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REWIRING WORKFORCE PARTNERSHIPS

TRAINING MODEL INNOVATION IN PHILADELPHIA

/ TYRONE HAMPTON JR. + ASHLEY PUTNAM /

Even before the 2020 pandemic resulted in massive layoffs and business closings, disparities in the U.S. labor market were evident.[1] Closing these gaps requires novel approaches to funding job training and upskilling programs, but a common challenge is the employer's role in such funding. Although employers offer input into workforce programming—they sit on workforce boards, they provide insight into industry needs, they participate in industry partnerships—they are not usually financially invested. The lack of employer investment in workforce programs perpetuates inequalities in the labor market and creates barriers in finding and retaining skilled talent.

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The Pay for Success (PFS) partnership profiled in this case study is groundbreaking because it is the first time an employer (rather than a nonprofit or government agency) is acting as the investor—the partner paying back the service provider that takes on the risk of training potential employees. In a workforce-focused PFS partnership, a payor (usually a government entity) and a social service provider come to an agreement in which the service provider trains employees for certain jobs and the payor only pays when measurable results are successfully achieved within a specific time frame. Unlike other training programs, the emphasis in a PFS partnership is on "high bar" outcomes, such as job placement or retention over a defined time period.[2]

[1] Tomaz Cajner, Tyler Radler, David Ratner, and Ivan Vidangos, "Racial Gaps in Labor Market Outcomes in the Last Four Decades and over the Business Cycle," (Finance and Economics Discussion Series 2017-071, Board of Governors of the Federal Reserve System, Washington, DC, 2017), www.federalreserve.gov/econres/feds/files/2017071pap.pdf.

[2] America Forward, *Pay for Success in the Workforce Innovation and Opportunity Act: Frequently Asked Questions*, September 9, 2014, www.americaforward.org/wp-content/uploads/2016/12/WIOA-Pay-for-Success-FAQ_FINAL-1.pdf.

This innovative funding model for workforce development requires several elements to come together to open an innovation window.[3] The first is a common problem: In this case, the tight labor market in Philadelphia and concerns around economic opportunity in the community brought the partners together. The second is an innovative idea or policy: In Philadelphia, PFS had been discussed as something that might address some of the disparities in funding and create better feedback loops between the employer and the workforce system. The third is a willing partnership. Without trust and a strong working relationship, this PFS pilot between an employer and a workforce board would not have been possible.

While the COVID-19 pandemic has postponed the launch of the pilot program, this case study walks through the process and events involved in defining the problem, bringing together partners, and reaching a final agreement. It also provides important lessons learned about risk, working across sectors, and the importance of trust. Our hope is that bringing attention to this approach will spur development of new employer-driven training programs.

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[3] The innovation window builds off the policy window concept formulated by John Kingdon. A policy window opens when there is an alignment of a defined problem, willing partners, and a new policy to solve the problem.

DEFINING THE PROBLEM

In understanding employer buy-in for workforce partnerships, it is important to identify the pain points in employers' workforce needs. The two major challenges that arose through this research were the need for increased digital skills and limitations in flexible funding. The need to upskill workers in response to technological changes is especially acute in Philadelphia. Research by the Federal Reserve Bank of Philadelphia shows that many workers at risk of losing their jobs to automation are already in economically precarious positions: low-wage and part-time workers, often people of color.[4] At the same time, Philadelphia employers are struggling to find tech-savvy staff. Research from Burning Glass Technologies shows that eight out of 10 middle-skill jobs require digital skills.[5] For Philadelphia, the intersection of the digital needs of employers and the lack of tech training for workers hampers economic growth and puts the future of the region at risk.

In addition to this quantitative research, the Federal Reserve Bank of Philadelphia conducted a series of listening sessions with regional employers to understand areas of concern and risk for human resources managers. The employers unanimously agreed that one of the pressing needs in the 21st century economy is digital skills.[6] These vary greatly from employer to employer but often include a mix of digital literacy and proficiency in understanding how digital platforms and products are utilized in the workplace.

[4] Lei Ding, Elaine W. Leigh, and Patrick T. Harker, *Automation and Regional Employment in the Third Federal Reserve District* (Philadelphia: Federal Reserve Bank of Philadelphia, 2018), www.philadelphiafed.org/community-development/workforce-and-economic-development/automation-and-regional-employment-in-the-third-federal-reserve-district.

[5] Ben Bradley, Dan Restuccia, Chris Rudnicki, and Scott Bittle, *The Digital Edge: Middle-Skill Workers and Careers* (Boston: Burning Glass Technologies, 2017), www.burning-glass.com/wp-content/uploads/Digital_Edge_report_2017_final.pdf.

[6] Ashley Putnam and Alvaro Sanchez, *Digital Skills for the 21st Century Workforce* (Philadelphia: Federal Reserve Bank of Philadelphia, 2019), www.investinwork.org/-/media/Files/reports/digital-skills-for-the-21st-century-workforce.pdf.

