



# MAKING THE CONNECTION:

Aligning NYC's Small Businesses and the Workforce Development System

**MAKING THE CONNECTION** is a publication of the Center for an Urban Future. Researched and written by Judith Messina. Edited by Eli Dvorkin and Jonathan Bowles. Additional research by Nicholas Hoynes, Ilha Youn, and Luke Zangerle. Designed by Rob Chabebe.

This study was made possible by JPMorgan Chase & Co. through its Small Business Forward initiative.

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**Center for an Urban Future** (CUF) is a leading New York City-based think tank that generates smart and sustainable public policies to reduce inequality, increase economic mobility, and grow the economy.

General operating support for the Center for an Urban Future has been provided by the Clark Foundation and the Bernard F. and Alva B. Gimbel Foundation. CUF is also grateful for support from Fisher Brothers for the Middle Class Jobs Project.

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# TABLE OF CONTENTS

<b>MAKING THE CONNECTION</b>	<b>3</b>
<b>THE HUMAN CAPITAL CHALLENGES FACING SMALL BUSINESS</b>	<b>13</b>
<b>BARRIERS TO CONNECTING SMALL BUSINESS AND THE WORKFORCE SYSTEM</b>	<b>16</b>
The Numbers Game: Federal Funding Streams Incentivize Providers to Partner With Large Employers	
High Touch, High Cost, High Risk	
High Road Employers: A Difficult Path for Small Business	
Sectoral Disconnect: Emphasizing Sectoral Employment Can Leave Small Business Behind	
<b>TAPPING SMALL BUSINESS INTERMEDIARIES IN WORKFORCE DEVELOPMENT</b>	<b>25</b>
<b>IDEAS AT WORK: HOW SUCCESSFUL MODELS ARE MAKING THE CONNECTION</b>	<b>28</b>
<b>RECOMMENDATIONS</b>	<b>33</b>

# MAKING THE CONNECTION

**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.<sup>1</sup>

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.<sup>2</sup>

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.<sup>3</sup> 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.

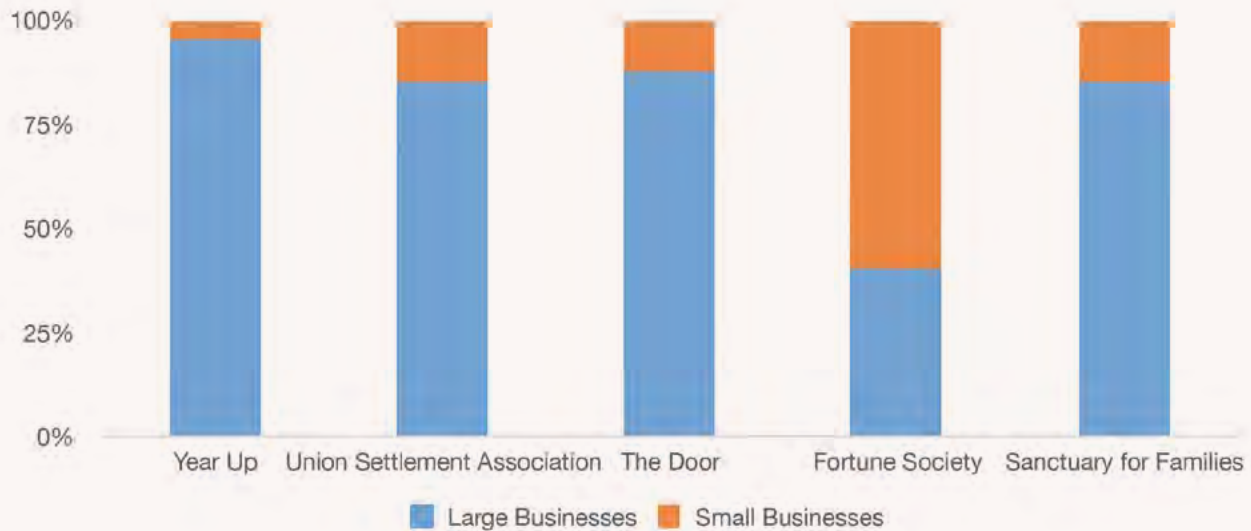
SBS’s 20 Workforce1 Centers form the core of New York’s city-run workforce development programs. Roughly 44 percent of SBS’s workforce budget goes to these centers, which, in 2015, placed more than 20,000 New Yorkers in jobs. But according to interviews with workforce and small business experts, the 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.<sup>4</sup>

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).<sup>5</sup>

## Estimated Share of Placements by Employer Size



Source: CUF analysis of data reported by each organization.

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. Bronx-based 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

“Small businesses sometimes have the feeling they are not the client. They feel 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.”

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 part-

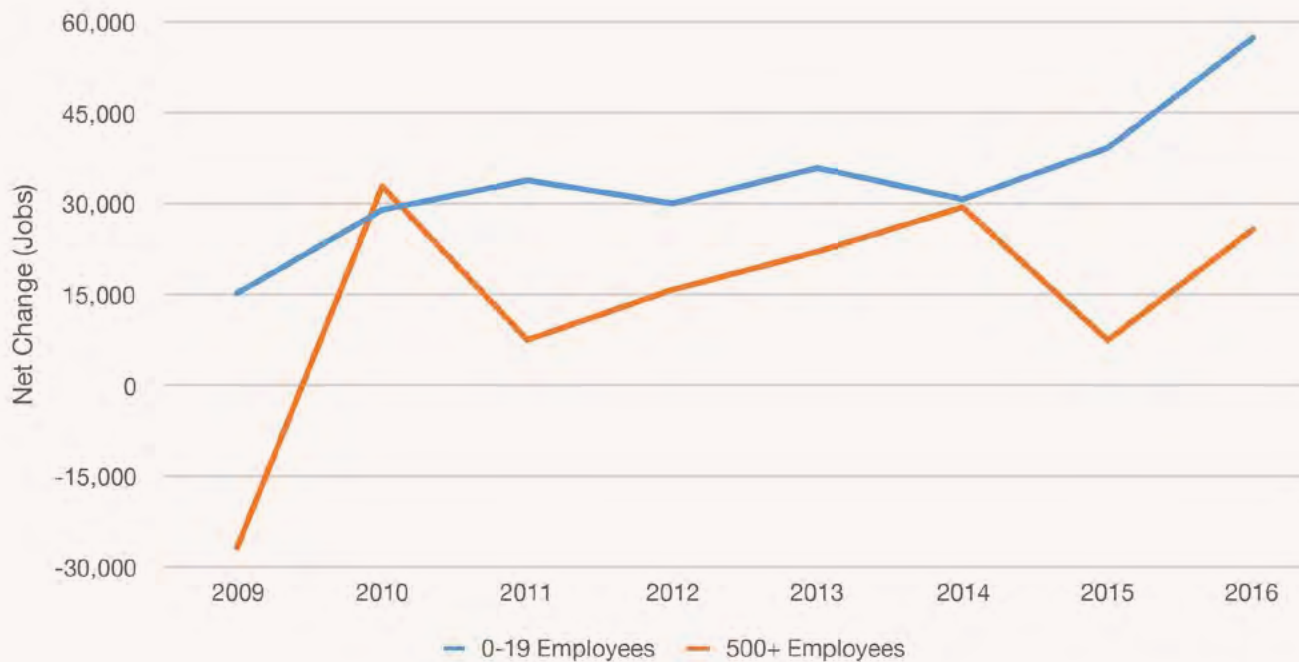
nerships. And the firms’ owners or executives often lack the time or bandwidth to focus significant attention on workforce development activities.

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

**Net Change in New York City Jobs by Firm Size, 2009–2016**



Source: U.S. Census, Quarterly Workforce Indicators

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 Elizabeth 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 cur-



# “Most of the jobs in New York City are in small businesses. We are leaving a lot of jobs on the table.”

rently 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.



## New York City Small Business Growth by Industry, 2008–2014

Industry	No. of Est. with <50 Emp. (2008)	No. of Est. with <50 Emp. (2014)	Change	% Change
Accommodation and food services	17,122	21,422	4,300	25.11%
Educational services	2,677	3,252	575	21.48%
Other services (except public administration)	22,051	25,487	3,436	15.58%
Arts, entertainment, and recreation	5,047	5,735	688	13.63%
Retail trade	30,518	34,239	3,721	12.19%
Information	5,188	5,795	607	11.70%
Health care and social assistance	20,019	22,177	2,158	10.78%
Professional, scientific, and technical services	24,303	26,801	2,498	10.28%
Transportation and warehousing	4,591	5,056	465	10.13%
Total for all sectors	205,260	224,025	18,765	9.14%
Real estate and rental and leasing	18,472	19,670	1,198	6.49%
Construction	12,370	13,135	765	6.18%
Management of companies and enterprises	953	985	32	3.36%
Admin, support, waste mgmt & remediation	7,742	7,979	237	3.06%
Wholesale trade	16,637	15,977	-660	-3.97%
Finance and insurance	11,015	10,391	-624	-5.67%

Source: CUF analysis of data from the Quarterly Census of Employment and Wages

### 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 eco-

conomic 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."

## RECOMMENDATIONS FOR BETTER INTEGRATING SMALL BUSINESSES INTO THE WORKFORCE SYSTEM

In the final chapter of this report, we set forth 15 achievable policy recommendations for better integrating small business into the workforce development system. Our recommendations include:

**Improve employer-focused workforce development for all businesses.** Most workforce development programs treat the job seeker 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.



