Changing Labor Markets:

A Systems Approach to Reform

Peter Plastrik, Integral Assets Consulting, Inc.

Marlene B. Seltzer and Judith Combes Taylor, Jobs for the Future

JOBS FOR THE FUTURE
CREATING STRATEGIES
for Educational and Economic Opportunity

88 Broad Street
Boston, MA 02110
www.jff.org

April 2003

Prepared for the Annie E. Casey Foundation

Peter Plastrik is co-author of *The Reinventor's Fieldbook* and *Banishing Bureaucracy*. He is the CEO of New Urban Learning, a Michigan non-profit, and works as a consultant with Integral Assets, Inc.

Marlene B. Seltzer is President of Jobs for the Future. She oversees development and delivery of research and policy services, strategic implementation assistance, and products and services for JFF customers, including national, state, and local organizations engaged in creating and improving their workforce and education development systems.

Judith Combes Taylor, Ph.D., is a Program Director at Jobs for the Future. Working with JFF's workforce development initiatives designed to advance low-income youth and adults in the labor market, her responsibilities include research and development, best-practice and system-change analysis, and policy design.

THE PUZZLE OF LABOR MARKET CHANGE

In the 1990s, the U.S. economy was reaching new peaks, yet community leaders and government officials were perplexed to find that the rising tide of economic growth did not "float everyone's boat." Instead, employers complained that they could not find enough workers to fill the jobs they had. Across the nation, business owners told their chambers of commerce that this was their top problem. At the same time, community-based organizations and activists worried that many people and neighborhoods in the urban cores were being "left behind" in the wake of economic prosperity.

Jobs looking for people, people looking for jobs—but neither finding the other. How could this be? Welcome to the real-world labor market, where employers and job seekers find—or don't find—what they are looking for.

When leaders in government, business, and communities asked why the labor market wasn't working well for all employers and job seekers, the answers often increased their puzzlement. It was widely reported that the training programs and employment services provided by the federal, state, and local governments were ineffective and unaccountable; the scores of publicly funded and operated programs were uncoordinated and didn't add up to a clear goal. It was also said that the business sector often didn't really know what skills or capacities it was looking for in job candidates; that many of the community-based organizations that provided workforce development services did a poor job; that many of the job seekers in low-income communities were far from "employable" (because, for example, they had substance-abuse problems or could not read well enough to meet workplace requirements); that public-sector agencies were emphasizing "rapid placement" of the unemployed, rather than the training and other support people needed to succeed; that many jobs that went unfilled paid wages that were too low to support a family, and did not come with health insurance or other benefits; that many of the available jobs were in the suburbs, far from where job seekers lived and from public transportation. The list of problems went on and on.

During these same years, the federal government reformed both its welfare and workforce development programs. The new workforce development law, the Workforce Investment Act, emphasizes a "work first/rapid attachment" to the labor market approach. It provides for universal access to certain basic services but reserves training resources for a small number of disadvantaged people. The act emphasizes the importance of business involvement in workforce development policymaking by requiring states and localities to establish local Workforce Investment Boards to plan and coordinate workforce training, and it mandates that business representatives make up the majority of members of each board.

The reformed welfare program, named Temporary Assistance for Needy Families (TANF), requires state-level social service providers to get welfare recipients into jobs. This is a sea-change in federal policy: it removes much of the "safety net" that had supported people who couldn't support themselves in the labor market, yet it does not put into place policies to help those people get and keep good jobs. As a result, even though many people have left the welfare rolls and went to work, most of them remain in poverty and many have been employed for only short periods of time. Research suggests that, at best, 60 percent of those who left welfare are employed today (ASPE Leavers Study, 2001; NEWSS Study, 2000).[1]

Welfare reformers were counting on the labor market to replace the welfare safety net, but change is the watchword there as well. Global competition has been pushing U.S. employers toward conducting high-value-added work in this country, while exporting lower-value-added work. Rapid changes in technology and the transition from a manufacturing to a service economy increase the demand for a skilled workforce. As a result, a great many American jobs require workers who are among the best skilled and most educated in the global economy, but many of this nation's workers and job seekers—including those coming off the welfare rolls—do not meet these high standards. They have few of the skills and little of the work experience that employers increasingly value.

A few statistics exemplify the severity of the problem. In New England, more than 40 percent of adults lack the literacy skills needed to succeed as workers in today's knowledge-based economy (Liebowitz, et al. 2002). According to a recent national study, more than 80 percent of new jobs created will require some postsecondary education (McCabe 2000). Essentially, a skills gap separates the employers seeking workers from the people seeking work.

Several national surveys of employers underscore this point. Among 1,500 employers surveyed in 2000, 73 percent reported very or somewhat severe conditions when they tried to hire qualified workers; 24 percent indicated they could not get enough applicants to meet their needs (Workforce Academy Model Project, 2001). In a survey of manufacturers in the same year, two-thirds reported that, despite the well-publicized shortage of information technology workers, their "most serious shortages were among production workers and those directly supporting them—ranging from entry-level workers, operators, machinists, and craft workers, to technicians and engineers." Two-thirds of respondents said that the lack of skilled workers had hurt production levels and inhibited their ability to improve production (National Association of Manufacturers, 2000).

This structural gap in the U.S. economy won't go away. As firms continuously improve their technology and production methods to stay competitive, their need for advanced skills tends to run ahead of what the labor market supplies.

Simply put, the nation's labor markets do not adequately help people acquire and upgrade their skills to meet this demand. This is especially true for Americans who rank in the lower third of income and educational levels: they are poorly served by traditional education, job training, and other labor market institutions. Indeed, if nothing is done to improve labor market performance, it is likely that the gap between labor supply and labor demand will continue to grow.

Anyone concerned with these problems in workforce development had heard the occasional success story—a small program here or there that was getting excellent results. But no one knew how to grow these successes to a greater scale, how to sustain them over the long run, or where each success fits in the larger puzzle.

Even as the economy has cooled, the pressure to solve the problems of the labor markets continues. In many businesses, for instance, large numbers of workers are reaching retirement age. Where will new workers to replace them come from? In many communities, meanwhile, a slowing economy only means that more people in poor neighborhoods are out of work or underemployed, and they will not be able to rely on the reformed welfare system for income. Where will their livelihoods come from?

How is a person—a Workforce Investment Board member, a local or state elected official or agency head, an employer or community organization director—to make sense out of all of this? And how are the various stakeholders in the labor market—in particular, the employers, government officials, and providers of training and other services—supposed to work with one another to figure out what to do?

A SYSTEMS-CHANGE APPROACH TO LABOR MARKETS

One response to these challenges is to use a systems reform approach to plan for changes in the labor market. This approach is based on the science of system analysis, developed several decades ago. "Systems sciences are springing up everywhere," noted philosopher Ervin Laszlo in the 1970s. "The systems view is the emerging contemporary view of organized complexity" (Laszlo 1972). Systems thinking—understanding reality in terms of systems—has increasingly become a method for analyzing society's problems, such as labor market failures, and designing change strategies. "Businesses and other human endeavors are also systems. Systems thinking is a discipline for seeing wholes," Peter Senge explained in The Fifth Discipline (Senge 1990). Senge describes systems thinking as a discipline for "seeing the 'structures' that underlie complex situations," and for discerning "high from low leverage change."

The authors have applied a systems-change approach to several different types of social systems in different settings: the reform of U.S. labor markets; the reinvention of local, state, and national government systems; the creation of state and regional economic development, sustainable development, and private financial systems; and the reform of public education and welfare systems in the United States and the United Kingdom (Kazis and Seltzer 2000).

We have found that such an approach can avoid some of the pitfalls of other efforts to repair labor market systems. It emphasizes the whole labor market system, not just public-sector programs. In particular, it recognizes the crucial role that employers play in developing the workforce. And it recognizes the ways that labor markets connect functionally with other systems, such as the welfare and education systems. This ensures a comprehensive planning effort, rather than more of the fragmented planning that usually occurs.

