefit from combined partnerships with the public sector to educate workers for greater participation in their workplace, as noted in the other chapters in this section. The traditional use of incumbent worker funds has been to advance specific credentialing, but framing some of the work that helps with advancement and employment security in new ways may create new opportunities. Beyond credentialing, workforce investments can support the development of skills and knowledge about how to convert a firm into a shared capital enterprise. This will increase opportunities for access to wealth-building employment capital, as well as education and training that contributes to improving organizational practices, innovation, and knowledge sharing. Curriculum exists to build the skills and knowledge of all employees at different levels of a worksite.

Both Ownership Associates and the National Center for Employee Ownership, for example, develop and design training programs to teach employees at all levels of a company what they need to know to purchase their firm, and about the details and operations of their ownership plans. The content of their curriculum covers participation, vesting, allocation, and distribution. Similar curricula are available with content to help understand cooperative development and how stock options and stock purchase plans work, and there are a range of modules that support companies to integrate training about a wide variety of issues such as employee committees and the legal rights of employee-owners (Ownership Associates, n.d.). States can create economic stability and local community wealth by educating business owners, employees, and economic developers on the benefits of shared capital. Education and outreach can be powerful and cost-effective approaches. States can draw on existing networks of experts and infrastructures. For example, the Ohio Employee Ownership Center housed at Kent State Univer-

sity provides outreach, technical assistance, and information for Ohio businesses (McHugh 2016).² This idea of expanding the use of WIOA funds in creative ways to reach groups of workers, not just individual employees, is not new. The Boston Mayor's Office of Workforce Development (Mayor's Office of Workforce Development 2017) is currently looking into the potential for partnering with worker-owned companies on workforce training programs.

To meet the needs and have impacts of scale, the education and personal support of less-educated and lower-skilled workers are best served through a combination of private and public funds. Employers can invest in the training of workers who are and will become increasingly valuable employees, but a true public/private partnership in this arena will benefit everyone, as employers do not want to bear the full costs of preparing their lowest-skilled, even if valued, workforce for meaningful occupational advancement at scale.

Tax Incentives for Education and Training

The IRS allows employers to deduct funds spent on tuition reimbursement from their taxable income. If new forms of education and training could serve as a tax-reducing form of employment capital, similar to corporate health insurance contributions, 401(k) matches, and even coupled with flexible spending accounts but for employer pretax contributions, it might foster greater educational and training investments. In this scenario what counts as education and training might broaden to leadership development, business knowledge, certification programs, and in-house skill training upgrade initiatives. Workforce investments in this realm would benefit the low-income and low-skilled workforce by helping them with incremental advancement tied to real mobility opportunities. Investments would also eliminate the need for long and possibly unnecessary credentialing, reducing time and cost investments.

To recognize and build in structures that value the workforce requires a broadening of how incumbent worker training is conceptualized and supported through the public sector as well as at the site of employment. A broader frame includes education and training to become employee owners to learn about how business operates and increase transparency, and to contribute to firm growth and innovation.

This type of employee education is both credential and noncredential based and can be supported with broad training and education efforts for an entire segment of a workforce, rather than just on an individual basis. Similar to the way that a 401(k) or a flexible spending account is available to many incumbent workers, education and training resources that advance individuals within the workplace to build skills, to learn about how their firm works to improve innovation and cost savings, can be part of the available workforce investments. While credentialing is an important piece of the workforce development puzzle, there are also investments that support advancement and security that have more impact directly on the business and on an individual employee's opportunity for advancement.

The opportunities for this are within reach. In September 2017, Senator Tammy Baldwin (D-WI) introduced the Worker Owned Wealth Act (2017), which would create a revolving loan fund inside the Department of the Treasury, provide a tax incentive for financial institutions to finance ownership transitions, and create an Office of Employee Ownership and Worker Empowerment. The legislation is designed to encourage companies to expand employee ownership through a combination of favorable lending initiatives, tax incentives, and educational and technical outreach. Such dedicated funding tied to workforce training and education would increase the opportunities for business success, especially for the frontline owner workforce.

Using public dollars directly or through traditional tax incentives as employee capital investments can help build the expertise, engagement, and knowledge of undervalued workers by providing pathways for them to access and leverage wealth-building opportunities.

EMPLOYMENT CAPITAL AND REAL PEOPLE'S LIVES

How does this play out in people's lives? Author interviews with employee owners conducted in 2017 provide insight into these issues. Dolores, age 51, has a high school degree and has worked at a manufacturing company for 24 years. She talked about internal advancement opportunities and her own empowerment that has come with advancement. She has participated in lean management training,

quality improvement, and team participation. She has attended conferences offered through employee ownership associations, and she says she has learned to use and value her voice. After 24 years she is still advancing.

I put in for a quality job, but they wanted a BA or BS degree, it was a must. And it didn't say degree or equivalent, I have 26 years, but they didn't look at it that way, I questioned it. I know more about the product. They told me different courses to take and get certified in different types of quality. So, there are four of us to take a class, study at home, then three classes you go to, then a test you take. If I pass the test and get the quality certification, they'll accept that as equivalent to a degree, so there should be other jobs soon, so it will be tough, they gave me the books.

I think being employee owned you have more input and you can bring it up and usually they will work with you to try to make it better. When I went to them and questioned it, they want everyone now coming in to have a degree, so they didn't want to say fine you can do the job, you had to do a little extra to show you are interested and can get a certification. They arranged for the class, they are paying for it, they are doing their part for me, so I have to do my part. It's a give and take, you give but they give too. It is good, they help pay for you to better yourself.

Dolores talks about how she has had the full complement of employment capital at her firm, but that without the opportunities for advancement she has had over the years, she would still be both low income and low wealth.

Joseph, with 11 years at a manufacturing company and a high school degree, explains his advancement through the company:

During the week I would come in a couple days a week to learn other machines, which was cool but it was really a benefit of working on the weekend. When I came in I started learning a bunch of other machines and whatnot. I think I was on the weekend shift for almost two years and in that two years we . . . started getting very efficient and we didn't need the weekend shift anymore. . . . I went to a different department and I started running one of the lines on first shift. I ran the line for a few years and then I became like almost like a supervisor for the machinery, not the people. I dealt with, you know, everything from the customer ordering the product to the customer getting the product so everything in between it

was a little bit of everything. It was a little sales, customer service, it was kind of supervision, because you're not supervising people but you kind of are because you're supervising the machine and the people run the machine so that was cool."

. . . When I came in . . . I think I was making \$8.50 an hour, and now I'm making like \$22.50 or something like that so it's pretty good size. . . . I'm going to school right now, too . . . try to set myself up so when he's ready to retire. I can hopefully either work with him prior to him retiring or take over for him when he does retire. He works with everybody on what classes they should take too, because I mean so everybody has some sort of a goal and he works with them on it . . . so he knows I want to take his job.

Joseph and Dolores see investments in education, training, and mentoring as key employment capital benefits that are central to their economic well-being. Table 11.3 shows how employee ownership helps build employment capital, which leverages opportunities for advancement.

Despite the need for living-wage jobs, higher wages alone will not enable economic self-sufficiency for the lowest-skilled workers any time soon. It becomes essential then that broad-based workforce investments in incumbent workers at the lower end of the income and skill scales become the norm, not the exception. When core public sector resources and employers support these investments through the tax system, key stakeholders will come to understand and consider the investments to be worthwhile. Such investments signal that both the enterprise and its workforce are valued. At the same time, these investments will enable businesses to be more flexible, improving retention, skill advancement, and innovation with improved economic impacts for their own bottom line and for the wider economy.

Table 11.3 Employment Capital Saves Income, Builds and Leverages Opportunities for Advancement

Income saved for investment and consumption	<ul style="list-style-type: none">• ESOP account (no cash investment, tax deferred) Low health care premium for “good” health coverage (income saved)• Paid time off with ongoing benefit accrual for vacation, illness, and personal needs (income saved)• FSA account (income saved)• 401(k) program (tax deferred, income saved)• Flexibility around family health and child care (income saved)• Emergency Accounts—no-interest loans repaid through paycheck (no loss of income or debt incurred)
Investment and advancement opportunity and achievement	<ul style="list-style-type: none">• Mentoring (ability to invest in housing, children’s education, extended family support)• Access to paid training and education and flexibility around classes (advancement without income loss)• On-the-job learning that is covered as paid time (advancement without income loss)• Real job mobility opportunities (time invested in learning manifests in actual job)• Consistent work (provided emotional and economic security, enabled decision making about making investments)• Profit sharing (enabled savings and consumption employment capital as a concept demonstrates how the interactive effects of this bundle of nonwage resources can help provide important resources to low-wage and low-skilled workers.

Notes

1. The conceptual model of this chapter draws on the author's coproduced brief *Employment Capital: How Work Builds and Protects Family Wealth and Security* (Thomas et al. 2013). It also draws on the author's research conducted for the SMLR Rutgers University, W.K. Kellogg Project, "The Impact of Employee Ownership on Low and Moderate-Income Workers and Their Families."
2. See <http://www.ocockent.org>.

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Part 3

Investing in Rural Work

12

The Rural Dimensions of Workforce Development

Brian Dabson

OVERARCHING TRENDS AND RURAL CHARACTERISTICS

Distinctions and differences between urban and rural areas are regular points of debate. These debates have migrated from the periphery of policy and politics to center stage as the urban-rural divide appears to be widening and voices on all sides have become louder and more heated. Whether the focus is on economic opportunity, natural resources, environment, education, broadband, or immigration, arguments often highlight the deficiencies of rural areas as compared with their more prosperous urban neighbors. This growing separation in perceptions, prospects, and values has minimal benefit. However, workforce development may be an important area where finding common cause is achievable.

The same large-scale trends affect all labor markets, regardless of location. Increased use of technology leads to higher levels of productivity but reduces the overall demand for labor. Demand for high-skilled and low-skilled workers persists, but it has diminished for intermediate occupations such as skilled trades and plant, process, and machine operators. Global supply chains provide multiple options for outsourcing production. Together, these trends have led to widespread workforce dislocation in the United States, particularly in the heartlands of manufacturing. From rural towns in North Carolina to cities in the Rust Belt, workers are all hurting as a result.

Recovery and the search for new economic opportunities are creating challenges everywhere, but several factors magnify these large trends and present difficulties for rural regions. Four factors stand out.

Unsurprisingly, the first is *geography*. Low population densities and remoteness define rurality, but they also reduce economies of scale, impose higher transportation costs, and create obstacles for efficient service delivery.

The second factor concerns *demography*. The population in rural areas is older because of the outward migration of younger people or, in some places, an influx of pre-retirees seeking a lifestyle change. Rural populations on average have less formal education and lower skill levels, earn lower incomes, and are less geographically mobile (Freshwater 2016; Green 2016). The arrival of lower-skilled migrants to take up jobs in agriculture, food processing, and hospitality brings its own set of opportunities and challenges.

Competitiveness, the third element, addresses the fact that rural businesses are generally smaller and have a reduced capacity to engage in regional or global markets. They are faced with limited pools from which to hire workers with the requisite education, skills, and experience (Freshwater 2016; Green 2016). On the other side of the competitiveness coin is *career progression*. For rural workers, the lack of high-level jobs provides fewer openings for gaining and broadening work experience, and limited transportation and mobility options constrain career options. Those who do have jobs stay in place, and low employee turnover reduces the incentive for employers to encourage in-work advancement, training, and skills development (Green 2016; Rosenfeld and Wojan 2016). As a result, wage levels may be depressed in many rural areas.

RURAL DIFFERENTIATION

All that said, rural areas are far from homogenous and are differentiated largely by their distance from metropolitan centers and their inherent natural and cultural assets. These differences not only signal a diversity of workforce development characteristics and outcomes across the rural landscape, but also serve to blur hard-and-fast distinctions between rural and urban labor markets. They also underscore the importance of tailoring workforce development policy and practice to recognize and respond to these differences.

Green (2016) provides a helpful framework for understanding the dynamics of rural workforce supply and demand, and how these translate into different types of labor markets. She describes four broad labor market types that are defined according to demand for skilled labor and its supply.

A “high demand and low supply” area is characterized as having *skill gaps and shortages*. Here, employers are unable to find sufficient applicants with the appropriate skills, qualifications, or experience, perhaps because of workers’ low levels of educational attainment and generally low skills in the local labor market. As a result, an immigration of skilled workers may be encouraged or, in the worst case, lead to the diversion of business investment elsewhere. From a workforce development perspective, this scenario requires additional educational and training investments in the existing labor pool or the creation of attraction strategies for high-skill workers.

A *high skills equilibrium* represents the ideal scenario where an area experiences both “high demand and high supply.” The labor market exhibits high levels of educational attainment and employment, and low unemployment. The workforce development imperative is to sustain the economy and continue to look for and respond to new opportunities. A *low skills equilibrium* represents the opposite scenario, with “low demand and low supply.” The labor market has low-wage and low-productivity jobs, low educational attainment, and a low proportion of high-skill workers, often resulting in out-migration. The workforce development response must be comprehensive, focusing both on educational and training investments and the attraction and enhancement of job opportunities and investment as well as strong support of existing businesses.

The fourth type comprises areas with “low demand and high supply,” in other words, a *skills surplus*. This may result from major employment contractions due to plant closings, leaving a mismatch between education and skills levels and available jobs. Underutilization of skills, likely out-migration, and eventually downward pressure on wages follow. Focusing on the encouragement of entrepreneurship and, in some locations, the attraction of businesses may be the appropriate workforce development strategy.

Rural labor markets experiencing long-term decline become locked into a low skills equilibrium. Areas that have seen a sudden loss of natu-

ral resource or manufacturing activities will realize a temporary skills surplus, but without effective labor market intervention, skilled workers will leave to find opportunities elsewhere. These areas, too, can slide into the low skills equilibrium.

Conversely, areas closer to growing metropolitan regions may see economic expansion, rapid development, and eventually skill gaps and shortages. Rural labor markets, therefore, are both differentiated and dynamic, and have fortunes that shift upward or downward according to broader economic trends and locations.

These trends, primarily driven by technology and globalization, are accelerating and contributing to widespread uncertainty and turbulence in all industries and labor markets. Good and Strong (2015) highlight some dramatic shifts in skills requirements and occupational structures. The first of these shifts is the extent to which employment is taking on increasingly varied forms, with fewer people working conventional, full-time, long-term engagements with a single employer. Instead, nearly half of the U.S. workforce serves in temporary, freelance, or contract work, or owns their own business. For some, this represents a positive opportunity with greater degrees of freedom and flexibility. Indeed, entrepreneurship has emerged as a potent economic development and community revitalization strategy for small towns across rural America.

However, Good and Strong (2015) argue that this flexibility is forced upon many workers by a lack of economic opportunity and is now a way of life for low-income workers. This does not spell a new phenomenon for rural workers. For generations, many have patched together income sources to cope with the seasonality of employment in agriculture or tourism. Nevertheless, the loss of decent paying jobs in manufacturing that used to anchor family incomes has led rural residents into long-distance commuting to find retail and service jobs in urban centers.

On the face of it, Good and Strong's (2015) second shift could be a strong positive for rural workers: with high-speed broadband and cloud computing, workers can be located anywhere and do their work at any time. However, this will only be advantageous if high-speed broadband is readily available—often not the case in many rural regions—and if workers have the type and level of skills associated with jobs that can be done through remote access to computer networks.

This leads directly to the third shift, which is where workers' success depends on not only attaining a postsecondary credential but also continuing to learn throughout their careers. The shelf life of skills acquired while at colleges and universities continues to shrink, and paper qualifications are now less useful than demonstrable and relevant knowledge and skills.

Two other shifts embody clear negatives and contribute to the growing bifurcation of the labor market between those who prosper and those who languish. Increased labor market volatility is resulting in unprecedented long-term unemployment and underemployment. This affects older workers whose jobs and occupations have disappeared or radically changed, and younger workers coming into the labor market without adequate preparation, education, or skills. At the same time, people are now facing impersonal hiring processes where employers use algorithms to determine fit and suitability as an aid or driver of hiring decisions.

Good and Strong (2015) also point to deficiencies in workforce development policy and practice in the United States. No coherent workforce development system operates outside a collection of disconnected programs, agencies, and funding streams. Attempts to integrate these have proven hard, expensive, time consuming, and rarely successful.

Before exploring what an effective workforce development approach might look like in a rural context, it is useful to acknowledge the continuing "people versus place" debate, sometimes framed as "efficiency versus equity." This is far from an academic issue for rural America and has real-life ramifications for rural communities. Proponents of efficiency arguments believe that as rural economies are less competitively structured than their urban counterparts, it is appropriate and desirable, given the higher returns of investment that follow, for capital (including human capital) to flow from rural to urban (Schafft 2016). This means accepting out-migration of rural high school graduates to the cities, which leaves their less motivated and lower achieving classmates behind. This out-migration leads to the lack of investment in and closing of rural schools and other anchor institutions in favor of larger, more efficient facilities in regional centers. Questions arise about the value of investing in rural workforce development when returns will be higher in more populated areas.

Those who espouse place-based investments and equity arguments point to the inherent inequality and unfairness of uneven investments between rural and urban areas, and to “exploitative core-periphery economic relations” (Schafft 2016, p. 150) that ignore or undervalue the real contributions that rural communities make to the broader economy and culture (Dabson 2007).

Schafft (2016) explored a common belief that educational policy and practice in rural America gives priority to investing in and supporting high achievers from white-collar households who are college bound and likely to leave for cities and never return—in other words, education as an engine of rural out-migration. At the same time, others have argued that schools pay little attention to lower achievers from working-class backgrounds or those who want to stay in their communities (Carr and Kefalas 2009). Schafft’s research painted a different picture. The factor that most differentiated students who expected to leave their local community from those who aspired to remain was the perception of local economic opportunity. For those who leave, even though they often have strong attachments to their home community, they will only return and bring with them new skills, experiences, and connections, if sufficient economic opportunities are available to draw them back.

COMPONENTS OF EFFECTIVE RURAL WORKFORCE DEVELOPMENT

The goal of workforce development in a rural context, and arguably in all parts of the United States, should be to ensure that all workers have the opportunity and resources to enhance their economic circumstances through education and skill development. Their ability to apply their newly acquired education and skills in their home communities will determine whether they stay or migrate.

In more technical terms, the goal might be stated as integrating distance, competency-based, and lifelong learning at all levels of education and skill development, and across secondary, postsecondary, employer, and anchor institutions, within any given labor market or economic region. The goal bundles together three important ideas.

The first is *distance learning*. The rapid deployment of online secondary and postsecondary education could be a game changer in overcoming many of the obstacles for rural students and workers. Access to curricula and specialized faculty and trainers otherwise unavailable in rural communities, coupled with reduced travel time, lower costs for students and educational institutions, and all of the advantages of self-paced learning make continuing investments in distance learning attractive. However, education and skill development pursued online cannot be effective in the absence of support systems that integrate distance learning into workplace, academic, and community environments.

Competency-based learning is concerned with what a worker knows and can do. It helps employers, employees, and job seekers to understand better what knowledge, skills, and capabilities they should add to their portfolios to be qualified for specific careers. It also allows the possibility of stackable credits, where learning results in units of transferrable credits that reflect competencies attained irrespective of where and how that learning takes place.

The third idea, *lifelong learning*, recognizes the need for workers to continue to update and acquire new knowledge and skills throughout their work lives. “Work and learning must happen simultaneously, not sequentially, allowing for learning to have experiential context and for work to be improved by learning” (Good and Strong 2015, p. 20).

PREREQUISITES FOR EFFECTIVE RURAL WORKFORCE DEVELOPMENT

Commentators and researchers have for some time attempted to chart out the future of rural economies and their contribution to overall national economic well-being (e.g., Atterton 2016; Brown and Schafft 2011; Dabson 2007; Freshwater 2016; Halseth et al. 2010; Rosenfeld and Wojan 2016). Some common threads have importance for rural workforce development and are presented here as prerequisites for effective policy and practice.

Connectivity is critical. Small towns have thrived or withered away depending on the availability of connected infrastructure, such as roads, railways, airports, and utilities. Although these remain fundamental

building blocks, high-speed broadband connectivity is now equally important for economic survival and development. It alters the effect of long distance, low density, and lack of critical mass on rural areas, and combined with rapid parcel delivery and cloud storage, enables small rural businesses to serve global markets and grow. Connectivity allows entrepreneurs, workers, job seekers, and communities to level the playing field in accessing information, doing business, building networks, and improving education and health outcomes. Communities without access to high-speed broadband will fall further behind, which is why connectivity is a high priority investment for many local governments and utilities across rural America (NCTA, n.d.).

Rural areas are just as likely to pursue *innovation* as urban centers, but the conventional metrics of patents and research and development expenditures show rural areas lagging behind their metropolitan counterparts. Rural innovation tends to be more closely associated with entrepreneurship and is not always research based or patented (Freshwater 2016). That said, rural economies must step up their game by creating competitive niches, finding new ways to attract young people, taking advantage of demands for energy conservation and sustainability, accessing global knowledge networks and markets, and generating scale from small-batch production (Rosenfeld and Wojan 2016). Workforce development requires innovation in tracking and responding to changing circumstances and opportunities, adjusting organizational structures and funding streams, and forging new relationships with employers and skill development resources (Good and Strong 2015).

Entrepreneurship is a necessary component of any economic development strategy and is particularly promising in rural and small towns (Macke, Markley, and Fulwider 2014). It is both a way in which people can pursue business opportunities while enjoying the quality of life that many rural places offer—and thereby create jobs and wealth in their community—and a survival strategy for those living in areas where there are few employment options. Entrepreneurship can and should be a stronger workforce investment strategy. It is a teachable skill that has not had the attention it deserves because of the drive to place people in existing jobs.

