PartnersUpdate

Editor's Note: This publication is posted on a rolling bi-monthly schedule.

January/February 2013

Updated February 27, 2013

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Economic Development Podcasts

Register Now for Two Call-in Sessions in March

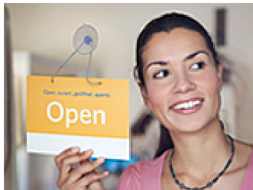
2/27/2013 - The Federal Reserve will host call-in sessions on the Independent Foreclosure Review agreement and the 2011 FDIC National Survey of Unbanked and Underbanked Households. Join the conversation with other community development practitioners nationwide.

A Case for Greater Company Participation in Workforce Development

2/25/2013 - How can employers be effective partners in improving the local workforce ecosystem? Peter Cappelli, professor and director of the Wharton School's Center for Human Resources, discusses how firms can provide on-the-job training for skills needed within their organizations.

Workforce Development Event Focuses on Historically Black Colleges and Universities (HBCU)

2/22/2013 - HBCU presidents and corporate leaders met recently at the Atlanta Fed to share best practices on preparing students for the current job market. The event was part of a larger Federal Reserve initiative to address workforce development issues, including workforce readiness.



Women Entrepreneurs Mean Business

1/25/2013 - What are the current trends in female entrepreneurship? Alicia Robb, senior research fellow at the Ewing Marion Kauffman Foundation, discusses recent data on women-owned firms and the challenges and opportunities in expanding this sector.

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Register Now for Two Call-in Sessions in March

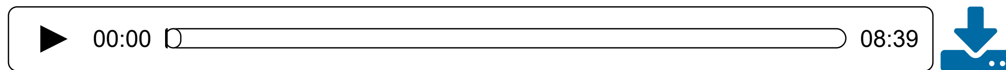
The Independent Foreclosure Review (IFR) agreement is the focus of an upcoming audioconference led by Federal Reserve and Office of the Comptroller of the Currency staff. Thirteen of the mortgage servicers subject to the IFR reached an agreement with federal regulators to pay more than $9.3 billion to help borrowers. Join community development practitioners from across the country at 3:30 p.m. ET on Wednesday, March 6, for a call-in session on this topic.

And on Wednesday, March 20, at 2 p.m. ET, staff from the Federal Deposit Insurance Corporation (FDIC) will present key findings from the 2011 FDIC National Survey of Unbanked and Underbanked Households released last September. The FDIC conducts this survey every two years to collect data on the number of U.S. households that are unbanked and underbanked, the reasons for their being so, and their demographic characteristics.

Register for these interactive sessions at the ***Connecting Communities™*** website. Participation is free, but preregistration is required.

These events are part of the Federal Reserve's ***Connecting Communities™*** series, which is a national initiative intended to provide community development practitioners, financial institution representatives, policymakers, and others with timely information on emerging and important community and economic development topics.

A Case for Greater Company Participation in Workforce Development



February 2013

Scott Turner: *Welcome to the Federal Reserve's* Economic Development *podcast series. I'm Scott Turner with the Federal Reserve Bank of San Francisco.*

In the aftermath of one of the worst economic downturns where unemployment spiked and is only abating slowly, more attention is being focused on how workforce efforts might be improved or completely revamped. While many companies have openings and potential workers seek jobs, efforts to solve this "skills gap" have focused on workforce development systems, yet there's been less discussion of the roles and the strategies that companies might deploy.

Today we're speaking with Peter Cappelli, the George W. Taylor Professor of Management at the Wharton School and director of Wharton's Center for Human Resources. Professor Cappelli's recent research examines various employment issues, including alternative working arrangements. He is also the author of numerous books and papers on a whole range of workforce related topics, including a 2012 book, Why Good People Can't Get Jobs: The Skills Gap and What Companies Can Do about It*. Welcome, Dr. Cappelli.*

Peter Cappelli: Thank you.