A systems approach also leads to strategic plans that focus on a few ways to achieve change at large scale, rather than laundry lists of activities to attack many parts of the system—lists that tend to paralyze rather than galvanize action.

Finally, this approach underscores the critical need to develop collaborations among government, business, and community interests—all the "owners" of the system—rather than simply having each sector develop plans that ignore the legitimacy and assets of other stakeholders in the system. Unless all these players can see the same "big picture" of the system, it is difficult for them to collaborate in planning change.

Beginning in 1995, the Jobs Initiative of the Annie E. Casey Foundation supported labor market change efforts in six metropolitan regions, promoting the goal of systems change to help low-income people succeed in the labor market. As part of the initiative's planning process, the foundation pioneered the use of a framework for labor market systems change, which the authors developed in 1999 and continue to revise based on lessons from its use.[2] To inform planning efforts of this sort, we wedded systems theory to strategic planning processes, community and organizational learning processes, and the development of coalitions of stakeholder groups.

We developed the systems reform framework based on a dual-customer approach, with a focus on improving labor market outcomes for both low-income people and their employers, current and potential. As we explain below, the objective is to change the labor market system so that low-income people find and hold good-paying jobs while employers efficiently find qualified workers to fill vacant jobs.

This approach rests upon four conceptual building blocks:

- The systemic nature of American labor markets, which are large, complex, and dynamic economic and competitive systems;
- The drivers of labor market systems—a small number of underlying forces that shape functions and outcomes of the labor market;
- The high-leverage strategies for changing the system's drivers—leverage points that use a small amount of resources to create big changes; and
- A process for starting and sustaining systemic change at the local level—by identifying goals and outcomes for reform and tracking change in the system.

A systems change approach to labor markets involves much more than starting a new program to train low-income people or to help businesses find qualified workers. Most programs, even effective ones, simply do not deal with most of the systemic barriers that low-income people face in the labor market. Nor does a single program usually produce results at significant scale: helping 100 job seekers or 20 businesses is important, but it does not solve the problems of tens of thousands of low-income job seekers and thousands of frustrated employers. Moreover, even innovative programs tend to fade away. They usually live at the mercy of funders, and funders' interests have a way of changing.

In contrast, systems change approaches:

- Are comprehensive: they have substantial impact on the system's outcomes;
- Achieve scale: a significant number of low-income individuals and employers benefit from the changes; and
- Are sustainable over time; there is a reliable funding stream and new practices are institutionalized.

THE SYSTEMIC NATURE OF LABOR MARKETS

Many people routinely use the word "system" to describe labor markets. The system gets the blame if job seekers lack job skills, transportation to work, or childcare services, or if on-the-job supervisors cannot deal effectively with former welfare recipients or non-English speaking workers in entry-level jobs. But what is this system?

Elements of the Labor Market

A system is an assemblage of capacities that function together and produce a common result. A labor market system produces employment and income outcomes; in other words, it fills vacant jobs with people seeking jobs.

The people and the organizations in labor markets fall into three types of capacities: those on the demand side, those on the supply side, and the intermediaries that serve both sides.

- The demand side is made up of employers in the private, public, and non-profit sectors, along with the organizations, such as local chambers of commerce, that champion demand-side (employer) concerns. A useful way to think about the demand side is the industry sector—telecommunications, manufacturing, and health care are examples. Trade associations, both local and national, represent most sectors and subsectors.
- The supply side is made up of job seekers. Some have a job but want a better one. Some are unemployed or underemployed, and some are "discouraged" people who are jobless and not seeking work. The supply side also contains the many organizations, including community-based organizations, that provide potential workers with education, training, placement, and other services.
- Intermediaries mediate between job seekers and employers. Their existence is not new (for example, temporary employment firms have been around for decades), but recent economic, demographic, and political trends have given rise to new types of labor market intermediaries that are more active and innovative in helping job seekers obtain the skills needed to advance in today's labor market and in meeting employers' demand for a more highly skilled workforce.

Dual Nature of the Labor Market

A labor market is an economic system based on the voluntary exchange of labor for income and benefits. Because success is defined as employers and job seekers finding each other, labor markets are inherently dual-customer systems; they must satisfy both parties. At the same time, labor markets are generally based on competition among workers for the best jobs and among employers for the best workers.

In a competitive labor market, the needs of the two customers may conflict. Workers want greater pay, benefits, and job security—which come from the coffers of their employers. Employers seeking to maximize profits want to pay lower wages and provide fewer benefits and less security to workers. U.S. employers generally have more "clout" in the labor market than individual job seekers, yet some job seekers can drive hard bargains—for example, by possessing important skills that are in rare supply, or by bargaining collectively with employers. Job seekers without such advantages lack the ability to drive such bargains.

Public policies regulate some aspects of the labor market. Some of these regulations—such as those that set minimum wage levels, prohibit discrimination in hiring, or ensure the right to bargain collectively—attempt to "level the playing field" by circumscribing somewhat the power of employers.

Boundaries of Labor Markets

Modern labor market systems are large, and the boundaries of many local labor markets have expanded over the years, particularly as suburbanization has affected the location of commercial and industrial businesses. The older pattern of jobs concentrated in cities has given way to a more dispersed pattern, with jobs increasingly located in the suburbs. Labor markets now may encompass entire metropolitan regions—multicounty areas within which hundreds of thousands of workers commute substantial distances between work and home.

While jobs have been moving to the suburbs, poor people are concentrated and isolated in cities. In some major cities, the pattern has become even more complicated. As certain downtown neighborhoods gentrify, accompanied by skyrocketing housing prices, poor people move into the close-by ring of older suburbs.

These employment and residential patterns have several critical consequences for low-income people. As William Julius Wilson has noted, poor children often grow up in neighborhoods in which there are few visible working enterprises (Wilson 1996). At the same time, with rare exceptions, low-income people have few, if any, options for affordable transportation to and from suburban jobs.

Complexity and Dynamism

Labor markets are complex and constantly changing. For instance, the demand side of the market goes up and down with the business cycle, and it also varies by specific sectors and occupations. Demand for workers may be high in telecommunications but low in retailing. Demand may be high for computer programmers and low for auto mechanics. At the same time, the skills needed to perform certain jobs also change, in part due to changes in technology.

Meanwhile, the market's supply side also changes with the "heating" and "cooling" of the business cycle. Supply is also affected by demographics—for example, when the "baby boom" generation graduated from college and entered the labor market. One compelling demographic factor on the minds of many employers is the impending retirement of that generation, whose work habits and technical skills have played a key role in the global success of American business.

Labor Market Activities

The players in the labor market engage in an enormous number of activities on both the supply and demand sides to produce the market's outcomes: [3]

- *Recruitment*: Employers, headhunters, and workforce development organizations recruit candidates for vacant jobs. Candidates experience this as "job hunting."
- *Assessment*: Employers, headhunters, and workforce development organizations assess candidates' literacy and "soft" (workplace-readiness) and technical skills. Individuals often initiate assessment processes for career planning purposes.
- *Education/training*: Schools, workforce development organizations, and employers all educate and/or train individuals, either for general reasons or for specific skills/jobs.
- *Placement*: Workforce development organizations and headhunters place people in full- or part-time jobs. Employers hire employees.
- *Retention efforts*: Employers design policies and practices to keep employees from leaving their jobs, especially to join competitors. Workforce development organizations and community-based organizations provide support to new employees needing help to keep their jobs.
- *Advancement efforts*: Employers design policies and practices to develop employees' skills and experience for higher-level jobs. Individuals seek out schooling and skill

training on their own. Workforce development organizations assist low-income workers needing help to advance.

Many people pass through entire careers with little awareness of having engaged in these activities. They go to college because their parents expect them to; they train for particular occupations for reasons as varied as patriotism, personal passion, or family tradition. For many low-income people, however, these labor market activities don't happen "naturally." Their parents did not attend college and lacked the resources to send their children there; few neighbors have worked at steady, family-sustaining jobs, so they have no "networks" to rely on for leads to jobs; and so on.

