



Community Economics

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COLLABORATIVE JOB TRAINING IN RURAL AREAS

by

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Employers in rural communities face a basic dilemma. They must compete by either cutting production costs or increasing productivity through adopting new technology and investing in worker training. Many analysts have referred to this as a choice between “low road” and “high road” strategies. If employers pursue the low road strategy, they find themselves competing against employers in other low-cost areas (overseas in many cases) and must continually keep costs low by limiting wage increases, benefits, or investments in new technology. The result is often relatively high rates of turnover, low levels of job satisfaction, and few opportunities for worker mobility. Seeing few opportunities, many young workers may choose to leave their communities in search of higher wages and better jobs, resulting in a loss of population and human capital. Employers choosing to increase productivity may find it difficult to recruit workers with the necessary skills in the region. Rural areas generally have lower levels of formal education and training, and workers receive lower returns on their investments in human capital. The preferred solution to the problem is for employers to become more engaged in training their existing workforce. The evidence suggests, however, that many employers in rural areas do not invest much in formal job training of their workforce. Why do rural firms provide so little job training compared to urban employers? Many people believe that the primary reason employers are reluctant to provide training is the “free labor contract.” Because workers are free to move from one employer to another, employers are inevitably concerned that they will not obtain a return on their investment if they provide training to workers. In this regard, skills are a collective good. Employers need a skilled workforce, but it may be irrational for individual employers to make these investments.

Growing interest in inter-organizational and collaborative networks may help overcome some of these obstacles. Workforce development networks can improve the functioning of local labor markets in three ways. First, workforce development networks can improve the flow of information to both employers and workers. Employers can get better information about the productivity of workers, and job searchers can obtain information about job openings and the skills required for these positions. Second, workforce development networks can reduce the costs of employer-provided training by pooling resources across several firms with similar training needs. Collaborative efforts to provide training may increase the likelihood of individual firms to train workers because they are also likely to hire workers trained by other firms. Third, workforce development networks can improve the linkages between school and work, which may reduce some of the floundering that occurs among youth as they enter the workforce. This study examined how collaboration affects the tendency of employers to provide formal job training to workers.

Drawn for this 2001 study, was data from 1,590 sample businesses. Businesses were included in this survey only if they were operating in non-metropolitan areas in the United States. The business sample was stratified by both industry (manufacturing and service industries), and the number of employees in the establishment. The respondent for the study was the person in charge of hiring, who was the personnel manager or human resource director in most cases. We only included cases if the establishment had hired workers in the past year for a position that did not require a college degree. We take two approaches toward measuring the extent of job training in the firm. Our first dependent variable is the percentage of the firm’s workforce that received formal training in the past two years. Taking courses or attending classes to learn new skills and technologies were instances used to define

formal training. The second dependent variable is the firm's total expense for job training per worker in the past two years. This figure includes staff time and all other costs. We used a two-year period here because the expense may vary from year to year. Because training efforts may vary considerably within the establishment for different types of positions, we chose to ask questions about the last position filled.

A surprising number of employers report they are engaged in collaborative efforts with other firms to train their workforce. Employers are most likely to work with firms in their industry, and least likely to cooperate with firms in their marketing/supply chain on issues related to training. Looking at bi-variate analyses between collaboration and firm characteristics, we find that larger firms and firms in service industries are more likely to collaborate in job training than are small firms and manufacturing establishments. To examine our central hypothesis that collaboration with other employers provides an incentive to offer formal job training to a larger percentage of their workforce and to make greater expenditures (per capita) on formal job training, we conducted a two-stage regression analysis of training effort. As expected, the key firm characteristics (firm size, industry, skill level of the workforce, and branch plant status) have strong effects on the percentage of the workforce that receives formal training. Large firms and firms in the service sector provide formal training to a larger percentage of their workforce than small firms and firms in the manufacturing sector. Multi-establishment firms and establishments with a higher percentage of skilled workers also tend to provide formal training to a larger percentage of their workforce than independent establishments and firms with a larger percentage of unskilled workers. As we expected, employers experiencing greater difficulty hiring qualified workers train more of their workforce. These employers see these investments as a way to retain their workers in a relatively tight labor market situation. We assess whether correlated training programs are collaborative with the percentage of the workforce that trained formally while controlling for other firm characteristics. Formal training positively relates to collaboration with firms in their industry, community, and marketing/supply chain. The effects for cooperation with firms in their industry and community is stronger than for cooperation with firms in the marketing/supply chain. Coordination with firms in the same industry or community has the strongest effects in the model, with the exception of firm size. These findings lend strong support for the argument that encouraging cooperation among employers will lead to higher levels of formal training in the workplace. We find essentially the same results when looking at expenditures on formal training per worker.

Our analysis confirms that focusing on place-based approach is a reasonable way to promote economic development. Community economic development may help to enhance the productivity of firms by focusing some of their effort on understanding the array of skills needed by employers and creating opportunities for firms to establish networks for job training issues. In addition, this analysis may support initiatives to develop industrial "clusters," especially within specific industries or localities. The firm-level analysis provides rather strong support for the claims that employers cooperating with other firms tend to provide training to more workers and to spend more on formal job training. We did not examine the breadth of training in this analysis, but it does appear that many of the training programs generalized much more than individual firms would offer. These results also lend some guidance for economic development practitioners. Rural areas are often disadvantaged because they tend to recruit low-wage, low-skilled employers. There may be several advantages to recruiting large firms. While some economic development literature suggests that communities should focus more on small firms, especially in the service sector, this analysis suggests they are the same firms that are not likely to be very productive because they invest less in training. Our analysis suggests that efforts by practitioners to promote collaborative strategies among employers may be successful in helping these firms invest more in their workforce. Firms that are most likely to participate in these cooperative efforts to provide training tend to be the ones that probably need it the least— independent firms in the manufacturing sector with a skilled workforce. The challenge for practitioners is to find ways of encouraging other firms to engage in these efforts.

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