# THE HUMAN CAPITAL CHALLENGES FACING SMALL BUSINESS

For all their importance to the New York City economy, small employers struggle, mostly on their own, to find, recruit, and retain the workers they need to keep their businesses going. Their inability to easily and quickly fill vacant openings with skilled, dependable employees limits their growth and, in extreme cases, can even threaten their survival.

“It’s very difficult to keep people,” says the owner of a popular Harlem eatery. “We analyze what we’re doing, what we’re paying, what we’re demanding, but it’s hard to keep good people. We’re always looking.”

Unable to match big employers’ salaries, benefits, or career opportunities, small employers often have to make do, hiring people with little work experience or commitment, leading inevitably to lower productivity and frequent, business-killing turnover. Resigned to a revolving door of workers, many small employers simply consider it a cost of doing business.

“One goes and another comes,” says an owner of a self-service Korean deli in Queens.

A deli owner may be able to train new workers in a day or two, but for most small businesses in New York City, the mismatch between skills, jobs, and available workers is a drag on productivity and growth, more so in industries that require technical skills.

Last July, for example, the Brooklyn Chamber of Commerce’s Workforce Innovation Network for local manufacturers had 30 listings for open positions that required machinist skills. The Chamber was able to help fill just two of those jobs.

Or consider the case of one installer of security systems on Staten Island, which found its 2016

growth outpacing its ability to hire. The company’s vice president calls his search for workers “extremely challenging.” He uses recruiters, he says, and is willing to train people, but still can’t find appropriate candidates. He even tried working with a local intermediary, hoping to field some applicants, but came up empty-handed.

“I have about 12 people and I’m budgeted to staff 15,” he says. “My company is doing well and growing rapidly. I need to expand. The sales team is growing faster than my installation team.” Often, small employers find new workers by asking people they know and trust, such as friends, family, and other employees, for names of potential recruits.

“Most of our clients tend to hire family or friends from the community,” says Yanki Tshering, executive director of the Business Center for New Americans, a microenterprise organization that works with immigrant entrepreneurs. “It’s all done casually and by word of mouth. Is it a successful method? I think they’ve never thought about it. They don’t have the bandwidth to step back and say, ‘How efficient am I?’”

Neighborhood mom-and-pop businesses often put “help wanted” signs in the window, which has the advantage of attracting local people who don’t have to negotiate weather and transportation hang-ups to get to work. But as a recruitment technique, it’s hit or miss. “It’s the luck of the draw,” says Richard Aviles, president of King Garment Care, a dry cleaner and tailoring service that employs 49 people in Brooklyn and Manhattan. “The probability of finding someone is the same as tapping the first person you see on the street.”

“We analyze what we’re doing, what we’re paying, what we’re demanding, but it’s hard to keep good people. We’re always looking.”

Small employers are increasingly turning to websites such as Craigslist, Indeed, CareerBuilder, and Monster in search of candidates, but they report little success—and much frustration.

Posting a job online typically yields dozens, even hundreds of resumes, many from people with minimal, if any, interest in the job, some of them merely fulfilling unemployment insurance job-search requirements. Even if there is genuine interest on the part of an applicant, small employers don’t have the time, patience, or expertise to wade through stacks of resumes and cull those of candidates who might be qualified. Jenie Fu’s experience is typical. The co-owner of OgoSport, a toy and sports equipment manufacturer based at the Brooklyn Navy Yard, she tried Craigslist not long ago.

“I would get hundreds of resumes, many unrelated to the job posted, cluttering up my mailbox,” says Fu. “When I first tried to do that, I was diligent and thought ‘I need to give everybody a chance; maybe there’s a gem.’ But after 50, I gave up.”

Some employers use staffing agencies, but that can be expensive for small businesses that are already counting pennies or fruitless when faced with an array of job seekers who lack necessary skills and experience. At the same time, the limited number of small business owners who have worked with nonprofit workforce development providers tend to find the experience worthwhile. For Mason Goldberg, owner of Ludlow Fitness on the Lower East Side, it was the only option that made sense.

“I don’t have \$5,000, \$10,000, or \$15,000 to start going to recruiters for my next manager or senior trainer,” says Goldberg. Instead, Goldberg turned to Henry Street Settlement, which provides customized staffing services, and hired a 22-year-old man who had no employment experience to do

maintenance work at his gym. Impressed with the young man’s can-do attitude, Goldberg is working with him to reach the next level of responsibility.

Similarly, Fred D’Antoni of Architectural Grille, a 53-employee metal working business in Park Slope, says the Center for Employment Opportunities (CEO)—a provider of workforce development services for people with recent criminal convictions—helped ease his turnover problem. “We haven’t been 100 percent successful, but we have way more successes than failures,” says D’Antoni. “When we compare [employees referred by CEO] to our traditional employees, we have a higher retention rate than with the regular population.”

D’Antoni’s experience demonstrates how the workforce system can benefit small businesses, but overall results are more mixed. A little more than half of the businesses we spoke to had interacted with the workforce system, in some cases because city contracts required it. Of those, six reported positive experiences with employees, including two whose executives had themselves come out of the workforce system and were familiar with the challenges of managing workforce grads. Four reported mixed experiences. In several cases, business owners noted that even when the system does connect with smaller employers, it is not well designed to help them train and acculturate new workers.

Given the challenges small businesses face and the failure of traditional recruiting methods to consistently and adequately meet their needs, the city’s workforce development system would appear to be a crucial source of support. Indeed, the city’s expansive array of free worker training and job-matching services connects with thousands of workers and businesses every year. But although the system could become a fruitful source of job candidates for small employers, it remains singularly ill-suited to serve them.

## HOW NYC'S WORKFORCE SYSTEM SERVES SMALL BUSINESSES

The city's public workforce development system connects with small businesses chiefly through the Department of Small Business Services. SBS operates 13 workforce development programs, including some in partnership with other agencies, at a cost in FY 2016 of \$79 million—13 percent of the total dollars allocated to workforce development by the city that year. SBS uses an employer-informed, demand-driven model to develop and implement training programs for workers and helps businesses of all sizes address their human capital needs.

Among its major programs are the seven Business Solutions Centers and 20 Workforce1 Career Centers that advise small businesses and provide recruitment and placement services, many of them operated by outside contractors. The majority of the Business Solutions Centers are co-located with a Workforce1 Center, which better enables SBS staff to ask small business clients about their workforce needs as part of a menu of other services. "Our goal is to help them with everything that hurts," says SBS Deputy Commissioner Rachel Van Tosh. In FY 2015, the city's Workforce1 Centers provided recruiting services for 1,573 businesses and filled approximately 3,000 jobs. Approximately half of these businesses had 50 or fewer employees.

The centers have been particularly successful working with larger businesses that have multiple openings or businesses that are launching a new location and need to staff up quickly. However, most of the hires made through the new location program end up at larger companies. In FY 2015, for example, companies with more than 100 employees made 88 percent of all hires in the New Location program.

"We're really good at 'direct matching,' when a new location is opening service and they need a lot of people at once, in place, trained and ready to go," says SBS Deputy Commissioner Jacqueline Mallon.

More difficult, says Mallon, is trying to send young adult job seekers who want to work for "name" companies to interview at a small business, or trying to recruit for a small employer that needs just one or two specific people. According to Mallon, SBS is working to address recruitment problems with a new program, HR for Small Business, to help employers improve job quality and reduce turnover in retail, food service, and health care businesses.

The public workforce development system is bolstered by a constellation of more than 100 nonprofit providers supported by both public and private dollars. Some have contracts with the city and some work to place their clients with small, local businesses. Still, because public funding is often tied to placement goals or because working with larger businesses makes more efficient use of their limited resources, nonprofit workforce providers often look to large businesses for job opportunities.

For example, at The Door, an organization serving disconnected youth, large employers make up the bulk of its job placements. The Door connects approximately 375 of its young clients with job opportunities every year, but only 10 to 15 percent are at small businesses. Its longest-standing relationship is with The Gap, which accepts roughly one-third of all annual placements.

The density, volume, variety, and reach of the city's small business community—223,000 businesses according to the U.S. Census, stretching to the edges of Brooklyn, the Bronx, Staten Island, and Queens—makes it difficult for these nonprofit providers to reach more than a fraction of them and requires resources that many organizations don't have.

"We have a solid record [of success]," says David Garza, executive director of Henry Street Settlement on the Lower East Side, which provides training and placement services. "But it's small compared to the number of small businesses out there."

# BARRIERS TO CONNECTING SMALL BUSINESS AND THE WORKFORCE SYSTEM

## **The Numbers Game: Federal Funding Streams Incentivize Providers to Partner With Large Employers.**

When it comes to partnering with small businesses, workforce development organizations are faced with the contradiction between the jobs that small employers can deliver and the numbers game they have to play. To keep their funding or ensure it will be renewed the following year, organizations must achieve a targeted number of job placements.

As a result, Workforce1 Career Centers and many workforce development agencies target larger companies—often giant employers such as Coca-Cola, Lowe’s, Macy’s, The Gap, ShopRite, and Securitas—that can offer multiple placements versus the one or two openings a small business might have. Even in a high-growth industry like healthcare, providers typically focus on hospitals and other large employers. And yet the potential exists to connect job seekers with small neighborhood-based practices, which often have openings for receptionists and schedulers—jobs that don’t necessarily require a postsecondary degree, healthcare expertise, or union membership.