Turner: *We at the Fed often hear from companies that they're having difficulty identifying properly trained workers, yet we also know that many Americans do not have jobs. Economists and others have debated if there is, in fact, a skills gap. What does your research suggest about this?*

Cappelli: It's a puzzling story as to why we're even talking about this with an unemployment rate that is just a little below 8 percent and most of the people who were unemployed were employed a little while ago, a few years ago. So you wonder what possibly could be different now, and I think it isn't clear if you look at the data at the national level that anything really is different now that would cause anything like a skills gap.

And it probably helps to define what does that mean—a skills gap. The idea would be that there are jobs with requirements that can't be met by the applicants who are out there. I think what has really happened is over time employers have changed what they're looking for. The standard skills gap story goes like this: that there are jobs out there that can't be filled, the reason is because people don't have the skills, and the reason for that is schools are failing. As far as we can tell, there is nothing to any part of that argument. There don't appear to be any more vacancies now than at other times with equivalent economic activity coming out of recessions. There's nothing going on in the economy that's really changed the nature of jobs very much, schools aren't failing (actually, they've been getting better), and most of the unemployed haven't come out of school recently anyway.

But I think what has happened are two things. On the employer side, first, they're not growing talent from within anymore. They're adopting a "just-in-time" model, that is, they are expecting to hire people who are already trained and immediately ready to hit the ground running, as they say. They're not looking to hire people who could do the job with training or with a little practice; they want to hire people who are ready to go even for skills that are pretty unique to their company. So that raises a really big question for policy, and that is, "Who's responsible for training?"

The second reason why this story, I think, is a little different now is because employers are not developing people within much anymore, they're doing a whole lot more hiring. So there's more hiring, and companies are expecting something quite different now. They're expecting people to come in ready to hit the ground. They're also trying to do it without raising wages very much. So whether you think there's a gap or not depends in part always on what you're looking for.

Turner: *Great. So from your perspective, how much of the employer complaints are a local issue? Various actors within a community—including the workforce investment boards, industry councils, technical and vocational colleges and schools—often work together to address the skills gap issues. But what does your research reveal about how these systems operate? Specifically, what is working well and what's not?*

Cappelli: I'd say most of the employer complaints are local, and a lot of them relate to skilled trades. So I think the big challenge we have at this local level—the different players of investment boards, industry councils, employers generally, and the schools and community technical colleges—is how to get them closer together, how to get the employers to communicate clearly what they actually want, and also for the employers to get involved in providing some of the experience.

Turner: *In your recent book, you suggest that industry should actually play a larger role in addressing the needs for these various skills, in addition to the community-based programs that we've already discussed. Why do you advocate for this approach?*

Cappelli: Not that long ago, a generation ago, you never heard the discussion of a skills gap and the reason had nothing to do with people being better prepared out of school, it had to do with the fact that companies hired and trained people. We used to have extensive apprenticeship programs for the skilled trades—electricians, carpenters, plumbers, that sort of stuff. Those are rapidly disappearing.

I think the industry role here is pretty clear. There are a lot of employers that feel they're too small to really run regular apprentice-like programs or to run their own training program, particularly in industries like small metal-working shops where machinist skills are important, and it would make sense for the

industry to try to do something across all these little different employers. But I think in general, we have this problem still of trying to find ways to get on-the-job training.

Turner: *Are there examples where this concept has actually been successful, and then what are the specific characteristics of effective employer approaches?*

Cappelli: The real examples where things work well are where work and learning are combined in a close relationship. Apprenticeship programs are kind of like that—there's often as much classroom training as there is hands-on training. But the key to these programs is that they effectively can pay for themselves because the students—the learners, the workers—are contributing as they learn.

And it's important to remember that there are entire industries that are based on this model. The entire management consulting world, law firms, medicine, professional services—generally the way they work is you hire in people who have got some basic skills, no hands-on experience, and you teach them to become an accountant or you teach them to become a lawyer on the job. It works for the company because they actually make money doing this even though they lose everybody, virtually. Law firms have high turnover; in medicine, internship programs, residencies, everybody rotates out of those programs. But they still work for the employers, they work for the student learners, and I think that's the model. And that is the part of the skills that are in shortest supply. It's not classroom experience, it's somebody who's got hands-on experience—three to five years of experience actually doing something.