Focus on assets recognizes that rural regions have an array of assets that can be parlayed into economic opportunity. The challenge is to ward off exploitative policies and practices that strip rural regions of

natural resources and leave behind long-term social, economic, and environmental damage. Current thinking is increasingly focused on rural wealth creation and protection across several types of capital or asset. The Community Capitals Framework (Emery and Flora 2006) uses seven types of community capital—natural, cultural, human, social, political, financial, and built—to assess how investment can lead to a mutually reinforcing upward spiral of community development or to understand why a community may be spiraling downward as its key assets are undermined or weakened.

To be able to benchmark a community's assets and measure changes over time can be a powerful means of focusing effort and investment in activities that do not enhance only one asset while undermining others (Pender, Marre, and Reeder 2012). This approach encourages communities to concentrate on their strengths and to look for positive impacts on their most important assets (Ratner and Markley 2014). Rural people and communities therefore find themselves in roles as custodians, guardians, and stewards of natural resources, and as managers of several tensions and trade-offs. These include those between natural resource extraction and environmental protection; between tourism, renewable energy, and environmental services; and between income and employment creation and contributions to global commitments to green growth and climate change mitigation (Freshwater 2016). Together, rural communities offer potential fertile ground for innovation and entrepreneurship as well as demand for a wide range of new and enhanced skills.

Collaboration across agencies and programs at all levels represents yet another prerequisite. Breaking down barriers between schools, colleges, and universities; employers and education and training providers; federal, state, and local governments; and formal institutions and community and civic organizations is a daunting proposition. However, this is the best hope for finding practical solutions and encouraging innovation to ensure that all workers have the opportunity and resources to enhance their economic circumstances.

Finally, *regionalism* returns to the need for rural and urban communities to find common ground to improve prospects for all residents in a labor market area or economic region. Such regions provide the geographic and economic context for institutional collaboration as well as the resources and economies of scale to create the systems, programs, and services needed to respond to ongoing shifts in labor market condi-

tions. The interface between rural and urban communities and economies is sometimes called the zone of interdependence and connectivity where new economic opportunities can be found (Atterton 2016; Dabson 2007; Halseth et al. 2010; Rosenfeld and Wojan 2016).

TAKING A CLOSER LOOK

The chapters that follow build upon these high-level and contextual observations with three quite distinct but complementary perspectives. Stuart A. Rosenfeld connects the broad trends in work and employment to the rapidly changing landscape of high school career and technical education and community colleges. He refers to some of the moves under way to merge career and academic curricula, to integrate work-based learning, and to promote entrepreneurial skills, while offering ideas on guiding principles for a reformed rural workforce development system. Erik R. Pages points to two rural economic development strategies that are finding favor but are not yet appropriately connected: entrepreneurship development and talent development. Chambers of commerce and local economic developers champion entrepreneurship strategies, whereas community colleges and workforce boards pursue talent development. Pages argues that these need to be integrated for effective rural workforce and economic development and suggests how this might happen. Kenneth M. Sherin and Cheryl Burkhart-Kriesel describe the many ways in which the Cooperative Extension, an important player in rural development, actively engages workforce development both at the broad system level and in locally tailored efforts targeted at specific audiences such as youth, adults, and new and vulnerable populations.

CONCLUSIONS

Rural areas are subject to the same broad economic forces that are radically reshaping sectors, industries, and occupations for the nation as a whole. This reshaping includes the very structure of employment and

the untethering of employment from specific locations as well as labor market volatility and changing hiring practices.

However, some of the characteristics of rural places and economies amplify these forces, specifically, geography, demography, and limitations on business competitiveness and career progression. In addition, significant differentiation exists among rural labor markets, largely determined by the strength of their natural and cultural assets and their proximity to metropolitan centers, and these differences are dynamic. The goal of rural workforce development is to stay apace with these changes so that all workers have the opportunity and resources to improve their economic circumstances through education and skill development. That can happen when there is intentional inclusion of distance, competency-based, and lifelong learning. To get there, rural communities and their workers must embrace connectivity, innovation, and entrepreneurship, with a focus on assets, collaboration, and regionalism.

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13

Skills to Sustain Rural Economies

Stuart A. Rosenfeld

FACING THE CHALLENGES

Rural economies and prosperity depend on the skills and knowledge of their workforces and thus on their public schools. In the past, less than 12 years of education, supplemented by tacit knowledge acquired from colleagues, family, and friends, was sufficient to sustain rural economies, whether dependent on agriculture, mining, industry, or services. But that economic reality no longer exists for most of rural America. Markets and workplaces have been transformed by global competition, digitalization, and automation, dramatically altering the skills, knowledge, and work habits needed and expected of rural businesses and employees. Today, about 63 percent of the workforce requires some postsecondary education. This poses a serious challenge for rural areas—particularly in the South and Appalachia—that in the past have produced low levels of academic attainment and achievement.

The challenges rural workforce development faces include the loss of former sources of employment; an aging population with relatively low levels of education and limited experience to prepare them for a more highly skilled and often digitized workplace; population density that limits choices of programs that can be offered; and the absence of a national system of education or workforce development needed to devise, improve, and/or fund programs to improve rural workforce development. In 2014, about one in four nonmetro businesses—as compared to one in six metro businesses—reported a “very difficult time finding workers,” attributing it primarily to the quality of the rural labor pool (Economic Research Service 2014, n.p.).

By providing the right balance of high-quality education and workforce development, rural regions have the potential to influence, not just react to, economic changes. Reaching that goal, however, will require

raising levels of skills, knowledge, creativity, and entrepreneurship; balancing workforce programs among current workforce needs, the forms of economic growth they want, and the long-term interests of students; and treating education and training as quasi-public investments benefitting both individuals and communities by providing support to overcome diseconomies of scale, lack of wealth, and past educational deficiencies.

THE INSTITUTIONAL FRAMEWORK

The primary responsibility for ensuring that rural residents have the skills and knowledge to earn a living rests with their public schools. Students are exposed to career choices in the middle schools and can choose a career or academic track when they begin high school. Now that living-wage jobs require high-level skills, deeper knowledge, and creativity, many learners continue on to a two- or four-year college. Businesses also provide training, although much less than in the past, and nonprofits provide a wide range of support services, especially for disadvantaged populations.

Career and Technical Education in the High Schools

Over most of the twentieth century, vocational education provided the job skills rural economies needed. Today a quarter of the nation's students, a third of its schools, and more than half of its school districts are designated as rural (National Center for Education Statistics 2017). Throughout most of the twentieth century, rural high schools sorted students into one of three categories: academic (college bound), vocational (job bound), and general (left out and most likely to drop out) (Bowles and Gintis 1976). Vocational students were those most likely to stay and work in or near their communities and formed the core of the rural labor force. Beginning in the 1960s, most rural school districts, with federal support, established area vocational centers serving multiple schools. This further separated students from their academic counterparts.¹ Federal legislation also encouraged high schools to serve adult learners through adult basic education and short-term postsecondary adult vocational education.

Contemporary vocational education, however, has changed fundamentally in content, rigor, and goals to match the rising skill demands of work and higher aspirations of students. The term *vocational* education itself has now been replaced by *career and technical education* (CTE).

Modern CTE is more than a path to immediate employment; it is an alternative pedagogy for rural students who learn better experientially than theoretically and aspire to college. The Carl Perkins Act of 2006, the federal legislation supporting school-based workforce preparation, states the new goal of CTE as “the development of services and activities that integrate rigorous and challenging academic and career and technical instruction, and that link secondary education and postsecondary education for participating career and technical education students” (Carl D. Perkins Act of 2006). This represents the most fundamental change in school-based workplace development policy since its initial federal support, the Smith-Hughes Act of 1917. In 2014, for example, as many of Mississippi’s CTE students as non-CTE students enrolled in postsecondary education after graduation—about 60 percent (Mississippi State University 2014).

After exploring different career pathways in grades 8–10, in eleventh grade a CTE student selects one of the 16 career clusters and a career path within it. Those who choose to “concentrate” on a CTE career, which means enrolling in three high school classes in that concentration, represent about 19 percent of all high school students. Many other rural students, however, elect CTE classes that allow them to develop specific talents or to explore career interests. CTE courses in digital media, culinary arts, computer and information sciences, environmental science, and auto mechanics, for example, draw large enrollments among nonconcentrators.

Continuing on to Postsecondary Education

In the 1980s low-tech rural employers began to realize they needed to modernize to stay in business (Rosenfeld, Malizia, and Dugan 1989) and that this would require more technically skilled workers than the employees their high schools were producing (Rosenfeld 1986). Responsibilities for developing that skilled and innovative rural workforce soon shifted from secondary vocational education to prebaccalau-

reate postsecondary institutions. Community, junior, and technical colleges effectively replaced the postsecondary adult vocational education once offered in high schools, expanding and increasing their emphasis on applied associate of science (AAS) degree programs, on one-year certificates, and industry certifications, all aimed at immediate employment. Two-year colleges, which can be much more closely integrated with and responsive to rural development than public schools can, have become industry's preferred sources of both rural employees and customized training.

By the end of the 1980s, community colleges were leading rather than responding to technological change in many rural areas. Many established advanced technology centers to demonstrate to small and mid-sized enterprises the benefits of new production technologies and techniques used by competitors across Europe and Japan (Office of Technology Assessment 1990; Rosenfeld 1995).

Community colleges soon became accessible to even the most distressed counties, viewed as perhaps Appalachia's "best-kept secret" (Baldwin 1996). The South's Consortium for Manufacturing Competitiveness, the Ford Foundation-supported Rural Community College Initiative, and, later, the Rural Community College Alliance (RCCA) led the way. They encouraged and spread innovation and promoted the economic development value of rural colleges (Rubin 2001).

It was the responsibility of each state to see that every rural citizen had access to a community college, but states differed widely in the organization and autonomy of their colleges. They all, however, attempted to reach rural and isolated counties, sometimes using branch campuses supplemented by online instruction to deliver programs. The RCCA estimates that 589 of the nation's 1,604 degree-granting two-year colleges serve rural populations, and that rural students travel on average about 50 miles round trip to attend. The average age of a community college student is 28, and 63 percent are part-time students (American Association of Community Colleges 2018). Substantially smaller than the mega-campus that serve large metro areas, rural colleges are unable to offer students as many specialized career options.

Other Sources of Workforce Development

The U.S. Department of Labor (DOL) provides various training programs linked to employment in selected industries or for older, dis-

advantaged, and displaced workers. The Trade Adjustment Assistance Act, for instance, provides retraining in areas hit by plant closings, and the Employment and Training Administration's Migrant and Seasonal Farmworkers programs alleviate chronic seasonal unemployment and underemployment. The DOL's flagship apprenticeship program is closely aligned with organized labor and thus weaker in rural areas where unions are scarcer. Workforce investment boards help rural citizens learn about and access training, job search, and assistance.

In the not-too-distant past, employers were leading sources of workforce development. But price competition and lessened employee loyalty have cut into employers' investments in training. A 2011 survey found that only about one in five employees had received any training in the past five years (Cappelli 2012).

Nonprofits, mainly supported by foundation or federal grants, provide needed support services and information related to workforce development. The New Opportunities Vision and Achievement Workforce Development Institute of Northeast Louisiana, for example, is a workforce intermediary funded by the Mary Reynolds Babcock Foundation that connects employers' workforce needs with potential employees and helps move participants to living-wage careers.

EDUCATING FOR WHAT?

Rural workforce development programs today must walk a fine line between responding to current labor market demands while also preparing for emerging but more uncertain career opportunities. Formal systems are oriented mainly toward the current needs of employers, relying heavily on official labor market projections supplemented by information from existing employers.

The future, however, is unlikely to mimic the past. Dabson notes the impacts of the confluence of digitalization, automation, artificial intelligence, globalization, and geographic mobility on rural labor markets. One study projects that 47 percent of U.S. jobs are at high risk because of automation (Frey and Osborne 2013), which is already disproportionately affecting rural manufacturing and mining sectors and undereducated rural workers. What are the best hopes for rural people in the future?

Declining—But Still Hiring

Despite the economic upheavals of rural economies over recent decades, government, manufacturing, retail trade, health care, and accommodations/food services still make up almost half of the nonmetro employment. Proprietorships in nonmetro counties—self-employed, freelancers, independent contractors—represent more than 26 percent of total employment, or about one in four, likely much higher if part-time supplemental incomes were included.

Manufacturing, once the centerpiece of rural development, now represents only 13.5 percent of nonmetro employment, and only about half in direct production occupations. Fifteen of the 20 occupations projected to most rapidly decline are in manufacturing (Krause and Sawhill 2017). Rural job growth in retail trade, once boosted by regional malls and national chain stores, now is under siege from e-commerce and overnight delivery. Government remains a major source of rural employment but also is at risk, owing to consolidation and budget reductions.

New and Promising Career Paths

The most effective rural planners today take creative approaches to development. Many successful communities have found ways to differentiate and brand themselves to attract talented individuals and innovative small enterprises seeking lower costs, recreational or cultural amenities, and/or more family friendly environments. This often involves revitalizing main streets and sprucing up greenways, developing their own “experience economy.” Some places have turned to economic gardening, encouraging and supporting local entrepreneurs and small enterprises, for example, those targeting markets associated with mobile devices and/or changing consumer values and tastes. Examples of industries with potential for rural development and careers include the following:

- App sales were \$88 billion in 2016 and projected to double by 2020, and the gaming industry is expected to grow to almost \$20 billion by 2020 (Takahashi 2015).
- High value added and local agriculture is expanding, from medicinal herbs to organic vegetables to artisanal spirits.

- Health care, already a large rural employer, is expected to grow even faster, as is alternative and complementary health, a \$40 billion market in 2015 (Grand View Research 2017).
- Solar photovoltaic installers and wind turbine service technicians are projected to be the two fastest growing occupations, approximately doubling between 2016 and 2026 (Bureau of Labor Statistics 2018).
- Creative industries and occupations (e.g., arts and crafts, culinary arts, film and media, design, and cultural heritage) currently represent from about 3 to 8 percent of all employment in rural regions, including many who are self-employed or freelancers.²
- Tourism, fueled by changing spending habits from “things” to “experiences,” can lead to high-skilled jobs and entrepreneurship; however, they are often viewed by schools only in terms of its low-income and part-time employment.

Many of these emerging sectors and occupations, however, are not yet recognized or adequately defined by current industry or occupation classification systems, and their qualifications/skill sets are not adequately understood or defined. Many require talents not easily measured by standardized tests, and success can depend as much on reputation, connections, and portfolios demonstrating experience as much as credentials.

Restructuring Work

The way rural work is configured also is changing. The five-day, 9-to-5 jobs that had been the norm for most careers are being replaced with alternative work arrangements (e.g., independent contractors, on-call workers, temporary agency workers, freelancers, home-based work). The Bureau of Labor Statistics found that in 2005 30 percent of the workforce participated in atypical arrangements, and recent research found that the number in alternative work arrangements rose to 9.4 million from 2005 to 2015—more than the rise in total employment in the United States (Katz and Krueger 2015).

Changing Expectations

The career interests and values of millennials are different from those of past generations. Many are less willing to give up their autonomy for structured work environments and are more likely to aspire to self-employment. About 27 percent already are self-employed, and 70 percent fully expect to own their own business someday. Residents of even the most isolated rural communities now are hyper connected, use mobile devices, and are part of social networks (U.S. Chamber of Commerce Foundation 2016).

BUILDING BLOCKS OF A RURAL WORKFORCE DEVELOPMENT SYSTEM

Because rural workforce development programs have fewer resources for education or options for employment, they must allocate their resources more wisely. That requires good labor market information for schools to design curricula and for students to choose career paths. Rural programs may have to choose breadth over depth by offering flexible career options over specialization. And given the increasing incidence of career changes and demand for higher skill levels, every program must ensure clear pathways to further education.

Accessing Labor Market Information

Projecting industries and occupations is particularly challenging for rural areas. Access to up-to-date and accurate labor market information (LMI) is the foundation of credible workforce development (WFD) programming, curriculum development, and staff planning efforts. Standard industrial and occupational classifications and skill needs are based on information gathered in the past. Although LMI has advanced considerably and now includes real-time information based on current job postings, these data are far from perfect.

New and emerging industries and occupations generally take years before they are recognized, understood, and classified by government systems. Staffing patterns and job responsibilities can be different from

those used to project demand, especially in sectors dominated by small employers where workers are assigned multiple and often changing responsibilities. Information on contextual occupational skills associated with industries is even more difficult to find (Committee on the Supply Chain for Middle Skill Jobs 2017, p. 106). Further, occupations and sectors dominated by freelancers or individual contractors have unrecognized economic potential and student appeal and therefore are undervalued as career paths. Collecting useful data in rural areas depends on intimate knowledge of all dimensions of their economies and the skills that drive them.

Effective Counseling and Accessible Student Services

Choosing a career path and navigating that path can be challenging, particularly for rural students who often are the first in their family to enter postsecondary education. Many look to counseling services for advice, which frequently are underfunded and understaffed. Rural schools typically have only one full-time counselor, and that person is likely to know more about academic programs than careers.

Some schools expect CTE teachers to also serve as counselors, but too many have insufficient training or time to acquire the knowledge they need to advise students. Thus, students may turn to the Internet and standard printed materials to learn more about career pathways.

Rural adults trying to reenter the labor force or start a new business can access information and advice about jobs and training opportunities from American Job Centers. Part of the Department of Labor's Workforce Innovation and Opportunity Act, the centers often partner with nonprofits to provide services.

Choosing Career Pathways, Constructing Programs

Students entering career and technical education programs must eventually choose a career pathway. To help, the U.S. Department of Labor has organized careers into 16 general clusters and each of those into a subset of dozens of specializations. For example, the agriculture, food, and natural resources cluster includes animal breeders, environmental engineers, geological sample technicians, and tree trimmers and pruners among its 55 different career paths.

Each educational institution must select a limited number of programs to offer based on local labor markets, student interests, and, often more importantly, availability of qualified teachers, and resources. Rural students typically have fewer options from which to choose, especially at the secondary level where only more generic career pathways can be offered in the limited CTE class time available. In some instances, distance learning can fill gaps, but the more experiential the content, the more difficult that becomes. And research suggests that online education is least effective with less-prepared students (Bettinger and Loeb 2017).

Ensuring Access to Higher Education and Lifelong Learning

Postsecondary education today is to workplace readiness what high school was in the past. To embark on any skilled career path, one now needs some postsecondary education, whether an associate degree, certificate, or industry certification. Rural schools must facilitate that transition. Some develop articulation agreements with colleges to ensure acceptance of graduates. The Tech Prep or “2+2” program pairs the district high schools with the college to ensure the student has the prerequisites to enter college. In Mississippi, some secondary career centers are located on community college campuses to facilitate transfer.

The most popular and widespread program to encourage postsecondary education is dual credit/concurrent enrollments, whereby a high school awards college credit to successful high school completers who meet college criteria. To date this has been more often used for academic than career education credits, but that is changing as more career courses develop and colleges accept certification standards. Further, a growing number of community colleges are now offering baccalaureate degrees in selected programs generally not available at four-year institutions.

SKILLS TO DRIVE RURAL ECONOMIES

The skills and knowledge required for living-wage jobs have changed dramatically. At the top of most lists are STEM (science,

technology, engineering, and mathematics) skills. But employers also expect soft skills, for example, the ability to identify and solve problems, work in teams, communicate clearly, and use computers. At the same time, however, employers are investing less in job-specific training than previously, putting that burden on the schools, too.

Efforts to develop a workforce that supports and drives growth have led to some of the areas of general agreement described below (Committee on the Supply Chain for Middle Skill Jobs 2017). Effective programs combine work-based with classroom-based learning and academic knowledge and creativity with pure job skills; they also include all aspects of an industry and an emphasis on entrepreneurial skills.

Integrating Work-Based Learning

This is particularly important in rural areas where undereducated older populations may be better suited to experiential learning. Despite recurrent interest in it, work-based learning (WBL) has been difficult to support in rural areas. Few businesses are willing to pay the costs or dedicate the staff time required. American industry lacks the associational framework, traditions, and peer pressures that make European apprenticeships so successful. Rural regions have fewer of the large-scale employers that are most likely to support WBL. The most notable exceptions are communities that have attracted European companies that already value apprenticeships, as in Seneca, South Carolina (Mangam 2012), and Central Piedmont, North Carolina (North Carolina Department of Commerce 2017).

To overcome the lack of WBL positions, many rural CTE programs create simulated school-based work settings for students, either on campus or in cooperation with a public agency or nonprofit. MakerSpaces and Fab Labs are two of the latest production settings where simulated businesses and start-ups can take advantage of low-cost desktop 3D printers and desktop computer-aided machining equipment.

Merging Career and Academic Curricula

The integration of career and college preparedness represents the most significant and perhaps the most important change from the traditional vocational and later career and technical education programs. One

approach is through multidisciplinary teaching, by developing team-taught curricula for students from different disciplines that demand skills and knowledge spanning technical/career skills and liberal arts.

One of the most successful models for this is the career academy, an institution focused on a specific industry or set of industries. The Academy of Culinary Science & Fashion Enterprise in Thomasville, North Carolina, is one example. Mississippi, which lacks the population density for a narrowly focused academy, is attempting to adopt national standards for career academies but combine multiple pathways such as engineering, STEM, and health care or culinary and hospitality.

Teaching “All Aspects of the Industry”

The goal of incorporating “all aspects of the industry” (AAI) into rural career and technical education was to give students a broader understanding of their region’s core industries, the context of the business in which they may later be employed. This was intended to provide an applied context for other basic skills, increase future job flexibility and advancement opportunities, and encourage entrepreneurship.

Teaching AAI—a goal of federal legislation since 1984 originally based on the success of vocational agriculture—matches labor market needs expressed by cluster- and sector-based organizations for employees who understand not only the immediate job skills but the broad industry context and upstream and downstream implications of the work they perform. The smaller and less specialized the business, the greater the need for broad-based skills.