“The whole workforce field is so focused on job placement numbers and quotas—you hit your quotas and [then] you can move on,” says Angie Kamath, former executive director of social ventures at Per Scholas and current university dean of continuing education at CUNY. “No one in the private sector does business development that way.”

Organizations that don’t hit job placement goals may jeopardize future funding.

“All of our contracts are numbers driven, performance driven,” says David Nidus, vice president of programs at the Fortune Society, a nonprofit focused on employment for formerly incarcerated

job seekers, which estimates it places 60 percent of its clients in small- and medium-sized businesses. The organization faces similar pressures to seek out larger batches of jobs, “even though we don’t feel that we make our strongest case when talking to a large [corporate] behemoth.”

In addition to the sheer numbers of jobs that larger businesses can provide, it’s also more efficient from a time-management perspective for programs to focus on big companies. Cultivating relationships with small employers and gaining their trust is an inefficient, costly, one-on-one exercise that can take weeks or months to yield results. A year-long contract with the expectation of a defined number of placements at the end doesn’t support that kind of extended relationship building.

Large employers also have human resource departments that can be a single point of contact for agencies. Their employee assistance programs can guide and support new and unseasoned employees and they have regular and frequent openings in which entry level workers can get their feet wet. Corporate mail rooms are a common starting point, for example, for grads of Brooklyn nonprofit Opportunities for a Better Tomorrow, which provides job training, placement, and support to disadvantaged youth and adults. Small businesses offer none of those advantages.

“I can’t think of one contract that we have that doesn’t have pretty high placement targets,” says Julie Shapiro, executive director of The Door, a youth development organization. “You’re going to go where there’s volume. To work individually with each employer around each job is time-consuming.”

The numbers game can get even more compli-



cated. Given the competition among workforce development organizations for placements, better collaboration can help make the system more effective for both clients and small businesses. This is especially important for gaining credibility with small business owners. If one organization doesn't have an appropriate candidate, another organization might. Collaboration, as evidenced by the Lower East Side Employment Network, can also serve to develop the kind of pipeline that keeps small businesses coming back whenever they have openings.

The goal of implementing more collaborative models is stymied, however, by restrictive public funding, which in many cases doesn't allow more than one organization to take credit for a placement even if two or more providers worked together to make it happen. Whatever collaboration does take place happens despite those rules.

"They didn't provide deep enough financial resources to work together effectively," says David Nidus of the Fortune Society, referencing a recent request for proposals (RFP) from the city. "There's a growing realization that we are stronger when we partner, but how to make it work is still an open question."

To be sure, there are benefits to working with bigger companies that can pay off in other ways. Jon Haseltine, former interim executive director of Year Up, which provides training and placement services for young adults, says that working with bigger employers provides economies of scale that allow him to develop curricula in-house that are tailored to market demands. Although his dream, he says, is to go from 5 percent placements with small businesses to 20 percent, "Our programming and our business rely on the corporate model." Taking a chance on small businesses carries specific risks, says Haseltine. "With 'onesie, twosie' seats, where funding is not consistent, it's harder for us. [If it doesn't work out], we have to go and sell to another entity."

In some cases, the potential of working with small businesses is outweighed by the necessity of maximizing output to best serve the organization's mission.

"We'd be happy to work with a small account-

ing office, but there are economies of scale working with large companies," says Plinio Ayala of Per Scholas. "The more job opportunities I have, the more people I can train."

Sometimes, however, high placement targets generate their own inefficiencies and can work against the goals of workforce organizations, damaging their credibility with their clients. For providers, the ideal result is a strong, long-lasting fit where both employer and employee are satisfied. But high-volume contracts can sometimes result in programs that value quantity over quality.

"When you go down that path, what you run into is a high turnover rate where you're constantly having to go out refilling positions," says Carol Rodat, director of the New York State Department of Health's Office of Community Transitions and the former New York policy director of the Paraprofessional Healthcare Institute, which focuses on recruitment, training, and supervision of nurses' aides, home health aides, and personal care attendants.

One organization that has been able to resist the numbers game is the Brooklyn Navy Yard Development Corporation, in part because it has a built-in constituency: the 330 small businesses for which it serves as landlord. In addition, grants provide half the funding for the Navy Yard's Employment Center. Because the Brooklyn Navy Yard sees its Employment Center as a core service to employers and job seekers in the surrounding community, they fund the remainder through the organization's operating budget. This allows for more flexibility in programming and in the metrics used to measure success. Even with a built-in small business base, the Navy Yard's job developers spend time building relationships and closely supporting employers through hiring processes, says CEO David Ehrenberg, at a cost of just over \$2,000 per placement, compared to funding of just over \$1,000 per client in a recent RFP from the city's Human Resources Administration.

"We are not beholden to the numbers," says Ehrenberg. "Our own source of funding allows us to cut a different path."

The Bowery Residents' Committee, which serves the homeless, has moved away from working with larger businesses in part because its

“We’d be happy to work with a small accounting office, but there are economies of scale working with large companies. The more job opportunities I have, the more people I can train.”

clients didn’t fit easily into a corporate work environment. Small employers, it found, were more flexible and accepting of people with barriers to employment, such as homelessness and long-term unemployment.

“Big businesses said they would hire 25 of 100 applicants, but the tail was wagging the dog,” says executive director Muzzy Rosenblatt. “We found ourselves serving the employer, sometimes at the expense of the prospective employee. We had to keep them happy or we’d get no repeat business. We found we were often trying to fit round pegs in square holes.”

City government also recognizes that the emphasis on numbers has a downside. In her first major policy speech, delivered at the Association for a Better New York in April 2014, Deputy Mayor Alicia Glen acknowledged that the workforce system rewards job placements—many of them, low wage, part-time jobs—and vowed to make the city’s efforts more responsive to employers and to work harder at creating full-time, well-paying jobs that lead to careers and long-term employment. “We need nothing less than a thorough reinvention of workforce development in this city,” says Glen.

With its Career Pathways model, the city is signaling a commitment to better quality jobs and a break from the rapid attachment approach. Many workforce development professionals see the potential under the new strategy for small businesses, with help and guidance, to create quality jobs. At the same time, because it now includes a \$13.40 wage floor at Workforce1 Career Centers, the Career Pathways model has had the unintended con-

sequence of making the workforce development system even less accessible to small businesses, compounding the obstacles they face and discounting the value of the opportunities they can provide.

#### **High Touch, High Cost, High Risk**

Working with small businesses is high touch, high cost, and high risk. It requires job developers to reach out to dozens of businesses, often one-on-one, to understand their needs, convince them of the value their organizations provide, and, if successful, hold employers’ hands for as long as a year as their clients settle into jobs.

“It takes a long time to nurture those relationships, to have people trust you, moving a company from hiring one person one time to going to you as a source,” says Shayne Spaulding, senior research associate at the Urban Institute and an expert on workforce development.

Indeed, workforce development providers report that they often function as the human resources department for their small business partners. For these companies, which lack the resources of large businesses, workforce organizations find themselves not only providing job candidates, but acting as a listening board, advising on operational issues, helping write job descriptions, and even nudging employers, if necessary, to raise their pay scales as a way of retaining employees.

“Since the small businesses are under resourced, it is important for workforce organizations to provide personal and professional training in addition to the hard skill training,” says Patrick Cohen, vice president of strategic partnerships at

NPower, a nonprofit that trains clients for digital careers. “Our staff lightens the load for small businesses by vetting candidates for each specific job, submitting the resumes, and coordinating the interviews. The small businesses really appreciate the hands-on, full-service support.”

Even for the Brooklyn Navy Yard, which has the advantage of being the landlord to the 330 small businesses on its premises, cultivating those businesses is a 24/7 occupation for its account managers and job developers. According to its president, David Ehrenberg, that work comes with a price tag that public funding streams don’t support.

“Even for those [small businesses that] are interested, you have to stay in their face,” says Ehrenberg. “There’s a constant tending of relationships. It’s more costly.”

Moreover, after placing workers in a business, the most successful workforce development organizations continue to nurture the relationship. Job developers stay in touch with both the employer and the worker, checking in regularly on the worker’s progress, intervening when there are problems, and continuing to connect employees with social service agencies to make sure they have the support they need at home to stay on the job and be successful.

Although labor-intensive, this hands-on approach is essential for helping to ensure that employers and employees are satisfied. For example, after one workforce provider placed a number of drivers with a paratransit company, it became apparent that retention rates were low. The organization stepped in to help the company understand that it was losing those drivers because its salaries were not competitive. The intervention was essential because it helped the company get comfortable with taking the financial plunge, boosting retention rates and sustaining better-paying jobs in the process.

“It doesn’t just mean sourcing and making an effective match and filling a job order,” says Lou Miceli, former executive director of JobsFirst-NYC. “It’s also about helping small businesses understand how to prescreen, how the changing nature of their operations may influence staffing, and how to source the right kind of talent as they

evolve. It’s about getting immersed in the business culture—and how it matters.”

Workforce development organizations also have to stay on top of employees’ personal challenges and struggles—playing mediator if necessary—because small employers, unlike big corporations, typically don’t have the slack to absorb the downtime for an employee who runs into problems at home or on the job. A proactive workforce development organization can anticipate many potential issues before they snowball, but only if there is sufficient capacity to continue working with employers after making an initial placement.

“[A big corporation has a] huge HR department with an employee support program, but the employees of small businesses are probably more in need, on average, than the employees of large, established corporations,” says Ben Thomases, executive director of Queens Community House, a multiservice agency that offers an array of youth employment programs. Planning for those needs could help more workforce development organizations work effectively with smaller companies.

