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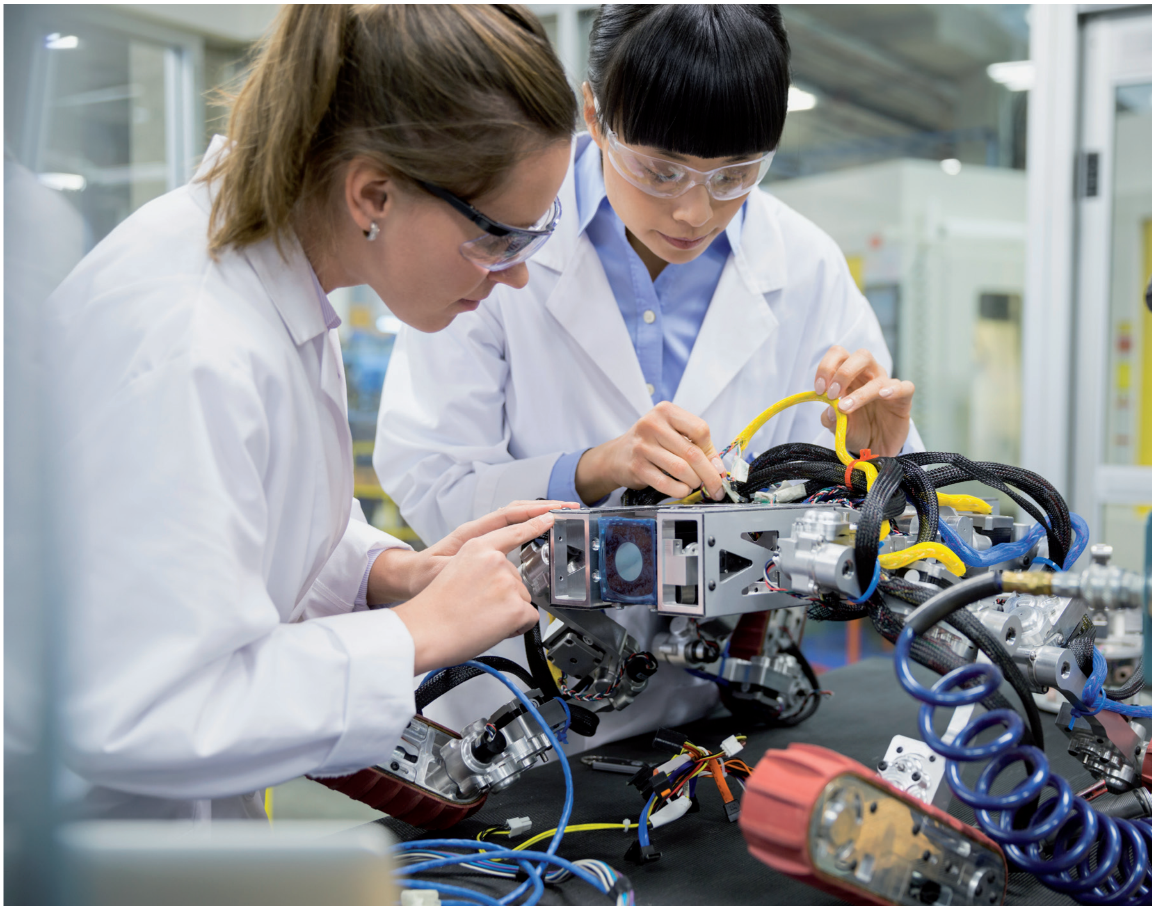

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Closing the skills gap: Creating workforce-development programs that work for everyone

The “skills gap” in the United States is serious. Here is how to do better.

“The land of opportunity”—that is the promise of the United States. And one of the reasons the country has been able to deliver on that promise is that it has been able to develop the talent it needs to create wealth and to adapt to ever-changing economic realities. But there are concerns that the United States can and should be doing better. This will require policies and actions on many fronts, for example on trade, taxation, regulation, education, and fiscal and monetary policy. In this article, we focus on a single subject: preparing people without college degrees for jobs with promising career paths. The need, for both business and society, is clear.

On the one hand, almost 40 percent of American employers say they cannot find people with the skills they need, even for entry-level jobs. Almost 60 percent complain of lack of preparation, even for entry-level jobs. On the other hand, this “skills gap” represents a massive pool of untapped talent, and it has dire consequences, including economic underperformance, social unrest, and individual despair.

