

Report - October 2017

Making the Connection: Aligning Small Businesses and the Workforce Development System

Small businesses have been sparking much of the recent job growth in New York City. However, there is a major disconnect in the city's workforce development system when it comes to working with small businesses. This report explores how to achieve greater alignment between the city's thousands of small businesses and the workforce development system.

by Judith Messina

- The following is the introduction to *Making the Connection*
- Read the full report (PDF)
- View the recommendation on this report

In New York City and throughout the nation, workforce training and job placement programs have long worked predominantly with large businesses. This is hardly surprising, given that larger employers often have multiple positions to fill, whereas most small businesses add one or two employees at a time.

But in today's entrepreneurial economy, it's time for small businesses to become a larger part of the workforce equation.

In New York City, small businesses have been sparking much of the recent job growth. Businesses with fewer than 20 employees have experienced net job growth every year since 2001, proving resilient to recession. Over the past eight years alone, firms with fewer than 20 employees have added nearly three times as many jobs per year as companies with more than 500 employees: a net average of 17,521 jobs per year, compared to 6,504 jobs at firms with more than 500 employees.[1]

Meanwhile, the city's thousands of recently established small businesses—in fields from artisanal manufacturing and graphic design to digital health and education—arguably offer the city's greatest opportunities for future job growth. But while small businesses are becoming increasingly important job creators, relatively few small firms are benefiting from New York City's job training and placement programs. This remains the case even though many of the city's small businesses are

encountering significant challenges attracting and retaining skilled workers.

The city's workforce development system has come a long way over the past decade, and the administration of Mayor Bill de Blasio has spearheaded important workforce reforms. But there is still a major disconnect when it comes to working with small businesses. The 20 Workforce1 Career Centers overseen by the New York City Department of Small Business Services (SBS) make the majority of their job placements with larger employers, and the city's signature job training program only works with companies that commit at least ten employees to participate. Although many of New York's job training and workforce preparation programs are operated by nonprofit providers, these organizations also work predominantly with bigger companies.

This report outlines a number of steps that policymakers, business leaders, and workforce providers could take to make workforce programs effective for more of the city's small businesses. At a time when small firms are creating a large share of the city's new jobs, these steps would expand the pool of opportunities for low- and moderate-income New Yorkers who turn to the city's workforce development system for assistance getting jobs, while helping small firms expand by addressing one of their key barriers to growth.

This report—the latest in a series of Center for an Urban Future (CUF) studies focused on opportunities to scale up New York City's small businesses—explores how to achieve greater alignment between the city's thousands of small businesses and the workforce development system.

Funded by JPMorgan Chase, the report draws from more than 60 interviews with small business owners, leaders of nonprofits that provide workforce development services, representatives from small business assistance organizations, philanthropic funders, and city officials. It details both the challenges of linking small businesses and workforce development services and the opportunities to better connect these vital employers with the city's complex system. In addition, this report offers more than a dozen practical recommendations to align the needs of small businesses with the capabilities of workforce development providers in ways that can benefit job seekers, employers, and the city's economy.

New York's small businesses face a litany of obstacles as they look to grow, from the rising cost of real estate to regulatory red tape. But for a growing number of small firms across the city, the ability to attract enough skilled employees has proven to be a critical obstacle to scaling up.

The city's workforce development system would seem to be a natural solution for many of these businesses. The workforce system—comprising public programs overseen by city agencies and privately run programs managed by nonprofit organizations and for-profit companies—connects thousands of residents with employment every year and works with employers in all five boroughs to help them hire the workers they need.[2]

However, the system remains a largely untapped resource for smaller employers. Indeed, many of the small business owners interviewed for this report were unaware that the city's $606-million-plus workforce development system even exists—let alone knowledgeable about how to make use of it.[3] Nicole Ponseca, the owner of two Filipino eateries in the East Village, Maharlika and Jeepney, was one of several small business owners we spoke with who expressed a total unfamiliarity with the city's workforce offerings. But she says she would welcome the help. "I wish there was a workforce we could tap into—I would use it in a heartbeat [because] we're understaffed," says Ponseca.