Infusing Entrepreneurial Skills

As the externally owned employment base of rural economies contracts, communities will become increasingly dependent on their abilities to grow new businesses by attracting entrepreneurial talent and to develop it from within. Proportions of self-employed people are already higher in rural than in metro counties. More than 20 percent of the rural workforce is self-employed or a freelancer/contractor (Goetz 2008); this number is likely to increase as millennials become less interested in traditional work settings (U.S. Chamber of Commerce Foundation 2016).

Career education has an important role to play in rekindling the entrepreneurial spirit in rural communities. Schools could either treat entrepreneurship as a distinctive career path or integrate it into existing curricula, increasing the chance of delayed entrepreneurial behavior. The first is the choice of many entrepreneurship education advocates. But it may ultimately be less effective than the second, which assumes that most future entrepreneurs will seek employment to gain experience, confidence, and connections before identifying and developing entrepreneurial opportunities. One of the early and most successful rural programs is REAL (Rural Education through Action Learning) Enterprises. Students from various programs plan, establish, and operate a business as part of their education and, if appropriate, spin it out as a full-time business.

MODIFYING WORKFORCE DEVELOPMENT TO NURTURE RURAL ECONOMIES

What can help rural communities better prepare the workforce they need to sustain and grow their economies? Because there is no national system or mechanism for broad-based change and the federal government contributes a relatively small share of the costs of WFD, it has minimal leverage. Innovation generally has been bottom up, moving from local successes to state policy to replication across states. Meaningful reform is more likely to emerge from regional and collaborative planning—among educational institutions, business and labor associations, community-based organizations, and government agencies—and state support. The following suggestions represent reforms likely to improve a region’s rural economy and the well-being of its citizens via the skills and talents of its workforce, including, in particular, those that are older, poorer, and less educated than their urban counterparts.

- **Treat workforce development as a quasi-public good.** Community leaders may consider taking a more active role in providing information about changing skill needs, offering work-based learning opportunities, participating in planning efforts, and ensuring adequate support for less-advantaged students and displaced workers.

- **Match programs to emerging occupations and interests.** Timing is crucial, but it is difficult for rural schools to find qualified teachers and meet state approval processes and to update or add programs. They may have to make programmatic choices in advance of the labor market data to support them. Some innovative schools and teachers have circumvented system delays by reconfiguring existing curricula to include new skills.
- **Support and reward innovation.** Rural faculty and administrators have insufficient release time, resources, and/or rewards to learn about, develop, and assess innovations. Social media helps but cannot replace informal personal interactions or observations. Mini-grants and/or release time to develop and assess innovative methods and curricula; support for travel to events related to areas of expertise; and collaborative projects across schools, states, and even countries can lead to improved outcomes.
- **Engage with employers and community.** Federal legislation already requires career programs to establish advisory councils to help identify skills needed or anticipated and to review curricula. The best career programs also provide WBL opportunities, access to specialized resources, and employment opportunities. But broader community participation is important with respect to emerging careers and entrepreneurial education and for providing community-related, work-based learning projects.
- **Educate for a flexible and innovative workforce.** Given the rate of change in the workplace and career mobility within the workforce, breadth is more important than depth in workplace learning. Employers want more flexible and innovative employees who do not just solve problems but recognize them before they become a problem.
- **Contextualize education and training.** A proven way to engage both young nontraditional learners and older learners reentering the labor force is to make lessons as relevant as possible to their lives and experiences. Everything from remedial and English-language education to workplace skills can be taught in the context of real situations that they can relate to, where possible drawing on a dominant regional industry or business for the setting.

- **Reward experience.** It is not realistic to expect older workers with family and financial responsibilities and inadequate formal education to complete a full two-year associate degree program. Many, however, may have experiences that might meet competency-based standards and be certifiable (Ganzglass, Bird, and Prince 2011). Rural areas would benefit from formalized processes that recognize nonformal education.

Notes

1. Vocational agriculture was the exception, remaining in the comprehensive high school because of its broader focus on academic, farm management, and personal skills.
2. Based on research studies of creative economies in rural regions across eight states that were directed or codirected by the author between 2001 and 2016 using data from EMSI, the U.S. Census Bureau, the Bureau of Labor Statistics, and industry associations.

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14

Igniting Rural Entrepreneurship

Where Do Workforce Development Programs Fit In?

Erik R. Pages

Over the past 50 years, rural regions have been constrained in their ability to design and sustain effective economic development strategies and programs. Structural challenges of distance to markets, lower population density, and resource constraints place limits on rural economic development strategies of all types. In eras where traditional business recruitment and aggressive use of tax incentives prevail, rural regions sometimes lack needed infrastructure or sufficiently deep pockets to attract major employers. Newer strategies focused on start-up and scale-up companies are also affected, owing to local talent gaps and smaller markets that struggle to attract venture capital and other needed resources. Now, as workforce and talent development assumes greater prominence in economic development practices, similar constraints may emerge as the local talent base and education/training infrastructure in rural regions suffer from funding and other resource gaps.

This chapter examines one means to address these restraints by creating synergies between two types of economic development strategies now gaining prominence in rural development circles: entrepreneurial development and talent development. Both strategies are gaining adherents in rural America (Markley, Lyons, and Macke 2015). Faced with limited options to recruit large employers, more rural regions are embracing strategies to support home-grown business on Main Street and elsewhere. Meanwhile, community colleges and workforce agencies are coming to play a bigger role in supporting middle-skill jobs and in providing customized training to larger employers.

To date, these policy pathways are emerging on separate tracks. Main Street programs, chambers of commerce, and local economic developers are pushing entrepreneurship. Meanwhile, community colleges, workforce boards, and educators are pushing talent development.

However, a number of factors have limited potential collaborations. Differences in organizations, funding streams, rules and regulations, and customers make it difficult to collaborate. Small businesses typically have limited connections to the workforce system, and the workforce system has often shied away from providing business development services and entrepreneurial training.

This situation can and should change. This chapter focuses on how to make that happen. It makes the case for closer collaboration between entrepreneurial development and talent development efforts in rural America. It begins with a brief review of the state of rural entrepreneurship, and then highlights why talent development must be better integrated into rural entrepreneurship programs. It then offers a menu of potential options for where and how these collaborations might occur. Current practices limit the range of resources and talent available to rural entrepreneurs. With a few minor policy shifts, new strategies to build entrepreneurial talent in rural America have greater potential for success.

EMERGENCE OF ENTREPRENEURSHIP-BASED ECONOMIC DEVELOPMENT

Analysts have long known that entrepreneurial ventures are the primary creators of new jobs in the U.S. economy, but the latest research has further refined these results. When it comes to job and wealth creation, not all entrepreneurs are created equal. Haltiwanger et al. (2016) find that most small firms and start-ups fail or do not create new jobs. However, a small portion of new firms do grow quickly and account for the long-lasting contribution of start-ups to job growth. Together, new firms and high-growth firms (defined as those growing employment by 25 percent per year) account for about 70 percent of U.S. firm-level job creation in a given year (Decker et al. 2014).

Armed with this data, economic developers seek to create regional ecosystems that can fuel the growth of new businesses and help these firms generate new jobs and wealth. Beyond their benefits for job creation, entrepreneurial ecosystems also bring other regional benefits. As Auerswald (2015) has noted, ecosystems “promote diversity, encour-

age dynamism, and drive deal flow.” Ecosystems help regions spawn a larger number of entrepreneurs (diversity), which spurs more competition and innovation (dynamism), which in turn creates new opportunities (deal flow) for new entrepreneurs and their employees, customers, and investors.

Entrepreneurship researchers view regional ecosystems as providing both short-term and long-term benefits. Over the short term, entrepreneurial ventures are more likely to start and more likely to grow in regions with robust ecosystems in place. This dynamism brings many other benefits beyond economic growth; it also generates a “buzz” about the region, attracting more entrepreneurs and more investment and more attention. Over the long term, this virtuous cycle feeds on itself, as early generations of entrepreneurs spawn successors and generate other spillover benefits in the form of new companies, new jobs, and other economic and cultural benefits.

Entrepreneurship and Economic Development

This growing recognition of the importance of entrepreneurs and their critical role in spurring job and wealth creation soon spilled over into the theory and practice of economic development. In the words of Audretsch (2015), entrepreneurship became a critical cog in the “strategic management of places.”

The process of altering economic development priorities and practices moved slowly, and it is still underway today. Researchers and analysts of the history of U.S. economic development policies often refer to different “waves” of policy priorities (Bradshaw and Blakely 1999). When compared to earlier waves of economic development practice, entrepreneur-focused economic development efforts target a different customer: the entrepreneur. Previous economic development efforts focused on encouraging the relocation of existing firms or the development of new greenfield locations by larger corporate players. Different tools are also deployed. The traditional economic development tool kit of tax incentives and other strategies to reduce business operating costs offers fewer direct benefits to new and emerging entrepreneurial firms who tend to have more interest in local quality of life, access to talent, and strong connections to customers and partners. Finally, desired policy outcomes also differ. Entrepreneur-focused economic development

certainly seeks to support job creation, much like traditional business recruitment efforts. Yet, it also seeks to support other outputs and outcomes, such as increasing business start-up and growth rates, increasing local investment in local firms, and building a more robust regional ecosystem to support entrepreneurs.

Unique Challenges Related to Rural Entrepreneurship

Like their urban counterparts, rural economic developers are also seeking to nurture local entrepreneurs and to build regional ecosystems. Yet, they operate in a different environment, especially when compared to those working in high-technology hot spots or densely populated metropolitan areas. In fact, for many researchers, density is itself a key characteristic of effective ecosystems (Stangler and Bell-Masterson 2015).

Several unique features mark the rural entrepreneurship landscape. When compared to urban business owners, rural entrepreneurs are more likely to run smaller businesses or to operate multiple businesses at the same time. Rural entrepreneurs are also more likely to start businesses out of necessity, as opposed to the desire to capture new market opportunities. As such, rural regions may focus more attention on self-employment, microenterprises, or the unique needs of necessity or lifestyle entrepreneurs (Rupasingha and Goetz 2013).

Rural entrepreneurs also face unique constraints, including distance to markets, challenges in accessing peer networks, and more difficulty in finding a skilled workforce and accessing other specialized services and sources of finance. A recent review (Figuroa-Armijos, Dabson, and Johnson 2012) of numerous rural-targeted entrepreneurship initiatives concludes that, while the benefits of promoting entrepreneurship in rural places may be great, the costs are high as well. Rural places lack the agglomeration economies that often benefit entrepreneurs—access to robust input markets, knowledge spillovers from working in close proximity to other entrepreneurs—placing rural entrepreneurs at a relative disadvantage.

Finally, rural ventures typically grow at slower rates. While self-employment rates may be high in rural areas, fewer of these ventures become high-growth companies (Figuroa-Armijos, Dabson, and Johnson 2012). When compared to their urban counterparts, rural businesses

are much less likely to grow and generate significant community benefits in terms of job or wealth creation. Rural regions are home to many start-ups and lifestyle businesses but typically lack a deep base of high-growth companies or scale-up ventures.

Based on these characteristics, most rural regions operate with a traditional mix of small business support services. These resources typically include Small Business Administration (SBA)–backed programs like SCORE or the Small Business Development Center network, local chambers of commerce, and perhaps some small loan funds tied to economic development priorities. More recently, some states and regions have introduced more growth-oriented programs, and more sophisticated ecosystem building efforts are underway across rural America. Economic gardening is a prime example of an intervention targeted to growth versus start-up entrepreneurs. Developed in Littleton, Colorado, and now an initiative of the Edward Lowe Foundation, economic gardening focuses on providing the resources and assistance needed by Stage 2 businesses, defined as firms with 10–99 employees and annual revenues of at least \$1 million. Several states, such as Florida, Kentucky, and Louisiana, manage economic gardening efforts, and these programs are also found in many small towns across the United States.

Where Do Workforce Efforts Fit in?

At present, few of these entrepreneurship-focused efforts engage or collaborate with the workforce development system—despite the fact that most entrepreneurship advocates recognize talent development as a critical part of successful ecosystems. Several factors are at work. Small business owners typically lack the time or resources to access workforce development programs and may underinvest in workforce training. Meanwhile, few workforce investment boards (WIBs) provide entrepreneur-friendly programs or support services. A 2010 survey of WIBs found that only 5 percent targeted small business as a top priority, and few provided lower-cost services targeted to small or new companies (NAWB [National Association of Workforce Boards] 2010). WIBs and other workforce organizations face resource constraints of their own, and may often opt for working with larger employers where more sizable outcomes are likely and where the return on investment is larger. Recent changes in the Workforce Investment and Opportunity

Act (WIOA) are designed to encourage greater WIB focus on supporting local entrepreneurs, but these changes are too recent to allow for strong conclusions on their impact to date.

The status quo creates a challenging environment for rural entrepreneurs. They not only lack access to the specialized business services provided by WIBs and their partners, but they also fail to benefit from access to training for their current workers and to a pipeline of talent supported via the current workforce development system.

WHERE SHOULD WORKFORCE EFFORTS FIT IN?

While the connections between regional entrepreneurship and workforce development efforts are currently limited, the potential for closer linkages is significant. Closer linkages can improve outcomes on traditional business and talent measures, such as business starts, new job creation, and improvements in the local talent base. They can also generate broader community outcomes by enhancing economic inclusion and by supporting a more diverse and sustainable local economy. These efforts could range from expanded provision of self-employment training to a new menu of business services targeted to entrepreneurial ventures. These options are discussed below.

Promoting Self-Employment

The most direct means for workforce professionals to expand entrepreneur support efforts is to finance and provide training in how to become an entrepreneur. This type of training can play a critical role in developing a pipeline of entrepreneurial talent and in providing current and aspiring entrepreneurs with essential business skills and competencies.

Workforce boards have some experience in this field, as NAWB (2010) found that about 25 percent of surveyed programs do offer some form of entrepreneurial training. Additional WIB investments in such training are likely in future years. While traditional Workforce Investment Act (WIA) funds could not be deployed for this purpose, workers who qualified for trade adjustment assistance could participate in

self-employment assistance programs in participating states. With the passage of WIOA, federal rules have been revised to allow the use of traditional workforce funding to support self-assistance training.

To date, experience with self-employment training has produced somewhat mixed results. A 2009 evaluation of programs in three states (Benus et al. 2009) found that programs generated some increases in business ownership but had little impact on earnings or on overall usage rates of unemployment benefits. Anderson et al. (2016) found that program outcomes may improve when training is combined with focused case management practices and small micro-grants (\$1,000) to help seed new businesses.

Self-employment training may be an especially useful strategy for rural areas because of the unique demographics of the rural workforce. The rural workforce skews older, with a larger share of older workers in the workforce and a larger share nearing retirement. In the past, this aging workforce was sometimes deemed as a poor fit for self-employment training. However, data now shows that baby boomers are among the most entrepreneurial of all current U.S. age cohorts (Ewing Marion Kauffman Foundation 2017). Because many boomers may pursue self-employment as a second career or income-patching strategy, they may also be less adversely impacted by the lower earnings sometimes associated with self-employment.

Freelancers or gig-economy workers offer another potential target for self-employment training. The number of independent workers in rural America is growing at a slower rate than in urban centers, but rural regions are still home to a sizable share of gig-economy workers. These freelancers typically play an important role in rural entrepreneurship networks, and enhancing their capacities can certainly contribute to more sustainable rural ecosystems for entrepreneurs.

Supporting Economic Diversification

Many rural regions suffer from an overreliance on a small number of core industries, typically centered in agriculture, manufacturing, or resource extraction. For many, economic diversification is a core development objective. This work typically involves new strategies and investments that help develop new local industries or economic engines. For example, the Appalachian Regional Commission (2016) encour-

ages state and local partners to consider new investments in emerging sectors that include tourism and recreation, alternative energy, food systems, health, and advanced manufacturing.

Traditional workforce supports, such as customized training, are well suited to assist economic diversification strategies. But entrepreneurial development can also contribute. In general, the creation of new business start-ups typically improves a community's economic performance and promotes diversification. Entrepreneurial training can also nurture the development of new industry clusters as well. Such support has been critical in the development of certain sectors, especially tourism, recreation, and food systems. These sectors all share characteristics of low barriers to entry and limited capital requirements, thus making them promising sectors for new entrepreneurs. In much of rural America, these sectors also benefit from a core competitive advantage: access to scenic and natural amenities that may not exist in urban centers.

Appalachia has been a center of initiatives that tie entrepreneurship training to business opportunities in targeted sectors. For example, in Southwest Virginia, leaders have consciously linked the region's entrepreneur development efforts, known as Opportunity Southwest Virginia, to regional tourism initiatives that include the Crooked Road Trail linking country music heritage sites, the 'Round the Mountain arts and crafts project, and the Spearhead ATV Trails system. Between 2013 and 2016, this effort provided start-up training to 280 local residents.

Youth Engagement

Entrepreneurship-related programming can and should play a critical role in youth engagement activities. These efforts can take multiple forms, from classroom training to programs that occur outside school or in the summer months.

Entrepreneurial skills are closely aligned with the basket of competencies referred to as "twenty-first-century skills," which include collaboration, problem solving, digital literacy, and critical thinking. "Career ready" young people must master these skills to be successful in the modern economy, whether they opt to work for someone else or to pursue business ownership.

Both the Consortium for Entrepreneurship Education and Junior Achievement have developed content standards that link youth entre-

preneurship training to training in twenty-first-century skills. This work is having an impact, as 19 states now require that entrepreneurship education be offered in high schools, and 42 states have developed K–12 standards, guidelines, or proficiencies for entrepreneurship education (Junior Achievement 2015).

Provision of youth entrepreneurship training can occur in the formal K–12 system, but programs are more often operated outside the formal school curriculum. The range of venues for workshops, summer camps, or trainings is quite varied. Communities may operate such programs via youth-serving organizations (National FFA Organization, Young Men’s Christian Association, or Boys/Girls Clubs), local business groups (e.g., chambers of commerce), or via formal business or entrepreneurship-focused groups, such as Future Business Leaders of America, DECA, or Junior Achievement.

The University of Kentucky’s E-Discovery program provides K–12 students with the opportunity to learn and practice entrepreneurial and other business skills. Teachers are able to wrap E-Discovery components into their existing curriculum and provide hands-on opportunities for students to start a business.

West Virginia supports several innovative programs promoting youth entrepreneurship. The Governor’s School for Entrepreneurship runs a three-week intensive summer boot camp for high school students from across the state. Participants learn the basics of business and also participate in start-up and pitch competitions. Similarly, the West Virginia Simulated Workplace introduces entrepreneurship to students in the state’s career-technical education programs. In this project, students create simulated businesses in their respective fields, such as auto repair or cosmetology. Originally designed to teach soft skills, teamwork, and leadership, the simulated workplace also introduces students to the real-life issues that come with running one’s own company.

While K–12 entrepreneurship training is growing, the real boom is occurring at the community college level. Founded in 2002, the National Association of Community College Entrepreneurship (NACCE) now boasts more than 300 member colleges, many of which operate in rural settings. These institutions offer a variety of models and approaches (Hanover Research 2014). Providing courses or degrees in entrepreneurship is the most common approach. More advanced programs infuse entrepreneurship across the curriculum and provide entrepreneurship

training to students in a variety of majors. Many programs focus such training on the arts or in the trade-related fields such as auto repair, cosmetology, or HVAC. Finally, a handful of schools operate full-fledged entrepreneurship centers that provide a full range of services and that serve as hubs for wider regional ecosystems. The Northern Iowa Area Community College's Pappajohn Center is one of the best-known examples. It provides a full range of support services to local entrepreneurs and also manages classroom training, youth programs, and its own funding programs. Eastern West Virginia Community and Technical College (E WVCTC) has similarly become the regional hub for entrepreneurs in the area around Moorefield, West Virginia. In addition to its classes, the college operates the Launch Pad accelerator program and the Institute for Rural Entrepreneurship and Economic Development, which is supporting new business development in five industries: manufacturing, agriculture, arts and culture, tourism, and technology.

Providing Business Scale-Up Services

As companies grow, their business focus shifts from start-up to scale-up. Along the way, their technical-assistance and support needs also evolve. They no longer need basic training in how to start a business; they now need more sophisticated services such as market intelligence, mentoring, and infusions of equity capital.

Scale-up entrepreneurs typically turn to business accelerators, private consultants and investors, or local networking groups to tap into these opportunities. Workforce boards are rarely deemed part of this equation. However, the reality is that workforce professionals do provide many services that are essential to scale-up businesses, even if they are rarely branded in this fashion. The most commonly provided business services (NAWB 2010)—workforce training and human resources support—represent areas of great need and concern for high-growth entrepreneurial ventures.

While these business services are readily available, they rarely reach high-growth entrepreneurs and are typically targeted to large employers. As noted above, large employers are easier to engage and generate larger outcomes in terms of workforce engagement. At the same time, most entrepreneurs appear to be unfamiliar with the types of services available through the workforce development system.

These challenges could be surmounted with a few minor interventions. First, workforce professionals must undertake more aggressive outreach to rural entrepreneurs. This outreach should engage new partners, especially those with current standing and name recognition in the entrepreneurial community. Second, existing service offerings should be reconfigured to make them more user friendly for entrepreneurs. In particular, cost sharing rules should be structured on a sliding scale—based on firm size or revenues—to help smaller firms pay for their share of support services. Finally, performance metrics for workforce programs should be revised so that program managers can receive special recognition for outreach and service delivery to local entrepreneurs.