The skills gap takes different forms. In some cases, it is a matter of youth struggling to enter the workforce; in others, it is midcareer learners who have lost their jobs because of factory closings or layoffs, and who now must adapt. Whatever the circumstance, when people are disconnected from the workplace, they often disconnect from other social institutions as well. This is not healthy—neither for those left out nor for the societies in which they live.

Recognizing the importance of this subject, McKinsey has done extensive research on global workforce-development programs and economic strategies.[1] We have also worked with a number of state, local, and national governments.

So based on our research and experience, we have identified five principles that we believe should be the foundation of workforce-development programs—for funders, participants, and employers (Exhibit 1).

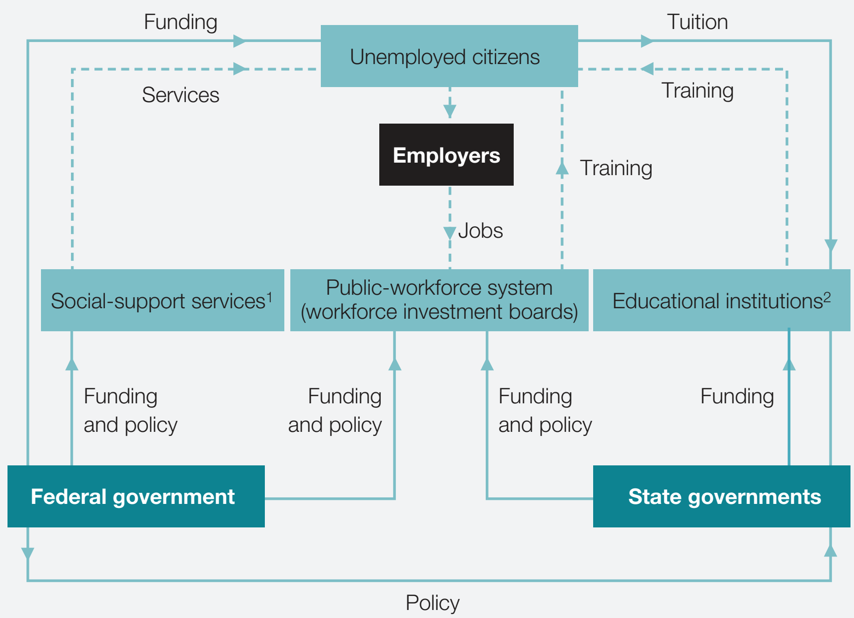
1. Define geographic assets and identify target professions. To get where they want to go, state and local agencies need to know where they are starting. Even at the local level, economies are complicated.

The most promising approach, then, is to identify sectors with high growth potential where there are shortages or a high turnover of workers. Governments should conduct job-market analyses to identify each area’s distinctive attributes and supply-and-demand dynamics, as well as the current state of the workforce. This means looking at posted job vacancies, public infrastructure investment, demographics, local university-research commercialization, venture-capital spending, and regulation. The analysis should be done at the city and regional levels, and then buttressed by interviews with major companies in the area.

We have found the best workforce-development solutions happen when leading employers come together to address the talent problem for an entire sector. Assuming there are no antitrust issues, such collaborations can be attractive to industry competitors because the training costs are shared and the risk of poaching is limited. Such efforts typically take three forms: down a supply chain, with an anchor company taking the lead in encouraging its suppliers to participate; by a functional profession (for example, mechatronics) that is in demand by employers in different industries in the same location; and by sector, with competitors collaborating because they all face the same talent problem. One example of the latter is

Exhibit 1

The US workforce-development system involves numerous stakeholders.



[1]Such as child care and transportation.
[2]Including universities.

the Automotive Manufacturing Technical Education Collaborative, which includes 19 automotive companies and 26 community colleges in 13 states.

In addition, government must ask itself whether it has the capabilities to meet the needs of businesses. This can be done simply—ask. Then, based on the responses, work with industry leaders, education providers, government agencies, and trade associations to identify the highest priorities on which to focus.

Successful economic-development efforts develop long-term strategies and make investment decisions based on hard data. A clear-eyed view allows decisions to be made based on a region's actual strengths, and avoids chasing economic-development fads where there is no basis for competitive advantage. The advice is ancient, but pertinent: know thyself.