Research estimates that employers spend $177 billion in formal training and $413 billion in informal training. The majority of funding goes toward college-educated workers and rarely to upskilling frontline talent.

This gap could be bridged by skills development and customized training, but public funding for such programs has been shrinking nationally. Of course, employers dedicate considerable resources to recruiting and developing workers. Research estimates that employers spend $177 billion in formal training and $413 billion in informal training. That money, however, is not allocated evenly across all employees. According to studies by the Georgetown University Center on Education and the Workforce, the majority of the funding goes toward college-educated workers and rarely to upskilling frontline talent.[7] For entry-level workers, training resources are provided through public workforce systems, community colleges, or the workers themselves.

Flexible funding is one of the primary challenges in the workforce system. When discussing funding, human resources managers noted that finding and onboarding talent requires considerable resources, but their primary concern was the risk of bringing on and training a new employee who may leave. As documented in several studies,[8] turnover carries high costs,[9] including loss of productivity, backfilling positions through staffing agencies, and the additional expense of recruiting and training new employees.[10] Employers rely on staffing agencies, search firms, and talent assessments to reduce that risk, but partnerships between employers and workforce boards could also help by preparing trainees for jobs specific to an employer. The question then becomes, how might workforce boards engage the private sector as a fiscal partner and share the investment in training outcomes?

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BRINGING TOGETHER WILLING PARTNERS

The Federal Reserve Bank of Philadelphia's Economic Growth & Mobility Project (EGMP) was created to study issues of economic inequality and support innovative solutions, especially at the community level. In 2018, members of EGMP started work to fully understand workforce disparities in the Philadelphia region, examine different strategies, and bring together local partners, including Philadelphia Works, the city's workforce investment board, to find a solution.

As a first step, EGMP brought on Social Finance, an expert in outcomes-based financing, to conduct a feasibility study on the opportunity for a unique PFS model in the region. While the initial idea was for a multiemployer-funded model, the study found several issues that resulted in the

7 Anthony P. Carnevale, Jeff Strohl, and Artem Gulish, *College is Just the Beginning: Employers' Role in the $1.1 Trillion Postsecondary Education and Training System* (Washington, DC: Georgetown University Center on Education and the Workforce, 2015), https://repository.library.georgetown.edu/handle/10822/1050293.

8 Matthew O'Connell and Mavis (Mei-Chuan) Kung, "The Cost of Employee Turnover," *Industrial Management* 49 (2007): 14–19.

9 Amanda Newman and Jenny Weissbourd, "Cost of Turnover Tool: Experiences from the Field," The Aspen Institute, September 11, 2019, www.aspeninstitute.org/blog-posts/the-cost-of-turnover-tool-experiences-from-the-field.

10 America Forward, Pay for Success: *Expanding Innovation and Performance Based Programs*, 2014, www.americaforward.org/wp-content/uploads/2016/12/PFS-in-WIOA-2-Pager_Final.pdf.

decision to pursue a partnership with just one employer and Philadelphia Works. First, the study showed that, compared with a multiemployer partnership, a program with a single employer would lower risk and complexity, two of the largest barriers to employer participation. Second, funding allocated to Philadelphia Works under the Workforce Innovation and Opportunity Act (WIOA) could be used to fund PFS programs, according to WIOA legislation.[11]

Guided by the feasibility study, the EGMP team met with regional leaders to discuss the opportunity. Philadelphia Works was familiar with prior PFS models and recognized the potential to gain much-needed flexible capital. Comcast, one of the largest private sector employers in the region, expressed interest in being part of the pilot program. While EGMP brought the partners to the table, Comcast had worked with Philadelphia Works previously, and that relationship was crucial to forming the initial agreement.

The PFS project was solidified when Philadelphia Works won a nationwide PFS transaction structuring competition, which would provide one year of technical assistance and help in negotiating the agreement for an outcomes-based funding model. The technical assistance was available through a partnership between Social Finance and Sorenson Impact Center, with funding through the Social Innovation Fund, a program within the Corporation for National and Community Service that grows innovative community-based solutions. Philadelphia Works also raised funding from the Lenfest Foundation to pay for staff time and resources to structure the project.

Comcast's human resources department took the exceptional step of committing to repay Philadelphia Works from its human resources and talent division, rather than philanthropically, for results achieved under the pilot. Much like the employers interviewed in the Philadelphia Fed's listening sessions, Comcast indicated in the application for the competition that its largest workforce cost was related to turnover. That included internal costs for hiring and recruitment, plus spending on staffing agencies to fill a vacant job. While many corporations support workforce programs through philanthropic giving, Comcast's commitment from its human resources team demonstrates an investment in both talent pipelines and the greater Philadelphia region.