This hands-on approach to making successful placements can pay off down the road as satisfied employers return with more openings and refer other businesses to agencies that have provided them with dependable workers. In fact, experts say that scaling these effective approaches is critical for their continued success. It’s only by developing a pipeline of demand that providers can achieve the economies of scale necessary to make the cost of supplying workers to small businesses competitive with placements in large corporations.

“The biggest return on investment is the long-standing relationships,” says Jessica Centeno, director of workforce development at the Center for Employment Opportunities. “In the beginning, we’re hand-holding a lot; but what’s great about small business is that they are the most likely to give referrals to other small businesses.”

As organizations get better at recruiting and serving small businesses, word gets around in the community. The effect can be a steady stream of jobs --and a decrease in the cost of outreach. “Good matches lead to repeat business,” says Aaron Shiffman, executive director of Brooklyn Workforce In-

“It doesn’t just mean sourcing and making an effective match and filling a job order. It’s about getting immersed in the business culture—and how it matters.”

novations, a prominent workforce development provider. “If they want to hire from a certain population but don’t have the capacity to identify and train them, you’re solving a problem and they’re going to call you back.”

Still, because working with small businesses is so labor intensive, workforce development organizations need to grow to effectively serve them. Many complain that the city’s contracts don’t reflect the cost of training and placing people, whether in large or small businesses.

“For us, [the need is] scaling—and scaling is money,” says Angelo Rivera of Sanctuary for Families, which works with women who have experienced domestic violence. “When the [recent Human Resources Administration] request for proposals came down, it was \$1,000 per person. What does that pay for?”

Several organizations, in fact, say they have recently turned down city RFPs for that reason.

“When you look at some city contracts, we have elected to take a pass,” says David Nidus of the Fortune Society. “There’s not enough resources to get people [job] ready.”

To make ends meet and serve their missions, organizations say they need as many placements as they can get. The low rates and high targets typical of most workforce development contracts—coupled with the costs of working with small businesses—means that most workforce development providers are still focused on large employers.

### **High Road Employers: A Difficult Path for Small Business**

In addition to the pressure to fill large job orders, a well-intentioned emphasis on higher starting pay and more hours puts small businesses at a disadvantage in the workforce development system.

One important goal of the de Blasio administration’s Career Pathways initiative is to improve starting pay and job quality for clients of the system. The idea is to encourage more “high-road employers”—companies with above-average starting pay and generous workplace policies—to contract with the city’s workforce development organizations. These elevated standards are a notable shift from the previous model, which incentivized rapid placement in low-paying, entry-level jobs to meet ambitious targets. But it is a shift that may be having the unintended consequence of making it even harder for small businesses to join the mix of eligible employers.

For example, businesses that want to make use of the free recruitment services offered at Workforce1 Career Centers under the “high-road employer model” must offer full-time work, pay workers a minimum of \$13.40 an hour for part-time work, or be in the process of opening a new location. Small Business Services has said that most businesses that want to use the free recruiting services meet these requirements, but the immediate effect of this policy change has been a 21.2 percent decrease in the number of placements through Workforce1 Career Centers between FY 2014 and FY 2016.

Although these changes reflect the laudable goal of improving job quality and may not pose an insurmountable problem for most large busi-



nesses, workforce professionals say that for many small employers—already worried about New York State’s mandated increase in the minimum wage—the part-time pay threshold can be a deal breaker.

In particular, manufacturers express concerns about continuing to hire in New York City, since their competition is often in parts of the country where wages and operating costs are much lower. For these companies, most of which are small businesses, solving their labor challenges can spell the difference between remaining in New York or moving out of state.

“At most companies that I visit, their entry-level workers are below [\$13.40],” says Lisa Futterman of the Workforce Development Institute (WDI), which has focused on strengthening manufacturing across New York State.

When it comes to understanding both the challenges facing small businesses and the unique opportunities they can provide, the experience of the Osborne Association, which serves people who have been involved with the criminal justice system, is particularly instructive. In the South Bronx, for example, the organization often tries to place clients in small businesses that might have just a few employees. The work may even be seasonal, but it provides opportunities where more personal relationships can be forged.

“That is a major challenge for small businesses and limits many small businesses from being able to participate fully,” says John Valverde, former executive vice president of the Osborne Association, describing the barriers to participation posed by the high-road employer standards. “It’s really tough for [small businesses] to be able to create the kinds of jobs that would allow them to participate fully in those programs.”

Moreover, those standards discount the value of part-time, entry-level work for populations with steep barriers to employment. Even at a low wage, these opportunities can function as a critical stepping stone to new skills, work experience, references, and a shot at full-time, higher-paying jobs.

Leah Archibald of the Evergreen Exchange called the standards short-sighted. “If you start at an entry level, sweeping the floor, you start at a

lower wage than \$13.40 an hour,” says Archibald. “But if you show up and demonstrate initiative, you will get promoted to a different job that pays more.”

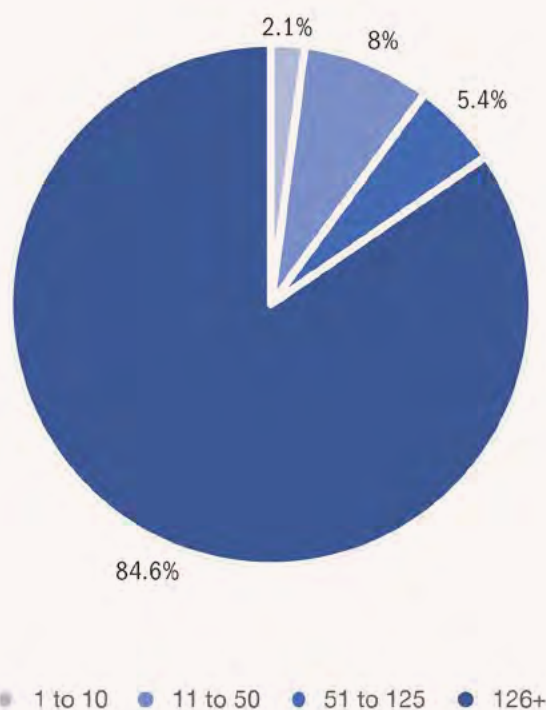
At the Center for Employment Opportunities, which trains and places people who were formerly incarcerated, many clients seek out maintenance and cleaning jobs because they are confident in those skills, says Jessica Centeno, the organization’s director of workforce development. Those kinds of jobs are plentiful, and can help support an individual grappling with the challenges of re-entry, but they often won’t start out at \$13.40 an hour.

To assess the progress of clients with high barriers to employment, Bowery Residents’ Committee looks at wage gain rather than just the dollar-per-hour wage. Hundreds of job seekers from BRC’s shelters are finding work at an average starting wage of \$11 an hour, says executive director Muzzy Rosenblatt, but if they stick with it, their wages tend to rise within a year. After 12 months, he notes, over 45 percent of clients are still employed and their average wage gain is over \$1 an hour or 8 percent.

If access to recruiting help is limited for small businesses, so, too, is access to the Department of Small Business Services’ customized training program, which provides up to \$400,000 to help businesses train employees. In addition to a multi-step application process and extensive rules governing the types of training allowed under the program, employers who apply for funds must train at least ten employees—with only half of them permitted to be new employees—and guarantee to increase their salaries after the training. Companies may be docked part of the grant money if they don’t meet those requirements.

Help with training would be a boon for small businesses, which already suffer high turnover because of their limited ability to promote employees into higher-skilled, higher-paying jobs. And while mid-sized or large companies, many of which can afford training on their own, likely have no problem with such requirements, the ten-employee, wage-increase standard is a high bar for most small businesses. A 2014 analysis of the customized train-

### Share of Hires Made by Businesses Participating in NYC Business Solutions New Location Staffing Services by Firm Size, 2015



Source: CUF analysis of data from the Department of Small Business Services

ing program found that while participants did see wage gains, it wasn't clear if those gains stemmed from their increased skills or because the city required it. The analysis did not provide information about the sizes of the companies in the study.<sup>6</sup>

"Both requirements are problematic," says Elizabeth Lusskin of the Long Island City Partnership. "The unspoken reality is that training enables you to retain the worker, not just promote them. Small businesses are in a constant struggle to continue to afford their employees. Part of improving productivity is simply keeping the employee, not a precursor to paying them a set amount more."

In fact, businesses that have the greatest need for training help are often those just starting out—businesses that can't yet offer multiple full-time jobs or benefits, says Leah Archibald of the Evergreen Exchange.

"Training is a nonstarter," says Archibald. "They don't have ten employees."

Still, it's a complicated issue and the lack of services for small businesses reflects some important considerations on behalf of job seekers. The high-road employer standards reflect the fact that it can

be hard for a workforce development organization to justify placing a client in a small business that, for example, doesn't pay benefits.

"For a single mom, that's not great—even if the pay is good," says Angelo Rivera of Sanctuary for Families. The organization places only about 15 percent of its clients in small businesses, he says, relying for the most part on large companies and the business relationships of its board members to place most of its clients.

Small businesses' limitations on salaries and benefits subject them to frequent turnover and create inefficiencies for the workforce organizations that feed them workers. John Valverde says that he works with employers to provide the kinds of conditions that can keep workers on the job for at least a year. But after that, it's tough.

"Around that year mark, if there's no opportunity for growth, individuals start looking and jumping," he says. "It's always a struggle for small businesses, especially with the city pushing career pathways and career training."