FINAL THOUGHTS

For today's rural economic developers, success depends on their ability to nurture local entrepreneurs and to build a strong local talent base. At present, these two program directions operate on separate pathways, with few efforts to align program objectives and activities. Both sides suffer from the status quo. Rural ecosystems struggle to develop a strong pipeline of new entrepreneurs, and workforce development professionals miss out on opportunities to work with emerging local employers and to provide new learning opportunities for rural youth.

Closer alignment is possible without major new investments or massive shifts in policy directions. Current rules and regulations permit most of the activities discussed in this chapter. What is needed is the will and the commitment to move forward. Workforce developers must consciously target rural entrepreneurs as core customers, market aggressively to this audience, and reach out to new partners, such as private entrepreneurial networks, for collaborative service delivery. They will also need to reconfigure their performance metrics and redesign programs so that they are more “entrepreneur friendly” and easy to access for smaller firms. By building closer collaborations between workforce and entrepreneurial development initiatives, rural regions can improve the quality of services provided to emerging rural ventures while also building a stronger entrepreneurial ecosystem for businesses of all types.

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15

Cooperative Extension's Past and Present Investment in Workforce Development

Kenneth M. Sherin
Cheryl Burkhart-Kriesel

The land-grant university system may not be the first institution that comes to mind when you think of our country's historical link to workforce development. But its connection to improving country or rural life and ultimately its workforce goes back many years to the early 1900s. Theodore Roosevelt's Country Life Commission identified the workforce as one of the deficiencies in rural America that had to be addressed. In 1910, President Roosevelt wrote, "The strengthening of country life (rural America) is the strengthening of the whole nation" (Bailey 1917, p. 10). A few years later in 1914, the Smith-Lever Act was passed, which created the Cooperative Extension System as part of the land-grant colleges and universities to literally "extend" the knowledge of the institution so that the common person could use the information to improve their daily life (Muske, Shepelwich, and Woods 2007). Much of this information was vocational in nature and initially focused on the needs of agriculture and rural family life. Over time the extension system's outreach into applied research and knowledge has mirrored the economic diversification of both rural and urban areas. Although education surrounding workforce issues was being conducted, regrettably, the use of the term *workforce development* has slowly vanished in the extension culture. Learning new techniques and skills that apply to work or employment, however, is still a foundational outcome and is embedded in many of the current Cooperative Extension's programs and resources.

The information shared in this chapter will lift up the extension's long history in this area, highlight the variety of audiences currently

reached, and showcase the range of workforce development strategies that land-grant universities currently deliver through their cooperative extension systems.

LAND-GRANT UNIVERSITY CONNECTION

The land-grant system was established in the nineteenth century and expanded twice to include the current collection of colleges and universities. In 1862, Congress passed the Morrill Act to grant federal land to establish educational institutions in each state. Nearly three decades later in 1890, a second Morrill Act was passed to establish educational institutions for black students. Then in 1994 tribal colleges and universities were officially added to the land-grant system (Muske, Shepelwich, and Woods 2007).

The mission guiding these land-grant systems also evolved through three iterations. Initially the institutions were focused only on teaching students. Then research as a mission was added in the Hatch Act of 1887. Finally, outreach and extension were added: “The third mission of the Cooperative Extension Service challenged this unique set of colleges to extend their resources to solve public needs through non-formal, non-credit educational programs” (Muske, Shepelwich, and Woods 2007).

Extension professionals have historically relied on timely research-based content and interpersonal and group-process skills to make the connection with the people they serve. The knowledge base has mirrored the evolving needs of society, from the initial adoption of new farm practices to today’s inclusion of youth-based STEM (science, technology, engineering, and math) opportunities (Gould, Steele, and Woodrum 2014). These can be easily seen in extensions’ work with youth career readiness, in specific areas such as robotics, and in human and animal health. Interpersonal and group process skills have also had to evolve from the early field demonstration projects with agents as group organizers to current Web-based sessions and applications using real-time interaction (Peters 2002).

Efforts to strengthen and expand workforce skills have historically been addressed by the extension in several ways. For example, a

specific need, such as technology training, has been incorporated into various program areas (Elbert and Alston 2005). Another approach has been to target a particular workforce area, such as child care, food service safety, or production agriculture, and provide knowledge and skills training (Durden et al. 2013). Often these workforce areas look to the extension as a way to gain or maintain standards necessary for certification in their field. Still another avenue has been to focus on a segment of the population, such as youth, and provide career opportunities (Rockwell, Stohler, and Rudman 1984) or to work with low-resource families and identify needed support and services (Bowman, Manoogian, and Driscoll 2002). For example, many extension systems work with the Supplemental Nutrition Assistance Program (SNAP) that helps people lead healthier lives by understanding the fundamentals of good nutrition, how to make food dollars stretch further, and how to be physically active to maintain health and well-being. These three aspects are fundamental to develop a healthy and productive workforce. Additionally, in the early 1990s the extension model was used in the development of the national Manufacturing Extension Partnership (MEP) program, a tool for providing small rural manufacturers the same access to academic innovations and resulting knowledge as the traditional extension program had done with agriculture (Maher and Spencer 1997).

All of these examples address specific workforce needs. But even with this experience, extension administrators surveyed nationally in 2013 still identified workforce development as one of the top five emerging issues (Urbanowitz and Wilcox 2013). This fact supports the notion that workforce development is a persistent and evolving societal need that garners current interest and investment within the extension system.

One recent illustration of this investment was documented by extension faculty who began the process of indexing resources related to workforce development in the North Central extension region of the United States. The intent of the effort was to develop a resource “pool” that could be shared among professionals working in this area. Once the word got out that this was happening, colleagues in other areas of the United States joined the effort to give the initial pilot project a more national scope.¹ The initial pool of resources was merely a starting point to help extension faculty share expertise with colleagues, get an overview of the types of resources available, and to identify gaps in both

workforce development research and programming. Another outcome of this work was the realization that efforts could be initially clustered in two areas: 1) as broad systems approaches, typically with a community focus; or 2) as a more specific and targeted education and training that typically concentrates on the needs of a key audience (Sherin and Burkhart-Kriesel 2017).

To illustrate these two areas, several examples are shared. The first two are systems approaches to workforce development. The first, from Arkansas/Missouri, proposes a framework to look at issues at a community level. The second, from Nebraska/South Dakota, outlines a community engagement process that can support discussions around workforce issues to help move a community forward. Following these two system examples are a diverse sampling of audience-driven efforts: youth, adult, new populations, vulnerable populations, and specific sectors. These examples begin to share the size and scope of the extension's involvement at the national level.

CURRENT EXAMPLES OF A SYSTEMS APPROACH TO WORKFORCE DEVELOPMENT

The extension systems at the University of Arkansas and University of Missouri have approached workforce development using an education and workforce pipeline framework. The broad framework “does not provide answers to communities facing education and workforce issues. But what it does do is to provide a comprehensive, strategic approach to education and workforce development that enables a community to recognize the good things they already have underway and identify the greatest opportunities and issues that they can then address” (Peterson et al. 2017, p. 21). The framework provides a broad look at how the community interfaces with workforce issues. It also can help identify data points where more information can be needed, locations where changes in the economy have greatest influence, the logical development point of stakeholder networks and targeted audiences, and issues where strategies and actions can be developed.

A community-centered process to bring together a broad base of stakeholders around workforce issues was the goal of the extension sys-

tems at the University of Nebraska and South Dakota State University (Burkhart-Kriesel et al. 2016). Key components of the process included the following:

- Identification of the local workforce development stakeholders, casting the net widely to promote social and economic inclusion
- Recognition of the importance of local employers' stepping up to the plate to become full partners in the community planning process as they expand in-house and on-the-job training programs
- Leadership in the development of local outreach and training initiatives based on the most competitive industry clusters in the regional economy
- Partnership with institutions and actors in their supply chains and industrial clusters to collaboratively address workforce and training challenges

Embedded in the process were four core components of action planning: 1) reviewing the current situation, specifically looking at the identification of assets; 2) evaluating data in the decision-making process; 3) exploring opportunities, and then; 4) deciding on a path and recognizing the steps that ultimately lead to the implementation of actions (Burkhart-Kriesel et al. 2016).

CURRENT EXAMPLES OF AN AUDIENCE-DRIVEN APPROACH

Youth Audience

Purdue Extension: The purpose of Purdue Extension's INWork – INnovate, INvest, INspire – Skills for Tomorrow's Workforce program is teaching the life skills necessary to increase the number of qualified applicants for Indiana job openings. INWork lessons are flexibly designed to fit multiple situations and are available individually or in multisession increments. Optional activities are available to custom fit the program for the audience. The target audiences for this curriculum are high school students and displaced adult workers.

University of Missouri: “Hometown Gap Year” helps young adults who are 16–24 years old, not in school, and not working. The six core principles of the program focus on civic engagement, career planning, financial education, college preparedness, community service, and character development. Students also receive training in diversity awareness, résumé and cover letter creation, job search tutorial, entrepreneurship, and pharmaceutical technician and production technician certifications. They are exposed to resources such as shared workspace for start-up tech, shared creative art space, and retail storefronts.

Adult Audience

Fort Valley State Extension: “Extension Works” is a workforce preparedness/development program designed to bring professional and educational opportunities and technological resources to communities whose unemployment rates surpass state and national averages. The program targets rural Georgia’s unemployed population and gives special attention to those classified as discouraged workers.

University of Wisconsin: “Participants in Prosperity” is a community strategy that addresses costs of living and helps expand access to living-wage jobs. Research consists of facilitated group discussions among workers and job seekers struggling to live on limited incomes, employers, staff of support organizations, and people holding economic development and other leadership positions within the community. Topics include the following:

- How people help themselves or others earn enough to support their families
- Significant challenges and consequences of earning less than what it takes to support one’s family
- Anything that prevents people from being in jobs that pay enough to live on
- What it may take to expand opportunities for people living in or close to the poverty level

New, refined, or adapted solution ideas that emerge could be shared by interested local participants.

University of Minnesota: “At Your Service: Working with Multicultural Customers” addresses the nature of customer service and provides practical ideas and exercises to help service providers create win-win experiences in dealing with diverse customers. Program participants

- explore how culture affects perception and behavior;
- gain skills to identify and address customer needs and expectations;
- learn how to control their own attitudes—even in trying situations; and
- develop actions to consistently deliver great service.

New Population Audience

South Dakota State Extension: The case of Huron, South Dakota, was highlighted during the pilot project in Nebraska/South Dakota that focused on community engagement, research, and development. In Huron, a new turkey processing facility needed workers. On a recruiting trip to Minneapolis, the human resources director met some Karen refugees who had fled political persecution in Burma (Myanmar), and he realized that they might help fulfill the labor shortage. Unlike some other emigrant populations who are more transient, approximately 175 Karen families have purchased homes since 2007 and now total approximately 2,500 in population.

Opportunities existed to draw from this population to meet workforce demands beyond entry-level meat processing jobs. For example, the turkey processing facility has promoted 10 Karen workers to management-level positions. After only a few years, Karen individuals were holding one of every nine jobs in Beadle County, and about 30 companies employed Karen workers.

University of Minnesota Extension: Rural Workforce and Entrepreneur Recruitment and Retention is a three-year research and extension project funded by National Institute of Food and Agriculture/Agriculture and Food Research Initiative starting in 2017. Research will be conducted to inform local efforts to attract and retain a rural workforce. The research will focus on three questions:

- 1) Who are newcomers to rural areas?
- 2) To what extent do different categories of newcomers to rural communities integrate well into rural community economies and civic structures?
- 3) What private strategies and public policies are communities currently using to attract newcomers to their area?

The research will lead to new curricula and programming that informs communities and community leaders.

Vulnerable Population Audience

University of Kentucky: Youth Engagement and Support (YES) provides life skills programs for homeless and unstably housed youth in Jefferson County, the largest, most urban county in Kentucky. The primary goal is for target youth to exhibit an increase in critical life skills they possess (communication/conflict resolution, decision making/goal setting, stress/anger management, self-responsibility/boundaries, teamwork, personal safety, healthy lifestyles, workforce preparation) to become more self-sufficient.

University of Missouri Extension: SkillUP pays for short-term certification programs for high-demand jobs for Supplemental Nutrition Assistance Program (SNAP) recipients between the ages of 16 and 59.² SkillUp provides these participants with soft-skill or employability skill training and life coaching with the plan to follow up at regular intervals for four months after employment to ensure successful work careers. SkillUP offers a variety of services to participants based on an Individual Employment Plan that is created between the participant and SkillUP staff.

Penn State Extension: The Community Bridge Project was an effort initiated by Penn State Extension and Mellon Financial Corporation Foundation. The two entities collaborated to bring together local businesses, Penn State Extension educators, the Department of Public Welfare, PA Careerlink, and local workforce development agencies to create a support and training network for individuals seeking to gain successful and lasting employment.

The Bridge Project continues to serve at-risk, detained, adjudicated, and underserved youth. The project is financially sustained through educational training contracts, with youth centers administered by a school district and county agency.

The educational training continues to utilize the curriculum “Skills for Taking Control of Your Future” and supplemental education in customer service, social and business etiquette, and careers and postsecondary education.

Montana State University: Children, Youth, Families At-Risk (CYFAR) is a program that works with vulnerable populations to connect community-identified resources. The Montana CYFAR project works with youth in two schools on the Crow and Flathead reservations to increase their STEM skills and to prepare them to enter the workforce when they finish high school or university. The program is called Linking Youth to Agricultural and Environmental Practices Using STEM Technologies. The middle school and high school youth have been taught how to build and program robots and use drones for a number of commercial applications, including in the agricultural industry. Students have also learned computer-aided design and have designed renovations to local parks.

They have also learned about aerial photography and how flying kites, balloons, and drones can be used to monitor their landscapes. In addition, they are learning critical-thinking, problem-solving, and communication skills that are essential for success in the workforce.

Sector-Specific Audience

Montana State University: Sector partnerships are partnerships of businesses, from the same industry and in a shared labor market region, who work with education, workforce development, economic development, and community organizations to address the workforce and other competitiveness needs of the targeted industry. Montana State Extension participated in a sector partnership developing a 10-module manufacturing curriculum for high schools helping to increase collaboration and training among employers. Many of the firms noted increased competitiveness and profitability. The extension helped translate state-of-the-art models from the Next Generation Sector Partnership to the community.

Purdue: Defense Manufacturing Assistance Program (DMAP). The purpose of the DMAP was to minimize the impact of lost jobs and disruption to firms and communities by exploring and implementing economic and workforce planning and revitalization efforts. By fostering economic stabilization, growth, and diversification, DMAP seeks to maintain and enhance manufacturing infrastructure and capacity to meet national security priorities across Michigan, Ohio, and Indiana, a region that is vital to our nation's defense and security. Since Purdue began working with defense-related communities across the state, 20 companies have completed 31 projects. The Purdue Center for Regional Development was recently awarded funding to continue this work.

CONCLUSION

Historically, Cooperative Extension has shown a strong commitment in the area of workforce development. As societal needs have changed, so have the programs and resources deployed to address this national issue. One of the unique assets of the land-grant university's Cooperative Extension system is its flexibility to develop and deliver workforce development resources that match the needs of each state. What has been shared is a mere sample of the extension's efforts in workforce development. Using the current infrastructure of the land-grant system, Cooperative Extension is positioned to build on its current work and partner with other organizations to increase the depth and breadth of available resources to invest in the current and future workforce.

Notes

1. To see the results of this initiative visit http://www.canr.msu.edu/news/workforce_issues_collaborating_to_build_extensions_capacity (accessed September 11, 2018).
2. <http://skillup.missouri.edu/> (accessed September 11, 2018).

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Part 4

Investing in Human Capital to Support Local Economic Development

16

Community and Sectoral Strategies for Vulnerable Workers

Nancey Green Leigh

A fundamental reason for the practice of local economic development is job creation. This is the case even when there are distinct differences in how economic development is defined. Long-standing, traditional definitions prioritize the objectives of wealth and job creation and the methods of business attraction and expansion. In the last two decades of the twentieth century, however, alternative definitions have developed in recognition of traditional economic development's negative consequences for the environment and income distribution. This author, for example, articulated a definition of sustainable local economic development with three key objectives: 1) attains a minimum standard of living that rises over time, 2) decreases inequality, and 3) reverses negative environmental consequences (Leigh 1994; Leigh-Preston 1985; Leigh and Blakely 2017).

While traditional economic development practice with job and wealth creation as fundamental goals still dominates, today's extreme level of income inequality has become a central concern in national as well as urban political and policy discourse. It also has become a major topic in the popular news media.

Income inequality can derive from earned and unearned sources of income. In this introduction, however, we focus on inequality in earnings. The *New York Times* (2018) recently published data on the extent to which the CEO compensation of 200 companies with revenues of at least \$1 billion exceeded that of the median pay of their workers. The amount ranged from between 64 and more than 5,900 times greater. The median compensation of workers for all 200 firms averaged \$77,127, while the median for the S&P 500 was \$70,244.

These median incomes are a far cry from the wages of those employed in "degraded work," which is the subject of Marc Doussard's

chapter in this section. Even when hard-fought campaigns across the United States to raise the minimum wage to \$15 per hour are successful, they only provide workers annual wages of slightly more than \$30,000.

Wages in the \$70,000 range may be attainable in manufacturing, which is the focus of the other contributing authors, Benjamin Kraft and Nichola Lowe et al. As these two chapters illustrate, however, achieving higher wages for the most vulnerable workers, who could otherwise end up doing low-wage and inflexible work, takes very careful intervention.

Returning to the traditional definition of economic development, the strategy to increase wealth and create jobs is largely focused on attracting new businesses to a state, and often a specific community within that state. This certainly can create new jobs and even help shift the local economy to a more advanced and competitive composition. However, often the newly created jobs do not go to local job seekers. Instead, incoming businesses bring in new, more skilled workers who, in turn, can drive up housing and other costs of living within the community. This may result in greater economic hardships for existing community members and exacerbate the level of income inequality.

ILLUSTRATING THE BENEFITS OF STRONGER LINKAGES BETWEEN WORKFORCE DEVELOPMENT AND ECONOMIC DEVELOPMENT

The three main authors of this section, Marc Doussard, Benjamin Kraft, and Nichola Lowe (with coauthors Julianne Stern, John R. Bryson, and Rachel Mulhall), are each affiliated with university degree programs in urban and regional planning. One of the specializations that students (typically graduate and professional degree level) can choose to pursue within these programs is economic development planning. In practice, it has long been observed that economic development and workforce development specialists do not collaborate sufficiently to maximize their objectives (Ebarts and Erickcek 2002; Eyster and Briggs 2017; Harper-Anderson 2008). Thus, it is encouraging to have the thoughtful analyses of workforce development issues and approaches by the planning scholars in this human capital-centered section.

In “Workforce Development at the Bottom of the Labor Market,” Doussard observes that “economic development and job training programs often ignore jobs, industries, and firms at the very bottom of the labor market” because these jobs are found primarily in the retail and personal services industries rather than manufacturing (p. 247). Thus, community and labor organization employees and activists have responded to the need for helping workers at the bottom of the labor market. Notably, when their successes result in higher minimum wages and employment benefits, these policies can “lead employers to seek higher productivity, stronger commitment, and greater degrees of skill from their increasingly well-paid workforces” (p. 248). Consequently, activists and organizers working to improve the lives of the most vulnerable workers are achieving the goals of economic and workforce development without public support and against significant odds.

Doussard identifies key characteristics of degraded work, such as “wage theft” (illegal withholding of wages and benefits from an employee) and on-call or flexible scheduling. He observes that these characteristics are not problems for immigrant workers only; they also exist for the large workforce presence in the retail sector that are U.S. citizens. Both wage theft and on-call scheduling contribute to income inequality and prevent workers from participating in education and training efforts that could lead to better jobs.

After detailing the forces creating and maintaining degraded work, Doussard focuses on community organizing and intermediary initiatives that have been created to solve the problems of the “degraded work labor market.” Notably, these initiatives can contribute to traditional workforce and economic development objectives. Direct impacts are those of higher paying and higher-opportunity jobs, while indirect impacts include higher employer expectations of workers and greater willingness to invest in workers’ skill development. It is likely that income inequality would be reduced more quickly if practicing economic and workforce developers were to collaborate with these initiatives’ intermediaries.

The other two chapters of this section focus on a sectoral strategy—providing manufacturing education and training to high school students. The highlighted programs offer valuable skills to new entrants to the labor market, so they won’t be limited to degraded work. In “High School Manufacturing Education: A Path toward Regional Economic

Development,” Kraft notes that “although manufacturing training interventions usually take place at the postsecondary level, a robust body of evidence shows that the most effective and efficient educational strategies start much earlier than college” (p. 265). After discussing the rationale for providing manufacturing education, he reviews different models for delivering it within high schools, noting the requirement for a dedicated industry partner.

Kraft then profiles five high school manufacturing programs from around the country: 1) Francis Tuttle Technology Center in Oklahoma City; 2) School of Manufacturing and Engineering within Hawthorne High School in Los Angeles; 3) Austin Polytechnical Academy in Chicago; 4) Cardinal Manufacturing job shop within Eleva-Strum High School in Strum, Wisconsin; and 5) MTU Apprenticeship Program in Aiken, South Carolina. Drawing on the experiences of these programs, Kraft identifies and discusses key lessons, including the importance of creating small learning communities, engaging parents and other stakeholders, and understanding community context.

“Youth Job Creation and Employer Engagement in U.S. Manufacturing,” by Lowe, Stern, Bryson, and Mulhall, provides a more detailed case study of one of the programs that Kraft profiled: Austin Polytechnical Academy, and more specifically its Manufacturing Connect (MC) program. Based in a high-poverty and historically black Chicago neighborhood, MC helps students and graduates of the academy attain jobs in small- and medium-sized manufacturing firms. This program is worthy of an in-depth exploration since, as the authors note, “MC goes well beyond student education—it positions itself as an influential workforce intermediary, engaging employer firms in ways that shift perceptions of inner-city youth and help them recognize the contribution of younger workers for industry innovation and survival” (p. 286).