Under the impetus of federal law (starting with the Manpower Development and Training Act in the 1960s), and with significant support from private philanthropy, a formal version of these labor market activities has been cobbled together for people who need them. Taken together, these activities form a pipeline of practices through which job seekers flow—from recruitment to job placement to job advancement—at varying speeds and with varying degrees of success, into jobs and then into better jobs. No central entity controls the pipeline. Indeed, it is an amalgam of many autonomous public, private, and non-profit organizations active in the labor market.

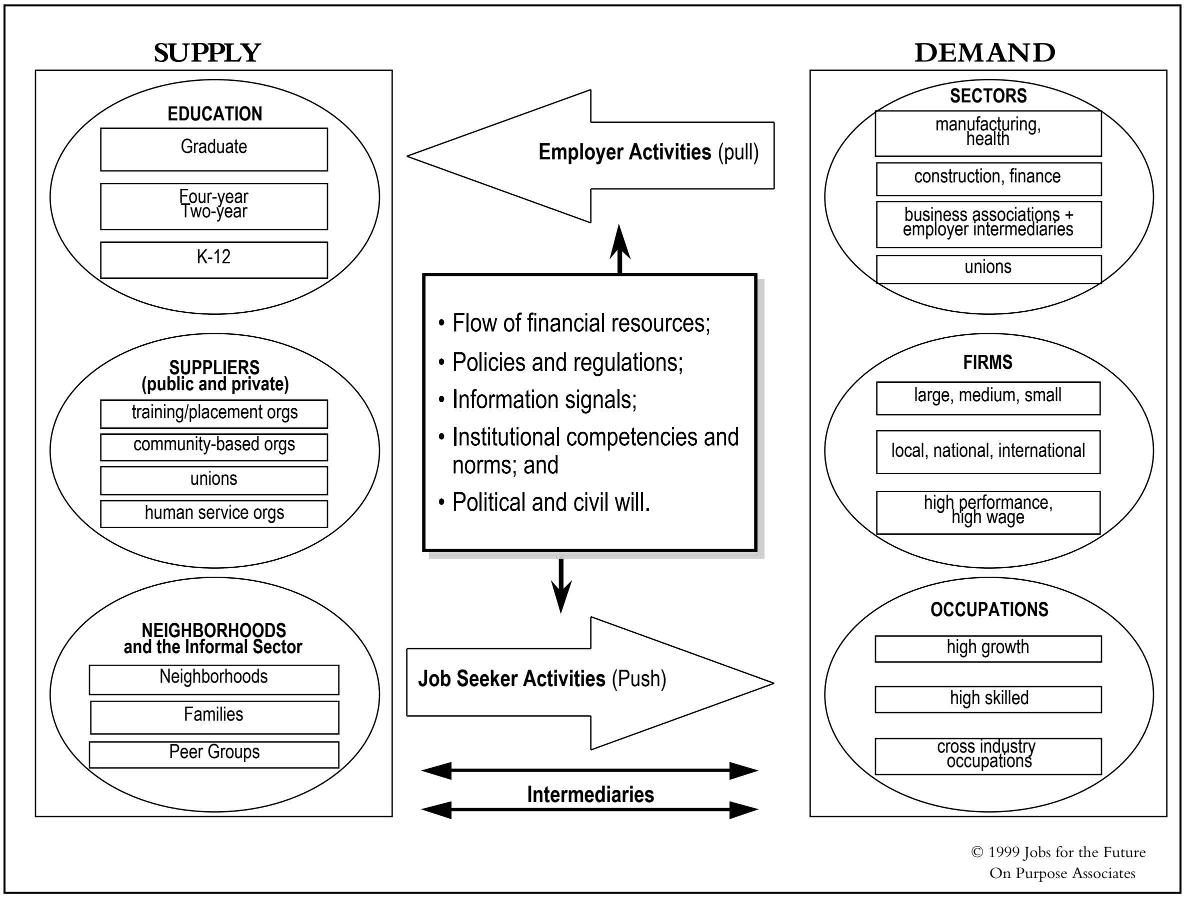
The Labor Market Today

Some particular features of the current labor market are pertinent to our systems change approach. Understanding the regional nature of labor markets, for example, is important for reformers aiming to help low-income people, because the "target populations" rarely live near jobs. Helping people obtain steady work means figuring out how to operate over large geographic areas.

More important are the dynamism and complexity resulting from ongoing global economic change—with one constant being the ever-increasing demand for workers with higher skills. Change is happening so quickly that frequently employers themselves don't know what their next product/service is going to be or what skills will be needed to produce it. Schools, especially in cities, are finding it hard to keep up in helping students prepare for the world of work. The same is true for public-sector workforce development, which in recent years has de-emphasized skill acquisition in favor of rapid job placement.

In other words, the U.S. labor market is not functioning well for either low-income people or their current and potential employers. That's the bad news. The good news is that this situation provides a foundation for a new approach, the dual-customer approach. Because the shortage of skilled workers is forecast to continue for some time, many employers are willing to cooperate with reform efforts that help them find and keep employees.

Table 1. Dynamics of the Labor Market



DRIVERS OF THE LABOR MARKET

The pipeline of practices that move seekers into jobs fails to serve many Americans at the bottom of the economy. To understand how to influence and improve that pipeline, it is essential to understand the forces that drive it.

What determines how well a labor market pipeline is functioning, particularly for low-income individuals? Although the complexity of labor markets may make them look chaotic and hard to grasp, the behavior of players in the system and, therefore, the effectiveness of the pipeline they "build," is strongly influenced by a small number of drivers that provide an underlying order that binds the system together.

In our own work with and observation of labor markets, we have found that players in labor markets respond to the following drivers: the flow of financial resources; policies and regulations; information signals; institutional competencies and norms; and political and civil will. How do these drivers affect the behavior of players in the labor market? And how do specific drivers affect labor market outcomes for low-income people and, simultaneously, influence the practices of employers in the labor market system?

The Flow of Financial Resources

Billions of dollars flow through labor markets to pay the costs of recruiting, assessment, training, and other pipeline activities or to provide incentives—stipends for job seekers or tax breaks for employers, for instance—for job seekers, employers, and providers who engage in the activities. Employers control a large portion of these funds, although the public sector is the most significant source of capital for low-income underskilled people in the labor market. The availability of these public resources and the eligibility criteria for accessing funds can significantly influence the actions of individuals and organizations in the system. Incentives are a particularly powerful form of resource.

In most labor markets, few financial resources are dedicated to helping low-income people develop marketable skills that help them get good-paying jobs and build careers. Public-sector funds for basic literacy or skills training are extremely limited. Until the passage of the Workforce Investment Act and welfare reform, national policy had encouraged use of these funds for skills training, but it now directs most resources to "rapid attachment." But almost all the jobs readily open to people with little skills training pay poorly and offer little prospect for advancement: they are low-wage dead ends.

What about people in low-wage jobs who want to advance? For most of the 40-plus years of publicly financed workforce development, federal policy has restricted use of its funds to the most disadvantaged. While the Workforce Investment Act (WIA) has eliminated that restriction, the small amount of funds that could be available for the working poor typically pays for job search services for unemployed people. In addition, WIA and other federal programs limit the funds that can go to private firms for "customized" training of their incumbent workforce. Because many state governments realized that customized training is effective, they appropriated dollars for this, as well as for skills upgrading. More than any other source of training grants, these programs have worked hand in hand with businesses and contributed to meeting the dual goals of upgrading worker skills and meeting business skill needs.

Similarly, millions of federal dollars are appropriated every year for the financial aid programs that have helped millions of Americans gain a college education. However, these funds have provided minimal help to low-income individuals who want to attend community colleges or other postsecondary institutions. Most financial aid programs are not available to students enrolled less than half time or who move in and out of college. As a result, many individuals who have to work but want to continue to pursue training are shut off from financial aid. This also impedes the ability of businesses to help their employees balance work and learning, and, therefore, it decreases worker retention and productivity.