SBS's 20 Workforce1 Centers form the core of New York's city-run workforce development programs. Roughly 44 percent of SBS's workforce budget goes to these centers, which, in 2015, placed more than 20,000 New Yorkers in jobs. But according to interviews with workforce and small business experts, the bulk of placements are with large employers. In fiscal year (FY) 2015, for example, 34 percent of employers served by the Workforce1 Centers had more than 125 employees. Meanwhile, an overwhelming majority of the companies holding recruitment events at the centers during the summer of 2017 have been large employers, such as Best Buy, Family Dollar, Allied Universal, Chipotle, CVS, Spectrum, and Domino's.[4]

SBS's Customized Training Program, which provides funding to help businesses invest in their staff, also excludes a significant share of the city's small businesses. The program requires participating companies to train a minimum of 10 employees.

"There are some bright spots, but it's literally impossible for most of the businesses we serve to take advantage of the city's training programs," says Leah Archibald, executive director of Evergreen Exchange, a nonprofit organization that provides assistance to industrial businesses in North Brooklyn. "To access the SBS training grant program, you have to have a minimum of 10 employees. We are mostly working with really small companies that have between three and a dozen employees."

In fact, 81 percent of all businesses in New York City—and 84 percent in both Brooklyn and Queens—have fewer than 10 employees. The average manufacturing company in the city today has 13.4 employees, down from 17.4 in 2000. In the city, the average firm is also fairly small in industries such as construction (10.3 employees, on average), retail (10.8 employees), wholesale trade (8.9 employees), professional and technical services (12.8 employees), arts/entertainment/recreation (14.6 employees), and accommodation/food services (15.9 employees).[5]

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Most nonprofit workforce development providers also work predominantly with larger businesses. Although few workforce development organizations systematically track the size of the businesses that have hired their clients, most of the nonprofits we interviewed estimated that no more than 15 percent of their clients are matched with small businesses. For instance, Year

Up, a national organization that provides skills-building programs for young adults, told us that just 5 percent of the 1,650 young adults it has worked with since opening an office in New York in 2006 have been placed in small businesses. The share of small business clients is similarly low at other nonprofits that were able to provide us with estimates, including the Union Settlement Association (which places about 15 percent of clients in small businesses), Sanctuary for Families (15 percent) and The Door (12 percent).

Other examples tell a similar story. Bronxbased Per Scholas is widely admired as one of the nation's preeminent tech training organizations. Yet, in a city where the vast majority of tech companies are small, Per Scholas predominantly partners with large corporations such as Barclays, Microsoft, Accenture, Goldman Sachs, and AT&T.

The workforce development system struggles to serve small businesses for a multitude of reasons, which include the following:

Federal funding streams provide a disincentive to working with small businesses. There are understandable reasons why public agencies and nonprofit workforce providers tend to partner with larger businesses. After all, the mission of most workforce providers is to help job seekers, particularly those from disadvantaged communities. And workforce development entities generally find it easier and more effective to accomplish this goal by partnering with larger employers that can hire multiple workers at a time— sometimes a dozen or more—rather than with several small businesses that each plan to hire just one or two employees.

But the way the system is funded creates additional disincentives for providers to work with small employers. Federal funding streams—including the Workforce Innovation and Opportunity Act (WIOA)—account for nearly half of the city's total workforce development funding. But the funds are highly restrictive and reimburse organizations based largely on the number of placements they make. The restrictions encourage providers to partner with large employers that have frequent job openings and often hire for multiple positions at once.

"The challenge is when you're under a lot of pressure to meet volume placements, the little guys don't give you those numbers," says the head of one workforce development organization.

"To invest those types of resources [in small businesses] and try to aggregate [the numbers] is not as effective."

If an organization doesn't meet its placement goals, it may put its future at risk—or at least its next round of funding. "We're all competing for the same funding," says John Valverde, former executive vice president for program operations at the Osborne Association, which trains and places formerly incarcerated workers. "If we don't make our placement numbers, we don't get funding next year. Our sustainability is in making placements."

Small businesses hire workers as well, just not in bulk. As a result, workforce providers need to work with numerous small businesses to reach the same level of placements as they would with just a handful of large employers. And for understaffed workforce providers, building relationships with dozens of small businesses is a time-consuming process that doesn't always produce immediate dividends.

