



WHERE SHOULD REGIONAL LEADERS FOCUS THEIR SKILL DEVELOPMENT EFFORTS?

Pete Carlson | March 2014

There's a lot of talk these days about the need to develop a higher-skilled workforce. But where do you start? And which approaches actually make the biggest difference?

CHANGING LANDSCAPE

The traditional place to start has been on the supply side. For the past five decades, publicly funded employment and training programs in the US have focused primarily on helping certain disadvantaged groups get a foothold in the labor market.

The underlying logic goes something like this. The economy will continue to expand and the middle class will continue to grow. Employment will remain concentrated in large corporations, and those corporations will provide opportunities for employees to advance in their skills and careers. Consequently, workers already on the job can largely fend for themselves. But some groups face barriers to employment that they can't overcome on their own and need assistance. That assistance is most effective when it is targeted to the particular needs of particular groups through specialized programs. And those programs are worth the investment as long as the individuals who participate in them have better outcomes than those who didn't.

However, fundamental changes in the economic landscape have upended that logic. Job growth has slowed to less than half its average for the past five decades, limiting opportunities for employment. The middle class has been shrinking, limiting opportunities for advancement. Workers must now compete globally for jobs, limiting opportunities for wage growth. The changing composition of jobs is demanding new skills, limiting opportunities for remaining employed without additional training. At the same time, employment is becoming more contingent, and job growth is becoming more concentrated in small businesses, limiting opportunities for retraining.

As a result, workers already on the job are no longer as able to fend for themselves, and are falling behind workers in other countries when it comes to skills. A recent study by the Organization for Economic Cooperation and Development (OECD) found that the adult workforce in the US has fallen to the middle or back of the pack of developed countries when it comes to reading, math and problem solving, mainly because other countries are stepping up their efforts in this arena.¹

Meanwhile, disadvantaged populations have also been losing ground. With job growth slowed to a crawl, they must now compete against a large pool of more experienced and skilled unemployed and underemployed workers for a

¹ OECD, "Time for the U.S. to Reskill? What the Survey of Adult Skills Says," OECD Skills Studies, 2013.

limited supply of jobs. And with only marginal demand from employers, gains for the lucky disadvantaged individuals who receive training often come at the expense of others who missed out, redistributing job opportunities with little net impact on job growth or income inequality.

Under those conditions, the best way to expand opportunity for disadvantaged groups is to get the economy moving at a faster pace. That, in turn, requires more than tinkering with, or developing new apps for, the existing skill development system. It requires a whole new operating system that starts from the demand side and directly supports the growth of new jobs.

DEMAND-DRIVEN SYSTEM

Over the past decade, there have been innovative efforts under way to put a demand-driven system in place across the US. Nobody has put all the pieces together yet, but the broad outline of such a system is beginning to take shape.

- It starts with timely and reliable information about where the jobs are, what skills they require, and what credentials are most relevant to in-demand occupations.
- It involves collecting timely and reliable information about what kind of education and training programs are already in place to meet that demand, how many people are participating in them, and how participants are faring in the job market after completion.
- It requires setting up partnerships with employers in key industries to provide short-term training that meets their immediate needs, with work readiness and pre-employment training programs feeding into that system, creating pathways for students and low-skilled workers to pursue education and training that ultimately leads to employment in high-demand, good-paying occupations.
- It involves articulating career ladders and matrices to help workers already on the job identify other occupations and careers that they might pursue by leveraging their existing skills and experience or by acquiring new skills, along with the counseling or coaching they need to navigate this terrain.
- It requires working across existing program and jurisdictional boundaries, taking more comprehensive, regional, and systemic approaches.
- And it involves using research and evaluation to guide resources to where they can make the biggest possible difference on the largest possible scale, in ways that are sustainable over the long haul.

A central feature of this emerging system is that it's demand-driven. That is, it focuses on getting the right workers with the right skills to the right place at the right time.

In the private sector, that kind of system is known as a “pull” system, because the supply of a particular product (in this case skilled workers) is determined by demand from the end customer (in this case businesses in need of skilled workers). That kind of system contrasts with the “push” system that has traditionally characterized skill development programs in the US, in which education and training providers train whoever they can get paid to train, then discharge participants into the job market to sink or swim.