Turner: *Now, finally, how might economic developers, local governments, and higher education—how might all of them better support employers who are seeking to solve their skills gap issues?*

Cappelli: I think the simple answer is closer ties. What really doesn't work is employers standing back and expecting schools or training programs to produce the candidates they want. If you think about this as like a supplier relationship, if you're never talking to your suppliers, why should you be surprised if they're not producing what you want? But I think also you have got to give them some help in producing what you want. So I would say the ideal model is schools and employers working together, classroom training and work-based experience going together in apprentice-like models, in co-op models, in models that are not new. We have known about them for a long time and we know they work.

Turner: *Great, that's really helpful. Dr. Cappelli, thank you so much for speaking with us.*

Cappelli: Thank you.

Turner: *This concludes our podcast. We've been speaking with Peter Cappelli of the Wharton School. Dr. Cappelli is a featured speaker at the Federal Forum, a policy conference focused on economic development to be held in Arlington, Virginia, in April 2013 and sponsored by the International Economic Development Council. We encourage you to attend his session and the others. For more information, visit iedconline.org. Also, for more podcasts on this topic and others, please visit the Atlanta Fed's website at frbatlanta.org. And if you have comments or questions, please e-mail podcast@frbatlanta.org. Thanks for listening.*

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Workforce Development Event Focuses on Historically Black Colleges and Universities (HBCU)

College and university presidents and corporate officials recently gathered at the Atlanta Fed to explore opportunities and issues higher education faces in preparing students for a fast-changing and competitive labor market.

Several themes emerged from two days of panel discussions and presentations:

- HBCUs are expanding programs that increase student and faculty exposure to employers such as internships and on-campus speaking engagements for executives
- Soft skills like public speaking, writing, and knowledge of current events are critical
- Students must be prepared to embrace lifelong learning, as labor market demands continually change
- Broad engagement of the private sector, including advisory boards to help design curricula and use of adjunct faculty from industry, is continuing and evolving among institutions
- Further integration of financial literacy and entrepreneurship into the college experience is important.

Fed Governor Bloom Raskin delivers keynote

The conference, Aligning Workforce Development and Employment Strategies for Historically Black Colleges and Universities, was sponsored by the Federal Reserve Banks of Atlanta, Dallas, St. Louis, and Richmond. The event was part of a broader Federal Reserve System initiative aimed at improving workforce readiness.

For African-American graduates, the job market can be even more difficult than it is for college graduates generally. The unemployment rate for college graduates overall is 3.8 percent, but it is 5.9 percent for African-American graduates, Federal Reserve Governor Sarah Bloom Raskin told conference attendees.

Bloom Raskin pointed out another critical issue for all institutions of higher learning: the rapid disappearance of jobs in the middle of the skills and pay scale. This polarization, she said, is concentrating job creation in either high- or low-skill jobs, effectively raising the skill demands for some entry-level positions for college graduates.

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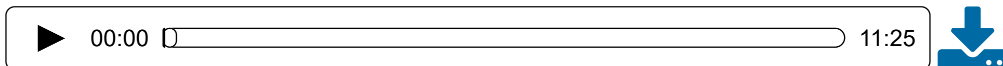
WOMEN ENTREPRENEURS MEAN BUSINESS

Women Entrepreneurs Mean Business



January 2013

Karen Leone de Nie: *Welcome to the Federal Reserve's* Economic Development *podcast series. I'm Karen Leone de Nie with the Atlanta Fed's community and economic development group.*

In recent years there has been increased interest in women's entrepreneurship to foster economic growth and jobs, and to create new opportunities for women. Dr. Susan Coleman, of the University of Hartford, and Dr. Alicia Robb, from the Ewing Marion Kauffman Foundation, tackled the subject of women's entrepreneurship and financing in their recent book, A Rising Tide: Financial Strategies for Women-Owned Firms*. This book ties together the research findings on financing women-owned firms with real-world stories of women entrepreneurs to not only offer lessons to entrepreneurs, but also to propose policy solutions to encourage more women to embark on starting their own businesses.*

Today we are speaking with one of the book's authors, Dr. Alicia Robb. She is a senior researcher fellow at the Kauffman Foundation and a visiting scholar at the Atlanta Fed. Alicia also serves as the principal investigator of the Kauffman Firm Survey. Welcome, Alicia.