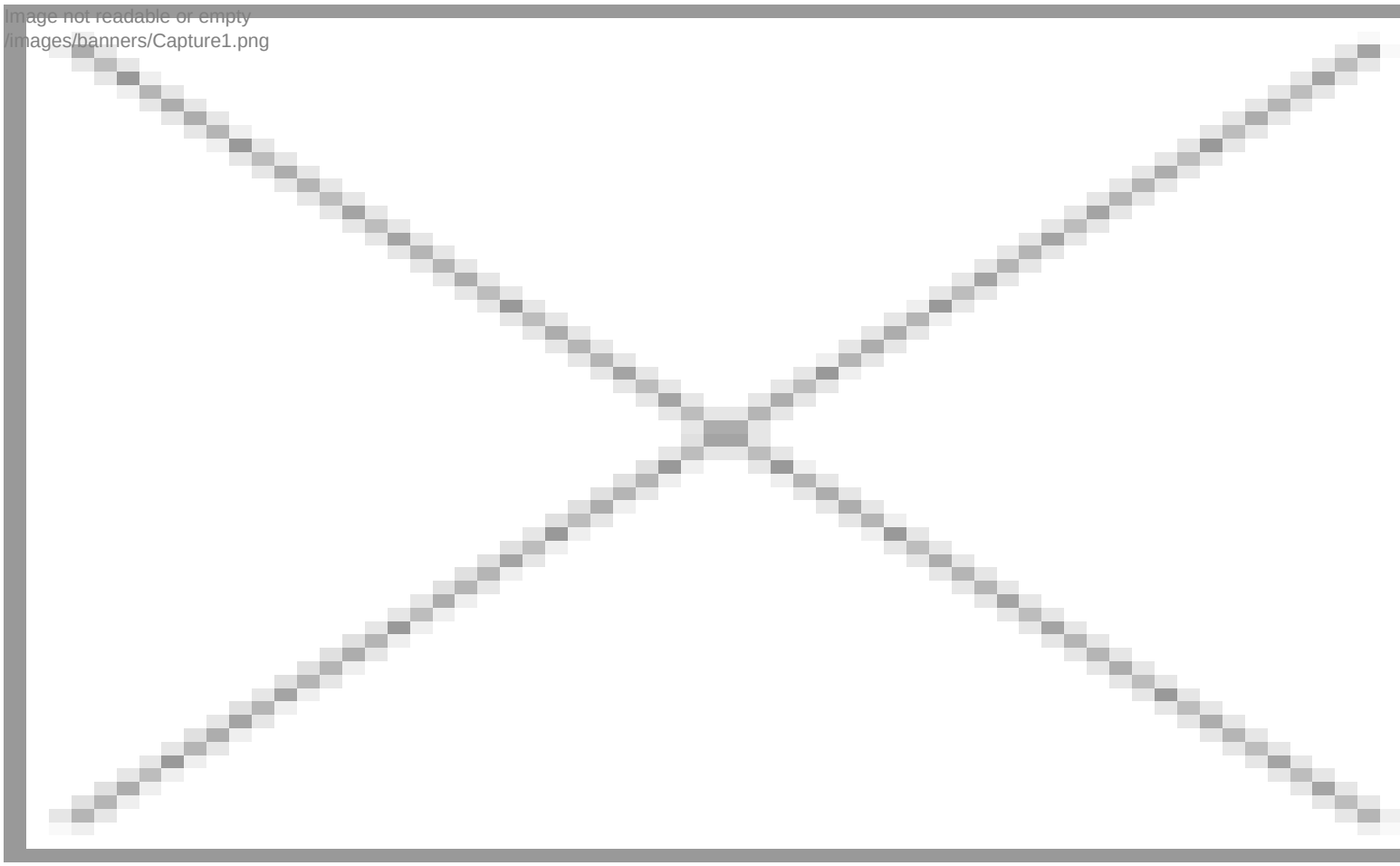
Small firms lack capacity to engage in workforce training and recruitment. Small businesses often lack human resources departments, which are responsible for onboarding and training, making it more challenging for workforce providers to develop and sustain partnerships. And the firms' owners or executives often lack the time or bandwidth to focus significant attention on workforce development activities.

When Philip Weinberg, CEO of STRIVE, which serves at-risk, hard-to-employ job seekers, was working on the launch of the organization's East Harlem Talent Network (EHTN), it was large employers who attended the development meetings. "We found the larger employers were the ones showing up because they had the capacity, the personnel, and the bandwidth," says Weinberg. "Smaller employers were not at the table and it was often hard to find the right tables where they were

participating so we could work with them in the aggregate. There's a disconnect between employers and the ecosystem that is trying to prepare and deliver talent."