Salary and benefit standards present a dilemma not just for workforce development organiza-

tions but for small businesses themselves. Rona Espeut, business development coordinator at the Brooklyn Navy Yard Development Corporation, says that in her experience, for the small businesses at the Navy Yard that are not hiring, it's because they can't afford to pay competitive salaries.

"I find they're constantly in a catch-22 situation," says Espeut. "They need more people to grow, but they can't afford to pay them."

Of course, some small businesses depend on turnover as a business strategy because it means they don't have to promote workers or increase wages. Every new person who comes in starts at the bottom and often leaves before receiving a salary boost. But turnover is costly, even though many small businesses don't calculate the losses associated with frequent personnel changes. The Center for American Progress estimates that for workers earning less than \$50,000 annually, for instance, turnover costs the employer roughly 20 percent of the employee's salary.<sup>7</sup>

At the same time, small businesses take a risk on every new employee they hire and are understandably reluctant to pay more than they need to, especially for entry-level jobs. The risk is heightened when they take on employees with little to no work experience, even if they have been through a training program.

"What small businesses want and need are people who show up to work every day, who are focused on the job, who are reliable, and who get the job done," says Ben Thomases of Queens Community House. "Large businesses have more slack and know on average they can't expect that from everyone, but small businesses don't have resources for that."

### **Sectoral Disconnect: Emphasizing Sectoral Employment Can Leave Small Business Behind**

The sectoral approach to workforce development—training people for industry-specific jobs in high-growth fields—has become gospel among workforce development practitioners. And with good reason: a sectoral approach focuses on the needs of employers and targets growing sectors of the economy that are supplying jobs and are likely to do so in the future. All things being equal, the sectoral approach has had more success in training

workers and putting them on a career path than unsystematic approaches that don't account for market forces.

Still, it's an approach that may struggle to serve small businesses with the same level of efficiency. Although private funders have increased their total investment in workforce development in the city from \$18 million in 2004 to \$71 million and have helped push for consistent standards and accountability, many are aware that working with small businesses tends to be less efficient than connecting with larger employers, as it necessitates a more high-touch, case-by-case approach.

Several workforce development organizations echo that sentiment, saying that working with small businesses makes it hard to scale their programs, given the intense level of service required. Some say that private funders sometimes want job guarantees from the programs they fund—an almost impossible task if an organization is working with small businesses. Others deem the concern with small business an economic development issue rather than a priority for workforce development and say their focus remains on getting people into the workforce.

"Our job is not to make the small business happy," says one workforce development professional. "If, in fact, they turn out to be a good source of employment for our graduates, wonderful. But we don't go out in the morning to see how we can delight small business."

Other workforce professionals, however, say that the sectoral approach can be problematic or at least overly limiting. While it can include some small businesses, it also tends to give short shrift to others, especially if they span multiple industries or can't be shoehorned into a particular sector. To the extent that the sectoral approach presumes a career path, it also favors medium- to large-sized businesses, not small businesses. At the same time, it ignores the possibility that in small businesses, the broad set of skills required of employees has value—for example, a receptionist can wind up doing payroll—and can lead to managerial roles and often to entrepreneurship as workers decide they can do things better and strike out on their own.

Some workforce development leaders say a sectoral approach should include small business as a sector in its own right, targeting companies that may sell different products or services but that have basic, common needs. A local plumber and a courier service are different businesses, but both need people who can field phone calls, relay information accurately, and deal effectively with customers. Many jobs require basic skills that are transferrable across industries, such as office managers, stock-room assistants, custodians, receptionists, customer service representatives, and dispatchers.

“Brooklyn is diverse and complex, but there are certain consistencies around small business needs and concerns, [such as] profit margins, managing overhead, sourcing, and talent retention,” says Lou Miceli, formerly of JobsFirstNYC. “It makes for commonality among those businesses, even if they are focused on different industries.”

In a sector-based approach to health care, for example, there is a tendency to focus on hospitals as employers rather than on the small neighborhood-based practices, such as doctors, dentists, urgent care centers, and physical therapists, which all need receptionists and schedulers—jobs that don’t require specialized training.

The Cypress Hills LDC in Brooklyn, for example, adopted a place-based approach four years ago when it found that the existing system wasn’t supplying enough workers to local businesses in a variety of sectors. A program that trains paratransit drivers—part of Cypress Hills’ Champion Network—has been particularly successful. Working with five paratransit companies over the past two years, the organization has seen one-year retention rates of 75 to 80 percent versus 60 percent in the general young adult population.

“I don’t think sectors should be a religion, it should be a strategy—not some ideological position about being from the same industry,” says Fred Dedrick, president and CEO of the National Fund for Workforce Solutions.

The Bowery Residents’ Committee, for one, has seen funding opportunities diminish as the emphasis on sectors has grown. Despite BRC’s success in helping clients gain employment, executive

director Muzzy Rosenblatt says that foundations are beginning to express a preference for industry training, especially digital skills: “We’re having our best year ever in terms of clients finding jobs and staying employed, and yet we have foundations walking away, telling us, ‘That’s not what we do anymore.’”

For many small business employers, it’s not an issue of specialized skills needed to work in a particular sector—such as digital, culinary, or woodworking skills—but more a question of the fundamental skills they bring to a small business: showing up on time, putting in a full day’s work, being able to deal with customers, and learning basic tasks like taking inventory. For populations served by organizations like BRC, which have high barriers to employment, that kind of work can offer a better fit than some of the training programs that have become popular with many funders. Indeed, it’s an area where providers and small businesses are inherently aligned.

“Let’s help the poor be millennials’ doesn’t work with our guys,” says Rosenblatt, whose clients are typically in their late 30s or early 40s, experiencing homelessness, and often have histories of incarceration, addiction, and sporadic employment. Even though most have a GED and some have college credits, “They’re not going to go be coders,” says Rosenblatt. “They want to work and will work for 10, 12, 14, 15 hours a day with their hands. Small businesses don’t need someone to code. They need a hardworking person who shows up and gives them a day’s work for a day’s pay. It’s harder to get money for that.”

While every workforce expert interviewed for this report endorsed the sector-based model as a smart approach to workforce development, many of them said that the model’s limitations for small businesses suggest that New York should consider coupling the sectoral model with new place-based approaches. The city could do this effectively by tapping the dozens of organizations in communities across the city that already have strong track records of working with small businesses.



# TAPPING SMALL BUSINESS INTERMEDIARIES IN WORKFORCE DEVELOPMENT

In a system that struggles to meet the needs of employers, local small business intermediaries may be best positioned to provide workforce development services that successfully bridge the disconnect. Although large businesses benefit from specific platforms to make their needs known, including significant representation in the city's industry partnerships and other initiatives, businesses of all sizes stand to gain from close collaboration with an intermediary. When it comes to human capital, however, the intermediaries that best understand the needs of local businesses are an underutilized resource for workforce development.

Many communities across the five boroughs already have functioning small business intermediaries—chambers of commerce, local development corporations, business improvement districts, and microenterprise organizations—that could be amplifiers for workforce providers and players themselves.

“You’ve got these ready-built structures like local chambers and BIDs that could play a role creating some of this connective tissue around talent development and acquisition,” says Philip Weinberg of STRIVE.

Their effectiveness comes in part because they are close to the source. They are on-the-ground advocates for local businesses and already know the needs and the challenges those businesses face. On their own or as go-betweens for workforce development organizations, small business intermediaries can bring economies of scale to the job placement task and help employers tap into new sources of talent.

For example, intermediaries can help coordinate the activities of multiple workforce development organizations in the neighborhoods they

serve and provide a natural forum for small businesses to articulate their needs and give feedback.

Like nonprofit workforce development providers, economic development intermediaries can do more than deliver match-and-hire services. They can also be a proxy for the HR departments that small businesses don't have, helping them understand how to source talent, screen candidates, provide training and, if possible, offer opportunities for advancement.

The Brooklyn Chamber of Commerce's Good Help program is one model. Funded internally by the Chamber and with \$108,000 in on-the-job training dollars from the state Department of Labor, Good Help provides no-cost employment services to local businesses and offers experienced advice on how best to attract and retain workers. Good Help posts job openings on its website to recruit candidates and screens job seekers from workforce provider organizations, sending the most qualified to be interviewed by businesses themselves. The chamber's recently launched Workforce Innovation Network also aggregates small business demand from local manufacturers in apparel, metalworking, and furniture production. The network launched its first partnership in April 2017.

Similarly, the East Harlem Talent Network—funded by a local intermediary, the Upper Manhattan Empowerment Zone (UMEZ)—aggregates the needs of small employers and acts as a free employment service for small businesses in East Harlem. This place-based approach prioritizes local jobs for local talent, which has the dual benefits of involving trusted neighborhood partners to understand the needs of East Harlem's small employers and connect workers with jobs in their

# “Economic development groups need to have the funding to work with workforce development groups.”

community. Unlike a traditional workforce development organization, EHTN brings together multiple local nonprofits and dozens of employers to pool both the demand for workers and the supply of job seekers. Among other opportunities, EHTN is capitalizing on the surge of new restaurants and other eateries in Harlem that often struggle to find workers.

“It’s a mechanism that seemed more scalable and coherent than a single agency scrambling around to identify and meet the needs of small employers,” says Weinberg of STRIVE. His organization partnered with Mount Sinai Health System, Union Settlement Association, Community Board 11, the East Harlem Community Alliance, and UMEZ to develop the network.