Alicia Robb: Thanks for having me.

Leone de Nie: *To begin, can you describe the current landscape for women's entrepreneurship? There are statistics that suggest that women-owned firms are making considerable progress. In fact, one noted that the number of women-owned firms is growing faster than the number of firms overall. Does it really tell the whole story?*

Robb: It really doesn't. The number of women-owned firms is, in fact, growing faster than the number of male-owned firms, but that really just reflects the base being so much lower. Women only own about 8 million businesses, and so it's a lot easier to grow that number when the base is lower.

Women own about 29 percent of businesses in the United States and when you think about women being half of the population, you can see that we are really underrepresented in business ownership and entrepreneurship. But the story actually is even worse when you look at factors such as business revenues or business payroll or employment. Women-owned firms generate less than 5 percent of business revenues, they generate less than 5 percent of payroll, and they employ only about 6 percent of the employees in this country.

If you look at firms with employees (that is, firms that employ people other than themselves), you get a very different story. For firms with employees, women only own about 15 percent of those businesses, whereas they owned about 29 percent of businesses overall.

And when you look at this over time we haven't made the kind of progress that some of the statistics out there would lead you to believe. Women have owned a pretty constant share of businesses over the last decade that range from 26 percent to 29 percent. And if you look at the growth rates of revenues or employment or payroll over these times, we're actually growing more slowly than businesses owned by men.

If you look at businesses that have more than a million dollars in revenue, less than 2 percent of women-owned firms reach that revenue threshold, and that is the same exact percentage as a decade ago. So I want to be optimistic here, but in business ownership we really haven't made the progress that you'd think that we would, given the gains that we have made in labor force participation, in education, and so forth. We still have a long way to go, but that is an opportunity for us.

Leone de Nie: *Prior research by you and other scholars suggests that women entrepreneurs start up with less capital than their male counterparts, but the entrepreneurs that you interviewed for the book proposed that many women are just more "capital efficient." What does this mean, and does it play a role in the ultimate success of the firms?*

Robb: So women start their businesses and continue to finance their businesses over time with a lot lower levels of financial capital than do men. However, some of that is due to women being in industries that are less capital intensive, but that's not the whole story. If you look across industries, on average, women are using less financing. Also, the composition of that financing is very different. Women, for example, are much more likely to use a greater share of owner equity than are men. The actual share of formal debt financing from bank loans, etc. is quite similar. However, the share of formal equity financing through venture capitalists and "angels" is much lower than those for men. So we see both levels of financing being lower and women relying much less on formal equity financing from angels and venture capitalists.

When you talk about capital efficiency, women tend to "bootstrap" more, and by bootstrap I mean trying to minimize the amount of capital needed through various measures like, for example, starting a business in their home so that they don't have to pay rent in an office building, not paying themselves initially so that they don't have to pay that salary.

So, yes, women tend to bootstrap more and are efficient with the capital that they bring in, but it can be detrimental. You have to have adequate capital levels to maintain cash flow for liquidity issues to invest in things that you need to grow your business, and if you're bootstrapping too much, then you're not going to have the capital that you need to adequately address the current business operations and future growth opportunities.