Already thinly staffed, many small firms need to hire quickly and don't have the time—and, often, the know-how—to do extensive research, interviewing, or training. Unlike large businesses that have HR departments and a cadre of senior and junior managers who can be deployed to seek out and train new workers, it is the owners of small businesses—already wearing two or three different hats—who typically act as recruiters.

"They are just spread too thin," says Gaspar Caro, coordinator of the Lower East Side Employment Network (LESEN), a consortium of seven workforce development providers that collaborate to place job seekers. "They are so focused on the day-to-day operations, from cleaning to moving product around, that the amount of time they can dedicate to hiring is probably restricted to receiving the resumes of people walking in the door."



Too few workforce providers see small businesses as the client. One of the longstanding knocks on the city's workforce development system is that its job placement and training programs have not been sufficiently informed by employer needs. This challenge has bedeviled both large and small employers. But small businesses may have more to lose, since they have fewer employees overall and have less room for error when bringing on new personnel.

"[Small businesses] sometimes have the feeling they are not the client," says Liz Lusskin, president of the Long Island City Partnership, a neighborhood development organization. "They feel—rightly or wrongly—that workforce development organizations are consumed with their clients, and small business people sometimes don't trust that it's a mutual relationship focused on their success."

Indeed, some of the small business owners we spoke with told us that a bad experience with a workforce development program has caused them to be more reluctant to use those services again. "[Small businesses] want a ready, willing, and

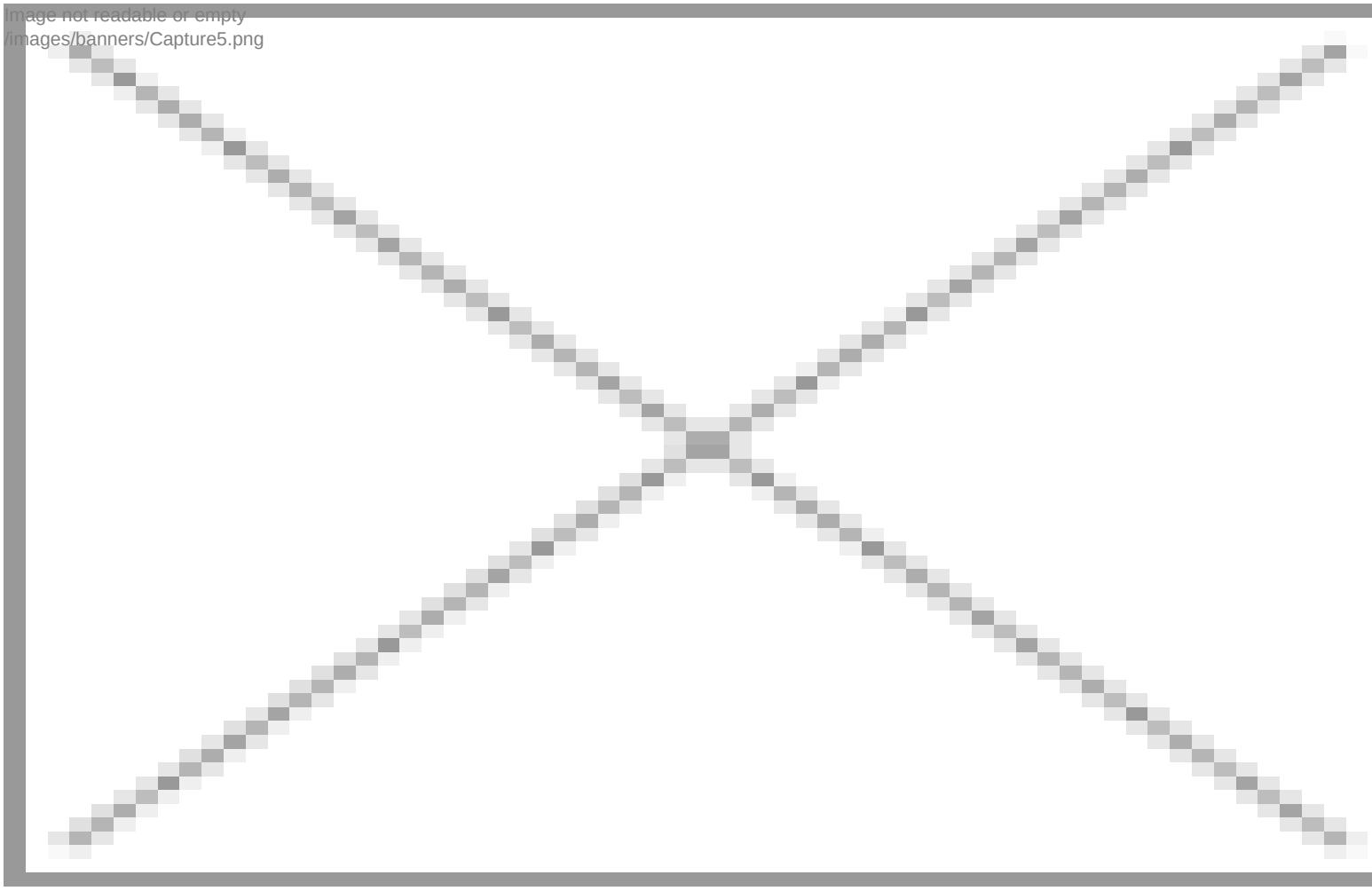
able employee that fits their culture," adds Lusskin. "If that person doesn't fit, it's a tremendous drain on the owner personally. Those who have been burned don't want to do it again."