The Staten Island Chamber of Commerce is working on a program that would feed interns and employees to local businesses from career and technical education high schools. Workforce should be a priority for all chambers, says Linda Baran, president of the Staten Island Chamber. “It’s a matter of putting together a more robust network so we can coordinate better,” says Baran. “It should be a priority of all chambers in the city; our future workforce is everything.”

The Long Island City Partnership, which operates both a BID and an LDC, doesn’t run its own workforce programs but makes connections between local businesses and workforce providers. The role is critical, says Executive Director Elizabeth Lusskin, since most of the workforce development infrastructure is centered on preparing people for work in offices and retail establishments, not the small manufacturing businesses that increasingly are establishing themselves in Long Island City.

“Everybody focuses on industries where there’s a lot of jobs, but there’s a lot of jobs in industrial

companies if you get them together,” says Lusskin. “It always gets lost in the numbers game. But if you put together all industrial companies, there are a lot of jobs—and on average, they pay well.”

Similarly, the Evergreen Exchange—a manufacturing and industrial organization that is an outgrowth of St. Nicks Alliance, a north Brooklyn intermediary—helps its members write job descriptions and circulates them to workforce development organizations and intermediaries such as the Southwest Brooklyn Industrial Development Corporation and Opportunities for a Better Tomorrow. With this approach, the organization both pools demand for workers among a group of small manufacturers and helps to provide crucial HR support. Evergreen Exchange is now working with the Brooklyn Chamber of Commerce on its Workforce Innovation Network, training and recruiting for jobs in metalworking businesses.

These organizations all have one thing in common: they take advantage of the fact that most local businesses want to hire close to home. The Cypress Hills Local Development Corporation faced no pushback from its newly formed merchants’ association when it proposed that employers notify the LDC of their job openings and agree to take referrals. “Businesses had no trouble signing on to that,” says Lowell Herschberger, director of the LDC’s career and educational programs. “They want to hire local.”

Other intermediaries include the Brooklyn Navy Yard Development Corporation and Industry City, which both run their own placement programs for their small business tenants.

But the organizations with active workforce development efforts amount to just a handful in a city with dozens of economic business intermediaries. Although some others may list open positions on their websites and advocate for the workforce

needs of their constituents, the city's intermediaries, for the most part, do workforce development only sporadically and informally.

"If we get a call and have resumes on hand, we will make the connection," says Queens Economic Development Corporation Executive Director Seth Bornstein. "We thought once we would do [workforce development], but we haven't got the capacity or the expertise."

Indeed, even if they wanted to, most small business intermediaries lack the expertise and funding to make workforce development a core activity.

"We don't have staff dedicated to workforce," says Leah Archibald, executive director of the Evergreen Exchange. "We could be doing a better job if we were devoting more resources to it, but we don't have the budget or manpower."

Some intermediaries say that they don't want to reinvent the wheel, that workforce development organizations are already doing the job. The city's 74 BIDs, which are funded by assessments, largely focus on providing a clean and safe environment for residents and businesses. Only four do any kind of workforce development.

"These groups live in very different worlds," says Weinberg. "There are too few opportunities to overlap. People who focus on building talent go to one set of conferences and read one set of reports and those focused on real estate development go to a different quarter."

In other cases, intermediaries have mixed feelings about getting involved with workforce organizations, preferring to make and maintain direct contact with employers themselves. Some view the function of workforce development as a kind of social service and feel it's not part of their mission.

"It's a high barrier for a lot of largely economic-development-focused organizations," says Celeste Frye of Public Works Partners. "They don't want to get into social services."

Nor is it an easy task to bring small employers together.

Despite many commonalities, business owners typically think of their needs and operations as distinct from other businesses and say they're consumed by the 24/7 task of running their companies. To earn their buy-in, they should be con-

vinced up front that these efforts will pay off in the end.

"Getting the head of a manufacturing company with 20, 40, or 70 people to leave his property and come to a meeting is not an easy get," says Pam Bradley, project manager for human resources and training at the Industrial and Technology Assistance Corporation (ITAC), a nonprofit focused on supporting the city's manufacturing and technology companies. "You have to practically shoe horn them out."

Despite these challenges, many workforce providers see intermediaries as potentially valuable partners that could at a minimum provide the kind of local intelligence that is difficult and costly for them to acquire on their own. Asked what would help her work more effectively with small businesses, Andrea Vaghy Benyola, managing director of career and education services at The Door, a member of the Lower East Side Employment Network, says she would like to have better coordination with intermediaries.

"One thing I would definitely do—and we've tried but haven't had the capacity—I would spend more time working with local BIDs and LDCs," says Benyola. "They have a better sense of where the better-paying small business jobs are and a better handle on what their businesses are looking for. But it requires a lot of prep work, and economic development groups need to have the funding to work with workforce development groups."

# IDEAS AT WORK: HOW SUCCESSFUL MODELS ARE MAKING THE CONNECTION

Although workforce development organizations face multiple challenges when it comes to connecting with small businesses, there remains a pressing need to bridge this disconnect. Small businesses with daunting human capital needs exist in every corner of the city, presenting a clear opportunity for both employers and providers. But relatively few workforce development organizations have developed strategies that effectively connect job seekers and small businesses.

For those organizations that have had success, a core element is their focus on the unique needs of smaller employers. Today, for most organizations, the job seeker is the client and small business is a coincidental beneficiary. The value of the models described below is that they have the potential to make small business an intentional target and a full partner in workforce development.

“Somebody has to be serving small business as a customer,” says David Garza of Henry Street Settlement.

Among the limited number of organizations that are finding success, three key principles stand out: understanding the needs of small business, collaborating across organizations to increase both demand for workers and the supply of job seekers, and investing in various forms of on-the-job training.

When it comes to understanding the specific needs of small businesses and the challenges they face in hiring and retaining the right workers, small business intermediaries could play a much larger role.

## Good Help

With more than 2,000 member businesses, the Brooklyn Chamber of Commerce is among the largest business intermediaries in New York State. As a result, the chamber has developed a detailed understanding of the unique needs of small businesses and their struggles to recruit and retain the right workers. To address these needs, the chamber offers an array of employment services in partnership with the Department of Small Business Services and a network of more than 200 community-based workforce development providers, making it a pioneer among chambers of commerce in New York State.

To help address the human capital needs of its members, the chamber operates a Business Solutions Center under contract with SBS. These services can prove particularly useful to businesses that are opening a new location or seeking customized training on new equipment. But in situations in which small businesses are unable to meet the wage requirements of the Business Solutions Center, the chamber can refer the employer to its own Good Help program.

Founded in 1998, Good Help posts openings on its web site for local businesses, 70 percent of which have fewer than 50 employees. A network of workforce development agencies and community organizations review the openings and provide their best-fit candidates. Then two Good Help staffers screen the applications and send the most promising out for interviews with employers.

Every week, the Chamber sends out a blast email to 250 organizations, colleges, universities, and elected officials listing all posted jobs and re-



# “Somebody has to be serving small business as a customer.”

questing resumes and referrals. Good Help also helps employers advertise positions, write job descriptions, determine an appropriate salary, and even provide interview space—all services that provide a crucial lift to small employers with very limited capacity to handle a job search. In addition, the chamber’s Good Help on the Go service schools employers in interview techniques and what to look for in potential employees. In 2016, Good Help placed nearly 200 job candidates with local businesses.

“We’ve taken on an employer-driven model,” says Tondalaya London, vice president for business services. “Instead of sending just any candidate, we take into account the needs of employers.”

The chamber recently assembled a group of local, small manufacturers in apparel, furniture, and metalworking businesses to better understand their specific human capital needs. This outreach revealed that a dearth of skilled machinists and other technicians is posing a severe handicap for manufacturers throughout New York City, most of which are small businesses. The chamber worked collaboratively with local companies to develop a curriculum and training program for these manufacturing positions, which launched as the Brooklyn Metal Partnership in April 2017.

## Lower East Side Employment Network

Collaboration among workforce development organizations can create economies of scale, making it more efficient and effective to connect with multiple small businesses.

Many workforce development organizations report frustration at having to compete with peer agencies for the same group of employers. They would willingly collaborate, but public funding sources discourage cooperation by allowing only one organization to count a job match against its goals, even if multiple organizations provided referrals, training, or other kinds of assistance.

In some cases, organizations do, in fact, exchange referrals and other information, but that occurs despite the fact that providers can’t count those accomplishments toward their goals.

“It’s really about Organization X being responsible for doing Y number of placements in order to receive funding and about the nitty gritty of who gets credit for what,” says Cristal Rivera, director of community engagement at Industry City. “To maintain funding, you have to hit milestones, including for foundation funding. You get no credit for collaboration, or for thinking about how to partner with other organizations and not duplicate efforts. It doesn’t foster an environment of collaboration: let you do what you do well, let others do what they do well, and not have everyone doing everything.”

The Lower East Side Employment Network was formed in part to reduce the competition among agencies. LESEN got its start seven years ago as the once down-and-out Lower East Side experienced rapid growth, morphing into a tourist destination. Hotels and restaurants followed along with a need for hundreds of workers.

LESEN’s innovative approach brings together seven workforce development agencies in partnership with Manhattan’s Community Board 3 to find, develop, and train quality candidates for local jobs. Managed by a coordinator who works with employers and taps member agencies for job candidates, LESEN streamlines the placement process for employers, agencies, and clients. The organizations retain their own job developers and account managers, but a coordinator is responsible for managing the network, maintaining relationships with local businesses, and screening job candidates referred by the agencies for open positions.