Lowe et al. provide an extensive discussion of the role and best models of workforce intermediaries for influencing employer hiring behavior. They detail insights gained from 25 in-depth interviews with staff and participating employers about strategies to engage employers. The authors chronicle how MC staff were effective in highlighting that the ways in which employers typically hired employees (networks, employee referrals) impeded the hiring and retaining of black youth. MC staff motivated employers to adjust their practices to increase interns’ success and to advance the larger mission of “[improving] socioeco-

conomic outcomes for low-income students” (p. 298). The interviews illustrate the success of MC and why it subsequently was replicated in two other Chicago high schools. Lowe et al. conclude that the program is an important example for federal and state policymakers advancing sectoral workforce intermediation.

The three chapters in this section feature strategies to narrow the separation between economic development and workforce development practice through locally articulated solutions. In turn, some of these strategies are evolving into national movements and policies. Insights from these chapters demonstrate the critical need for, and value in, providing fair employment opportunities and employer-driven career paths for those at the bottom of the labor market and for those who may find themselves in such a position in the future.

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17

Workforce Development at the Bottom of the Labor Market

Marc Doussard

Every day, millions of Americans work in dismal conditions at pay levels that often fall below the minimum wage. Such degraded work is a surprisingly common problem that combines low pay with poor working conditions (physical danger, radically flexible work schedules, fast-paced work, and employment insecurity) and systematic employer retaliation against workers' efforts to secure more hours, higher wages, and better working conditions (Doussard 2013). Degraded working arrangements aggravate two of the basic problems workforce development programs aim to remedy. First, they confine workers to deskilled, low-paying jobs that inhibit attempts at upward mobility (Luce and Fujita 2012; Milkman 2014). Second, they weaken regional economic competitiveness by institutionalizing low labor productivity, high levels of household insecurity, and high poverty rates, all of which work against the common economic development goals of growth, diversification, and rising incomes (Feldman et al. 2016; Leigh and Blakely 2016).

Degraded working arrangements resist orthodox efforts to train workers and work with employers. To begin with, the very factors that identify degraded work as a target for public policy—low pay, insecurity, constantly varying work schedules—also restrict workers' ability to participate in job training programs that require fixed schedules and a base level of income (Lambert, Haley-Lock, and Henly 2012). Equally important, abusive labor practices cluster in retail and personal services industries that receive comparatively little attention from economic and workforce development programs focused on manufacturers and exporting industries (Schrock 2013). Thus, economic development and job training programs often ignore jobs, industries, and firms at the very bottom of the labor market.

Responses to the problem of degraded work typically emerge from organizing rather than public programs. Workers, community organizations, labor organizations, and other activist groups have responded to declining pay and working conditions with increasing effectiveness through the basic strategies of building organizations, bargaining, and advocating policy change. In cities of increasingly varied size, economic status, and political climate, worker centers, community-labor organizing campaigns, and political organizing campaigns establish standards on the job, link the most marginal workers to career paths, and help raise the pay and skill levels understood to be central to durable urban economic development (Doussard 2016; Milkman and Ott 2014; Reich, Jacobs, and Dietz 2014; Simmons 2016).

This chapter identifies two principal and substantial ways in which worker organizing campaigns contribute to the goals of workforce development. First, many campaigns directly achieve central goals of workforce development programs, including higher pay, better skills, and industry-level paths to upward mobility. Second, the growing political successes of worker organizing campaigns result in high minimum wages, earned sick-time laws, and other measures that lead employers to seek higher productivity, stronger commitment, and greater degrees of skill from their increasingly well-paid workforces. By 2018, state-level minimum wages of \$10 or more will cover a minimum of 46 million participants in the U.S. labor force (see National Conference of State Legislatures [2017]); other city- and state-level employment mandates will add to these totals. Evidence from cities currently featuring high minimum wages, paid sick-time laws, and other employment standards shows that employers respond by raising skill requirements and attempting to diminish the persistent turnover that has long marked their industries (Schmitt 2013). The data needed to measure in detail the impact of such mandates on employer practice remain unavailable, speculative, or piecemeal. Nevertheless, the existing evidence shows that these mandates expand the types of businesses, employers, and workers seeking assistance from the workforce development system.

THE PROBLEM OF DEGRADED WORK

Academic and popular concern with the problem of inequality typically focuses on income, the clearest and easiest way to track the widening gulf in individual- and household-level prosperity. Repetition does not dull the numbers' impact: Since 1990, the top 5 percent of U.S. households has experienced real income growth of more than 50 percent, while the bottom 20 percent has seen no gain (Stone et al. 2015). Gains for high-earning households come primarily from growth to income from investments and assets, yet those households have also seen their hourly wages increase at a significantly steeper rate than in households that rely on wage income alone (Stone et al. 2015).

Although quite striking on their own terms, these simple measures of hourly pay and wage income obfuscate what are in many ways more profound differences between high- and low-wage jobs. Low-paying jobs in retail, construction, and personal services are not simply cheaper carbon-copies of more sought-after positions. To begin with, hourly pay rates provide misleading measures of compensation because the typical service-sector worker faces systematic wage theft, or the underpayment or nonpayment of agreed-upon wages (Bernhardt et al. 2009; Bobo 2008). Wage theft takes dozens of forms, including failing to pay time-and-a-half for overtime, managers clocking workers out midshift, denying meal and rest breaks, and paying workers subminimum "tipped" wages for work that does not bring in tips (Bernhardt et al. 2009). The reality of wage theft means that existing measures of pay inequality are inaccurate. It also points to a broader imbalance of power in the workplace.

A second rampant problem for low-wage workers is the growing practice of on-call (sometimes referred to as "just-in-time" or "flexible") scheduling. Fewer than 10 percent of workers in common service and retail jobs enjoy control over their hours and shifts (Lambert, Fugiel, and Henly 2014). More problematic, many retail and service firms have dispensed with standard work schedules, instead requiring workers to have "open availability" to work any day or shift, and routinely rearranging schedules (Carrillo et al. 2016). Workers across several studies report problems such as being called into work with one or two hours' notice, being sent home early, and attempting to juggle

schedules that involve, for example, Monday-morning and Wednesday-afternoon shifts one week, but Tuesday-afternoon and Wednesday-morning shifts the next. Workers in these jobs attempt to take classes, earn degrees, and participate in workforce development programs, but they rarely succeed in aligning work and education schedules for longer than a week (Epstein and Kalleberg 2004; Luce and Fujita 2012). Similarly, these unpredictable schedules limit low-wage workers' ability to work multiple jobs.

Beyond the common characteristics of wage theft and flexible scheduling, degraded working conditions manifest differently across industries and workplaces. Many workers must negotiate subcontracting arrangements that deny them employment benefits (Bernhardt et al. 2016; Weil 2014); others are ordered to treat injuries earned on the job without leaving the shop floor (Doussard 2013). Still others face routine verbal and physical abuse, and virtually all these workers are threatened with job loss if their productivity slips or they contest their pay, hours, or employment conditions (Gleeson 2016).

Degraded work problems are especially prevalent and severe for immigrant workers, particularly those without legal work authorization (Doussard 2013). But they are not immigrant-only problems—the typical service-sector employee faces wage theft at least once per month, regardless of her citizenship status (Bernhardt et al. 2009). The retail jobs that implement flexible scheduling most aggressively are held primarily by U.S. citizens (Bernhardt et al. 2009). Just as the problem of inequality has found traction because it spans divides of race, gender, and education, the problem of degraded work applies to a large segment of the labor market, rather than just a select set of worker populations.

COMMUNITIES AND WORKERS ORGANIZE FOR BETTER JOBS

The recent success of laws regarding minimum wage, paid sick time, wage theft, and fair scheduling builds on two decades of intensive efforts to organize workers in degraded work arrangements. Both these long-term organizing efforts and their recent policy victories matter for workforce development organizations. The former emerges from

many of the same neighborhood and labor movements that engage the workforce development system; their efforts often lead to goals widely held within workforce development. The recent policy fruits of these campaigns will potentially have a greater impact on workforce development as they incentivize firms to make new investments in their workers' productivity and loyalty. This section identifies the actors involved in organizing campaigns and the results of those campaigns.

Worker Centers

Beginning in the late 1990s, community-based organizations whose memberships faced recurrent problems at work formed worker centers—neighborhood, industry, or population-based organizations that attempted to regulate the low-wage labor market by negotiating between workers and employers (Fine 2006, 2011). Like one-stop centers and organizations funded by the workforce development system, worker centers see intermediation as central to their work. Unlike Workforce Innovation and Opportunity Act (WIOA)–funded organizations, however, they achieve their ends through a mix of negotiation, confrontation, and community and political organizing.

Worker centers began as ad hoc and speculative efforts from individual community organizations, or hopeful partnerships between community organizations and labor union locals (Fine 2006). Chicago's Albany Park Worker Center, for example, was founded by organizers who worked with day laborers at a street-corner shape-up on the city's northwest side. It grew gradually, eventually securing dedicated space, developing relationships with contractors and other community organizations, and moving from direct service into advocacy and political organizing (Doussard 2013). Today, major national worker center alliances, including the National Day Labor Organizing Network, ROC United, Interfaith Worker Justice, and the National Black Worker Center project count 122 total members (Table 17.1). To different degrees, each of these worker center types engages in common labor market intermediation efforts, such as certifying and improving worker skill levels, linking job seekers to employers, and focusing public resources on areas of recurrent labor market failure.

Day labor worker centers exemplify the work of these organizations most clearly (see Table 17.1). The typical U.S. day labor worker center

Table 17.1 Labor Market Activities and Reach of Major Worker Center Networks

Organization	Affiliate count	Supply-side activities	Demand-side activities	Intermediation activities
National Day Laborer Organizing Network (construction)	42	<ul style="list-style-type: none"> • Screen workers for skills • Set hiring standards (wages, etc.) • Determine daily priority for workers 	<ul style="list-style-type: none"> • Certify law-abiding construction contractors • Protest/lead legal action against contractors who violate the law 	<ul style="list-style-type: none"> • Match day laborers to work openings • Set local pay floors and standards • Extend the activities of state regulators
Interfaith Worker Justice	61	<ul style="list-style-type: none"> • Organize workers in low-wage industries • Link workers to ESL classes and basic social services 	<ul style="list-style-type: none"> • Identify industries, industry segments, and workplaces with high rates of labor-law violation • Lead coordinated protests against law-breaking employers and industries 	<ul style="list-style-type: none"> • Negotiate agreements between workers and employers, including union authorization
Restaurant Opportunity Centers United	10	<ul style="list-style-type: none"> • Develop information on restaurant labor practices • Identify model and law-breaking employers 	<ul style="list-style-type: none"> • Screen, train, and advocate for workers 	<ul style="list-style-type: none"> • Develop sector-specific employment standards • Develop mechanisms for occupational mobility within the industry
National Black Worker Center Project	9	<ul style="list-style-type: none"> • Connect Black workers to labor unions • Link neighborhood and race advocacy groups to city- and state-level organizations 	<ul style="list-style-type: none"> • Organize interventions for employers and industries with past and present discrimination and/or substandard working conditions 	<ul style="list-style-type: none"> • Link workers to quality employment opportunities

SOURCE: Author's analysis of organizational websites, September 2017.

grew out of a community organization whose members worked in low-wage construction jobs, or from a cohort of workers who sought daily work at the same informal hiring site. In response to the fluctuating wage rates, unsure payment, and general unreliability of work procured on the street corner, worker centers attempt to structure and regulate daily construction work. On the supply side, they limit workers' waiting time by setting standardized hiring hours, screen workers for skills and priority placement for particular construction jobs (such as demolition, painting, or framing), and implement daily job queue rules to ensure that work opportunities are spread out relatively evenly over their members (Theodore, Valenzuela, and Meléndez 2009).

On the demand side of the labor market, day labor worker centers screen contractors for reliability and potential value as long-term employers. They typically require contractors to provide a license plate, business name, and other information necessary for filing a lien or small-claims court case in (frequent) instances of under- or nonpayment. By collecting worker evaluations of contractors, they build lists of priority contractors, who may offer additional on-the-job training and prospective long-term employment, and lists of contractors to be excluded for past problems (Doussard 2013). Worker centers gain the access, trust, and influence needed to undertake this work by providing labor market intermediation that benefits all parties. Chaotic and unreliable day labor shape-ups often provide employers with workers ill-suited to the jobs for which they are hired, and give workers employment that proves more dangerous, shorter in duration, and lower in pay than advertised. The basic work of matching supply and demand provides certainty and value that draw both labor demand and labor supply to worker centers.

In addition to these basic labor market services, worker centers also engage in a range of community and political organizing activities far removed from the activities of other workforce intermediaries. In response to frequent underpayment, nonpayment, and workplace injury, worker centers serving day laborers and other populations of low-wage workers use the basic pressure-building techniques of community organizing. Worker delegations frequently visit the job sites, homes, or offices of employers who degraded labor conditions (Fine 2006). To escalate conflict and force resolution, worker centers can engage neighborhood members, faith leaders, and other community organizations in high-visibility protests and media campaigns that focus public and

policymaker attention on an employer's history of noncompliance with labor laws (Sziarto 2008; Valenzuela et al. 2006).

Community-Labor Coalitions

Worker centers' efforts to intermediate between labor supply and demand benefit from broader community and political organizing undertaken by community-labor coalitions (CLCs). CLCs and worker centers initially developed in tandem as efforts to localize responses to labor market problems rooted in national policy and structural changes to the economy (Clawson 2003; Jayaraman and Ness 2005; Nissen 2004). CLCs combine the political and financial resources of labor organizations with the community connections of community-based organizations. Operating at the level of cities and urbanized regions, they tie not-for-profit organizations, labor groups, and policy organizations into a flexible advocacy network. Regionally strong CLCs play key roles in advancing minimum wage increases, fair scheduling laws, and other policy responses to the problem of degraded work.

The specific form, goals, and effectiveness of CLCs vary from one location to the next. But most participate in the same network of national campaigns (Table 17.2). The \$15 minimum wage movement, inaugurated by retail worker strikes in 2012, currently contains hundreds of local affiliate campaigns, each of which combines a mix of union locals or worker centers, community-advocacy organizations, service providers, and policy organizations. Other nationally networked campaigns include the Domestic Workers Alliance, whose 70 affiliates work to formalize and regulate personal services employment that typically entails subminimum wages, the Food Chain Workers Alliance, Our Wal-Mart, and Warehouse Workers for Justice.

As these organizations and the CLCs encompassing them grow, the terrain of potential organizing and political reform concerning degraded work expands to smaller cities and cities that historically lacked labor organizing (Doussard 2016). This growth should extend organizing campaigns and political reforms that will directly and indirectly shape the labor markets negotiated by workforce development organizations.

Table 17.2 Direct Impacts of Community-Labor Organizing

Campaign type	Workplaces	Common outcomes	Representative campaigns
Workplace	Individual construction contractors, retail establishments, and service firms	<ul style="list-style-type: none"> • Pay increases • Elevated safety standards • Advancement opportunities • Minimum or regular hours requirements • Union authorization 	<ul style="list-style-type: none"> • Day laborer organizing campaigns (Theodore et al. 2009; Doussard 2013) • KIWA campaigns (Kwon 2010) • Restaurant campaigns (Jayaraman 2013)
Firm	Multisite employers	<ul style="list-style-type: none"> • Firm-level pay increases • Firm-level neutrality agreements for union elections 	<ul style="list-style-type: none"> • Wal-Mart • Starbucks
Industry	Customer-facing firms in industries with deconcentrated market structure	<ul style="list-style-type: none"> • Voluntary or binding codes of conduct regarding wages, hours, working conditions • Targeting of legal enforcement resources on industries featuring recurring violations 	<ul style="list-style-type: none"> • Greengrocer code of conduct • ROC

THE IMPACT OF WORKER CENTERS AND COMMUNITY-LABOR COALITIONS ON WORKFORCE DEVELOPMENT GOALS

The actions of worker centers and community-labor coalitions result in changes to low-wage labor markets. Many of these organizations' direct actions, such as reform to individual workplaces, increased inspections from enforcement agencies, and the development of career mobility for low-wage workers, lead directly to the attainment of several basic goals common to workforce development systems.

However, policy changes that elevate labor standards—in particular, high minimum wages, earned sick time, and predictable scheduling—are likely to have a greater impact on firms' expectations of workers and the workforce development system.

Direct Impacts

In addition to policy changes, workplace and community organizing campaigns seek and win improvements to both pay and working conditions at the level of individual workplaces. These outcomes directly match the common workforce development goal of moving workers into higher-paying, higher-opportunity jobs. As site-specific benefits and changes won at the level of individual workplaces, firms, or industries, these impacts resist direct quantification. Nevertheless, changes to labor standards share several common characteristics that provide a useful framework for practitioners seeking to identify the impacts of organizing campaigns in the labor markets where they work (see Table 17.2).

Workplace-specific organizing campaigns yield the most heterogeneous results. They can lead to small or large pay increases, union elections, agreements for job training and promotion, and other measures sought by workers. Firm-level agreements represent comparatively infrequent outcomes to regional or national campaigns for floors on wages and working conditions. These campaigns necessarily accept smaller returns in exchange for covering far more workplaces. Industry-level campaigns target firms within a given city or region and typically offer good publicity in return for employer promises to change workplace practices (Jayaraman and Ness 2005).

The numerous policies directed at the bottom of the labor market have a far more extensive impact on work, its terms, and its rewards. Thirty-one U.S. states have minimum wage rates above the federal floor of \$7.25, and several states have scheduled increases to levels approaching or exceeding double that level (National Conference of State Legislatures 2017). Additionally, 39 cities and counties have their own minimum wages (UC Berkeley Labor Center 2017), dozens of city councils can be found considering wage changes at any time, and a growing number of cities and states have laws to provide earned sick time, fair schedules, and timely paychecks.

Each of these measures changes the expected outcome to placing graduates of the workforce development system in a given job. Long-run studies of the impact of minimum wages on employment indicate that elevated wage floors carry either no or negligibly small impacts on expected job growth (Dube, Lester, and Reich 2010; Lester 2012). Those studies concern past wage increases significantly smaller in magnitude than the double-digit wage floors scheduled for California, Oregon, Washington, New York, the District of Columbia, and several large cities. Studies of Seattle's current \$13 minimum wage disagree on its short-term employment effects (Jardim et al. 2017; Reich, Allegretto, and Godoev 2017). However, even the most negative of these studies finds no job loss for the low-wage restaurant sector; those studies that conclude minimum wages of \$13 and higher lead to reductions in hours worked also conclude that the hourly pay increase offsets the financial loss from reduced hours worked (Jardim et al. 2017). These numbers suggest that the number and types of jobs capable of providing self-sufficiency income to graduates of workforce development programs will grow.

Minimum wage increases represent only the most easily measured way in which employment policy changes impact the outcomes to workforce development and job-training programs. Fully anticipating the changes these policies will induce to the labor market requires an answer to the question of what employers will expect from workers to whom they are obligated to pay higher wages.

Indirect Effects

Arguments for the minimum wage's ability to raise pay without inducing job loss often center on claims of "efficiency wage" effects, or the increased productivity and reduced rate of employee turnover firms receive when they pay higher wages (Schmitt 2013). The concept of an efficiency wage usefully points to the relationship between pay and job duties. Raising the minimum wage to \$10, \$12, or \$15 for an entire region changes the way employers can be expected to organize work, hire workers, and provide training. These indirect impacts of campaigns to address degraded work through legislation are likely to change employers' expectations from the labor market, and thus their expectations from workforce development.

As a starting point, studies of regions enacting high minimum wages point to several “channels of adjustment” for firms facing legislated increases to the minimum wage (Pollin and Wicks-Lim 2016; Schmitt 2013). These studies note that wages constitute a relatively small portion of the overall cost of doing business, and that “managers regard employment and hours cuts as a relatively costly and perhaps counterproductive option [to responding to legislated pay increases], regarding them as a last resort” (Hirsch, Kaufman, and Zelenska 2011, p. 33). Rather than pare employment and hours, managers respond with a mix of higher prices and changes to their expectations from workers, and by substituting higher-productivity jobs for deskilled ones. Evidence from multiple studies suggests that employers in high minimum wage jurisdictions hire older and more experienced workers, expect greater productivity from those workers, and benefit from higher productivity and decreased turnover (Lester 2018; Reich, Allegretto, and Godoey 2017).

Workforce development programs already cater to employers interested in securing greater productivity, higher levels of employee effort, and diminished employee turnover. Studies of firm responses to minimum wage hikes suggest that the number of industries whose firms seek workforce development outcomes and assistance, and the types of jobs for which firms desire training, will increase (Schmitt 2013; Lester 2018). Considerably less evidence is available concerning the impact of paid sick time, predictable scheduling, and other (at this point unknown) employment mandates. Efficiency-wage theories, however, and the consonance of current outcomes with those theories, suggest that such mandates will intensify employers’ interests in placing skilled, dedicated workers in previously deskilled jobs.

The few available industry-level studies of employers’ responses to wage mandates suggest that responses go beyond simple adjustments to wages and working conditions. Lester’s (2018) study of restaurant employers’ responses to mandated wage increases in San Francisco and Raleigh-Durham finds that professionalization of restaurant employment is increasing, particularly at minimum wage levels of \$10 or above. San Francisco restaurant managers preparing for a \$15 minimum wage interviewed in the study discussed hiring, firing, and promotion in ways more typically associated with higher-wage and professionalized businesses: They demanded references and prior experience for employment, screened waiters for the ability to sell high-margin

items, and began offering benefits to secure top worker prospects. San Francisco's trademark restaurant culture, and the proliferation of high-income consumers in the region almost certainly help to support these practices. Significantly, however, Lester and others also find evidence of up-skilling in less affluent locales (Lester 2018; Meketon 2017).