The intermediaries that best understand the needs of small businesses generally don't engage in workforce development services. New York City is home to well over a dozen local development corporations, chambers of commerce, and microenterprise organizations that were set up specifically to serve as intermediaries that assist small businesses with everything from accessing financing to applying for government incentives. Because of the trust and credibility they have with small firms in communities across the five boroughs, these small business intermediaries are uniquely suited to help small firms in their quest for skilled, dependable employees. But hardly any of these small business intermediaries currently engage in workforce development programming or partner with workforce providers in any meaningful way.

Few small business intermediaries do more than post jobs on their websites. Even fewer are engaging in the more substantive tasks—scoping out business needs, understanding the commonalities among different kinds of businesses, partnering with workforce providers, culling job candidates, and providing support for employers during the hiring process. Of the city's 12 local and economic development corporations, for example, only one offers training and two provide job placement services. Of the 74 business improvement districts, none provide training and placement services, one helps with recruitment, and only two even take the small step of posting job openings on their websites.

Those that have undertaken workforce development as a part of their mission—such as the Brooklyn Chamber of Commerce's Good Help services, the Southwest Brooklyn Industrial Development Corporation, and the Long Island City Partnership—have seen success. They have the advantage of approaching the workforce problem from the employer's perspective and their existing relationships with small businesses can provide the kinds of efficiencies that workforce development organizations struggle to achieve when dealing with small businesses. More of these organizations might take on workforce development tasks if funding and expertise were available, but workforce development is only a small portion of their budgets today.

In the end, few small business intermediaries have the money or talent to take on workforce development. Out of a total budget of about $5.5 million, the Brooklyn Chamber of Commerce, for example, is able to spend just 6 percent on workforce development.



The city workforce system's new focus on job quality has created additional barriers for small businesses. In November 2014, Mayor Bill de Blasio launched a sweeping new approach to workforce development in New York City. This initiative, known as Career Pathways, is an important effort to shift the emphasis away from rapid attachment and toward job quality and retention, while preparing workers for opportunities in fast-growing sectors such as health care and technology. But Career Pathways' new focus on job quality—specifically, higher entry-level wages—has unintentionally made it even more difficult for small businesses to connect with the workforce development system. Decisions made by the de Blasio administration to set a wage floor for employers who receive placements from the city's Workforce1 Centers have unwittingly exacerbated the disconnect. Although implemented with the admirable goal of increasing pay for job seekers, these changes have also raised the bar for small businesses, which tend to offer lower starting wages than the largest employers.

"Small businesses don't pay as much or provide generous benefits, so they don't fit into the new Career Pathways framework," says Randy Peers, former executive director of Opportunities for a Better Tomorrow, a Sunset Park–based organization that provides workforce services to young adults.

The city's "industry partnerships" are not sufficiently tapping the expertise of small businesses. Over the past three years, the de Blasio administration has launched several "industry partnerships" intended to help forge better relationships with employers. These partnerships show tremendous promise and reinforce a crucial shift toward better understanding the real needs of employers. However, there is so far little representation from small businesses or small business intermediaries among these groups. For example, of the 29 advisory board members of the Tech Talent Pipeline, created to help the city prepare workers for jobs in the tech industry, only four have fewer than 50 employees and three of those are either venture capital firms or incubators. Just one is a small, independent start-up.