“LESEN is driven by the idea that competition is a disservice to the job seekers and business partners,” says coordinator Gaspar Caro. “Our approach is to have one conversation with one rep-

# “There are too many businesses in New York City that have no awareness of workforce development organizations or the support that we could provide.”

representative and filter opportunities to businesses, instead of pushing one another out of the way where business A works exclusively with nonprofit A and gets only A’s candidates.”

For employers, LESEN’s collaborative model provides a single point of access and a larger pool of talent, while doing away with the frustration at having to deal with multiple agencies. This could prove particularly valuable for small businesses, many of whom balk at the idea of juggling multiple workforce development providers just to fill a single position and need to see results quickly in order to stay engaged with the system.

Privately funded, LESEN has helped increase placement volume by 10 to 15 percent as organizations become increasingly comfortable sharing and coordinating with each other. Today, LESEN serves a mix of large and small employers—such as hotels, shops, and the local YMCA—but David Garza of Henry Street Settlement, a participant in LESEN, believes it can be further adapted for small businesses.

“The theory is that [workforce] providers can deal with the mom-and-pops one-on-one and don’t necessarily need a coordinator,” he says. “But we’re seeing that that’s not the case. If organization A can’t fill a mom-and-pop’s job, maybe B can.”

LESEN plays a pivotal role in aligning the needs of employers and the services of workforce providers, helping to forecast employer needs and share feedback. As the Lower East Side has changed, LESEN’s partners have developed and strengthened training programs that focus on specific niches, such as hospitality and high-end retail. At monthly meetings, liaisons discuss new business opportunities and get feedback on job applicants

and developing commercial trends. Community Board 3 also plays a role, sharing job leads from local businesses.

The continuous pipeline of job candidates provided through collaboration across providers is critical for better connecting with small businesses. Small firms typically receive little, if any, notice before someone quits, and when it happens, they often need a replacement right away. A workforce development agency that can’t deliver quick results will lose credibility as small employers, already skeptical, move on to other methods that will meet their needs on the spot. More important than where the candidate comes from is that the network is able to satisfy employers’ needs promptly and appropriately, making it more likely they will return the next time they need a worker—and pass that advice on to other small businesses.

Collaboration can also work on both sides of the workforce equation as providers bring more employers into the fold. “For us, what’s worked is really getting our employers to provide us with business referrals,” says Jessica Centeno at the Center for Employment Opportunities. “There are too many businesses within the New York City area that have no awareness of workforce development organizations or the support that we could provide.”

The city has also begun to recognize the value of collaboration. In its March 2014 report analyzing funding for adult education and workforce development programs, the city’s then Office of Human Capital Development noted that “funding sources often come with constraints and can inhibit collaboration.” It recommended that since

many provider agencies have multiple sources of funding, the city should explore new models that blend funding in ways that give agencies more flexibility, such as the performance partnership approach used by the Office of Management and the Budget, which uses shared goals and common metrics to measure success.

### **East Harlem Talent Network**

Like the Lower East Side Employment Network, the East Harlem Talent Network demonstrates how local intermediaries can help workforce providers serve small businesses by pooling demand for workers and developing a pipeline of skilled job seekers.

Funded by the Upper Manhattan Empowerment Zone, EHTN is a partnership of several community organizations including STRIVE, the Mount Sinai Health System, the East Harlem Alliance, Community Board 11, and the Union Settlement Association. Its clients are local businesses, the majority of them small employers, and its mission is to feed them job candidates.

“Our model is to look at everything from the employer side,” says Program Coordinator Adriane Mack. “The [job] candidate has support from community-based [workforce] organizations; we’re a CBO for employers.”

So far, EHTN has 37 member businesses and works with 120 community organizations to field potential candidates, whom it vets and refers to individual businesses. Employers value the pre-screening, says Mack. “They get to take it off their to-do list,” she explains. “They’re small business owners; they don’t have an HR department.”

While the network works with all kinds of businesses, including many mom-and-pop stores, it has recently launched a program to support local restaurants, which are growing significantly but often struggle to find workers who know how to deliver the kind of service that keeps customers coming back. With funding from JPMorgan Chase and Citibank, EHTN established an employers group, the Upper Manhattan Hospitality Consortium, and launched Serve UP Harlem, an online training program for restaurant workers in partnership with Cornell University. Participants learn how to

provide good customer service and end up with a certificate in service excellence from Cornell. Another module earns job seekers a certification in restaurant management.

“We heard [restaurant owners] loud and clear,” says Mack. “We said, ‘We understand your challenges and here’s a solution.’” The program not only provides a continuous pipeline of trained workers but also gives employees the skills and experience to grow and move up. EHTN is now exploring opportunities to play a similar role in other local industries.

### **Work-Based Learning Programs**

Any new hire is inherently risky for small businesses. A large company barely feels it when a low-level employee washes out, but a 10- or 20-employee company has little if any slack to absorb the fallout when someone doesn’t show up or doesn’t work out. For an owner, it’s money and valuable time thrown away.

“[Small businesses] have been burned by being sent candidates not ready or not able or not a good fit,” says Elizabeth Lusskin of the Long Island City Partnership. “That’s a bridge burned.”

To partner effectively with small businesses, then, workforce providers need to minimize the risk inherent to the process as much as possible. Providers do that initially by learning as much as they can about a business and its human capital needs. They spend time with employers learning about how they are staffed and organized, their plans for growth, and what employees need to do in order to succeed.

The Workforce Development Institute helps to connect small manufacturers with the workers they need by offering multi-employer training grants. For example, if five companies need one machinist each, WDI will partner with a community college or other training organization to develop an occupation-specific curriculum and then fund most of the training costs. This approach helps address the issue of providing job-specific small business training at scale while ensuring that workers gain the skills that employers are seeking.

Subsidized internships or transitional employment can take that a step further. Subsidies al-

low job seekers to gain experience and a chance to prove their worth while businesses get to test out and train a potential employee with minimal or no financial risk. Not surprisingly, workforce providers are big proponents of subsidized employment.

At the Brooklyn Navy Yard, CEO David Ehrenberg and his team support the Yard's 300-plus businesses through two forms of subsidized employment. First, more than 100 college interns are placed each summer with tenant businesses, most coming from local colleges. Their wages are paid by the Navy Yard, allowing the host businesses to build a relationship with a potential future employee and gain increased productivity without the cost. These placements sometimes result in businesses inviting interns to return the following summer, or hiring them into full-time employment. Second, the Brooklyn Navy Yard is a partner in SBS' On-the-Job Training program, which subsidizes businesses to hire new workers who are recent graduates, long-term unemployed, veterans or veteran spouses, or public housing residents. Businesses must design a training program for the new worker, and in exchange the wages are subsidized for up to 70 percent of the worker's first 280 hours on the job. Last year, 31 employers hired 52 workers through the program.

"This support to connect and train potential employees is important to de-risking the hiring process," says Ehrenberg. "It makes it more likely that companies may take a chance on someone they might not otherwise."

While the outcomes of subsidized employment are uneven in terms of turning into permanent jobs, some organizations have had notable success.

The Osborne Association has always maxed out its subsidies, says former executive vice president John Valverde. "It really allowed us to engage employers that were not as receptive or that needed support," he says. "It might only last three months, but we had a pretty good track record of companies keeping folks after that."

At Opportunities for a Better Tomorrow, which provides foster-care youth with 14-week internships in web design and medical administration under a contract with the city, many internships are with small businesses and 50 percent of them

turn into full-time jobs. Former CEO Randy Peers believes that many of those permanent jobs would not have happened without the trial period.

"Would the youth have gotten the unsubsidized job if they hadn't worked first as a paid intern? Probably not," says Peers.

According to a recent report on subsidized employment by the Georgetown University Center on Poverty and Inequality, small businesses may be better candidates for subsidized employment since they are more likely to have flexible hiring policies and may allow providers to develop a deeper understanding of their needs.<sup>8</sup>

The downside is that subsidies raise program costs. In addition to the subsidies themselves, agencies also work closely with employers and provide ongoing encouragement and support for employees. Like the interaction between workforce developers and small businesses, "It's very hands-on—and it's not cheap," says Fred Dedrick of the National Fund for Workforce Solutions.

Overall, providers say that subsidies can be an important tool to increase the participation of small business employers, especially for job seekers with high barriers to employment. At the same time, paid internships can help reduce the risk of a poor fit at a lower cost, while helping employers understand the potential benefits of a relationship with a workforce development organization.

"It's a tremendous asset for a small business looking to grow," says the Fortune Society's David Nidus. "It gives them the ability to find the right fit and by the time he or she is done, a really good employee will make themselves indispensable."



# RECOMMENDATIONS

## 15 Ways to Help Connect Small Business and the Workforce Development System

New York City is experiencing a boom in small business activity. In the years ahead, small businesses in all five boroughs will become an increasingly important engine of economic and employment growth. But the city's small employers face daunting human capital challenges, including finding, hiring, and retaining workers with the right mix of fundamental skills. At the same time, the city's large and complex workforce development system maintains very few connections with small employers and local business intermediaries. In order to help more of the city's small businesses scale up, New York City will have to forge a stronger connection between small business and the workforce development system. The following 15 recommendations spotlight specific and achievable ways to help bridge this disconnect.