Income-support mechanisms, such as the Earned Income Tax Credit and the unemployment insurance system, are powerful financial levers that provide low-income individuals with some assistance. However, the unemployment insurance system is terribly outdated, and many working poor and part-time workers are not eligible for these benefits. Although most states allow individuals to pursue training while receiving unemployment insurance, these opportunities are usually of short duration.

The flow of financial resources through businesses has similar outcomes for the poor. For decades, employers have relied on other parties—primarily the public schools and community colleges—to educate and train entry-level workers. Of the billions of dollars they spend on training, they have invested very little to build the skills of entry-level workers. A quick review of the curricula of business schools shows that few, if any, courses address the topic of entry-level workers' skills and training. Instead, it is taken for granted that entry-level workers will always be available and trained in the skills that the employer needs.

From the perspective of low-wage workers, among the useful financial resources are tax credits to business, such as the Welfare-to-Work tax credit and the Work Opportunity tax credit, which can influence the hiring and retention practices of firms. By tying eligibility for the Welfare-to-Work credit to duration of employment, employers have, for the first time, significant incentives to maintain entry-level employees.

Policies and Regulations

Policies and rules created by government, employers, or others further influence the behavior of actors in the labor market. [4] For example, in addition to the tax, income support, and training policies referred to above, governments may dictate certain behaviors—requiring welfare recipients to seek work, prohibiting job discrimination, and setting minimum wage standards, for example. Federal and state government policies that govern the use of public funds for certain activities also can significantly influence the behavior of firms and individuals. For instance, limitations on the use of TANF funds for basic education and skills upgrading reduce the opportunity for low-skilled individuals on welfare to upgrade their skills and education, and it also lessens the pool of qualified workers from which firms can fill vacancies in entry-level jobs.

Other examples abound. Some state legislatures have ruled that people with felony convictions cannot obtain drivers' licenses. Yet this makes it much more difficult for these people to travel to training programs and workplaces, especially given the shortcomings of public transportation already noted.

Meanwhile, in the private sector, employers and unions may establish contracts that provide for training programs for workers or apprentices. On the other hand, the eligibility standards for some training programs effectively bar access by most low-income, low-skill people. Similarly, firms develop screening and assessment policies that may substantially affect who has access to certain jobs and who gets hired.

Information Signals

A tremendous amount of information is generated by and circulates through the labor market. Employers put help-wanted ads in newspapers; job seekers post their resumes on the Internet; and the media rates which companies are the "best to work for." Also, various tests assess job seekers' skills. Government data predicts future job growth in certain occupations. These types of intentional signals may strongly shape the expectations of individuals and organizations in the labor market.

So do unintentional signals. Some signals reaching many young people, from the entertainment media, for instance, may lead them to believe that getting an education and working hard are unrelated to the income they will earn as an adult. Similarly, employers may conclude from the same sources that all welfare recipients lack "a work ethic" or that young men wearing baggy pants will be unreliable workers.

What matters here is that many low-income people lack access to good information about the labor market. They may never hear about certain job vacancies because a great deal of the most important information spreads through an informal network—the employees of the firm with the vacancies—to which they are not connected. Or they may never receive good information from their families or schools about the possibilities of developing a career, in nursing or construction, for instance, rather than only thinking of work in terms of a series of short-term, low-wage jobs.

While low-income workers struggle to interpret labor market signals, businesses struggle with how to "signal" to education and training institutions the kinds of literacy, workplace, and technical skills required for certain occupations and industries. The result: many high school graduates lack the basic education needed to compete in the labor market, and large numbers of youth subsequently drop out of postsecondary education without establishing any clear career direction.

Institutional Competencies and Norms

Public, private, and non-profit organizations undertake various activities in the labor market pipeline. What these organizations know how to do—their competencies—and how they go about doing it—their norms—can heavily influence outcomes for employers and job seekers.

In a typical labor market, the competencies of these institutions vary significantly, from the few that are state-of-the-art and very effective, to the many that are outdated and ineffective. Some of these institutions are entrepreneurial and oriented to meeting their customers' needs, while a great many, particularly those operated or heavily funded by the public sector, tend to be bureaucratic and inflexible. Many of the organizations must respond to the changes sweeping through the market: they must develop their capacity to innovate, adapt, and continuously improve, much as many of the employers and workers they seek to serve are doing. Yet this has been particularly difficult for public agencies and community-based organizations that depend on public funding (Plastrik and Taylor 2000). Moreover, few mechanisms in labor markets deliberately spread "best practices" or seed innovations that might improve the capacities and effectiveness of institutions.

Institutional competencies and norms can cause a "disconnect" between supply-side providers and their low-income clients. For instance, many public workforce development organizations struggle with how to close the "cultural competency gap" that exists between their staff and potential clients. Many of these organizations are staffed by individuals who don't necessarily talk the same language or understand the cultural barriers that clients may be facing as they try to enter the labor market. Under these circumstances, assessing skills or interests becomes a difficult task.

The same supply-side institutions are disconnected from employers' needs. Training organizations have routinely trained low-income people to perform jobs for which there is little demand. Moreover, employers often say that the "trained" job candidates sent to them are unqualified.

Finally, many non-profit and public institutions, as well as private businesses, lack the operational competencies to offer post-employment services to employers that would give employees access to the child care, transportation, and other supports needed to retain and advance in employment. From an employer perspective, the lack of these supports increases turnover and decreases productivity; from an employee perspective, it leads to job stagnation or even unemployment.

Political and Civic Will

A potentially tremendous influence on a labor market system is political and civic will—the agenda-setting networks of public- and private-sector leaders, as well as grassroots organizations and movements. A mayor, governor, CEO, key legislator, union leader, or community organization executive, to name some potential positions of power, may have command of such substantial market resources or institutional capacities, or be able to enact policies and priorities or send signals of such significance, that their decisions ripple through the labor market with great effect. Even more important is the "collective sense" among these people about what matters. Similarly, neighborhood organizations, stakeholder coalitions, community activists, and even public opinion can influence labor market activities.

Most of these influential people, whether they are public officials or private executives, respond to key constituencies—a category that rarely includes low-income people. For example, elected officials may encounter strong pressure to trim public spending on welfare, leading them to reduce support and insist that welfare recipients immediately take any job available. Business leaders have shown little tendency to use their power to influence policies that affect entry-level workers; rather, they have been wielded their clout mostly in connection with the supply of technical and highly skilled workers. And political pressures to invest in the economic infrastructures supporting suburbanization have helped transform many inner-city neighborhoods into what William Julius Wilson refers to as jobless ghettos (Wilson 1996). A lack of political and business leadership to solve the education problems of our poorest neighborhoods adds to a generation of undereducated youth.

REDESIGNING DRIVERS FOR DIFFERENT RESULTS

Taken together, these drivers—financial resources, policies, information signals, institutional competencies and norms, and political and civic will—shape most of the important behaviors in the labor market system. They influence the decisions of employers, job seekers, supply-side and demand-side providers, and intermediaries, affecting their activities in the labor market. As the examples make clear, "the system" can become stacked against the interests of low-income people. We can also see that changing certain drivers—for example, making more financial resources available or removing policy barriers—might improve the outcomes for many low-income people.

We envision a set of reformed drivers that includes:

- Financial resources that promote long-term investment in the employability and skills of low-income people who meet employers' needs;
- Policies and regulations that encourage the creation and use of work-related supports that help low-income Americans get, keep, and move up in jobs, and help them develop the skills they need to earn family-supporting wages;
- Information signals that convey the realities of the labor market as much as possible and that are broadly accessible, particularly to low-income Americans, who need more realistic information about work and the labor market, and to employers, who need more realistic information about the skills, abilities, and commitment of low-income workers;
- Workforce development institutions that are competent in practices that effectively support low-income people in the labor market and effectively connect with current and potential employers in order to understand and meet their needs; and
- Political and civic will deeply committed to ensuring that low-income people have opportunities to succeed in the labor market and to providing employers with incentives to invest in the success of low-income workers.