Another industry partnership, the New York Alliance for Careers in Healthcare, which serves one of the fastest-growing industries in the city, was formed in 2011 to help meet the human capital and training needs of healthcare employers. Its partners are three major healthcare trade associations and three healthcare training institutions, including the City University of New York (CUNY). No one represents the small business side of healthcare, such as the independent home health aide agencies or the small medical practices in neighborhoods and communities across the city.

Few of New York's economic development programs are focused on scaling up small businesses. Although much of the focus of this report is on the city's workforce development system, helping small businesses attract and retain skilled employees is equally advantageous from an economic development perspective. Indeed, human capital challenges have become one of the key barriers to growth for small firms throughout the city.

However, there are relatively few economic development programs in New York that are focused on helping small businesses scale up. And of those that do exist, most do not include programs to help employers find, train, and retain the workers they need.

Despite the many obstacles to greater alignment between the workforce development system and New York's thousands of small businesses, several promising developments in recent years hint at opportunities to build momentum and spread best practices. As detailed in the "Ideas at Work" section of this report, programs such as Good Help at the Brooklyn Chamber of Commerce, the Lower East Side Employment Network, the Workforce1 Industrial and Transportation Career Center operated by the Southwest Brooklyn Industrial Development Corporation, and the East Harlem Talent Network have had success pairing workforce development programs with a cluster of small, local businesses. Additionally, new and expanded workforce programs at the Brooklyn Navy Yard and Industry City in Sunset Park have showcased the power and potential of place-based workforce initiatives. Still, more progress is needed. Given that small businesses are driving so much of New York City's growth today, bridging the gap between small business and the workforce development system has never been more important.

On the one hand, the disconnect between small businesses and the workforce system may limit the effectiveness of some workforce development organizations, for which small businesses could be a source of successful placements. For local residents and job seekers with the kind of steep barriers to employment characteristic of many workforce development clients, small businesses can often make good starting points: more flexible than large corporations and more invested in their employees. The relatively few workforce development organizations that work regularly with small businesses report significant benefits for both employers and their clients.

"[Our clients] come in all different shapes and sizes, interests, motivations and attributes," says Muzzy Rosenblatt, executive director of the Bowery Residents' Committee (BRC), which provides services to the homeless. "Some have education, some don't; some have prior work experience, some don't; but we're able to help find the job that's right for them and they tend to be more in small businesses that are more understanding and don't have bureaucratic systems."

At the same time, if the goal of the workforce development system is to get more New Yorkers into jobs, then it is essential to create a system that can connect with the thousands of jobs in the city's small businesses. These businesses describe major challenges finding and training workers, but few report seeking—or receiving—assistance from the workforce development system. An investment in the human capital needs of the city's small businesses is an investment in economic growth and opportunity, with benefits that could ripple outward in communities across all five boroughs. "Most of the jobs in New York City are in small businesses," says Celeste Frye, CEO of management consulting firm Public Works Partners and a former top official at SBS. "We are leaving a lot of jobs on the table."

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1. U.S. Census, Quarterly Workforce Indicators.
2. Snapshot of NYC Workforce System, https://www1. nyc.gov/assets/careerpathways/downloads/pdf/snap shot.pdf.
3. For more analysis of the city's current funding levels, see the Center for an Urban Future's report "Building the Workforce of the Future," July 2016, https://nycfu ture.org/pdf/Building_the_Workforce_of_the_Future. pdf.
4. NYC Open Data, Workforce1 Recruitment Events, https://data.cityofnewyork.us/Business/Workforce1- Recruitment-Events/kf2b-aeh5.

Accessed June 30 and August 4, 2017.
5. CUF analysis of data from the New York State Department of Labor and U.S. Census Bureau, Quarterly Census of Employment and Wages.

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- The following are recommendations from *Making the Connection*
- Read the full report (PDF)

Improve employer-focused workforce development for all businesses. Most workforce development programs treat the jobseeker as the client, an understandable approach but one that often fails to understand the specific workforce needs of businesses. This is particularly frustrating to small businesses, which have little room for error when hiring new employees. A more employer-focused approach would engender more trust between providers and small business, and prompt more of these firms to turn to the system for help.