DESIGNING AND STRUCTURING THE INNOVATIVE MODEL

As a result of winning the technical assistance grant in the fall of 2018, the partners brought on Social Finance and Sorenson Impact Center to provide 12 months of project design and transaction structuring assistance to both partners. To begin the transaction structuring process, Social Finance presented the partners with ideas on five key parameters for which consensus was needed: job type, target population, relevant skills, outcomes, and measurement of the outcomes.

Early on, the partners agreed to identify a job that was in high demand and fit a job category identified by the Philadelphia Fed as opportunity occupations.[12] These jobs pay more than the national annual median wage adjusted for cost of living—over $39,000 dollars a year in Philadelphia at the time—and do not require a four-year college degree. Thus, the program would allow individuals to achieve economic mobility and an upward career path.

[11] America Forward, *Pay for Success: Expanding Innovation and Performance Based Programs.*

[12] Keith Wardrip, Kyle Fee, Lisa Nelson, and Stuart Andreason, *Identifying Opportunity Occupations in the Nation's Largest Metropolitan Economies* (Federal Reserve Banks of Philadelphia, Cleveland, and Atlanta, September 2015), www.philadelphiafed.org/community-development/workforce-and-economic-development/identifying-opportunity-occupations-in-the-nations-largest-metropolitan-economies.

Another major consideration of the structuring agreement was the number of job openings that might be available. A valid criticism of many workforce programs is that participants are often prepared for roles in large numbers, but employers are not hiring. For a program even of this small scale—training 75 people over three years—there needed to be appropriate demand.

After participating in several conversations facilitated by Social Finance, the partners agreed to train potential employees for business-to-business sales roles. These roles involve building inbound sales relationships with small business customers, and associates must be knowledgeable about technology, including functions and uses, and be able to work well with the public. Selected candidates must still apply and be accepted through the existing hiring channel and must complete the in-house onboarding process after being hired.

These jobs fit the initial goals of the partners and provide transferrable skills that can benefit job seekers at Comcast and beyond. Indeed, the training program requires a mix of technical expertise and interpersonal skills, which align with many growing technology job categories.

THE FINAL AGREEMENT

In November 2019, Philadelphia Works formally announced the launch of the experimental workforce development partnership. The performance-based contract specifies that Philadelphia Works will fund the training programs and Comcast will serve as the payor, reimbursing Philadelphia Works based on two metrics: hiring and retention.

Under the agreement, Philadelphia Works will use WIOA funding to provide for the upfront cost of the training. As is typical of workforce boards, this training will be contracted out to a training provider or workforce organization that will work closely with the partners during the course of the pilot. Comcast will validate that results have been achieved through internal data on hiring and retention, providing payment to Philadelphia Works for those results. The feedback loop is crucial to the success of this model—to understanding that training can and should adapt to best meet the needs of the employer and the job seeker.

Negotiating the risk distribution is a key innovation of the PFS model. The private sector employer preferred the payback (and thus, most risk) to be higher at the point of retention, while the public sector workforce board preferred financing to be evenly split between the two milestones.

Two facets of the contract reflect the unique nature of this PFS project and are worth noting.

First, Philadelphia Works became a payee for Comcast, functioning as a staffing agency might. Since the partnership is with Comcast's human resources department and not its philanthropic arm, the agreement had to be reviewed and approved by each entity's controller or chief financial officer.

Second, the distribution of risk has been concisely defined. The agreement itself specifies that Comcast will compensate Philadelphia Works for the cost of training if applicants are successfully hired and retained, with 40% of compensation due at hiring and the remaining 60% paid if the employee completes six months of employment.

Negotiating the risk distribution is a key innovation of the PFS model. The private sector employer preferred the payback (and thus, most risk) to be higher at the point of retention, while the public sector workforce board preferred financing to be evenly split between the two milestones. The 40-60 split in this agreement gave both parties confidence that the payment structure would lead to successful outcomes.

IMPACT FROM THE COVID-19 PANDEMIC

The agreement was signed at the end of 2019, but the COVID-19 pandemic postponed the project's launch. The job family identified—business-to-business sales—was previously housed at in-person facilities, but at the end of 2020, the partners started looking into virtual training and remote work for the project. Although it is impossible to anticipate all challenges, the partnership has already successfully navigated a range of unexpected circumstances.

LESSONS LEARNED

In examining the process the partners went through to create the PFS structure, we came away with a few important lessons learned.

- **Reimagine funding sources:** While we often consider new capital important, it is not required to create a PFS program. This PFS model is less about finding new capital than about fundamentally shifting existing capital. That means rethinking how to best use money from workforce boards and WIOA dollars, as well as companies' typical spending on temp agencies or other recruitment costs.

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The goals are to restructure current funding and risk, provide a pathway for an employer to be an investment partner, and create a better feedback loop between the employer and service provider.