Such fundamental changes in the drivers of labor markets cannot be accomplished by simply launching a new workforce development program. To achieve systemic change requires changing the system's underlying drivers.

That leads to the big question: How to change the drivers in the system?

Knowing the drivers in a system makes it possible to think about how to change them. A good example of this comes from public education. Today, some 40 states have introduced "choice" into their schools: they let parents decide which school their children will attend. In the past, school districts decided which school students attended; usually, they designated a "catchment area" for each school, and students in the area went to that school. Schools received state government funding for each student they enrolled. The driver—financial resources—was designed to ensure the school a monopoly: its revenues were safe, whether parents liked the school's performance or not. As a result, schools had less incentive to please parents.

Choice laws change this. Parents can move their children to another school and *the state's funds go with the student to the other school*. A school's revenues now depend on the decision of parents—a fundamental change in a financial incentive that drives the behaviors of school administrators. The threat or reality of losing substantial revenues gets administrators to pay more attention to the desires of parents, who have become, in effect, paying customers. As a result, many schools have modified their curricula, added programs, and taken other steps to keep or attract parents and their children.

SEVEN STRATEGIES FOR CHANGING DRIVERS IN LABOR MARKETS

Based on work with reformers and our analysis of labor market systems, the authors have identified seven high-leverage strategies for planning systemic change in labor markets. These strategies can focus the energy of reform efforts and provide a substantial "return" on energy invested. Each can affect one or more drivers of the system. Thus, they can also meet the three criteria for systemic leverage: they can generate the desired outcomes; they can lead to changes at a large scale; and they are sustainable.

Of the strategies, three operate mainly on the supply-side of the market, and four on the demand-side (see Table 2).

Table 2. Seven Strategies for Changing Drivers in Labor Markets

Supply-Side Strategies	Demand-Side Strategies
1. Increase public financial resources dedicated to upgrading the work-related skills of low-income people. 2. Restructure educational institutions and training organizations so the content and outcomes of their courses meet employers' needs and the structure and method of their course delivery meet low-income peoples' needs. 3. Integrate human services, income supports, and workforce development to assist working individuals until they reach a family-supporting wage.	4. Change employers' business and workplace practices to support the retention and advancement of low-income workers. 5. Restructure government financial incentives to businesses and investments in public infrastructure to leverage resources and reduce barriers for low-income job seekers and employees. 6. Develop a system of "portable" credentials and standards for work skills that is formally adopted by employers on the demand side and by providers, including educators, on the supply side. 7. Create policy-advocacy/influencing mechanisms that enable key stakeholders from the demand and supply sides—including low-income people and employers—to modify workforce development systems to meet their needs.

1. **Increase public financial resources dedicated to upgrading the work-related skills of low-income people.**

The amount of public money dedicated to upgrading the skills of low-income people is distressingly meager. A number of thoughtful analysts have argued that our failure to invest in the skills of our poorest citizens undermines the strength of our polity and our economy.

This is a high-leverage opportunity because a relatively small additional investment in skills training can, if well designed, yield big results in both higher incomes for poor working families and higher productivity and profits for employers. This opportunity directly targets the *financial resources* driver.

New financial resources can come in the form of, for example, new grant allocations and programs, reprogrammed funds, tax credits for employers or low-income people, or the innovative use of federal funds for workforce development. The resources can target unemployed or incumbent low-income workers. Or they can be used to increase the financial assets of low-income people—through Individual Development Accounts or Individual Training Accounts—and to give them control over training and educational decisions. New funds could also be structured as incentives but encourage the working poor to identify career paths that match their interests and skills. Incentives could be put in place to enable firms to invest in training and to help supply-side organizations improve their *institutional competencies* to deliver better training services.

In Wisconsin, the Worker Advancement Act provides surplus TANF funds to upgrade the skills of recently placed welfare recipients and other low-wage workers. Five years ago, Seattle set aside surplus TANF funds in a Ready-to-Earn fund to support job training for welfare recipients. In Philadelphia, a group of faith-based organizations worked with a network of regional employers to convince the Pennsylvania legislature to allocate TANF funds for stipends for low-income people enrolled in an 18-month program that resulted in high-paying jobs.

2. Restructure educational institutions and training organizations so that the content and outcomes of their courses meet employers' needs, and the structure and method of their delivery meet low-income people's needs.

People graduating from most public high schools and training programs lack the skills employers demand for higher-paying jobs. Many employers feel that "the system" is failing them and resent the taxes they pay to support it. At the same time, many low-income people find that what they've learned from schools and trainers can't get them into family-supporting jobs, and they have no alternatives for getting the marketable skills.

From an employer's perspective, what's needed are programs that effectively teach workers the skills they are looking for; testing procedures that actually distinguish students who have learned these skills from ones who haven't; and credentialing methods that document which students have learned what skills.

From the perspective of low-income people, what's needed are education/training programs with a delivery structure that makes it possible for people to work while they learn so they can support themselves and their families. Most courses should be short-term and intensive, so people can get back to work. Longer-term training can be offered at non-working times, such as evenings and weekends. Courses should be arranged and offered in logical sequences that reflect the knowledge "building blocks" required by the jobs that employers actually have. The sequence of these courses should move people toward developing skills for higher-paying jobs. Equally important, the teaching methods of these courses should meet the needs of learners (mostly adults and young adults) who most likely experienced trouble learning in traditional classrooms, lack a strong foundation of basic skills, and may well have learning disabilities.

It is essential, then, to connect public education systems with employer workplaces through effective mechanisms so that individuals and information signals flow smoothly between them. For instance, high school students can experience real work settings through internships at local firms. When these mechanisms are present, changes in an industry, such as the emergence of new skill needs, can be quickly reflected in the education system through, for instance, the revision of curriculum. Thus, supply-side *institutional competencies* are improved. Moreover, low-income youth and adults would gain access to and support in firms, jobs, and education and training for career development.

Portland Community College in Oregon has designed 15 two-year training programs for low-income students whose skill levels and credentials fall below the traditional minimums. Each program provides intensive, contextualized (career-related) literacy/English as a Second Language classes, a diploma/GED, and college credit toward a career-track program.

In Philadelphia, the Regional Workforce Partnership of employers identifies growing industries that face serious skill gaps and works with local providers to develop training programs to meet those gaps. The partnership sponsored the establishment of the Customer Service Training Institute, for example, after employers in a number of industries gave those skills top priority. Two partners, the National Retail Foundation and the National Center for Literacy's Equipped for the Future, have helped the Institute develop a nationally recognized certification and a curriculum that integrates skills identified by employers with literacy training.

3. Integrate human services, income supports, and workforce development to assist working individuals until they reach a family-supporting wage.

Despite the emphasis in federal welfare reform on work, the array of services and income supports that traditionally came under the "social welfare" umbrella has been slow to align its processes and goals with that goal. Funding and oversight of these programs flow through "silos" that remain separate. For example, attempts to align U.S. Department of Health and Human Services initiatives with the U.S. Department of Labor's training and employment programs have been rudimentary. Most "welfare" programs still require clients to appear at their offices between 9:00 a.m. and 5:00 p.m. to obtain or maintain services—even if the clients are at a workplace during those hours. Similarly, rules governing eligibility for benefits and services rarely take account of work-related needs. It is evident, for example, that welfare clients' job retention rates plummet when their eligibility for child care, health care, and key family-supporting services is exhausted.

As a result, many public resources that could "make work pay" don't. Many of the working poor have spotty work records, lose jobs before becoming eligible for job-related benefits (employer-sponsored health or public unemployment insurance, for example), and fail to accumulate the experience and seniority needed to advance in careers. Employers also lose, as they fail to realize a return on their investment in new employees and end up paying a high price for additional recruitment and hiring.