Set a goal of increasing small business participation in the city's workforce system by 20 percent. There are abundant opportunities to involve more small businesses in the city's workforce development programs, but this potential may never be realized without leadership from the city's principal workforce development agencies. The Mayor's Office of Workforce Development should establish a target of increasing the number of small businesses that participate in city-sponsored workforce programs by 20 percent over the next three years, and then direct the key workforce agencies to develop plans to meet this goal.

Increase the capacity of small business intermediaries to provide workforce development services. Unlike most nonprofit workforce development providers, chambers of commerce, local development corporations, microenterprise organizations, and similar intermediaries tend to have the trust of small businesses and an understanding of their needs. Involving more of these intermediaries in workforce development may be the single most important way to increase the participation of small businesses in the system. The city and private philanthropy should create a new fund for small business intermediaries seeking to offer workforce development programs.

Expand small business representation on the city's Workforce Development Board and advisory boards for industry partnerships. By appointing more small business owners to the WDB and advisory boards for the Tech Talent Pipeline and other industry partnerships, the de Blasio administration will get important input and advice about how to restructure workforce programs in ways that work for more of the city's smaller employers.

Supplement the sector-based model of workforce development with more place-based approaches. The city agencies that are most involved with the workforce development system, along with private philanthropy and workforce development providers, should seek opportunities to supplement sectoral programs with place-based models that are better suited to the needs of small businesses.

Grow the LESEN model in communities across the city. The city and private philanthropy should build on the success of the Lower East Side Employment Network and the East Harlem Talent Network by supporting the development of new place-based and collaborative models in other neighborhoods across the city that have large concentrations of small businesses.

Expand the Good Help model to all five boroughs. The Brooklyn Chamber of Commerce has won accolades for its Good Help program, which provides no-cost employment services and experienced advice to local small businesses. The city's other four chambers should adopt a version of this program.

Invest in capacity-building programs that help small businesses tackle obstacles to growth, including human capital challenges. Too few of the city's small business assistance programs are focused on helping small firms grow to the next

level. SBS should change this and refocus more of its economic development programs on initiatives that help small businesses overcome barriers to growth, including workforce challenges.

Invest in wage supports and paid internships. Private philanthropy can help make workforce development clients more attractive to small businesses by funding wage supports that pay more than a small stipend. Allocating more funds for partial subsidies, paid internships, and transitional jobs would help providers serve more clients with higher barriers to employment and encourage more small businesses to hire clients from the workforce development system.

Expand HR capacity at small businesses. Currently, most workforce development funding is allocated to reimburse organizations for making job placements. Private philanthropy could instead allocate funds to support the work required to prepare more small businesses to hire and retain workers, which would better reflect the effort required to ensure placements result in a long-lasting and productive fit.

End the Workforce1 Center wage floor for small businesses. The city should consider ending the $13.40 wage floor at Workforce1 Career Centers for employers with fewer than 20 employees. Doing so would enable more small businesses to participate in the city's workforce programs.

Increase Congressional support for workforce programs. Congress should fully fund the Workforce Innovation and Opportunity Act and make other legislative changes that add flexibility to how workforce agencies and organizations are reimbursed for the services they provide. In particular, altering funding formulas that reimburse workforce organizations for the number of placements they make would encourage providers to work with more small businesses.

Recruit more small businesses to join the Best for NYC program. The city should establish a goal of recruiting 1,000 more small businesses to join the Best for NYC program. Doing so would encourage more small employers to adopt high-road practices over time.

Develop training programs for supervisors at small businesses to help them learn how to manage nontraditional workers. A training program that prepares supervisors to manage new hires with certain barriers to employment could enhance the HR capabilities of small businesses, help them absorb new employees, and make them more comfortable with hiring candidates who have never held a job or have been unemployed for lengthy periods of time.

Seek opportunities to pair Workforce1 Centers and Business Solutions Centers with local business intermediaries. SBS should look for more opportunities to couple workforce development services with existing small business intermediaries and community-based organizations.

This research was made possible by **JPMorgan Chase & Co.** through its **Small Business Forward Initiative**.

General operating support for the Center for an Urban Future is provided by **The Clark Foundation** and the **Bernard F. and Alva B. Gimbel Foundation**. We are also grateful for support from **Fisher Brothers** for the Center for an Urban Future's Middle Class Jobs Project.

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