TOWARD THE NORTH STAR
Reorienting Workforce Development to Improve Long-Term Outcomes

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It took the stress of the Great Recession and the resulting crisis of millions of unemployed workers of all skill levels who depend on the workforce system to give real momentum to outcomes-based funding for workforce development.

The recovering economy has failed to lift all boats. Workforce participation overall is at its lowest point in many years.[1] Although partly a result of demographic change, the drop has also been caused by those unemployed during the recession who stopped looking for work and by the millions of adults who face the most significant barriers to accessing it. To move the needle, it is critical to prioritize reducing long-term unemployment, transparently measuring results against that objective, and incentivizing performance improvements.

In workforce development, it is time to ask what we are accomplishing rather than continuing to merely report the number of hours or dollars spent on programs that do not lead to long-term employment. Federal support for essential workforce development programs has declined by 20 percent since 2010 alone. Investment requires results. As workforce leader Steven Dawson notes in a new series on job quality, "The workforce community's ultimate purpose should be to achieve sustained employment…at a minimum at least one year beyond initial job placement."[2] And Third Sector Capital Partners' Celeste Richie highlights that we have a special opportunity now to make this shift, "Over the next few years, the U.S. Department of Labor (DOL) will be baselining Workforce Innovation and Opportunity Act (WIOA) performance measures, making it a great time for providers and government to reset their expectations and goals for program performance."[3]

Although there are several factors at play, our insufficient attention to outcomes is one of the reasons that the labor force participation rate has dropped by almost five percentage points in the past ten years.[4] Perhaps even more important, employers report a persistent gap between their hiring needs and the preparation provided by the workforce development system,[5] and they generally do not look to that system for talent.

Until the Great Recession, and despite modest attempts to gear the system toward outcomes, publicly-funded workforce programs were incentivized to concentrate on short-term outcomes only. This, in turn, focused the workforce system almost exclusively on people who had recently been employed and needed short-term retraining, followed by job placement. Mechanisms to serve people who were long-term or chronically unemployed and faced greater discrimination—such as older workers, workers with histories of homelessness or incarceration, youth disengaged from work and school, and those with a range of disabilities—were neglected and virtually disappeared.

The reauthorization of WIOA in 2015 signaled the intent of Congress to drive toward long-term outcomes and innovative new mechanisms to achieve them—specifically through Pay for Success and performance data requirements, paired with an explicit mandate to serve those facing greater challenges. The establishment of outcomes-based performance standards is a positive first step, but to meet the mandate of increasing services to people who face greater barriers, workforce boards need to adjust performance objectives. For example, performance standards around retention of a job with the same employer are not appropriate

1 U.S. Department of Labor, "Labor Force Statistics from the Current Population Survey," Bureau of Labor Statistics (January 3, 2017), available at https://data.bls.gov/timeseries/LNS11300000.

2 Steven L. Dawson, "Targeting Workforce Dollars: You Don't Get What You Don't Pay For," Pinkerton Foundation (October 2016), available at http://www.thepinkertonfoundation.org/wp-content/uploads/2016/10/Pinkerton-Papers-No3-Web-Final.pdf.

3 Celeste Richie, "WIOA Pay-for-Performance Is a Critical Tool for Equity and Opportunity," Third Sector Capital Partners, Inc. (November 17, 2016), available at http://www.thirdsectorcap.org/social-innovation-fund/wioa-pay-for-performance-is-a-critical-tool-for-equity-and-opportunity/.

4 U.S. Department of Labor, "Labor Force Statistics" (2017).

5 Pam Goins, "Top 5 Issues for 2015 Expanded: Workforce Development," The Council of State Governments (January 12, 2015), available at http://knowledgecenter.csg.org/kc/content/top-5-issues-2015-expanded-workforce-development.

in a transitional social enterprise context, where progress is defined by transitioning from the social enterprise to a competitive employer.

The changes bring WIOA into better alignment with social-sector leaders, philanthropy, and impact investors who are increasingly experimenting with outcomes-based funding. Social enterprise is an employment model that can bridge the gap between the hardest-to-employ and the needs of employers if it can continue to demonstrate results, access public funding, and benefit from tax and other incentives previously restricted to for-profit employers.

To get better results, we agree with Dawson's observation that we must be able to answer three essential questions: Who is being served? What is their sustainable employment rate of success at one year? And what does each success cost?