Another way of thinking about a demand-driven skill development system is as a “talent supply chain.” In a talent supply chain, first tier education and training providers respond directly to the skill needs of businesses, while second and third tier education and training providers feed into that system, creating pipelines of talent at various stages of development, all driven by the needs of the end customer.

Advocates for the disadvantaged have often argued that such a demand-driven system further marginalizes those who have been left behind. But in fact, it does just the opposite by expanding job opportunities over all, by opening up good-paying job opportunities as workers already on the job move into more skilled jobs, and by preparing the disadvantaged for those jobs through a coherent and transparent sequence of education and training opportunities. Without that movement within businesses and across businesses, the disadvantaged could easily become trapped in low-wage, low-skilled occupations.

OBSTACLES TO INNOVATION

As practitioners have been working to put such a demand-driven skill development system in place, there are four big obstacles they've been running into.

First, there's very little reliable information available about where the jobs are and what kind of skills they require.

As a result, even when education and training providers want to be responsive to labor market needs, they're often flying blind.

Over the past several years, new technologies have become available that can aggregate and analyze large data sets to gain new insights into labor market trends and patterns. But the deployment of those technologies is still very limited because nobody has clear responsibility for using them, there's no dedicated funding stream to support them, and there's very little capacity within the current system to effectively apply them.

In addition, the data sets have their own limitations. For example, BLS data can be several years out of date and can miss trends within industries and occupations that don't fit into the standard BLS categories.² Data on job postings, dubbed "real time labor market information," tend to overstate the actual number of jobs available in general, and in particular for technical and professional services occupations. Moreover, they only focus on the small slice of the labor force where jobs are posted on line.³ Similarly, most employer surveys narrowly focus on large businesses, missing most of the new job growth, which is mainly taking place in small businesses. Meanwhile, extrapolating from national trends and macro studies can be misleading, since each region has its own unique labor market dynamics.

There are efforts under way to correct for these shortcomings. But in the meantime, the most useful and reliable information about labor market demand comes directly from local businesses.

Gathering that information requires a good ground game, systematically interacting with strategically important businesses to gain an in-depth understanding of their needs and opportunities for growth. That information can then be aggregated and analyzed to identify trends and patterns about where job growth is taking place, to identify actual demand for people and skills, and to identify what kind of education and training programs could make the biggest difference.

The information generated from an effective ground game is the starting point for a demand-driven skill development system, but that information is hard to come by in most regions, creating a weak link at a critical juncture in the talent supply chain.

Second, it's hard to channel resources to where they can make the biggest difference.

As a result, even when armed with good information, it's often hard for regional leaders to adequately respond to labor market needs.

For the most part, the problem isn't lack of funding. It's that the available resources are walled off by existing program boundaries, which are staunchly defended by parochial and vested interests, and reinforced by administrative and legislative restrictions. As a result, innovative efforts to put a demand-driven system in place have been forced to mainly rely on grant funding.

² For a good analysis of these issues, see Myriam Milfort and Jeremy Kelley, "Innovations in Labor Market Information and Their Applications," *Jobs for the Future*, August 2012.

³ Brian Points, "A Month-to-Month Comparison of Real-Time Job Postings and Traditional LMI," *EMSI*, June 10, 2013.

Grant funding typically comes in small chunks, is for a limited duration, is restricted to particular programs, and is often focused on short-term results. Consequently, innovations are happening in a piecemeal fashion and are proving difficult to sustain. That leaves regional leaders in an ironic predicament, where they are forced to piece together enough short-term, programmatic grants to keep their long-term, systems change efforts going long enough to make a lasting difference.

Ultimately, the only way to scale up and sustain innovative efforts on the ground will be to tap into existing streams of funding and redirect them to more productive uses. Along those lines, the federal government has been encouraging community colleges to invest more of their funds in upgrading the skills of the existing workforce, using federal Trade Adjustment Assistance Community College and Career Training (TAACCCT) grants as an incentive. Community colleges are particularly well positioned to play that role, since they already serve adults, often have strong ties to local employers, and have more flexibility and lower costs than four-year schools. They also have a big stream of funding to tap into.