- **Build trust and accountability:** Working across sectors can be challenging because workforce organizations and the private sector have different goals and different processes. Thus, institutional relationships must build trust by going deeper than transactional interactions. In this partnership, pre-existing relationships built trust and facilitated accountability, willingness to experiment, and collaboration. Trust also allows individuals to act as internal champions for the project. A neutral third party can be instrumental in promoting trust among all players. In the case of the Philadelphia partnership, Social Finance, Sorenson Impact Center, and the Philadelphia Fed's EGMP were able to operate independently and without favoritism because none of the entities was funded directly by either partner.
- **Align on a shared goal of community impact:** These partners shared a goal that was more important than the money exchanged: the potential positive effect on the Philadelphia community. This big picture aspiration pushed the parties to try this untested approach to workforce development. That meant Comcast was willing to try something besides the less risky and less complicated traditional approach of using temporary agencies and staffing firms, while Philadelphia Works agreed to shoulder the cost of marketing, recruiting, and managing the program—costs that exceeded the amount paid at the back end.

FOR WORKFORCE ORGANIZATIONS: SHOULD YOU FOLLOW THIS PATH?

This PFS project offers a new model for how the private and public sectors can share risk in funding training and upskilling. If other workforce boards are interested in implementing a similar model, they should consider the risk-to-reward ratio. While the flexible dollars provided by the employer are critical, the dollars invested by the public sector are still significantly higher. The cost of marketing, screening, recruiting, and funding the training still falls mostly on the public sector.

That said, the dollars created in this model (from the back-end payment) are not tied to specific programs, WIOA or Temporary Assistance for Needy Families (TANF) measures, or philanthropic grant reporting. The flexible dollars provide an opportunity for a workforce board or organization to scale the program, apply the model to another employer, or provide wraparound supports, such as stipends to job seekers who may struggle to stay in training for a long period of time without any form of income.

A model of this nature requires more than just flexible funding. It also requires dedicated time and staff, an appetite for risk from both parties, and a committed regional employer that is willing to think outside the box on recruiting, training, and skill development. Philadelphia Works has a unique advantage over other workforce boards in that it is a 501(c)(3) nonprofit that both grants and receives funding. It also blends WIOA and TANF dollars at its sites.

For other workforce boards or organizations considering a similar PFS structure or outcomes-based funding model with an employer, we recommend the following suggestions:

1. **Take the time to find the right partners:** An agreement of this nature requires an employer partner that is committed in both staff time and resources, not to mention the greater community impact. A neutral third party can assist in the negotiations.

2. **Be flexible and patient:** Contrary to many theories of change, not all innovative projects happen quickly. Coming to a common understanding of the work and the project's goals is critical to building trust between partners. That process takes time, flexibility, and patience.

3. **Find an employer partner that understands workforce development:** Many employers may not understand the benefits of the workforce organization or workforce community. In the Philadelphia model, Comcast's previous relationship with the workforce board made the company more open to the initial conversation and more flexible in the long run.

4. **There is no silver bullet:** Innovation is not a one-size-fits-all paradigm. Within each agreement, the training will have to be customized to the employer. As much as we would like to copy and paste a model like this, workforce boards must be patient and intentional about the conversations with prospective partners about needs, costs, and risks.

5. **Be willing to start small:** In many innovations or pilots, the initial training class could be only five to 10 people, depending on the employer's hiring needs at the time. This approach may seem small, but it will help spur larger partnerships and trust with other private employers. By starting with one job family and one employer, Philadelphia Works was able to work with Comcast with an eye toward addressing other hiring needs in the future and elevating the model to other regional employers.

This case study examined an innovative approach to workforce training that used a PFS model in the Philadelphia region. The innovation window outlined prior brought together Philadelphia Works, a regional workforce board, and Comcast, a large local employer that needed skilled workers, to launch a new approach to funding workforce programs. With help from neutral third parties, the two partners defined a pilot program that would allow individuals without college degrees to receive training for jobs that pay above the local median wage. Comcast agreed to be a back-end payor when each trainee fulfilled certain requirements, including staying in the job for six months. While the economic disruptions caused by the COVID-19 pandemic delayed full implementation of this program, the partnership could ultimately serve as a roadmap for others.

Tyrone Hampton Jr. is the manager of workforce system initiatives at Philadelphia Works. He is responsible for managing and implementing contracts and special initiatives that provide comprehensive services to the PA CareerLink® Philadelphia workforce system. Hampton holds an associate degree in Applied Science from the Fashion Institute of Technology.

Ashley Putnam is the director of the Economic Growth & Mobility Project (EGMP), a strategic initiative of the Federal Reserve Bank of Philadelphia dedicated to promoting equal access to economic opportunity. Before joining the Bank, Putnam served as the economic development advisor for the Mayor's Office of Workforce Development in New York City.

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