2. Deliver ROI to employers and workers. Hard evidence of return on investment (ROI) for workforce-development programs is scarce, for both employers and workers. That lack of proof is why many employers are reluctant to participate in workforce programs, much less to pay for them. Therefore, metrics that link such programs to business performance should be tracked, including the cost of program recruitment and training, employer productivity and quality outcomes, retention, and speed to promotion.

Recent federal legislation, known as the Workforce Innovation and Opportunity Act (WIOA), aims to make the workforce-development system more outcome driven and to emphasize training that leads to jobs. Gathering employer ROI data is not only important for employers but can also help local agencies meet WIOA requirements.

If the ROI case can be proved, our research and experience shows that employers are willing to pay for training programs—up to 15 percent (or roughly two months) of the employee's annual salary, on average. In areas of extreme scarcity, they will do much more. Apprenticeship 2000, a consortium based in Charlotte, North Carolina, comprises eight manufacturers that collaborate with the local community college on a mechatronics apprenticeship. It costs members $175,000 per candidate over four years.

With respect to participants, few employment programs gather evidence of effectiveness. Some track job placement at completion, or retention after one to three months. Few programs, however, follow a range of metrics to show potential participants that their investment in time and effort will pay off with personal and financial well-being. No wonder many job-training candidates are wary. Successful programs, in contrast, can show candidates evidence that the program will place them in jobs with a future after finishing the course.

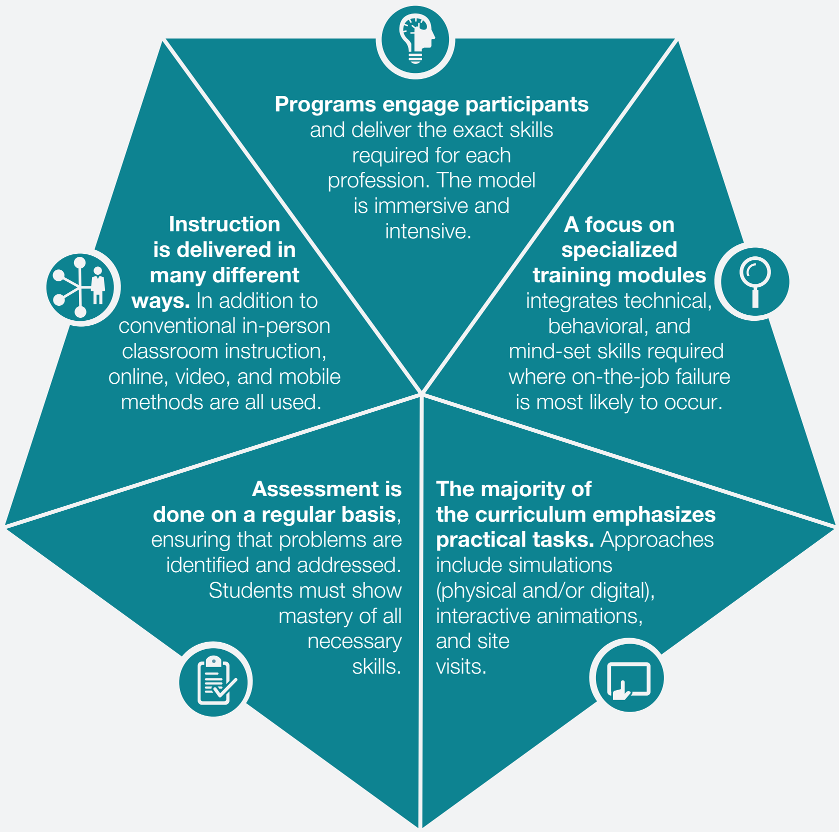
Once on the job, metrics to track include the income of program graduates before and after completion, continued employment, job promotion, and reliance on public support. These findings can help reveal what works—and just as important—what doesn't. Programs that fall short can then be cut in favor of those that succeed.

3. Support comprehensive, demand-driven training methods. Local, state, and federal agencies have made numerous efforts to work with businesses, regional groups, education providers, and other stakeholders to deliver effective job training. Some training programs are excellent—others, not so much. Evidence does exist, however, of models that work in a variety of industry and regional contexts (Exhibit 2).