The extent to which employers respond to legislated employment standards by up-skilling and creating internal labor markets depends on specifics of market structure, firm composition, and industry competition that will vary by city and sector. However, the application of minimum wage increases to all employers within a city will likely push at least some of them to undertake these strategies. These strategies and goals will likely lead employers to seek targeted assistance from the workforce development system. The presence of workforce development programs fitted to these needs may also provide workforce intermediaries the ability to steer employers toward strategies that compensate for minimum wage increases by enhancing productivity and effort, rather than cutting costs.

CONCLUSION

Wages and working conditions at the bottom of the labor market lock workers into positions of insecurity, low earnings, and limited potential to acquire skills or move up in the labor market. The majority of these jobs currently lie beyond the reach of the workforce development system. However, the vigorous and growing set of organizing campaigns that workers and labor and community organizations undertake to stem problems on the job impact workforce development needs, efforts, and goals.

Empirical studies of working conditions in low-wage workplaces, and of employers' responses to negotiated agreements or political mandates to raise pay and improve working conditions by necessity build on in-depth interviews, and on surveys with difficult-to-reach populations. These characteristics limit the ability to estimate with confidence the size and extent of degraded working conditions and employers' responses to organizing. But practitioners should not allow these necessary drawbacks to obscure the relevant point: Economic theory, the

available quantitative data, and a robust set of in-depth interviews all suggest that organizing on behalf of low-wage workers leads employers to seek greater experience, higher levels of formal skill acquisition, higher productivity, and greater job commitment from the workers they hire. This changing employer perspective helps improve job quality in lower-skilled work and creates an opportunity for workforce development programs.

These employer demands and expectations represent fertile ground for workforce development programs, which work most effectively in contexts in which higher pay rates and more generous working conditions buy employers better performance and more effort on the job (Schrock 2013). While the direct response to the problem of degraded work comes from organizers rather than policymakers, workplace organizing and policy change are pushing hundreds of thousands of employers to seek the very employment traits the workforce development system delivers.

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18

High School Manufacturing Education

A Path toward Regional Economic Development

Benjamin Kraft

Since the Great Recession, a small but resonant body of scholarship, policy innovation, and advocacy work has coalesced around the goal of strengthening manufacturing, especially at local and regional scales in the United States. This includes land use policies to retain urban manufacturing, the creation of “maker spaces,” and the formation of a national network of intermediary organizations called the Urban Manufacturing Alliance (Leigh et al. 2014; Wolf-Powers and Levers 2016).

Workforce intermediaries (Clark 2014) have factored prominently in this discourse. Long-standing programs such as the Jane Addams Resource Corporation in Chicago and the Wisconsin Regional Training Partnership, as well as innovative community college programs around the country, offer important lessons for regions attempting to cultivate sustainable manufacturing ecosystems (Buford and Dresser 2014; Ganzglass, Foster, and Newcomer 2014; Lowe 2015). Regional innovation policies that explicitly incorporate production workers and production knowledge—as opposed to narrowly focusing on research and development—can be both successful in promoting economic growth and equitable in distributing it (Lowe and Wolf-Powers 2017).

Although manufacturing training interventions usually take place at the postsecondary level, a robust body of evidence shows that the most effective and efficient educational strategies start much earlier than college (Heckman and Krueger 2003) and suggests that earlier interventions in manufacturing workforce development may be beneficial.

The purpose of this chapter is to introduce to community and economic developers the idea of teaching manufacturing in high school,

profile five successful high school manufacturing programs, and offer insights about how they can be replicated as part of a community economic development strategy.

WHY MANUFACTURING EDUCATION?

Economic Rationale

Before making the case for strengthening manufacturing education in the United States, we must acknowledge its long-term decline and the devastation that plant closings left in their wake over the past half century. These individual and collective traumas are still palpable in many communities with industrial legacies.

While these conditions make for a tough sell, there is an economic case for supporting manufacturing education in the United States. Manufacturing is an important driver of growth and innovation for both national and local economies (Helper, Krueger, and Wial 2012). The industry consistently has added over 1 million jobs since 2010.¹ The portion of the workforce currently employed in manufacturing is older than the workforce overall, so even with limited growth, jobs will continue to become available as baby boomers retire (Carnevale et al. 2011). Despite stagnant real wages across all industries, manufacturing continues to pay wages that are above average for industries requiring workers with similar levels of preparation.²

While manufacturing employment is cyclical and will decline again, arguments that it will inevitably disappear because of offshoring and automation may be overstated. Manufacturing is less productive (and thus more labor intensive) than once thought, and the bulk of productivity improvements are concentrated in two manufacturing subsectors and related to product—not process—improvements (Houseman, Bartik, and Sturgeon 2014). Further, waves of offshoring in the 1990s and 2000s were due in part to insufficient domestic capacity and not simply the search for cheap labor (Baily and Bosworth 2014). While evidence for “reshoring” remains largely anecdotal, a significant barrier to more fully repatriating manufacturing is a shortage of skilled labor (Bailey and De Propris 2014).

Values-Based Rationale

Pragmatic economics-based arguments are not the only sources of rationale for bolstering manufacturing training at the high school level. It is important to consider the development of young adults. Students with mechanical and technical inclinations should be able to build on their interests—their options should not be limited to college preparatory work or health-care careers purely because of perceived future stability or a potential wage premium (Lowe 2015). Even for students who do not ultimately pursue manufacturing careers, effective high school manufacturing training—like the programs described in this chapter—offers valuable skills and experiences that can translate into other personal and professional realms.

As Carr and Gibson (2016) suggest, “Rather than becoming increasingly marginalized and redundant, the ability to work with materials, and to make, repair or repurpose physical things, are vital skills, for a future where such resources become increasingly limited and extreme events related to a shifting climate are more common” (pp. 298–299). These skills are also important “inheritances” in regions that have strong manufacturing cultures and legacies (Gibson 2016), and can be celebrated—rather than suppressed—in regional development strategies. Society needs people who know how to solve material problems and make things, and in an increasingly information-based world, a subset of young people will continue to need opportunities to do so.

CAREER AND TECHNICAL EDUCATION DELIVERY

Manufacturing education in high schools is delivered through a system known as Career and Technical Education (CTE).³ This chapter focuses on the small subset of CTE that includes manufacturing training (M-CTE).

The way that CTE reaches students, or the CTE delivery model, can be categorized in various ways. For the purposes of this chapter, three basic models are shown in Table 18.1. The first is the more traditional model, whereby CTE delivery is physically and conceptually separate from traditional academic instruction. In this model, students at

Table 18.1 Career and Technical Education Delivery Models

Format	Description	Considerations
Traditional model ^a	Comprehensive high school or technical/vocational high school	Can emphasize or de-emphasize academics; vocational schools may have stigma
Integrated model ^a	Career academy or area career center	Similar to a college major; creates small learning communities, and can be resource intensive or efficient, depending on model
Apprenticeship	Paid, “on-the-job” training combined with academics at home high school	Less flexible, requires significant industry involvement

^a These categories are based on four models defined by the Association of Career and Technical Education but have been consolidated for the purposes of this chapter.

comprehensive, academically oriented high schools take CTE credits as electives, such as auto shop or home economics. Students pursuing a more career-focused education would primarily attend a designated vocational school where larger portions of their school days would be dedicated to learning skills or trades.

An alternative integrated model has gained popularity more recently. In contrast to the traditional delivery model that treats college-preparatory academics and career and technical education as separate pedagogical realms, the integrated model combines them. The integrated model may come in the form of an “area career center,” which centralizes career and technical training for students from across a district or region. It could also take the form of a “career academy,” which clusters students along similar career pathways within a high school, creating what is referred to as a school within a school.⁴ A third option for CTE is an apprenticeship program, which combines on-the-job training with varying forms of classroom learning (comprehensive high schools, vocational schools, area career centers, etc.). These work-based programs must require enough flexibility for students to spend all or part of some school days at the workplace.

Each model comes with benefits and drawbacks. Comprehensive high schools are often thought of as “academics first” institutions,

whereas vocational high schools can underemphasize academics or be negatively stigmatized. The programs profiled in this chapter blend academic and career skills and demonstrate that these perceptions are not necessarily accurate.

Within the integrated model, the central location of area career centers minimizes the cost of facilities, equipment, and materials, but it can necessitate complex scheduling and busing arrangements to accommodate students of different ages and from different home schools. Alternatively, career academies group together students pursuing the same CTE pathway for most of the day. However, these academies can be resource intensive, especially if other schools nearby offer similar curricula. Finally, while apprentices receive their academic and basic technical training through either of the other two models, success of work-based training hinges on the engagement of dedicated industry partner(s) in the nearby area.

All five programs highlighted in this report took risks by delivering manufacturing CTE through novel methods. Even the schools that follow more traditional models—Eleva-Strum High School and Austin College and Career Academy (formerly called Austin Polytechnical Academy)—have added elements that challenge the status quo and foster supportive environments for high school students to learn about—and take seriously—manufacturing.

SMALL LEARNING COMMUNITIES

The distinguishing feature of these five programs is their creation of small learning communities (SLCs). SLCs are cohorts of “students, within the larger high school, who take classes together for at least two years and are taught by a team of teachers from different disciplines” (Hyslop 2009, p. 4). These communities encourage personalized and intimate educational experiences for students and provide opportunities to link academic concepts with CTE experiences (Hyslop 2009). SLCs often are associated with career academies, which are high schools that segment students into small cohorts around specific career themes, as previously described. Career academies have received much of the funding from the U.S. Department of Education’s Small Learning Commu-

nity grant program (Stern, Dayton, and Raby 2010). Hawthorne High School in Southern California, described below, is an example of one. However, the other four case studies achieve the spirit of SLCs, even if they do not meet the exact definition. While the impacts of SLCs are difficult to generalize because of the wide variety of cultures and practices within individual schools, they are part of a promising emerging approach to education (Bernstein et al. 2008; DeAngelis 2004; Stern, Dayton, and Raby 2010).

Outcomes for students who participate in SLCs are encouraging, although the strongest evidence of this is specifically associated with career academies and not alternative forms of SLCs. After controlling for self-selection bias⁵ by studying a sample of students who applied to career academies programs and were accepted in a lottery system, Kemple (2008) shows that eight years after graduation, career academy students earned on average over \$2,000 more per year than noncareer academy students. They also were more likely to live independently and be custodial parents.

While this study provides the most compelling evidence of the effectiveness of career academies to date, it comes with one caveat: these results apply only to males—females in career academies show no significant differences compared to their non-CTE counterparts. The limited benefit of career academies programs for female students compared to male students remains a problem.

The structure of SLCs shows special promise for manufacturing education because manufacturing workplaces are becoming increasingly modularized into small teams of workers. In fact, in a nationwide survey of manufacturers (Weaver and Osterman 2017), almost all employers reported the soft skills “cooperation with other employees” and “the ability to work in teams” as moderately or very important. While certain technical skills were in demand, the most universally demanded hard skills were basic reading and math (Weaver and Osterman 2017).

These results suggest that high schools—and perhaps even earlier education levels—may be the ideal places to expose young people to manufacturing skills and careers. That way, by the time students enter postsecondary training where technical skills are traditionally taught, they will have a foundation for skills needed for success in the manufacturing workplace.

METHODOLOGY AND CASE DESCRIPTIONS

This chapter examines and compares five high school manufacturing CTE programs. (See Table 18.2 for a list of programs and key characteristics.) They represent each of the delivery models (traditional, integrated, and apprenticeship) and a wide variety of community types—urban, suburban, and rural—across diverse geographic regions. Data were collected primarily through interviews with administrators or faculty who have roles in both the daily operations and strategic planning of the programs. Secondary sources such as program websites and media profiles were also consulted.⁶

Each of these programs has also been recognized by various media and industry sources. The Austin College and Career Academy and the Aiken Career and Technology Center’s apprenticeship program have been featured in the *New York Times* (Knight 2011; Schwartz 2013), and Cardinal Manufacturing has appeared in *Modern Machine Shop*, a manufacturing trade publication (Zelinski 2012). The Association for Career and Technical Education,⁷ the Partnership Response in Manufacturing Education,⁸ and the M-List also have recognized several of the programs for their exceptional performance.⁹

Francis Tuttle Technology Center

Integrated model: Area career center

Oklahoma City, Oklahoma. Francis Tuttle Technology Center houses the oldest of the M-CTE programs profiled in this chapter. The manufacturing program offers all courses free to any high school in the surrounding seven school districts. The M-CTE program has been around since 1982 and has adapted over time to match industry demand. For example, program leaders terminated a plastic injection molding program because students were having trouble finding jobs upon completion. This type of flexibility is important to the sustainability of workforce development programs structured around the needs of industrial sectors (Buford and Dresser 2014).

High school students enroll in manufacturing and machining classes comprising mainly postsecondary and adult students. Danny King, the director of the Technology Center, explains that integrating high school

Table 18.2 Characteristics of Manufacturing CTE Programs Profiled

School	Location	Geography	Delivery model	Programs offered	Recognition
Francis Tuttle Technology Center	Oklahoma City, OK	Suburban	Integrated—Area Career Center	Advanced manufacturing, Precision machining	PRIME ^a , Manufacturing Institute’s M-List
Hawthorne High School, School of Manufacturing and Engineering	Hawthorne, CA (LA area)	Urban	Integrated—Career Academy	General manufacturing and engineering	PRIME
Austin College and Career Academy	Chicago, IL	Urban	Traditional—Technical/Vocational High School	General manufacturing	Numerous news and trade publications
Eleva-Strum High School, Cardinal Manufacturing	Strum, WI	Rural	Traditional—Comprehensive High School	Woodworking, CAD/CAM, Metalworking, Cardinal manufacturing	Association for Career and Technical Education (ACTE), Modern Machine Shop
Aiken Career and Technology Center, MTU Apprenticeship	Aiken/Graniteville, SC	Rural, suburban, small city	Apprenticeship	Industrial mechanic basic	ACTE, <i>New York Times</i> , White House

^aPartnership Response in Manufacturing Education.

students into classes with adults can benefit the younger students. For one, lessons are highly individualized, and secondly, it creates a more mature and focused learning environment than might exist at their home high schools.¹⁰

Francis Tuttle highlights Oklahoma's pioneering state Technology Center system. Tuttle is one of 29 centers throughout the state, which exist outside school districts and community college districts and are funded by ad valorem local property taxes assessed only to communities that vote in favor of them. Even in a generally tax-averse state like Oklahoma, there has been consistent willingness to fund the programs.

School of Manufacturing and Engineering, Hawthorne High School

Integrated model: Career academy

Hawthorne, California. The Hawthorne School of Manufacturing and Engineering's location is both a challenge and an asset. This career academy is in a neighborhood south of Los Angeles with a high poverty rate and low adult educational attainment. However, the same small area is also home to one of the nation's preeminent aerospace manufacturing and engineering clusters, with Northrop Grumman and Space Exploration Technologies (commonly known as SpaceX) facilities only a few blocks away.

As a career academy, the School of Manufacturing and Engineering operates within the larger Hawthorne High School. Each year, 300–400 students from ninth through twelfth grades spend most of their school days together in their own wing of the school. Instructors integrate the traditional academic curriculum into manufacturing and engineering subject matter.

The school has developed a state-of-the-art manufacturing training facility with advanced technology, which is available through business and industry partnerships that the staff and program director have cultivated and maintained. For example, California-based machine tool manufacturer Haas has donated several advanced Computer Numeric Control (CNC) machines to be used for student training. These equipment donations benefit the corporate partners as well, since they help to cultivate a workforce that is proficient with their products.¹¹

It is often difficult to recruit high school students into a manufacturing pathway because of the stigma of vocational school and manufac-

turing careers. In addition, like other manufacturing programs in career academies, the Hawthorne School of Manufacturing and Engineering must compete with other pathways that may be more appealing to students and parents, such as business. There are also several recently created charter schools nearby that use curricula similar to Hawthorne's.

Given this competitive environment, the academy implemented a multipronged outreach strategy resulting in increased enrollment over the years. Academy staff members regularly attend middle school career nights and hold workshops for local middle school students. Director Lucas Pacheco has also found that the way he and staff deliver their message to prospective students and parents makes a big difference. Rather than simply making the pitch himself, he often invites alumni of the program and representatives from local partner companies to speak to students and parents about career possibilities in manufacturing. The career academy even invites the parents of students in the program to tag along on field trips to manufacturing facilities. Finally, its well-known and perennially competitive robotics team bolsters the academy's reputation.¹²

Students in the manufacturing program tend to perform better than their peers who are not in the career academy. Aside from the impressive college placement record of the School of Manufacturing and Engineering, its 2012 high school graduation rate was 99 percent, compared to 62 percent for Hawthorne High School, as a whole, in the same year (Centinela Valley Union High School District 2014).

Austin College and Career Academy (ACCA)¹³

Traditional model: Vocational school

Chicago, Illinois. ACCA is a community development, economic development, workforce development, and educational initiative wrapped up into a small school on Chicago's west side. It was envisioned in 2001 when a comprehensive study of Cook County's manufacturing industry and workforce revealed a gap in training pathways for future manufacturing workers, especially in the metal and machinery sectors (Chicago Federation of Labor and Center for Labor and Community Research 2001). ACCA came to fruition as part of the formal manufacturing "career path" recommended by the study.

Opened in 2009, the Academy is an ongoing partnership between the Chicago Public Schools and the Chicago Manufacturing Renaissance Council, a manufacturing advocacy and workforce development organization. The school shares a rehabbed high school building with two other career and college prep academies. The Manufacturing Renaissance Council helped design the manufacturing training facility, and a full-time industry coordinator maintains ties with local industry. The school's six staff members find internship and employment opportunities for students and work with the Chicago Public Schools teachers to ensure that the skills taught across city schools keep up with local industry demands.¹⁴

As of 2014, ACCA faces challenges that come along with serving students in an underresourced area. For example, Austin educators must spend as much time providing students with basic academic and soft skills as they do teaching technical skills. While some students attend the school because of the manufacturing career pathway that Austin offers, many come for other reasons—for example, because it is a relatively new public school in the neighborhood or because they know others who attend. Thus, Manufacturing Renaissance staff work hard to create a highly skilled manufacturing workforce in addition to academically accomplished and well-rounded graduates.¹⁵

The participation and leadership of the Manufacturing Renaissance Council is crucial for the success of this model. Aside from providing a built-in manufacturing community presence, the Council's involvement shows communities interested in initiating an M-CTE program need not wait for a school district or a large employer to spearhead it—manufacturing advocacy groups, trade associations, industrial councils, or expansion and retention organizations can provide the necessary leadership.

Cardinal Manufacturing, Eleva-Strum High School

Traditional model: Comprehensive high school

Strum, Wisconsin. Eleva-Strum is a comprehensive high school in rural Wisconsin that is also home to an innovative manufacturing program. In addition to its machining, metalworking, and welding electives, the school runs an actual commercial manufacturing job shop called Cardinal Manufacturing. The shop offers contract machining

and fabrication services for many types of clients. The following are examples of typical work:

- Stainless steel components for custom wood-turned wine bottle stoppers
- CNC milling custom aluminum parts for a vintage snowmobile
- Welding custom brackets for beam placement in cabin construction
- CNC milling a custom intake manifold spacer to increase the horsepower of a pulling tractor¹⁶

While nearby professional shops may shy away from these small custom jobs, Cardinal Manufacturing will take them on because they provide valuable learning experiences for the students, as well as revenue for the school.

Students who have taken the required introductory classes apply during their junior or senior years to be part of Cardinal Manufacturing. Because the business generates revenue, it is essentially self-funding. The profits are used for equipment, building upgrades, and a current renovation to add a professional meeting space. Student employees also receive a small portion of annual profits.¹⁷

Director Craig Cegielski reaches out to seventh graders to introduce them to manufacturing and future opportunities to work in the shop. In such a small school, however, students are motivated to join this elite group such that the application process for Cardinal Manufacturing has become quite competitive.¹⁸

Aiken Career and Technology Center

MTU Apprenticeship Program

Aiken, South Carolina. Because of concerns about finding local workers with the skills to work in its Graniteville, South Carolina, production facility, MTU (formerly Tognum, a German-headquartered diesel engine manufacturer) worked with the Aiken County Career and Technology Center to develop an apprenticeship program similar to the one that the company's workers in Germany complete. The first cohort of six high school juniors began in 2012, with 600 required classroom hours of traditional high school academics at their home high schools

and technical training at the Career and Technology Center, as well as 1,000 hours of paid work and training at the MTU facility. Upon completion of the program, the apprentices will earn high school diplomas and an industrial mechanic basic certificate, a German certification recognized in the United States.

An apprenticeship program requires a substantial commitment on the part of the school, the industry partner, and the student. Students must be able to travel back and forth between their home high schools, career centers (if applicable), and workplaces, and harmonize their work requirements with high school schedules. During the summer, the MTU program requires that apprentices work 40 hours per week, beginning at 6 a.m., Monday through Friday. Not all high school students will possess the drive and focus it takes to complete the program. Finally, the apprentices must pass a rigorous four-day written and practical examination to graduate.

MTU understood the commitment necessary from industry and was an eager partner because it already had experience running apprenticeships in Germany.

As of 2014, three of the original six apprentices from the cohort that began in 2012 completed the program and passed the exam. Earning the mechanic certificate requires that they complete 1,000 additional workplace hours upon completion of the exam and graduation.