OVERVIEW

Reorienting the workforce system toward long-term outcomes of greater economic security and mobility for many more people is essential for our economy and our country to flourish. Richie suggests three remedies: refine performance measures to focus on those most at risk; shift the emphasis from quantity to quality; and adjust performance requirements to take into account the barriers job seekers face.

Social enterprise is an example of an intervention with a growing evidence base and a sustainable business model that—if widely embraced by philanthropy, government, and business—is poised to deliver results for many more of the people who face the greatest barriers to sustained employment.

The country's largest and most experienced tier of social enterprises initially began with legislatively mandated "anchor contracts" from the federal government. The Javits-Wagner-O'Day Act of the 1970s created the federal AbilityOne public procurement preference for socially-oriented businesses that employed people with severe disabilities.

The participating companies today employ about 140,000 people and in general have diversified beyond the federal government to private-sector customers. Some of these companies have also expanded their services to people with mental health and other disabilities, as well as people who

face barriers, such as criminal justice system involvement, homelessness, and chronic unemployment.[6]

Although the network has been criticized—justifiably for paying roughly ten percent of workers below minimum wage—most of the companies pay at or significantly above minimum wage. Several offer outstanding examples of what social enterprise can be at scale, such as Orion Industries in Seattle, a manufacturing company that won the Boeing Global Supplier of the Year award.[7]

SOCIAL ENTERPRISE: AN INVESTMENT THAT WORKS

Meanwhile, during the past several decades, many more social enterprises were started by local entrepreneurs with no connection to government or the AbilityOne program. These are businesses with a social mission to provide transitional employment in a supportive setting to those who face a wide array of barriers to work.

This approach, which began at the turn of the twentieth century with St. Vincent de Paul and Goodwill affiliates providing long-term employment in general, rather than "transitional" jobs, has emerged across the United States in many different forms.

Social enterprise is an outcome-driven solution by nature because the model ceases to function without results and employer "connectivity." The enterprise must generate business results, or it fails. The employees must contribute to business performance even while working on developing their essential work skills (or soft skills), or the business fails. Because the model is employer-based from start to finish, it offers a promising way to close the persistent gap between workforce development and long-term competitive employment.

Social enterprise is a field under construction. The enterprises that make up the field have successfully brought people with barriers back into the workforce through a supported transitional job. The challenge now is

6 U.S. AbilityOne Commission, "AbilityOne Program—History" (2016), available at http://www.abilityone.gov/abilityone_program/history.html.

7 The Boeing Company, "Press Release: Boeing Honors 12 Suppliers for Outstanding Performance in 2015" (April 28, 2016), available at http://boeing.mediaroom.com/2016-04-28-Boeing-Honors-12-Suppliers-for-Outstanding-Performance-in-2015.

to transition these employees to competitive jobs and definitively prove the social enterprise model's ability to deliver long-term job retention, economic mobility, and greater financial security.

RAISING THE ANTE ON RESULTS

As a California-based venture philanthropy that has invested for almost two decades in the growth of social enterprises that are in the business of workforce preparation, REDF has always focused on measuring not just the beans—inputs and outputs—but outcomes. Our measures focus on job retention and economic self-sufficiency.

Social enterprises funded as part of REDF's portfolio regularly assess business and social outcomes against agreed-on annual and multiyear goals, and they use the information to continuously improve performance. REDF's approach to assessing social return on investment has been widely credited as the foundation for social-return-on-investment tools and assessment frameworks. Many of the 60-plus social enterprises REDF has supported in California embedded outcome tracking and related performance improvement systems into their daily operations, which have generated more than $220 million in revenue since REDF began investing.

In 2015, REDF undertook a third-party evaluation of its California portfolio. The data demonstrated that the incomes of those employed rose by 268 percent, the employment rate tripled, and the social enterprises covered most costs with business revenues, making them more sustainable than programs that are fully grant-funded.[8] Individuals who received a job in social enterprise were 19 percentage points more likely to be working a year later than a comparable group receiving traditional workforce services. The third-party data were the underpinning of a subsequent cost study demonstrating a 123 percent social return on investment.[9] This, in turn, has led the federal government's Social Innovation Fund and private supporters to commit $50 million to scale up the approach nationally.