In successful programs, employers are involved from the start and guarantee interviews for graduates. Once providers decide which sectors and which high-scarcity or high-turnover professions to pursue, the next step is to shadow employees on the job in those professions. The goal is to identify which activities most differentiate high from low performers and to translate this insight into training for the right technical, behavioral, and mind-set skills which include attributes such as punctuality, diligence, and follow-through). Such observation is important, because our experience is that many employers are unable to accurately describe which skills matter most, leading to errors in program design.

In delivering training, one proven approach is to provide two- to three-month "boot camps." During the boot camp, competency is assessed regularly, based on actual demonstrations. Employers collaborate with the training providers and can offer their staff as trainers. The boot camp must be practical, including in-person simulations, on-site apprenticeships, and "serious games" customized to the workplace, where learners can play virtually and repeatedly. Programs need to have a strong in-person component to deliver the necessary dosage of intensive practice and to build the trust that allows providers to support learners—many of whom face multiple life challenges. At the same time, technology-based solutions, such as online applications, mobile apps that track learner performance, and digital workplace simulations can significantly increase the efficiency and effectiveness of these in-person programs.

Exhibit 2 Effective training incorporates five components.



To reach the people who need these programs most—meaning those at risk of being disconnected from the workforce because of background or education—accessibility is critical. Meeting their needs for transportation or child care during the boot camp, for example, helps make it possible for them to succeed. Programs that respond to these needs see higher completion rates. Some go even further, providing postgraduate mentorship for the first few months on the job, which is the period of greatest vulnerability. If individuals can make it through the first three months on the job, the odds of them continuing to thrive professionally and personally rise significantly.

4. Assess and prepare learners before they start training. Programs need to start by ensuring that learners are ready to train for the professions to which they apply. For example, they must be able to meet job-licensing requirements, such as having a high-school diploma, or pass a background check or a drug test; they also need to show job-appropriate literacy and numeracy levels.

Once this basic screening is done, there are ways to improve retention in the program and in the job. One is simple: make sure that people know what the job is before they start the training. This explanation must cover both positive and negative aspects, and might include things such as showing videos, hosting discussions of a "day in the life" with workers, and spending time at the job site. Someone training to be a certified nursing assistant, for example, needs to know that the position can be physically demanding and requires shift work.

When people understand what it takes to succeed at a given job, they are more likely to choose one that is right for them. That, in turn, improves program completion, job placement, and retention. It also ensures that program resources are spent on those who are most likely to benefit.

5. Coordinate the workforce-development process centrally. Estimated spending on US workforce-development programs for those not going to four-year colleges—everything from federal and state jobs programs, workforce training and certifications, community college, and employer training—is at least $300 billion a year.[2] Most programs, however, are deployed in isolation and are not integrated with other services deployed by other entities. For example, a common scenario is that responsibility lies in different places: job training lies with the state's workforce department, child care and food assistance lies with the social services, and mentorship support lies with a local philanthropy or not for profit. All these components are essential to the learner's success in completing the training, finding a job, and then succeeding at it. Such tight complementarity of service delivery to learners, however, rarely occurs.

State governments can deploy three strategies to ensure effective use of resources. First, have a clear view of all funding and efforts available for target learner segments and professions in a given location, and coordinate these to deliver holistic services to learners. Second, establish a set of outcomes and performance-management processes in which learner employment within 30 days of program completion, retention on the job, and income increases lie at the heart. Finally, ensure the provision of human, technology, and data-analytics capacity for program delivery that supports learners.

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State and local public agencies want to help their citizens succeed. To do so, one priority is to better use the considerable resources that are available, by coordinating the mishmash of funding that now flows through numerous departments and agencies. A second is to improve job outcomes for program participants and employers in the WIOA context. A third is to do so on a large scale and at reasonable cost. There are proven ways to do this that benefit individual workers, companies, and the economy as a whole. By investing in talent in this way, governments and businesses will also be reinvesting in the American dream. ■

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[1] Dominic Barton, Diana Farrell, and Mona Mourshed, "Education to employment: Designing a system that works," McKinsey & Company, January 2013, McKinsey.com.

[2] Anthony P. Carnevale, Artem Gulish, and Jeff Strohl, *College is just the beginning: Employers' role in the $1.1 trillion postsecondary education and training system*, Georgetown University Center on Education and the Workforce, 2015, https://cew.georgetown.edu/wp-content/uploads/2015/02/Trillion-Dollar-Training-System-.pdf.

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