### **Set a goal of increasing the number of small businesses participating in the city's workforce system by 20 percent.**

The Mayor's Office of Workforce Development should work with agencies that play a key role in the city's workforce development system, such as the Department of Small Businesses Services and Department of Youth and Community Development (DYCD), to develop a plan for achieving a 20 percent increase in the number of small businesses that partner with the city's workforce development system over the next three years. The plan should include concrete steps for ensuring that existing workforce development and training programs—including Workforce1 Career Centers, customized training, and Summer Youth Employment Program—partner with small businesses.

### **New York City needs to improve employer-focused workforce development for all businesses.**

The core challenge of the workforce system is dealing with dual clients: the job seeker and the employer. Demonstrating the value of this system

for employers has long been a major challenge for workforce development organizations. Whether focusing on large or small employers, workforce development organizations need to develop programs and services that understand and meet the real needs of employers and solve business problems effectively. In the case of small businesses, this challenge is even greater. To integrate small businesses into the workforce development system, providers need to develop programs and approaches that treat them as the client. By focusing on helping small businesses recruit, vet, and train new workers quickly and efficiently, workforce development organizations and small business intermediaries can build trust with smaller employers and develop new sources of jobs in a variety of entry-level and moderately skilled positions.

### **Increase the capacity of small business intermediaries to provide workforce development services.**

Small business intermediary organizations—including chambers of commerce, local development corporations, and microenterprise organizations—are ideally positioned to help more small businesses tackle their human capital challenges, both in New York City and in cities across the country. These organizations already have stronger relationships with small business owners than do most nonprofit workforce providers. They also tend to have the trust of small business owners and a detailed understanding of their specific needs. But very few of these intermediaries currently provide workforce development services. The city and private philanthropy should create a new fund for small business intermediaries seeking to offer workforce development programs. Funds could be distributed via a competitive grant process and awarded either to intermediaries on their own, or in partnership with a workforce development provider.

### **Expand small business representation on the city's Workforce Development Board and advisory boards for Industry Partnerships.**

One of the critical ways in which city workforce development officials get input from employers is through their participation on policymaking boards, such as the WDB and the advisory boards for the city's six industry partnerships. However, relatively few small business owners and leaders of small business intermediaries currently participate on these boards. For example, of the 29 members of the Tech Talent Pipeline, just one comes from a small, independent tech start-up. Meanwhile, the advisory board for the New York Alliance for Careers in Healthcare includes no representation from the small-business side of healthcare. To increase small business involvement in the workforce system, the de Blasio administration will need to expand the number of small business owners and intermediaries who are in positions to provide input and advice about how to structure workforce programs in ways that work for smaller employers.

### **Supplement the sector-based model of workforce development with more place-based approaches.**

The sector-based model, which focuses on the needs of employers in a particular industry, is an effective way of designing workforce training programs—but it should be augmented with additional place-based initiatives. The city agencies that are most involved with the workforce development system—including SBS, DYCD, and the Mayor's Office of Workforce Development—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. Place-based approaches are working well in neighborhoods such as East Harlem, Washington Heights, and the Lower East Side, and among clusters of businesses, such as at the Brooklyn Navy Yard and SBS's Industrial and Transportation Career Centers. But there are other opportunities to bring this model to parts of the city that are experiencing significant job growth today, including Long Island City, Sunset Park, and Williamsburg.

These models work best when guided by local input and can make working with small businesses economically viable by pooling demand for workers across a neighborhood or community.

### **Grow the LESEN model in communities across the city.**

The city and private philanthropy should encourage and support the development of new neighborhood-focused partnerships based on promising place-based and collaborative models—such as the Lower East Side Employment Network and the East Harlem Talent Network—which could be expanded to communities throughout the city. The LESEN approach includes several key ingredients that could be replicated in other neighborhoods, including coordinating a network of workforce development agencies in partnership with a local community board and maintaining relationships with a large number of local businesses. The city should build on the success of these models by creating new employment networks in neighborhoods with a high density of small businesses.

### **Expand the Good Help model to all five boroughs.**

The Brooklyn Chamber of Commerce's Good Help program provides no-cost employment services and experienced advice to local businesses. This pioneering and highly successful program should be adapted by the city's four other chambers in order to better connect local small businesses with workforce development services. Programs built on the Good Help model would provide employers with prescreened candidates, while also offering help writing job descriptions, determining appropriate salaries, and providing coaching in interviewing techniques.

### **Invest in capacity-building programs that help small businesses tackle obstacles to growth, including human capital challenges.**

SBS should invest in new programs designed to help more of the city's small companies grow into medium-sized and large businesses. Unleashing the growth potential of the city's 200,000-plus businesses with fewer than 20 employees will require a focused citywide strategy and an infusion

of funding. For this approach to be successful, workforce development initiatives should play a critical role. New programs should focus on addressing the human capital needs of the city's smallest employers—including recruiting, training, and retaining workers—as well as increased support for the fledgling HR for Small Business program. These initiatives would complement a larger strategy, which could include a competitive business growth innovation fund, increased assistance breaking into corporate supply chains and government contracting, and help incorporating the latest technology into business operations.

### **Invest in wage supports and paid internships.**

Funding for wage supports that pay more than a small stipend would make workforce development clients more attractive to small businesses. By allocating more funding for partial subsidies, paid internships, transitional jobs, and youth-focused programs, private philanthropy can help providers serve more clients with higher barriers to employment and encourage more small businesses to hire clients from the workforce development system. As part of a larger investment in wage supports, funders should consider internship programs specifically designed to help meet the needs of small businesses, such as tech-training programs where students help mom-and-pop businesses integrate the latest technology. In addition, the city should set goals of increasing small business participation in existing paid internship programs, such as those available through the Summer Youth Employment Program and the Center for Youth Employment.

### **Expand HR capacity at small businesses.**

The city and private philanthropy should develop programs that support increased HR capacity-building for small businesses. Under the current system, the vast majority of 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 place-

ments result in a long-lasting and productive fit. JPMorgan Chase, for example, underwrites a business education course at the Southwest Brooklyn IDC, Plan for Growth, which helps businesses develop a responsible growth strategy, including developing HR capacity and an organizational structure. In addition, HR functions could be consolidated among small business intermediaries via a shared services model—for example, through LDCs—increasing the reach of these services and the return on investment.

### **End the Workforce1 Center wage floor for small businesses.**

Recent changes to the publicly funded workforce development system, such as establishing a wage floor of \$13.40 an hour for part-time work, are an important attempt to improve job quality by recruiting more high-road employers. But these changes may set an impossibly high bar for small businesses, keeping them out of the workforce development system and blocking access to a vital source of entry-level positions. The city should end the wage floor at Workforce1 Career Centers for employers with fewer than 20 employees, which could open up opportunities at more than 200,000 small businesses.

### **Call on Congress to fully fund workforce development programs and incentivize better alignment with the needs of employers.**

The country's largest source of funds for workforce development, the Workforce Innovation and Opportunity Act, has been slashed by nearly 40 percent since 2001, forcing local areas to severely curtail their services. Congress should fully fund WIOA as a first step toward building a more effective nationwide human capital system. In addition, Congress should amend its workforce legislation by requiring states to produce unified workforce plans that combine the many federal sources of workforce development funding into a single funding stream, including WIOA, Temporary Assistance for Needy Families (TANF), and the Supplemental Nutrition Assistance Program (SNAP). The current system allows states to issue separate plans for each funding source with met-

rics of success that are entirely unaligned, creating significant challenges for workforce development providers. As a result, the system continues to rely heavily on placements to determine compensation and offers providers little flexibility to adapt existing programs to the specific needs of small businesses or collaborate with other organizations to best serve a client. By developing, adopting, and weighing criteria other than placements to determine whether money is being spent effectively, the system can slowly start to incentivize the sorts of high-touch processes that can both increase connections to small business employers and improve job quality by valuing strong matches over rapid attachment. These performance indicators could include skills and competencies gained, job retention, salary growth, and reported job satisfaction.

### **Recruit more small businesses to join the Best for NYC program.**

Rather than penalizing small businesses for offering lower entry-level wages than many large companies, small employers should be encouraged to adopt high-road practices over time. The city should establish a goal of recruiting 1,000 more small businesses to join the Best for NYC program. The program offers a flexible approach to helping small businesses improve their working environment—and their bottom line. Adopted by the New York City Economic Development Corporation from a third-party model, it allows businesses to compare their wages, benefits, sourcing, and other practices against similar businesses across the United States and provides web-based tools to help them improve those practices. In addition, businesses are recognized with awards for achieving certain milestones and promoted through an online business directory. There are no requirements to participate and the program acknowledges that what works for one business may not work for another, while at the same time allowing all businesses to benefit from one another's best practices.

### **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've never held a job or who have been unemployed for lengthy periods of time. Formal training for supervisors could help more small businesses feel confident taking what for them is a hiring risk. "If you want to get companies more comfortable with hiring nontraditional folks, make some real investments in the supervisory capacity of front line managers," says Angie Kamath, former executive director of social ventures at Per Scholas. "[Give them] an understanding of how to support people better."

### **Seek opportunities to pair Workforce1 Centers and Business Solutions Centers with local business intermediaries.**

The Department of Small Business Services should continue integrating workforce development services with existing small business intermediaries and community-based organizations. The Brooklyn Chamber of Commerce currently operates a Business Solutions Center and the Southwest Brooklyn Industrial Development Corporation houses a Workforce1 Career Center. In addition, the Immigrant Business Initiative at SBS partners with a host of local community organizations. The city should prioritize these successful models and embed more publicly funded programs within existing intermediaries, including all five chambers of commerce and more of the city's local economic development organizations



# ENDNOTES

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