Roca, a new entrant into the REDF portfolio, is an example of social enterprise at work. Founded by visionary chief executive Molly Baldwin, it serves young people in Massachusetts who are involved in the criminal justice system and gangs—individuals targeted by very few programs. Roca runs supervised work crews under contract with municipal public works departments and private companies, providing maintenance, landscaping, painting, cleaning, and other services. Roca works with more than 300 young people each year, supporting their evolution through stages of change in behavior. Roca's theory of change is that it takes many months of losing and regaining social enterprise employment before young people complete 60 consecutive days of work—a key objective. Roca also applies relentless internal evaluation with a performance-based management system. Using Roca's intervention model, the staff served 659 high-risk, formerly incarcerated young men. The retention rate was extremely high at 84 percent, and they were retained 24 months or longer in the program. Nearly all had no new incarcerations, and 92 percent had retained employment for at least 90 days.[10]

A new report by JPMorgan Chase & Co. and ICIC offers another data point from a broader perspective. It urges city leaders to support the growth of small businesses with the resources dedicated to large companies, because small businesses are especially important to solving the problem of unemployment in distressed inner-city neighborhoods.[11]

IMPROVING OUTCOMES WITH EVIDENCE

Evidence-based approaches require practitioners, funders, and the public sector to become more comfortable acknowledging outcomes that do not meet expectations and valuing the learning opportunities presented therein.

As an example, data from the evaluation of social enterprises that REDF sponsored highlighted positive outcomes, like a dramatic increase in earned income from wages (268 percent) and a tripling of the retention rate one year later. However, the data also showed that despite the rise in wages, social enterprise employees faced a significant decline in government benefits and virtually no net increase in income. Government benefits are often cut sharply when incomes rise, creating a "benefits cliff" that is a significant disincentive to work. Coupled with a drop-off in

8 REDF, "Press Release: REDF Jobs Report" (February 5, 2015), available at http://redf.org/jobsreport/.

9 Ibid.

10 Roca, "Outcomes," available at http://rocainc.org/impact/outcomes/.

11 JPMorgan Chase & Co. and ICIC, "The Big Impact of Small Businesses on Urban Job Creation: Evidence from Five Cities" (October 2016), available at http://icic.org/wp-content/uploads/2016/10/JPMC_R1_BigImpact_FINAL_forpost.pdf?af674c.

employment over time and the low wages earned relative to increased cost of living, REDF observed that a social enterprise job is a first but insufficient step to medium-term financial security for people facing barriers.

In response, REDF and our social enterprise partners made programmatic adjustments; they also focused on the need to educate policymakers about alternatives to the benefits cliff, like gradual reductions in subsidies as incomes rise and stabilize.

REDF looked for the bright spots, basically who was beating the average. There were social enterprises that delivered better results. Notably, 70 percent or more of those employed by some social enterprises were still working a year later. These findings, in turn, challenged REDF and its partners to learn from those achieving better results and concentrate greater attention on increasing economic security and mobility. This led to a much tighter focus on the connectivity to employers, the transition into competitive employment, and the investment in residual supports that social enterprises continue to provide.

"Devil in the details" policy implementation issues also need to be addressed for social enterprise to scale up its impact across the United States. Although WIOA performance data put the onus on local and state workforce investment boards to match participant data with wage records to show how many participants got jobs and to assess average earnings, the same workforce investment boards need to track and care about how many participants keep jobs in the long run. To do so at a reasonable cost requires routine access to data that are currently hard to access. University of California, Berkeley's O-Lab has been exploring the privacy concerns that limit data access and is piloting a new initiative to move beyond the current impasse.[12] The Stanford Center on Poverty and Inequality and Third Sector Capital Partners (a Pay for Success intermediary) are providing technical assistance to local governments administering outcomes-oriented projects to link federal data (U.S. Census, IRS, etc.) with local data to evaluate program effectiveness.

12 University of California, Berkeley, "Press Release: Unlocking Government Administrative Data with New California Policy Lab" (November 29, 2016), available at http://news.berkeley.edu/story_jump/unlocking-government-administrative-data-with-new-california-policy-lab/.

However, it is still unclear which entity—at the federal, state, or local level—will focus on, track, and invest in long-term employment outcomes for people overcoming multiple barriers.