Leone de Nie: *So why are the levels of financing so different between women and men? Are the levels so different simply because they don't need it?*

Robb: I don't think so. We see a similar pattern across all industries. Even with high-tech, high-growth firms, we see women using lower levels of financial capital and being less reliant on equity capital. In terms of debt financing, we see similar reliance on bank financing when compared with men, but the levels are still much, much lower. In various surveys women have said that they've not applied for credit when they needed it because they feared they'd be turned down. When you actually look at the data and loan turndowns by banks, there are no gender differences. This gets at the confidence or lack of confidence issue that characterizes women more so than men, and certainly we see that on the equity side as well. Women are not going to the table and asking for the financing that men are, and when they do go and ask, they're asking for lower levels of financing.

Leone de Nie: *So Alicia, you mentioned external equity. Continuing on that line of thought, what is the current engagement of women in the private equity arena on the whole? Not just accessing equity, but what roles are they playing there now?*

Robb: So we have a huge gender gap in both external equity on the funding side and the funder side. Women receive much less of the external equity financing in the United States in terms of angel financing and venture capital financing. So they receive a much lower share of the dollars and the deals.

But we also see that same gender gap on the funder side. There are very few women that are angel investors and venture capitalists. On the venture capital side, we see 6 to 7 percent of the venture capital partners are women. On the angel investor side, only about 12 percent of angel investors are women.

Leone de Nie: *The number of women minority-owned firms is growing rapidly. Still, in your book you talk about the heightened challenges these firms face, especially in financing. Can you talk about the different financing strategies women minority firms use, especially recognizing the diversity in the types of firms and industries that they represent?*

Robb: My first book was actually on race and entrepreneurial success, and while some of the challenges and barriers, especially around financial capital, are similar for women and for men, there are some differences. If you look at wealth levels by race and gender, we see that African-Americans and Hispanics have much lower wealth levels than whites. In addition, women have lower wealth levels than men.

So when you think about wealth and the ability to bring financial capital to the table, we see that minority women have a lot less financial capital. This affects the ability to raise financial capital as well. So having lower wealth levels means that you cannot leverage debt financing to the same degree as someone with a much higher level of wealth. But also, it restricts your ability to invest your own money into a business. So given that, we do see minority women starting with much lower levels of financial capital than nonminority women, just as we see minority-owned businesses, at least with respect to African-Americans and Hispanics, starting with much lower levels of financing than white businesses.

They also tend to rely more on owner equity and friends and family, rather than formal financing channels. But again, when you go back to the wealth levels, you have lower wealth yourself, and your network, which is usually at a similar socioeconomic level, also has lower wealth levels and so you are tapping into a smaller pool of funds.

Leone de Nie: *So in closing, can you touch on a few key policy priorities that might foster more women entrepreneurship by improving access to financial capital and, continuing in that vein, what your crystal ball suggests we should expect in the future?*

Robb: Given the underrepresentation of women in entrepreneurship, especially high-growth entrepreneurship, I think we need to take a step back and think about what kinds of policies are going to encourage and equip the next generation of women entrepreneurs to enter into industries that have opportunities for high growth and wealth accumulation. I think it starts early in education—encouraging more women to study in nontraditional fields such as math and science and engineering. I think focusing on financial literacy, not just for entrepreneurship but for consumer finances.

As more and more women achieve financial success and professional success through being an entrepreneur, being a CEO, being on the board of directors of a Fortune 500 firm, we are getting to a critical mass of highly visible and successful women. As we have more visibility of high-profile women like these, younger women and girls are going to see the opportunities in a much broader set than we ever did. Getting more women on the funding side is very much dependent on this. We need women to be venture capitalists and angel investors, and we're only going to get those women to be angel investors and venture capitalists if they succeed in business, they succeed in entrepreneurship, and then they have the wealth and the human capital to become successful as an investor.

Leone de Nie: *Alicia, thank you for joining us today.*

Robb: Thank you for the opportunity.

Leone de Nie: *This concludes our podcast. We've been speaking with Dr. Alicia Robb of the Kauffman Foundation. For more podcasts on this topic and others, please visit the Atlanta Fed's website at www.frbatlanta.org. If you have comments or questions, please e-mail podcast@frbatlanta.org. Thanks for listening.*

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