Apprenticeship programs like the one in Aiken require a special set of safety and labor law considerations. While potential partners must be vetted to ensure that their facilities are safe and that they will take the training and supervision of minors seriously, federal labor law does allow 16- to 18-year-olds to learn most manufacturing functions on the job, provided that they are enrolled in recognized trade- or school-based programs.¹⁹

Because the American labor market is less coordinated or regulated—and therefore less stable—than the German one (Hatch 2013a), a perfect replication of a German apprenticeship model is not possible. American firms do not have enough incentive to invest heavily in workers who may leave at any time. Nevertheless, importing elements from successful approaches used abroad may help bridge some of the cultural distance that impedes innovation in an increasingly globally collaborative world (Gertler 2004; Hatch 2013b).

PUTTING IT TOGETHER: LESSONS FOR STRENGTHENING REGIONAL ECONOMIES THROUGH HIGH SCHOOL MANUFACTURING EDUCATION

Create Small Learning Communities

Rather than thinking of shop class as an occasional break from traditional academic work, instructors in successful high school manufacturing programs try to ensure that students share a common, systematic, and evolving learning experience that prepares them for the real world. Even students who do not pursue manufacturing careers will have acquired a set of skills in making, problem solving, and teamwork that are transferable to other career pathways. Delivering manufacturing CTE in a way that partners motivated and like-minded students with teachers creates an energized community of learners. While the career academy model may be structured in a way that encourages the most straightforward application of this approach, SLCs can be achieved with any of the delivery models—traditional, integrated, or apprenticeship.

Engage Stakeholders Early and Often

While community and economic developers may have little direct influence on curriculum or instruction in high schools, they can engage stakeholders at educational institutions who do. Professionals who work with or for manufacturing intermediaries such as Manufacturing Renaissance in Chicago can communicate to schools information about manufacturing employers' skill needs. School leaders, in turn, can make clear to employers the schools' needs for funding and equipment. These lines of communication should be kept open to account for ongoing shifts in demand. Notably, high schools may be less flexible and subject to greater oversight than the traditional postsecondary training programs that intermediaries usually partner with or administer.

All the programs described in this chapter rely primarily on traditional CTE funding sources such as local taxes and Federal Perkins funds for the bulk of their budgets. Some programs, such as Cardinal Manufacturing at Eleva-Strum High School, reinvest revenue into their facilities. To keep up with technological advances, however, M-CTE

programs often require supplemental funds. The Hawthorne School of Manufacturing and Engineering has built relationships with machine tool suppliers who supply equipment. These suppliers understand their mutual interest in supporting training for the region's future workforce. While U.S. employers have become less willing over time to internalize training costs, if they can share costs in the interests of creating a local skilled labor pool, the prospect may be more appealing.

Engage Parents and Understand Community Context

For training programs at the high school level, parents must be involved. Across many communities, it is likely that some level of stigma toward manufacturing exists and will have to be confronted. In the examples described here, teachers and administrators have taken it upon themselves to excite parents about manufacturing careers through information sessions, meetings, demonstrations, and even generating school spirit around their programs. Intermediaries also can be valuable partners in these engagement efforts by leveraging knowledge of and contacts with industry stakeholders. Visible support from potential employers can be convincing.

All communities have some sort of material legacy. If not directly in manufacturing, it may be in agriculture, resource extraction, or transportation. It may be worth reminding parents that the skills involved and nature of work is different from what they remember, and that students who carry on these material legacies will be indispensable contributors to sustainable local economies.

CONCLUSION

As recognition of the importance manufacturing plays within the U.S. economy builds momentum, the search for effective, twenty-first-century training strategies becomes more urgent. Proactive workforce development strategies can more effectively promote growth in manufacturing employment. High schools should be a part of a comprehensive training landscape, as the benefits of exposing high school students to “making” extend beyond economics.

While there is ample leeway for structuring high school manufacturing training, creating SLCs is a promising approach for students and future employers.

Although high school students (and their parents) may require more extensive and sustained outreach than for traditional postsecondary students, people and organizations engaged in regional economic development are well positioned to take on this challenge.

Notes

1. Bureau of Labor Statistics, Current Employment Statistics. https://data.bls.gov/timeseries/CES3000000001?amp%3bdata_tool=XGtable&output_view=data&include_graphs=true (accessed June 8, 2018).
2. Manufacturing's annual average pay in 2016 was \$64,870, while that for Trade, Transportation, and Logistics was \$44,764, Construction was \$58,674, and Natural Resources and Mining was \$56,115. Private employers, all establishment sizes. <https://www.bls.gov/cew/> (accessed June 8, 2018).
3. CTE is the current name and paradigm for what was previously called vocational education. For a review of the history and evolution of vocational education in the U.S., as well as current debates, see Hoffman (2013), Lerman (2010), and Scott and Sarkees-Wircenski (2008).
4. See <http://www2.ed.gov/programs/slcp/index.html> (accessed June 8, 2018).
5. Because students choose to enroll in CTE classes, researchers cannot determine whether their better (or worse) performance was due to chance or may instead be attributable to the motivation and aptitude of students who decide to enroll in CTE.
6. This research was conducted during the period from May to September 2014, so some information, such as job titles and program statistics, may not be current.
7. For more information, visit <https://www.acteonline.org>.
8. This is a nationwide program run by the Society of Manufacturing Engineers (SME) to recognize and encourage exemplary manufacturing education. For more information, visit <http://www.smef.org/prime/page/prime-schools>.
9. The Manufacturing Institutes created M-List to endorse high schools and colleges teaching manufacturing skills. For more information, visit www.themanufacturinginstitute.org/Skills-Certification/M-List/M-List.aspx.
10. Danny King, director of the Technology Center. Telephone interview with the author, June 27, 2013.
11. Lucas Pacheco, director of the Hawthorne School of Manufacturing and Engineering. Telephone interview with the author, July 24, 2013.
12. Lucas Pacheco, director of the Hawthorne School of Manufacturing and Engineering. Telephone interview with the author, July 24, 2013.

13. For more information about this program, see “Manufacturing Connect: Teaching Advanced Manufacturing Skills to Inner-City Students” by Rick Mattoon and Susan Longworth, in Volume 1 of this book, and “Youth Job Creation and Employer Engagement in U.S. Manufacturing” by Nichola Lowe, Julianne Stern, John R. Bryson, and Rachel Mulhall in Volume 2 of this book.
14. Erica Swinney, program director, Manufacturing Renaissance. Telephone conversation with the author, July 15, 2013.
15. Erica Swinney, program director, Manufacturing Renaissance. Telephone conversation with the author, July 15, 2013.
16. Craig Cegielski, director of Cardinal Manufacturing. Personal communication with the author, August 19, 2013.
17. Craig Cegielski, director of Cardinal Manufacturing. Personal communication with the author, August 19, 2013.
18. Craig Cegielski, director of Cardinal Manufacturing. Telephone conversation with the author, July 22, 2013.
19. Labor, Subtitle B C.F.R. §570 Chapter V, Subchapter A (2018). https://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&sid=48d6ee3b99d3b3a97b1bf189e1757786&rgn=div5&view=text&node=29:3.1.1.1.31&idno=29#se29.3.570_12 (accessed June 26, 2018).

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19

Youth Job Creation and Employer Engagement in U.S. Manufacturing

Nichola Lowe
Julianne Stern
John R. Bryson
Rachel Mulhall

Urban areas in the United States and Western Europe face a labor market paradox. Local governments are struggling to develop solutions to high youth unemployment, while at the same time urban manufacturing companies are struggling to fill vacancies and face increasing skills shortages because of their aging workforce (Bryson et al. 2008; Kalafsky 2007; Leitch 2006). How cities respond not only has implications for the location and extent of manufacturing job creation, but will also determine whether economically disadvantaged youth have a critical role to play in shaping the future of manufacturing.

In recent decades, manufacturing has become an important element of urban policy as industrialized nations emphasize the contribution it makes to economic growth. However, the steady decline in manufacturing employment since the late 1960s has meant that manufacturing is less visible in urban centers, and younger generations, as well as their parents and teachers, are often less likely to consider those jobs as an attractive career option (Middleton 2017; Shih 2014). Attempts to reverse this through the promotion of maker-spaces and innovation-oriented DIY manufacturing districts offer some potential, but they often come at the expense of economic inclusion, as most of these efforts focus on highly educated, well-resourced urban youth (Wolf-Powers and Levers 2016). This disconnect is further compounded when we consider that many small and medium-sized incumbent manufacturing facilities have dismantled internal training systems and thus lack organizational capacity to nurture, advance, and retain the next generation of manufacturing workers (Cappelli 2012; Osterman and Weaver 2014).

Rather than investing in skills, some firms have relied extensively on lay-offs from other manufacturers to replenish their workforce (Berger 2014). But with this source of skilled employees declining, incumbent firms now scramble for near-term solutions to an aging workforce, even weighing the option to automate or offshore tasks and processes, or simply close down.

The dual challenge of high youth unemployment and hard-to-fill job openings is an opportunity for experimentation around manufacturing workforce development. Solutions that focus narrowly on education attainment without accompanying labor market interventions are proving less effective, leading practitioners to search for more comprehensive solutions that lie at the intersection of technical education, workplace transformation, and community development (Conway and Giloth 2014). Preemployment interventions can be effective in preparing youth for entering the work environment, especially when aligned with industry skill needs (Hoffman 2011). Also important are strategies of employer engagement that simultaneously shape and improve the work environment itself to create the conditions for the success of the newest generation of workers (Fitzgerald 2004; Lowe 2015). Interventions that address parental concern that manufacturing employment will undermine pathways for economic and career mobility for youth are also important (Beverland, Nielsen, and Pryce 2015).

Chicago's Manufacturing Connect (MC) program is one promising solution to connect younger workers to urban manufacturing.¹ Launched in 2005, MC helps students and graduates of the Austin College and Career Academy (previously called Austin Polytechnical Academy) prepare for and secure job opportunities in small and medium-sized manufacturing firms. A central aim in this high-poverty, historically black urban neighborhood is to educate youth, as well as their parents and guardians, about rewarding careers in manufacturing and provide the foundational skills needed to launch successful manufacturing careers. MC goes well beyond student education—it positions itself as an influential workforce intermediary, engaging employer firms in ways that shift perceptions of inner-city youth and help them recognize the contribution of younger workers for industry innovation and survival. The program helps employer partners—mostly small and medium-sized metal manufacturing firms—identify and resolve gaps in organizational and human resource management. These changes not

only improve the ability of firms to recruit, retain, and advance recent high school graduates, but also lead to the formalization of mentoring and training systems that benefit incumbent and new workers alike.

While MC is a relatively new initiative, it has already been recognized as a potentially transferable model by federal agencies, receiving a \$2.4 million grant in 2014 from the Department of Labor to help shore up and formalize strategies of employer and student engagement. In 2016, Chicago Public Schools approved expansion of the program to two additional urban high schools. This suggests an opportunity to shed light on and learn from MC's innovative strategies for engaging employers collaboratively to generate new pathways for youth to enter and grow into urban manufacturing careers.

INTERMEDIATION AS A STRATEGY FOR LABOR MARKET INTERNALIZATION

Studies of labor market institutions have drawn attention to the role of third-party organizations in mediating exchanges between employers and job seekers. But their role is not inherently beneficial to workers—rather, some intermediary institutions can intensify worker vulnerability by encouraging private firms to outsource key labor market and related management functions (Peck and Theodore 2001). This represents a departure from earlier forms of institutional action—most notably by labor unions—that pushed employers to reinforce and reproduce internal strategies to support worker rights and job quality standards (Doeringer and Piore 1971; Reich, Gordon, and Edwards 1973). Employer-serving institutions have been known to promote precarious employment arrangements and in ways that enable “businesses to externalize the costs of economic fluctuations and regulatory risks” (Peck and Theodore 2007, p. 176). Benner (2003) notes related actions taken by labor market institutions to help employers “reduce their own internal labor force and shift economic risk through a series of more short-term contracts with external agents” (p. 628). While some workers certainly benefit from having access to institutions that facilitate mobility across organizational and labor market boundaries—particularly those in professional occupations or with highly sought after skills—there is grow-

ing concern that strategies of externalization come at the expense of workers in the middle or bottom segments of the economy and through accompanying reductions in wages and benefits and deterioration of other labor standards (Doussard 2013; Weil 2014).

Despite these potential challenges, workforce intermediaries (WI) represent an important institutional alternative in the face of labor market flexibility. WIs adopt a “dual-customer” approach, serving both job seekers and employers in order to enhance economic opportunity through organizational or industry growth. WIs not only seek to reduce sources of worker vulnerability but also offer a potential institutional platform for (re)embedding key labor market functions within firms (Lowe 2015). In this regard, they fill an institutional void created in the wake of precipitous decline in union membership.

Job training is often a key component of workforce intermediation and is offered by many intermediaries as a means to forge stronger connections with local employers (Giloith 1998; Conway and Giloith 2014). WIs use connections to training institutions to enhance the quality of that training support, establishing channels through which employers can provide constructive input based on changing labor processes or shifting skill needs. In essence WIs help create dynamic feedback loops that ensure existing training programs are preparing workers in ways that create value for local employers (Lautsch and Osterman 1998). Current labor market conditions also allow WIs to push firms to make improvements to internal “human resource systems, career ladders, job quality, and overall competitiveness” (Giloith 1998, p. 7).

Fitzgerald (2004) has echoed this recommendation, arguing that it is not enough for workforce intermediaries to simply take a “dual customer” approach—that is, treating both job seekers and employers equally as beneficiaries of their efforts to match job seekers with and train them for specific openings. As she suggests, WIs should evaluate how successfully they can leverage this support for “jobs-driven training” as an opening to *also* improve employers’ human resource practices from within. This strategy is potentially more resonant with employers in tight labor markets.

WIs have made gains on this front by deploying strategies of skill reinterpretation to engage employers in a process around how *skill* is defined. Skill-reinterpretation processes frequently open up employment and advancement opportunities for less-educated workers who

might otherwise be overlooked or undervalued when *skill* is narrowly defined in terms of educational attainment rather than competency (Lowe 2015). With these strategies, WIs have encouraged employers to take a more critical look at how they frame and fulfill their skill needs and in the process formalize and strengthen internal training and mentoring systems. Strategies of skill reinterpretation have enabled employers to recognize opportunities to relax restrictive hiring criteria and in the process broaden the pool of qualified candidates to include job seekers with lower levels of formal education or a less-complete skills portfolio.

As an example, New York City's Garment Industry Development Corporation (GIDC) has used strategies of skill reinterpretation to influence internal employment practices by pairing job training for workers with technical assistance for business owners. In that role, GIDC helped garment firms acquire new technology and also access new export markets and industry supply chains (Conway and Loker 1999, p. 26). They combined technology and marketing support with workplace improvements, helping firms introduce cross-training and team-based production models to increase flexibility and decision making of shop-floor workers. GIDC framed these changes as necessary to enhance overall industry competitiveness. Wisconsin's Regional Training Partnership and Chicago's ManufacturingWorks program also provide technical assistance to small and medium-sized firms in order to help improve internal employment practices (Lowe 2015; Schrock 2013).

Despite these well-publicized successes, many other WIs struggle to influence employer behavior. Admittedly, it is a significant strategic undertaking for a WI to shape both employer hiring *and* internal human resource practices. Most WIs can influence who gets a job but often struggle to gain traction beyond the hiring point.

Furthermore, WIs are often hesitant to push employers to make significant internal changes out of fear that this requirement might jeopardize their relationships with employers and in the process undermine their ability to place job seekers. One intermediary that we interviewed in 2013 noted that when WIs become aware of problems on the shop floor of a partner firm, they respond by coaching the job seeker—rather than the employer—on how to handle the situation. The only leverage this intermediary felt they had with partner firms was to threaten to stop sending the firm new candidates if too many workers reported negative

experiences. Reiterating this, another intermediary explained that it is often easier to adapt the services you offer a given company than try to get that company to adapt their own human resource practices to more successfully leverage the job seekers you support. As many intermediaries depend on sustained goodwill of local employers, they may be especially hesitant to undermine that employment connection by trying to impose changes to established organizational practices and routines.

A major question then is, How can workforce intermediaries work with employers to improve human resource practices and other key decisions made after the point of hiring? And how can they influence change in ways that employers perceive as value creating and thus worth sustaining over time? The MC case illustrates how one sector-based workforce intermediary in urban manufacturing has made headway on this challenge, but equally points to a pressing need for a well-articulated and replicable framework for helping small manufacturers build internal structures to attract, nurture, develop, and reward younger talent.

CHICAGO AND THE MANUFACTURING CONNECT PROGRAM²

MC is one element of a larger planning effort to stem manufacturing job loss in the greater Chicago area. In the early 1980s, Chicago faced a significant industrial crisis: manufacturing employment in the city once known as the “city of factories” had dropped by nearly two-thirds from its height in the late 1940s (Clavel and Giloth 2015, p. 20). Numerous commentators, including those within Richard Daley’s mayoral regime of the 1970s, presumed manufacturing in Chicago was dead. The city government invested in downtown redevelopment and the service economy, envisioning “the replacement of formerly downtown industrial functions by residences for professional and managerial workers” (Clavel and Giloth 2015, p. 20). But while this “corporate center” approach may have offered a solution for growing the city’s tax base, it failed to replicate a critical function of Chicago’s former industrial base: offering an accessible pathway into the middle class for Chicago’s less-educated workers (Rast 2005).

The election of Mayor Harold Washington in 1983 brought significant changes to economic development strategy in Chicago, including explicit emphasis on retaining manufacturing jobs that were key to the economic welfare of the city's poorer neighborhoods (Clavel and Giloth 2015). A key legacy of the Washington administration was the Local Industrial Retention Initiative (LIRI), which initially served as an early warning system for potential plant closings and relocations (Fitzgerald and Green Leigh 2002). The work of LIRI was delegated to community development organizations throughout Chicago, creating a critical opportunity for these organizations—which in many peer cities focused narrowly on housing—to build new relationships with the small factories that were vital to the economic health of their neighborhoods. Empowerment from the city also came with financial resources, with up to \$3 million flowing from City Hall to neighborhood organizations (Clavel and Giloth 2015, p. 25).

Elements of Washington's original industrial retention effort have been modified or weakened in recent years, but the formation of new coalitions in support of urban manufacturing remains a lasting legacy of this period. These coalitions have enabled neighborhood organizations, labor activists, and small manufacturers to reinforce their shared interest in the future of manufacturing in Chicago. They provided a resilient platform for continued experimentation, including the development of newer initiatives like MC.

The MC program at the Austin College and Career Academy (ACCA) was developed by the Chicago Manufacturing Renaissance Council (CMRC), a coalition of organized labor, manufacturing firms, local government, community leaders, and educational institutions. The CMRC was initially founded by labor organizer Dan Swinney and has direct links to Washington's original LIRI network (Swinney 2000). Swinney and other Chicago labor and manufacturing leaders became convinced that the manufacturing job losses they were witnessing were not inevitable, but were a result of locally specific structural barriers, including loss of industrial land availability, that might be addressed through collective action. They formed the CMRC in 2001, with active participation from the Illinois Manufacturers Association and the Chicago Federation of Labor.³

In the early 2000s, the CMRC began to work toward an ambitious vision to transform the relations of industrial production in Chicago

through the implementation of new career development pipelines. CMRC leaders came to believe that innovation in manufacturing techniques had to be paired with institutional innovation, and set about developing a concept for new educational infrastructure to support manufacturing leadership and skill development. In 2005, they began to develop plans for the establishment of a manufacturing-oriented high school.

The CMRC selected Chicago's Austin neighborhood as the site for a pilot manufacturing-oriented high school. Austin is a predominantly African American neighborhood, where approximately one-quarter of households and 40 percent of households with children live below the federal poverty line (Census Bureau 2013). In selecting Austin, the goal was to bring large-scale economic opportunity to older industrial neighborhoods by building the community's capacity to reengage the manufacturing economy and by leveraging the manufacturing activity in areas surrounding the neighborhood.

Austin College and Career Academy's Program and Curriculum

ACCA opened in 2006 as a traditional public high school governed by the Chicago Public School System and graduated its first four-year cohort in 2011. The majority of ACCA students are African American and live in the Austin neighborhood. The MC program was created the same year as a set of optional manufacturing electives for ACCA students; each year, up to 65 percent of ACCA students participate in the MC program. From 2011 to 2016, more than 185 ACCA graduates completed the MC program and have received services ranging from technical and soft skills training, short-term experiences with employers, and job placement assistance.

MC's manufacturing and engineering elective courses start in students' second year at ACCA. Through this classroom training, students have the opportunity to earn up to five nationally recognized credentials from the National Institute of Metalworking Skills (NIMS). The NIMS credential, developed in the mid-1990s with support and funding from metalworking trade associations, was selected because it offers portable credentials that are known to many U.S. metal manufacturers. The school's manufacturing curriculum is co-taught by an MC staff member and an ACCA teacher, and the machine shop is funded and designed by

MC's employer partners. MC and its employer partners select machines most commonly used by partner firms, thereby giving students a realistic shop-floor experience. MC staff also work with ACCA teachers to incorporate manufacturing and engineering concepts into their daily lesson plans. In 2015, 93 percent of MC participants received at least one NIMS credential.

The MC curriculum has evolved to provide leadership training, designed to prime students to step into management roles later in their careers. Those skills were initially developed through extracurricular activities like MECH Creations, a student-run cooperative business that manufactures and sells trumpet mouthpieces designed by MC's machining instructor. As Swinney (2014) notes, "We regularly have to clarify that (ACCA) is not a trade or vocational school but one geared to all careers related to manufacturing, including all positions within the firm as well as positions outside the firm. Our career range includes skilled production technicians, marketing and management, ownership, a PhD researcher in nanotechnology, or a leader in industrial policy" (p. 5). Students buy into this message about training for diverse positions along the entire manufacturing career ladder (AFL-CIO 2014).