SOCIAL ENTERPRISES: AN EVIDENCE-BASED APPROACH SCALES UP

WIOA now allows a set-aside of up to ten percent for Pay for Success projects to incentivize state and local workforce boards to experiment with paying for outcomes like medium-term job retention. Several states, including California, have indicated interest in their initial WIOA plans submitted to the federal government, although Pay for Success in the workforce arena faces the challenge of identifying the public entity with "repayment" responsibility. This is a more complex question than, for example, in the area of recidivism to prison, where one system can be identified that benefits most from improved outcomes.

An Irvine Foundation report on Pay for Success in the workforce context flags these factors as most important: state government support and pre-existing momentum, proven interventions/service providers with rigorous performance data, intermediary involvement, and dual recidivism and employment goals.[13]

Social enterprises are well-suited to participate in Pay for Success transactions because their financial performance and employee outcomes are both embedded in their double-bottom-line accounting.

Beginning in fiscal year 2012, the DOL awarded funding to projects that engaged social enterprises to deliver outcomes in two large-scale Pay for Success projects: New York State (the Center for Employment Opportunities) and Massachusetts (Roca).

Work is underway to lay the foundation for Pay for Success projects with local workforce boards. Notably, five cities were recently selected to receive technical assistance to scale high-impact youth workforce

13 Nonprofit Finance Fund (NFF) and The Joyce Foundation, "Pay for Success in Workforce Development: What We've Learned and What's Next" (March 2014), available at http://www.payforsuccess.org/sites/default/files/resource-files/PFS%20in%20Workforce%20Development.pdf.

development strategies with long-term improvements in youth employment and earnings.[14]

Funding social enterprise through outcomes-based instruments like Pay for Success is also driving greater connectivity between workforce preparation and the labor market. More broadly, such funding is creating a new pathway for government and philanthropy to support greater scale for interventions that demonstrate publicly valued outcomes.

Generally, social enterprises offer an evidence-based approach to workforce development for those who face significant barriers to employment. The growth of this sector can and should be supported on a bipartisan basis by the business community, philanthropy, and government.

Businesses that are increasingly concerned about finding employees who are prepared for the basic demands of work can hire those prepared to work by social enterprise. They also can include social enterprises in their supply chain for products and services, fueling their growth and stability.

Philanthropy and government programs that are currently funding traditional workforce development for populations with barriers can access and expand similar programs at a fraction of the "subsidized" cost.

The aim of the social enterprise business model is to earn revenue from the sale of products and services, leveraging these funds to offset most of the cost of work preparation and employee supports. And because of their business orientation, social enterprises bake in outcomes measurement, performance improvement, and customer service—meeting employer demand for prepared workers and quality products and services.

The specific ingredients that would fuel growth include:

- Increased private and public procurement of goods and services offered by social enterprises;
- More direct hiring by competitive employers of those prepared by social enterprise to work;
- Funding of growth capital for social enterprise expansion and replication to new communities; and
- Continued support for employees as they transition out of social enterprise into the job market.

The field is ready to scale up. REDF's recent national competition revealed 209 social enterprises in 36 states—which we know, because of the limited outreach and timeframe, revealed only a fraction of the employment-focused social enterprises in the field nationwide. The 80 or so that REDF selected to assess for funding as part of our rigorous due-diligence process reported that collectively they could employ 160,000 people over the next five years. With the right growth capital and investment in technical assistance to these companies, the country could develop a base of social enterprises capable of employing several hundred thousand people each year. Business partnerships and support structures would result in most of them moving into competitive employment and staying in the workforce.

REDF's work on the pioneering "LA:RISE—Los Angeles Regional Initiative for Social Enterprise"[15] in partnership with the Los Angeles Mayor's office and workforce system, as well as the private business community, is an example of the type of partnership that scales up the impact to meet the need. In cities and communities across the United States—from Austin to Chicago, Denver to Boston—struggling with crises of homelessness, disconnected youth, and an influx of citizens returning from the criminal justice system, social enterprise is emerging as a concrete first step in re-establishing hope and possibility to thousands.

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14 Third Sector Capital Partners, Inc., "Press Release: Social Innovation Fund: Cohort 2" (April 13, 2016), available at http://www.thirdsectorcap.org/sifcohort2/.

15 For more information on LA:RISE—Los Angeles Regional Initiative for Social Enterprise please see http://ewddlacity.com/index.php/employment-services/la-rise.

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