What's needed is effective alignment of human services and workforce development at the federal, state, and local levels so that work really can replace welfare payments as the "safety net" for low-income people. For this to happen, the administrators of public-sector workforce and human service agencies must be accountable for helping low-income people get and hold jobs. They need to provide *financial resources*, such as income supports, and change policies and regulations, so they can offer child care, health care, substance abuse treatment, and other services in coordination with clients' schedules for job training or employment.

The state of Wisconsin undertook an ambitious attempt to integrate the welfare and workforce development silos in its Wisconsin Works (W-2) program in 1997. W-2 converts all "welfare" payments to "paychecks" that recipients are required to earn. A tiered system of increasingly demanding work arrangements—with community service at the entry level and unsubsidized work in the private sector at the other end—recognizes the great variation among welfare recipients' work experience and education. The lowest tier retains full access to crucial benefits such as child and health care. The higher tiers are designed to stimulate recipients to move upward through the tiers to unsubsidized work: they adjust publicly funded benefit levels so that the individual's total income increased with each advance.

4. Change employers' business and workplace practices to support the retention and advancement of low-income workers.

Few practices at entry-level workplaces support low-income families (especially single-parent families) and their children. Supervisors rarely know how to train and support workers. The organization of work itself almost never permits the sort of cross training and skill upgrading that would benefit workers and the firm.

However, the competitive, skill-based nature of today's economy creates an opportunity to change this. Many firms would benefit from the same changes in workplace practices that would help their workers. Human resources policies, for example, can be revised in ways that retain workers and lower overall costs of the workforce.

The benefits of such workplace changes are often easier to achieve when a number of firms come together around workforce development issues, whether by size, within a specific sector (e.g., tool and dye manufacturers, telecommunications), or within a geographic area (e.g., the jurisdiction of a chamber of commerce). Working together, they may also increase or redesign the *financial resources* they dedicate to workforce development. In addition, they gain a stronger voice in seeking to persuade government to increase the *financial resources* it allocates and to redesign its *policies*.

The Wisconsin Regional Training Partnership of firms and unions was founded on the principle that workplace improvements will only succeed if both workers and employers benefit. Early on, the partnership concentrated on methods for upgrading the skills of incumbent workers to support employers' investments in new technology. More recently, it has worked with local reformers to bring minority and women workers into previously all-white/male workplaces. It first focused on building the skills of new workers to meet the needs of employers with identified job openings. To help the new workers stay and move up in their jobs, it offers an array of "employer services," such as mentoring, progressive discipline, and work-based resource centers for skill building. The partnership's membership originally consisted of manufacturing firms and unions, but it has expanded into health care, telecommunications, and other sectors.

5. Restructure government financial incentives to businesses and investments in public infrastructure to leverage resources and reduce barriers for low-income job seekers and employees.

At present, states and localities spend huge sums to make their regions attractive to business firms through tax rebates, improved highways, and the like—"economic development."

With few exceptions, the planning and policies that guide these efforts, and the public resources that pay for them, are divorced from workforce issues. During the hot economy of the late 1990s, the effect of this neglect often was ludicrously evident: luxury hotels and large malls hung out "help wanted" signs a few weeks before gala openings, only to find that no one lined up for the jobs.

Increasingly, firms and organizations that represent them, such as chambers of commerce, have used the availability of a skilled workforce as a determining criterion for business-location decisions. As that happens, communities are nervously assessing the quality of their workforces. It is evident that in all but those few locales with concentrations of higher education institutions and related amenities, the local workforce's skills fall below employers' expectations, and so does the performance of local schools and training organizations.

A small but growing number of communities have responded by making workforce development an integral part of economic development. They are finding that this coordination is a high-leverage opportunity to use public resources to promote the well-being of their citizenry and the competitiveness of business firms.

Publicly financed economic development and infrastructure agencies (e.g., transportation, public works) should be accountable for helping low-income people get and hold jobs. When public-sector investments in job creation or the construction of public facilities are steered in this way, it changes the *financial resources* in the labor market, often in ways that influence employer decisions. For example, public investments in attracting new firms or expanding existing firms can be based on those businesses' locating in places, especially the inner city, that are accessible to low-income job seekers. Transportation systems could be designed to enable workers to commute easily to and from work.

Memphis, Tennessee, pioneered this approach in response to a "wake-up call" from a large local employer that was seriously considering moving because it couldn't find a sufficiently skilled workforce locally. At the heart of Memphis's approach is an economic "blueprint" that identifies several high-growth economic sectors for the city. The Memphis Regional Chamber of Commerce spearheaded the effort, laying down the requirement that only industries offering good entry-level jobs and opportunities for advancement qualified as a targeted sector. The chamber connected with local high schools and the community college to develop training programs that prepared skilled workers. To help ensure that the training curricula were on target, the chamber connected schools to groups of employers in the targeted industries and invested in sophisticated "job profiling" technology so that employers could translate job requirements into curricula for teachers.

6. Develop a system of "portable" credentials and standards for work skills that is formally adopted by employers on the demand side and by providers, including educators, on the supply side.

Employers have few easy-to-recognize signals they can use to distinguish a job applicant who has mastered specified skills from one who has not. Many employers believe that "back in the old days," a high school diploma signaled that a candidate had mastered basic academic skills and acquired what employers call the work ethic. Now, they feel, the diploma no longer has much meaning—many high school graduates seem scarcely literate.

At the same time, many entry-level jobs require more sophisticated skills than the traditional high school confers upon students. Low-income job seekers suffer, especially if their address, skin color, or accent suggests to a prospective employer that the candidate isn't going to meet the firm's needs. For genuinely qualified candidates, it's often difficult to get a foot in the door long enough to demonstrate actual skills.

One potential solution is *portable credentials*. To be portable, a credential must be a reliable guide to the skills of the candidate who bears it. This depends on several factors, including the existence of education/training institutions that are flexible in how they credential student learning, and the development of accurate mechanisms for testing students' skills and knowledge. Most important, a portable credential depends on detailed, ongoing input from employers regarding the skills they need. This is why it is a "demand-side" strategy. In many ways, it is the demand-side complement of the supply-side strategy to restructure educational institutions and training organizations.

Under this approach, employers and education/training providers agree to use common standards to teach, assess, and credential workers' preparation for specific jobs, and to make the standards public. These important new *information signals* in the market can influence other training providers, who improve their *institutional competencies* by tailoring their training and other services to employers' needs. Meanwhile, job seekers know what sort of training to get. Because workers earn credentials based on standards that employers have developed, employers can screen for qualified candidates based on ability to do the job, rather than on less relevant—and potentially prejudicial—characteristics, such as appearance, ethnic origin, or home address.

In the United States, most of the work done to identify skill standards and assessment and certification systems has been done under the auspices of the National Skill Standards Board. For example, with funding from the board, the jewelry industry has identified skill standards in three areas—bench jeweler, sales, and management—and developed certifications recognized by firms that are members of the Jewelers of America Association. As of April 2001, over 1,250 certifications had been issued nationally for bench jeweler, 400 for management, and 530 for sales.

In the retail industry, the National Retail Federation Foundation has worked with member firms to identify retail skill standards, and it is implementing training and certification programs based on those standards in Retail Skills Centers. These centers are based in malls in five sites around the country and provide training based on CD-ROMs made available by the National Retail Federation Foundation. Successful completion of the training results in certificates recognized by all employers in the mall. These mall-based centers assist local merchants by providing them with work-ready employees, and they are convenient to employees working in local firms who want to upgrade their skills.

7. Create policy-advocacy/influencing mechanisms that enable key stakeholders from the demand and supply sides—including low-income people and employers—to modify workforce development systems to meet their needs.

