



A Case for Greater Company Participation in Workforce Development



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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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