In addition to academic and technical education, most students participating in MC also gain some form of paid manufacturing work experience, often through internships.⁴ The goal is for students to use internship placements to learn about the internal culture of manufacturing firms and observe and practice behaviors that are valued in the manufacturing workplace.⁵ MC works to "build cultural bridges" between students and manufacturing firms through additional training that takes place in the school environment, where MC staff facilitate explicit discussions with students about soft skills and behavioral expectations in the manufacturing workplace. This is particularly important given that many of the workplaces that students visit have an older white labor force, which can add a racialized dimension to the issue of "cultural" interpretation and fit (Moss and Tilly 2001). The staff member who leads these discussions has a background in community organizing and serves as a trusted resource to students both during their time in the school and after they have been placed in full-time employment.

MC Impact⁶

As of August 2017, 46 out of 185 students who graduated from the MC program between 2011 and 2016 secured permanent postgraduation employment in manufacturing facilities in the greater Chicago area—all placements have involved African American students. The average starting salary for a graduating MC student securing entry-level job placement in manufacturing is around US\$12/hour plus benefits, although graduate salaries range widely; one MC graduate earns more than US\$70,000 annually only a few years postgraduation. In 2016, the program added a postsecondary counselor to its staff with the goal of supporting the college application process. As part of this expanding support, MC now tracks postsecondary education—100 percent of MC participants graduating in 2016 applied for a college degree program. All 32 of these students received at least one college acceptance letter and completed their FAFSA forms. Approximately one-third received a formal scholarship offer.

Although only a quarter of ACCA's graduates have pursued postgraduation careers in manufacturing, a growing number of those exploring interim options have returned one to two years after graduation to seek manufacturing jobs. To further encourage this, MC's placement and mentorship services remain available on an open-ended basis after graduation. Additionally, MC staff continue to remain involved with supporting successful relationships between former students and employers after students have joined the manufacturing workforce. Ultimately, this extended support means that placement numbers for recent graduating classes are likely to rise in the coming years and must be factored in to proposed program evaluations.

MC EMPLOYER PARTNERS AND ESTABLISHED EMPLOYMENT PRACTICES

Classroom training and short-term work-based learning facilitated by MC staff play an important role in generating employment opportunities in manufacturing for graduates. Still, transforming this first job experience into a lasting career opportunity also requires a level

of employer commitment that is often difficult for workforce intermediaries to secure. Preparing employers to work with youth employees requires improvements in human resource systems. To contextualize these changes, it is useful to provide an overview of the typical established hiring and career development practices at MC partner firms. These practices, intentionally or otherwise, obscure pathways for skill development and career advancement for newer employees. Formalizing more accessible and transparent pathways requires that employers recognize not only the immediate benefits for MC graduates, but also the inherent value of new pathways and practices for their entire workforce.

MC's current employer network consists of more than 60 small and medium-sized manufacturing businesses. The median size of an MC partner firm is 40 employees, with the largest partner employing more than 800 workers. Most partner firms are metal manufacturers, and the products they make range from custom small parts like springs and gears to large finished goods like industrial ovens, transit seating, and high-end airbrushes. Many are family run, and most have an aging white workforce—most hired through informal word-of-mouth networks.

The tendency of employers to hire on the basis of loyalty, cultural fit, and personality more than specific skills or educational preparation presents both opportunities and barriers for a workforce intermediary like MC. On one hand, it implies a degree of flexibility around hiring—to some extent, employers are willing to take a chance on any job seeker that comes recommended by a trusted source. On the other hand, this emphasis can make it harder for both students and MC staff to decode what they need to do to demonstrate value to partner firms.

For most employers, the informality around hiring has carried over to their advancement practices. Admittedly, many MC partner firms entered the program with some elements of an internal career ladder, with shop-floor job functions that progress in skill. Workers have been able to move up these implicit ladders; each firm we interviewed offered examples of top-level supervisors who had progressed through the ranks from entry-level positions, and several even said that given a choice, they preferred to “grow their own” talent.⁷

Still, few firms have entered the MC partnership with a consistent policy around advancement that they communicate to workers. In most cases, worker advancement has been based on management identifi-

cation of desirable characteristics. These characteristics often have been highly subjective, with advancement depending less on demonstrated skill and competency and more on observed personality traits. For example, one employer said the most important characteristic they have used for advancement was follow-up—“simply doing what you say you’re going to do.” Another employer said that workers who have advanced in his firm often share an innate curiosity and desire for continued learning about manufacturing.

More often than not, the onus has been placed on the employee, with the expectation that they will make their interest in advancement known to management. This practice creates potential risk for workers who might have the requisite skill to advance, but might lack awareness of this expectation or even self-confidence to put themselves forward as prospective candidates.

One employer directly addressed the existing communication gaps around advancement within his firm: “We recognize that some people view their positions as dead ends, and it doesn’t have to be that way, if the person is willing to progressively work at it—and we want those people to do that. We don’t do a great job of communicating that, but that’s what we want.” In other words, these firms don’t lack a career ladder per se, or even a desire to advance employees along that ladder; rather, they lack a formal and consistent system for making those expectations clear and transparent to all employees, especially those entering their firm.

Another missing piece for many MC partner firms has been an explicit training protocol that workers can use to ascend career ladders. Although many of the firms interviewed have traditionally offered employees some form of training, that “training” has often encompassed a broad range of activities, only some of which provided long-term value to the employee. Training at most firms has taken the form of short-term fixes, mostly occurring on an as-needed basis. While this spot training has helped prepare workers to meet the firm’s more immediate needs, it has done less to support longer-term career planning.

Firms acknowledged a desire to strengthen their human resource infrastructure, and that their involvement in MC had increased their awareness of this need. But they also recognized constraints that can make it difficult to implement significant changes without this additional assistance.

MC partner employers have traditionally lacked clear internal mechanisms for and transparent communication about advancement, which in turn has hampered their ability to promote from within. Many also acknowledge that their past sources of workers will likely be less available in the future, both because they have already tapped the limit of “friends and family” hiring sources, and because the children and younger relatives of current employees seem less interested in manufacturing careers than in past decades. Finding ways to recruit a younger workforce and providing clear pathways for them to advance to fill roles at all levels of the firm is therefore critical to firms’ medium- to long-term survival. It is here that MC has been focusing its strategies of employer engagement.

INITIATING EMPLOYER ENGAGEMENT WITH THE PHILANTHROPIC PITCH

Employer engagement starts with efforts to recruit firms to become MC partners. MC staff initially recruit employer partners by appealing to their intrinsic desire to be good philanthropic organizations and give something back to their community. As Bill Vogel, former MC outreach coordinator, explained: “There is something that’s inherently valuable to any organization when you’re helping a young person. We feel it’s in our bones, it’s in our DNA, to want to share our experience with a young person, hopefully that we can influence that young person’s life.”

This philanthropic lens not only facilitates initial employer recruitment, it also gives partner firms a basis for a more flexible interpretation of the actions of younger-aged, low-income students upon entering their workplace. One MC employer partner illustrated this by describing a situation in which a high school student, recruited through a different program, was caught stealing lunches during a summer internship placement. Because the employer in question was aware of the socioeconomic background of this student and the specific challenges this implied, they opted to not dismiss him outright. Rather, they used this as a conversational moment to uncover the underlying circumstances that might lead him to act in this way. Through these discussions, it became clear that the theft stemmed from the student’s basic need for

food, which in turn resulted in further employer action to provide the student additional resources and assistance.

Similarly, another employer noted initial concern when discovering that summer employees hired through MC had not yet deposited their paychecks. Upon further review, the employer learned that these students did not have their own bank accounts. This motivated the employer to accompany them to the Social Security office to help them secure proper identification and to a local bank branch to create individual savings accounts.

MC staff build out from this philanthropic base, helping employers deepen their investment in and commitment to the program and ACCA students. Indeed, a key distinction between MC and many other workforce intermediaries is that MC staff explicitly ask for employers' help. When employers join MC as partners, they are expected to contribute between \$500 and \$750 and sign a letter of commitment promising to participate in prehire activities, including hosting job shadows and internships, participating in advisory committees, and contributing to external presentations of the program. MC staff consistently communicate that employers are true partners in creating socioeconomic change and, because of that, are expected to coinvest in the program, not just receive its benefits.

Reinforcing that, one employer indicated that because of MC's primary mission to improve socioeconomic outcomes for low-income students, they "don't expect Austin to tailor a program for us." Consequently, many employers in MC believe the onus is on them to bend toward the needs of these younger job seekers, rather than expect youth to seamlessly plug in to existing human resource practices.

These examples illustrate the benefits for younger, less-experienced job seekers when potential employers interpret their actions more sympathetically and are less likely to respond punitively. Yet, simply relying on the charitable leanings of company executives has potential limits. For example, MC partner firms have been known to accommodate certain actions and behaviors from students that they will not tolerate from their permanent workforce. Some MC students may not learn expected workplace practices, and in turn increase the risk of conflict with other workers at the facility. MC staff are cognizant of this risk, as are U.S. labor scholars. School-to-work programs that are structured as charitable endeavors reduce their impact on youth employment, train-

ing, and career development by encouraging employers to view their role narrowly as a form of social welfare (Bailey 1995; Bailey, Hughes, and Barr 2000). MC staff instead aim for a blended or nested approach by encouraging an employers' philanthropic leaning to support youth employment, and by helping employers realize this is only achievable if they also adopt significant structural changes to support worker mobility throughout the firm.

STRENGTHENING INTERNAL INFRASTRUCTURE WITH STUDENTS (AND EVENTUALLY ALL WORKERS) IN MIND

MC staff have used three interrelated strategies to extend beyond goodwill and influence firms' internal human resource practices. First, they use the internship placement process to encourage new partner firms to critically assess how their internal organizational structures constrain or limit worker mobility. This includes helping firm owners and managers identify and resolve sources of workplace conflict between new and incumbent employees and, in response, experiment with solutions in anticipation of hiring MC students upon graduation and other students. Second, MC staff use their ongoing mentoring—which includes regularly scheduled meetings with both student interns and those securing postgraduation jobs—to draw out information that can then help employers better anticipate and interpret workplace conflicts. Third, they use formal MC events to promote peer learning among firms, creating channels for formal and informal dialogue during which recommendations can be shared and assessed.

The internship period is especially helpful in bringing to light problems within the company that require changes and improvements to entrenched human resource practices. During the internship period, MC staff visit partner employers and solicit input on the internship experience. MC, for its part, uses this information exchange to make changes to its internship curriculum and classroom activities that support work placements. Still, as much as these exchanges help create stronger relationships between MC staff and employers, they encourage employers to initiate an honest review of their own internal human resource prac-

tices. Ultimately, these exchanges create a sense of joint responsibility for youth employment and enable employers to see MC staff as a resource for guiding strategies in support of organizational change.

Several employers we interviewed described feeling “underprepared” when hosting their first cohort of summer or spring break MC interns and subsequently requested additional help from MC staff in improving their ability to give students a more successful initial work experience. One employer, reflecting on early exchanges with Austin students, stressed “the bottom line is that we need to be prepared just as much as the students are when they come in to work.” Employers have been able to overcome many of these challenges. Through better communication, company leaders were able to impress upon shop-floor supervisors the need to implement strategies that would improve the internship experience of future MC students.

Employer partners have also used the internship experience to engage supervisors in a conversation about the company’s need to build a robust workforce pipeline. One employer, for example, initiated conversations with incumbent shop-floor supervisors about the learning expectations of MC interns and stressed during these exchanges that some of these students could eventually be the supervisors’ mentees or coworkers in the future. They also emphasized that in supporting these younger job seekers, these supervisors were contributing to the lasting legacy of the firm and also Chicago’s manufacturing industry.

Still, motivational messages by company owners are sometimes not enough to resolve deeper frictions that emerge when employers bring on MC graduates full time. This is why MC staff maintain strong relationships with both partner employers and MC graduates and use those frequent exchanges to help partner employers devise better workforce structures and systems. Firms have reported that incumbent workers may disagree with advancement of some MC graduates and see it as unearned preferential treatment.

Ultimately, tensions like these require more substantial changes to workplace practices and routines. They also represent an opportunity for MC staff to help employers recognize deeper structural changes that are needed to benefit younger workers, including MC graduates—changes that could also improve the overall work environment and experience for older, incumbent workers.

With this in mind, one MC employer took steps to formalize internal mentoring strategies, not only as a means to better communicate expectations to newly hired MC graduates, but equally to empower their incumbent workforce. This intervention was brought on by a situation involving an MC graduate who introduced an innovative yet unauthorized change to an established shop-floor process without first communicating to his assigned supervisor. Rather than engaging directly with this newly hired MC graduate and risk magnifying tension within the workforce, the manager empowered her supervisor to review the standard protocol for sharing new ideas. From that point on, all supervisors were encouraged to convey these procedures to new hires. The experience with this younger employee highlighted areas where internal mentorship could be strengthened to reinforce the knowledge contribution of more senior and experienced workers. MC has helped with this messaging as well.

One employer stressed that as a result of MC-inspired improvements to employee mentoring, his incumbent supervisors were now more proactive in preparing for MC graduates to enter the organization, even taking the initiative to independently develop additional supports of four 2016 MC graduates entering later that year. This company also relied on input from supervisors and MC staff to design a brand-new system for new employee training. This includes introducing an official buddy system, where new employees are paired up with one or two existing employees that can help them navigate the new work environment. Thanks to the option to request buddy reassignment, MC graduates can access a mix of perspectives and support.

In consultation with MC staff, this same firm has taken additional steps to establish a more transparent protocol for “on-boarding” younger interns and better preparing them to meet the expectations of daily work life. For example, student interns, along with their assigned supervisors, must now sign a formal contract that clearly outlines company expectations, but also explains the consequences students will face if they violate the terms of that agreement—this includes specifying the number of warnings they will receive before a notice of final termination.

Other structural changes are worth noting and stem from continued employer engagement by MC staff and with it widening opportunities for workforce intermediation. One employer acknowledged drawing

inspiration from his continued experience hiring MC graduates to introduce companywide strategies for better integration of *all* new employees. As a result of his MC experience, he has become especially sensitive to potential frictions between his existing workforce and newly hired “skilled” (as opposed to entry-level) workers. In this case, tensions arose when the company recruited skilled welders, who in turn were able to demand significantly higher starting wages than that of the incumbent workforce. This wage difference was mostly due to differences in skills and qualifications, including knowledge of specialized welding techniques. Still, the conflict this pay differential created made it much harder for the company to retain newly hired welders, especially given high regional demand for their skills. To solve this problem, the employer approached another regional workforce intermediary in Chicago—one with extensive experience in developing customized training programs—to launch an in-house apprenticeship program, thereby creating an internal mechanism for equalizing skills and pay scales across their incumbent and newly hired workforce. While this apprenticeship program was not designed with MC graduates in mind, this example nonetheless demonstrates the ways that initial changes introduced in support of MC students are inspiring partner employers to identify and resolve broader human resource bottlenecks within their organizations. Furthermore, this presents a critical opportunity for MC to build on employers’ willingness to extend special treatment to MC hires, initially for philanthropic reasons, leveraging that openness into a broader commitment to improve and institutionalize human resource practices more generally.

REFLECTIVE CONCLUSIONS

The MC case demonstrates that successful labor market interventions designed to encourage youth to pursue careers in urban manufacturing require a joint focus on educational opportunities and strategies of employer transformation. Jobs-driven training, whereby the intermediary simply responds to an employer’s immediate skill needs, is not enough to engage young workers if they are placed in an environment where paths to advancement are not well-articulated and transpar-

ent. On its own, this supply-side training approach risks making only a short-term impact on firms and workers, instead of transforming job openings into career opportunities that can both support positive long-term socioeconomic outcomes for workers and ultimately contribute to industry growth and regeneration.

MC models itself as a workforce intermediary, seeking to influence employer behavior in ways that improve the overall work experience. MC engages firms with two motivations: giving disadvantaged youth a hand and helping facilitate organizational transformation. Firms may not initially perceive a strong link between the two, but MC guides firms through a set of experiences that influence them to start connecting the dots. Early mismatches between MC students' expectations and firms' existing human resource practices lead employers to institute new practices, initially in the name of philanthropic impact. Viewed through the narrow lens of the firm's ability to support MC's philanthropic mission, it is relatively easy for firms to admit that their human resource practices fall short and to apply targeted fixes, including increased mentorship, clearer frameworks for advancement, and additional training opportunities.

When strategies in support of MC students begin to cause fissures among the broader workforce, firms can be encouraged to leverage their investment in the program to adopt more widespread organizational changes. Indeed, perhaps the most important change to human resource strategies that has resulted from MC's intervention is at the meta level: based on experiences that have demonstrated to employers that their current human resource infrastructure has gaps that will make it difficult for them to support and retain the workforce of the future, they have started to actively demand resources that can help them make changes. This desire on the part of employers reinforces MC's framing of the role of employers as true partners who are expected to coinvest in the transformation of the manufacturing industry in Chicago. MC leverages this expectation to encourage partners to make larger changes precisely because the philanthropic logic is so tightly interwoven with goals of industrial transformation. That is, employers' expectation that they will play an active role in investing in these disadvantaged young people implies an expectation that they will play an active role in reshaping the future of the manufacturing industry in Chicago. That agency is manifested as employers embrace new approaches to human

capital supporting the long-term success of the next generation of manufacturing workers.

MC has clearly made progress on the intermediary front, engaging employers in a way that enables them to recognize their contribution to industry workforce development. MC is now working to develop additional supports, including training and peer learning opportunities for incumbent workers, which will enable them to take advantage of firms' willingness to change. MC's work so far has created a valuable resource—a community of small firms that are committed to building a stronger human resource infrastructure. As MC continues to develop and refine its model—including expanding programming to other Chicago-based high schools—it will provide an important example to build on as federal and state policymakers hasten the spread of sectoral workforce intermediation.

Notes

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1. For more information on the MC program, see “Manufacturing Connect: Teaching Advanced Manufacturing Skills to Inner-City Students” by Rick Mattoon and Susan Longworth, in Volume 1 of this book, and “High School Manufacturing Education: A Path toward Regional Economic Development” by Benjamin Kraft, in Volume 2 of this book.
2. The primary data source for this study is a set of 25 in-depth interviews conducted with Manufacturing Connect staff and participating SME employers between 2014 and 2017.
3. Personal communication with Erica Swinney, Director of Operations, Manufacturing Connect, May 20, 2014.
4. Personal communication with Erica Swinney, Director of Operations, Manufacturing Connect, May 20, 2014.
5. Personal communication with Seth El Jamal, Youth Coordinator, Manufacturing Connect, May 28, 2014.
6. Data on impact provided by Manufacturing Connect.

7. We conducted in-depth interviews with owners or top executives at nine MC partner firms in 2014, 2016, and 2017. In addition, we observed employer partners at MC-sponsored events and meetings. The goal of these interviews and observation was to understand and contextualize changes they have made to their internal human resource infrastructure as a result of program engagement. We also spoke with three graduates of the MC program who are employed at partner firms, along with five instructors and administrators at MC. A longer description of the methodology is reported in Stern (2015).

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Authors

Daphne Berry is an associate professor of management at the University of Hartford.

Janet Boguslaw is senior scientist at the Heller School for Social Policy and the Institute for Assets and Social Policy at Brandeis University.

John R. Bryson is professor of enterprise and competitiveness at City-Region Economic Development Institute, University of Birmingham, United Kingdom.

Cheryl Burkhart-Kriesel is a Nebraska extension specialist in community vitality with a research focus on rural new resident recruitment.

Prabal Chakrabarti is senior vice president at the Federal Reserve Bank of Boston.

Maureen Conway serves as vice president for Policy Programs at the Aspen Institute and executive director of its Economic Opportunities Program.

Susan R. Crandall is the director of the Center for Social Policy and clinical professor in public policy at the McCormack Graduate School at the University of Massachusetts, Boston.

Brian Dabson is research fellow at the School of Government, University of North Carolina at Chapel Hill.

Steven L. Dawson was founder of PHI (Paraprofessional Healthcare Institute), and currently is a writer and consultant on low-wage job-quality issues.

Marc Doussard is assistant professor of urban and regional planning at the University of Illinois at Urbana-Champaign.

Donna Fabiani is executive vice president of knowledge sharing at the Opportunity Finance Network.

Jeffrey Fuhrer is executive vice president and senior policy advisor at the Federal Reserve Bank of Boston.

Catherine Gall is a fellow in the city of Boston's Economic Mobility Lab.

Melissa Hoover is the founding executive director of the Democracy at Work Institute.

Karen Kahn is a writer, editor, and communications strategist working with nonprofit advocacy organizations in areas of health care, aging, and workforce development.

Benjamin Kraft is a doctoral candidate in the School of City and Regional Planning at the Georgia Institute of Technology.

Nancey Green Leigh is a professor of city and regional planning and associate dean for research in the College of Design at the Georgia Institute of Technology.

Joy Leopold is a doctoral student at the University of Miami.

Nichola Lowe is associate professor of city and regional planning at the University of North Carolina, Chapel Hill.

Anna Mahathey is a research associate at the Institute on Assets and Social Policy at Brandeis University.

Rachel Mulhall has worked as a researcher in academia and the private sector, specializing in regional competitiveness, energy, and innovation.

Erik R. Pages is president and founder of EntreWorks Consulting, based in Arlington, Virginia.

Teófilo Reyes is research director at Restaurant Opportunities Centers United and a visiting scholar at the Goldman School of Public Policy, University of California, Berkeley.

Liddy Romero is founder of WorkLife Partnership based in Colorado and managing director and founding member of WorkLab Innovations.

Stuart A. Rosenfeld is a consultant in workforce and economic development policy, and formerly founder and president of Regional Technology Strategies.

Kenneth M. Sherin is the community vitality program director for South Dakota State University Extension.


Julianne Stern is an affordable housing developer at the Jefferson County (Colorado) Housing Authority.



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