Many of the changes needed to support low-income people in the labor market require shifts in public and private policies. But few policymaking bodies, especially government agencies ranging from school boards, to workforce investment boards, to community college boards of trustees, and state legislatures, have an incentive to change what they do. One critical reason is that their memberships rarely include key, influential stakeholders in the labor market, especially low-income people and their current and potential employers. Even when stakeholder representatives are included—such as business firms on workforce investment boards—the representation is often perfunctory; many employers on these boards report that they feel unable to influence policy. No wonder these bodies often pay little attention to the workforce issues that are the "number one priority" for businesses nationwide.

There are two approaches to changing these entities and their priorities. First, their composition can be altered to include stakeholders empowered to make decisions. Second, acting externally, stakeholders can organize to influence them. Both types of effort help to build political and civic will in the labor market system, resulting in new policies and regulations.

The Boston Private Industry Council, the board responsible for workforce development policy for the city, is structured so that influential employers have a real voice. For example, a number of employers of entry-level workers serve on its board and have helped influence the PIC's strongly articulated commitment to upgrading the skills of Boston's residents to meet the needs of regional employers. These employers have helped pioneer path-breaking welfare-to-work models and are participating in and helping to support the costs of career ladder pilot programs in the health care and finance sectors.

Many types of projects can help transform a conceptual strategy into a reality. Table 3 provides examples of proven projects that can be used to implement each of the high-leverage strategies we have identified.

Table 3. Advancing Strategies Through Projects

Strategy	Possible Projects
Increase financial resources for skill upgrades	· Secure business tax credits for entry-level training; introduce or expand IDAs and ITAs for low-income people · Work with trade associations to restructure firms' tuition reimbursement programs to cover educational and skill upgrading for entry-level workers · Organize consortia of firms to pilot new "return on investment" methods for training · Organize public/private partnerships to coordinate support services for entry-level hires · Leverage state-level connections to create fund for skill upgrading for working poor
Restructure educational and training organizations	· Collaborate with local community college to establish sequence of modular training programs that starts with literacy/ESL and culminates in training for high-wage jobs · Broker relationships between supportive employers and workforce community-based organizations so that CBOs understand and prepare clients for today's workplaces · Establish education-industry collaboration to develop career and industry "pathways" for students · Create system-wide "compact" with industry to hire high school graduates
Integrate human services, workforce and income supports	· Pilot regional collaborative to establish round-the-clock child care for working poor · Collaborate with public agencies to fund work/family programs and policies that support needs and schedules of working single parents
Change employers' business and workplace practices	· Expand promising training program to cover entire industrial sector · Establish public incentives for formation/expansion of industry networks, clusters, consortia · Develop and implement career ladders within several industries · Develop an employers' association workforce development intermediary to broker relationships with supply-side providers · Institutionalize union-sponsored training programs in a sector · Develop labor-management capacity to build the skills and assets of low-wage workers in targeted industries

Strategy	Possible Projects
Restructure government economic investments	· Leverage relationship with local/regional transportation authority to establish permanent transportation links between low-income neighborhoods and suburban areas with jobs · Advocate to earmark funds for job creation that target long-term career jobs for low-income people · Connect workforce and economic development efforts to connect employment programs to targeted industries and leverage funds for skills training · Leverage local/regional connections to implement policies that support job creation for the working poor during economic downturns
Develop a system of portable credentials	· Develop and implement employability standards across several industries · Implement performance-based assessments in education system and job training programs · Incorporate competency-based measures in postsecondary education admissions standards · Identify job competencies in several industries and relevant courses of study for postsecondary and job training programs
Create mechanisms to bring in key stakeholders	· Develop a "jobs policy" advocacy network that includes multiple stakeholder groups · Institutionalize the role of multi-stakeholder advisory groups with the workforce investment board · Institutionalize representation of low-income people and communities in workforce investment boards and other advocacy organizations

Synergies of Strategies

Undertaking any one of the seven high-leverage strategies may be a substantial task, but over time it is likely that more than one—perhaps all of them—will be pursued to effect desired system transformations. Table 4 describes the synergistic interaction of strategies to affect a labor market's drivers. For instance, three strategies can affect the financial resources driver in ways that will promote the goal of long-term investment in low-income people. Obviously, increasing public financial resources (Strategy #1) can do this, as can delivering human service programs and income supports to low-income workers (Strategy #3). And so can changing employers' business and workplace practices (Strategy #4), when, for instance, employee-supported benefits and training programs are bolstered.

Table 4. How Strategies Can Interact to Change Labor Markets

System Drivers	Strategies for Changing the Driver	Goal (Changed Driver)
Financial Resources	1. Increase financial resources for skill upgrades 3. Integrate human services, workforce development, and income supports 4. Change employers' business and workplace practices	Financial resources promote long-term investment in the employability and skills and of low-income people that meet employers' needs.
Policies and Regulations	3. Integrate human services, workforce development, and income supports 4. Change employers' business and workplace practices 7. Create mechanisms to bring in key stakeholders	Policies and regulations support provision of work-related supports that help low-income Americans get, keep, and move up in jobs and acquire skills that pay family-supporting wages.
Information Signals	2. Restructure educational and training organizations 6. Develop a system of portable credentials	Information signals convey the reality of the labor market and are broadly accessible.
Labor Market Institutional Competencies	1. Increase financial resources for skill upgrades 2. Restructure educational and training organizations 4. Change employers' business and workplace practices 6. Develop a system of portable credentials	Workforce development institutions are competent in practices that effectively support the success of low-income people in the labor market, and connect with current and potential employers to meet their needs.
Political and Civic Will	7. Create mechanisms to bring in key stakeholders	Political and civic will is deeply committed to ensuring low-income people have opportunities to succeed in the labor market, and public policies provide incentives to employers to invest in low-income people.

SYSTEMS-CHANGE PROCESS: PUTTING THE APPROACH TO WORK LOCALLY

To determine which strategies will help change key drivers in a labor market, it is essential to understand how that labor market works, along with the barriers and opportunities for change it contains. It is equally important to decide on system reform goals and to identify assets that can be mobilized in support of particular strategies. Finally, it is essential to track—from the outset—changes in the labor market in response to the implementation of selected strategies.

Scanning the Labor Market for Barriers and Opportunities

Those who seek to impact labor market drivers must have a keen understanding of the way the labor market works. They can develop this by conducting a *scan* of the labor market—mapping and assessing the existing pipeline of practices, identifying key players and assets or allies, determining which drivers are influencing behaviors, and deciding what might be the possible "entry points" for a strategy. The scan is a complex analysis of the behavior of system players, the labor market drivers, and potential high-leverage strategies for change. It identifies the market's demographic, economic, and political landscape, along with the potential barriers to change.

It is important to identify the most important factors that are combining to give a labor market its distinct history and characteristics. For instance, the types of industries in a labor market affect the skills workers are likely to have, as well as the cycles of economic expansion and contraction in the region. Assessing how well and in what ways local community colleges serve low-income youth and adults may be critical.

Lining up the Necessary "Assets for Change"

Any strategy for high leverage requires the support of some of the key players in the labor market—provider intermediaries, government officials, businesses, community groups, and so on. Each strategy also requires a distinct set of competencies to implement the reform. Developing skills standards requires expertise about industries and occupations, for instance, while restructuring human service programs requires expertise in and connections to the welfare system.

Reformers must judge the prospects for assembling support—"assets for change"—for the various strategies they consider. Some players can throw significant support behind more than one strategy. The support of employers, for instance, is essential for strategies to organize employer groups, develop portable skills standards, and create a "work-based learning" model with the education system.

Establishing Outcomes and System Reform Goals

Reformers cannot plan to change drivers in the system if they don't know which *outcomes* they want the system to produce. There are many ways to describe desired results, but the more specific the better. For example, saying "we want more unemployed people to get good jobs" is very general. The six sites participating in the Jobs Initiative, for example, were far more specific; their goal was for low-income young adults in targeted neighborhoods to obtain good jobs, defined as paying a "family wage" with health benefits, and to stay in those jobs and advance to better jobs. With precise outcomes defined, it is easier to focus on which drivers to change and in what ways to change them.