However, community colleges vary widely in their interest, willingness and capacity to take on that role. And even if they all got on board, they still wouldn't be capable of doing what's needed on their own. Regional leaders need access to other sources of flexible funding, along with the authority to channel that funding to where it can make the biggest difference in the talent supply chain.

Third, the partnership structures to put the pieces together on the ground are not very strong in most places, and are proving difficult to sustain.

As a result, it's hard to integrate and institutionalize innovative efforts into a new operating system.

What needs to happen is pretty clear. Key stakeholders need to come together to analyze labor market trends, identify which labor market needs are the highest priorities, develop plans to address those needs, oversee the implementation of those plans, track progress, and make adjustments as conditions change. Whoever performs those functions needs sufficient scope, clout, and staying power to make lasting changes in the region's skill development system.

One obvious candidate would be the workforce investment boards (WIBs), which many people envisioned would play that role when they were established. However, few WIBs have broken out of the confines of the WIA system to gain the credibility and scope necessary to effectively serve as architects of regional skill development systems.

Another candidate would be the sector partnerships that have been springing up across the country, with support from states and foundations. Those partnerships bring together key stakeholders and embody key elements of a demand-driven system. However, by design, each is narrowly focused on the needs of a particular industry. In addition, these sector partnerships are having a hard time keeping participating employers actively engaged once those employers' immediate needs have been met.

As a result, there are numerous efforts under way to put new ad hoc partnership structures in place that are capable of providing strategic leadership to building a demand-driven system. Those structures tend to be broader in scope than the WIBs and sector partnerships, cover a wider geography and wider range of industries, and support a wider range of skill-development programs. Many are being seeded by federal interagency grant programs, which require key stakeholders to come together across education, workforce and economic development program boundaries to qualify for federal funds. The leadership for these efforts is coming from whoever is willing to take the initiative, and whoever has the respect and trust of enough people to work across organizational boundaries to make things happen.

However, these ad hoc efforts are proving difficult to sustain once their initial funding runs out, or their leaders move on. Ultimately, these partnership structures will require a dedicated source of funding and highly skilled professional staff to strengthen and sustain them.

Fourth, the ability to respond to the skill needs of businesses is weakest where it is needed the most.

As a result, many important opportunities for growing jobs and expanding opportunity could never be realized.

Currently, most new jobs are being created through the incremental expansion of relatively small existing businesses across a wide range of industries.⁴ However, most skill development efforts, including those that are demand driven, currently focus on large companies in a narrow range of mature industries.

One reason is because large companies continue to have the most job openings. However, that demand is mainly being fueled by the retirement of baby boomers from existing jobs, not by the creation of new jobs, creating a paradoxical situation where there continues to be strong demand for workers to fill job vacancies in large companies even as the absolute number of jobs in those companies is declining.

⁴ Gary Kunkle, "Building Scale and Sustaining Growth: The Surprising Drivers of Job Creation," Institute for Exceptional Growth Companies, February 2013.

Another contributing factor is that large companies tend to be much easier to work with. They often have in-house staff available, so there is less leg work involved in putting education and training programs together, providing work-based learning opportunities, and placing participants upon completion. In addition, many education and training providers already have large companies sitting on their boards and advisory committees, and in some cases sponsoring their programs.

A third factor is that most of the work that economic developers do with existing businesses focuses on retention, rather than expansion. And most of those retention efforts focus on large businesses, because the loss of jobs in those businesses could do the greatest damage to the local economy (and to the political careers of local elected officials), and because large businesses have significant influence within economic development organizations, which increasingly rely on them for financial support due to reductions in public funding.⁵

However, the biggest factor may be that small, growing businesses are such a challenge to work with, because they tend to be so widely dispersed, unlikely to seek assistance, and unlikely to belong to established business organizations. Currently, most economic developers and education and training providers lack the capacity to respond to dispersed demand across a broad geography and across a wide range of industries, leaving them ill-equipped to respond to the needs of growing businesses.

If that continues, there's a danger that the US could end up with a skill development system that is demand driven, but actually does very little to support job growth or ultimately to expand opportunity.

⁵ IEDC, "New Realities for Funding Economic Development Organizations," International Economic Development Council, 2013.

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