It is important to establish outcomes that are measurable and that relate to changes for *customers* of the system, the job seekers and employers who are supposed to benefit from the system's activities. In a systems change approach, changes in drivers should lead to much better results—*higher impact*—for customers at *significant scale*. For example, a Midwestern job training site identified its customers as entry-level manufacturing workers and set a goal of increasing their job retention rates by improving workplace conditions (Strategy #4). The site knew that one-year retention rates had been averaging 50 percent. It set a *goal of increasing that rate to 70 percent*. It estimated that achieving the goal would result in 3,600 more workers keeping their jobs for at least one year.

In general, clarity about broad outcomes leads to describing the systems reform goals. Continuing with the example of increasing job retention rates, the Midwestern site established its systems reform goal as follows: *At the end of four years, there will be a network of workplaces where there are effective supports for retention of entry-level workers.*

When establishing such systems goals, it is important to describe the changes in the drivers that will lead to the desired broad outcomes. In the Midwestern example, the site expanded its systems reform goal: *This change will be accomplished by obtaining employers' agreement to change their policies with regard to human resource policies for entry-level workers, and will result in changes in their institutional competencies and norms*. The reformers believed that changing these key drivers—the participating employers' policies and competencies—would generate sustainable changes in their labor market.

Three criteria can be used to judge whether a systems reform goal is well articulated:

- *Impact*: Does it significantly improve the result that the labor market produces for low-income people and employers?

- *Scale*: Will large numbers of low-income individuals and employers benefit from the change?

- *Sustainability*: Is the change it produces likely to endure (e.g., a funding stream has been put in place, new practices have been institutionalized)?

Tracking Systems Change

Milestone measures make it possible to monitor progress toward systems reform goals and determine if change efforts are likely to realize their potential. A *milestone* is a step that must be completed on the way to achieving scale: if the change effort doesn't pass the milestone, it is unlikely ever to reach the intended systemic reform.

In the Midwestern example, the site established two kinds of systems reform milestones (see Table 5). The first was a set of goals for each of the years of the initiative, as shown below. The site frequently compared its actual progress to the milestone chart to know whether its efforts were moving them in the right direction, at the desired pace.

Table 5. An Example of Systems Reform Milestones

Year	Number of Workers in an Improved Workplace
2002	2,000
2003	8,000
2004	13,000
2005	18,000

The reformers also wanted a "make or break" milestone that would show whether their efforts would ever pay off. So they focused on the *number of firms that were participating*. How many firms would need to participate in order to reach 18,000 workers? Estimating that each firm averaged 200 employees, the reformers projected that they would need to involve 90 firms. The site decided to would stop and assess progress at the beginning of the third year: it would consider the effort on the right track if at least 45 firms had agreed to participate. If, however, fewer than 45 firms had agreed, the site would seriously reconsider the goal and approach.

In a second example of systems reform goals and tracking, reformers in a major city concluded that their efforts to help low-income people obtain family-supporting jobs were showing little success because local institutions were not set up to help working adults acquire work-related skills. They decided to help the city's community college restructure its course offerings in targeted industries to make them accessible for low-income people.

First, the reformers set a goal for low-income workers: increased wages by increasing skills. The reformers worked with the college and concluded that 500 low-income workers from the inner city would complete skills training in high-demand occupations during a three-year period. The reformers didn't have much experience in this type of training, so it estimated that *60 percent—300—of them would have increased wages six months after completing their training*.

Second, they described the systems change goal that would result in skills training for 500 workers: *The city community college will provide intensive training that combines literacy and technical skills in three high-demand occupations at times and in places convenient to working residents of the inner city*.

Third, they set up a milestone to track a change in the *institutional competencies* driver: A *sequential course of occupational training meeting our standards will be established in one high-demand occupation in each of the following three years*.

Fourth, they established a "make or break" milestone. The reformers decided that the key drivers affecting community college performance were finance and policies. State policy directed funds toward full-time (that is, not working) students; reformers would need to change state policy so that funds were available for working students. The reformers estimated the level of funding that would be needed to establish each of the three training courses. But they realized that their reform would never get off the ground unless state legislators changed state policy: *The state legislature will modify the law funding community colleges to establish a funding stream for courses for working students*.

CONCLUSION: LABOR MARKETS THAT WORK

A systems approach to changing labor market performance requires a substantial and enduring commitment to the task of change. It involves analytic and coalition-building activities, as well as experimentation to determine where the leverage for change may be.

For some reform-minded civic and political leaders this may seem far too much to take on. For others, it may seem a sensible but difficult way to proceed with trying to get better performance out of the labor market. And yet, if labor markets indeed are systems, then the seven strategies identified here, based on our own experience, provide compelling ways to leverage relatively small changes into big results.

REFERENCES

Acs, Gregory, and Pamela Loprest. 2001. Initial Synthesis Report of the Findings from the ASPE's "Leavers" Grants. Washington, DC: The Urban Institute.

Freedman, Stephen. 2000. National Evaluation of Welfare to Work Strategies: Four-Year Impacts of Ten Programs on Employment Stability and Earnings Growth. New York: Manpower Demonstration Research Corporation.

Kazis, Richard and Marlene B. Seltzer. 2000. U.K./U.S. Welfare-to-Work Symposium: Overview: Toward a "Demand-Led" Workforce Development System: Rationale, Definition, and Implications for Government Roles. Boston: Jobs for the Future.

Laszlo, Ervin. 1972. The Systems View of the World: The Natural Philosophy of the New Developments in the Sciences. New York: Braziller.

Liebowitz, Marty, Amy Robins, and Jerry Rubin. 2002. Rising to the Literacy Challenge: Building Adult Education Systems in New England. Boston: Jobs for the Future.

McCabe, Robert H. 2000. No One to Waste: A Report to Public Decision-Makers and Community College Leaders. Washington, DC: Community College Press.

National Association of Manufacturers. 2000. The Skills Gap 2001: Manufacturers Confront Persistent Skills Shortages in an Uncertain Economy. Washington, DC: National Association of Manufacturers.

Plastrik, Peter, and Judith Combes Taylor. 2000. Responding to a Changing Labor Market: The Challenges for Community-Based Organizations. Boston: Jobs for the Future.

Senge, Peter M. 1990. The Fifth Discipline: The Art and Practice of the Learning Organization. Garden City, NJ: Doubleday/Currency.

Wilson, William J. 1996. When Work Disappears: The World of the New Urban Poor. New York: Knopf.

Workforce Academy Model Project. 2001. Keeping Competitive. Hiring, Training and Retraining Qualified Workers in 2002. Washington, DC: U.S. Chamber of Commerce.

ENDNOTES

[1] The *Leavers Study* found that 70 percent of each sample worked at least one quarter; 40 percent worked all four quarters in the first year; employment rates during the first quarter ranged from 47 percent in Los Angeles to 69 percent in Georgia. The *NEWSS Study* found that, on average, 35 percent of participants in education-focused programs and 37 percent of participants in employment-focused programs achieved short-term stability (first employment spell lasting four or more quarters).

[2] For a detailed description of the Jobs Initiative's use of a systems change framework, see Plastrik and Taylor, "Systems Reform in the Jobs Initiative: Lessons from Using the Framework for Labor Market Systems Reform," Boston: Jobs for the Future, July 2001. For the Framework used by the Jobs Initiative sites, see Plastrik, Seltzer and Taylor, "The Framework for Labor Market Systems Reform for Jobs Initiative Sites," Boston: Jobs for the Future*,* 1999; revised 2001. http://www.jff.org/jff/kc/library/0111.

[3] For purposes of this article, the "labor market" is defined around the market's job-filling function. Other labor-oriented activities, such as outsourcing/contracting with vendors or the entrepreneurial start-up of a business, are not based on job filling but could also be considered a part of a labor market system's functions.

[4] Policies also establish financial resource flows, but we separate these two drivers on account of the great importance of financial resources in influencing labor market players. In practice, policies and financial resources are highly interrelated.