INDIANA UNIVERSITY
PUBLIC POLICY INSTITUTE

STRATEGICALLY BUILDING A WORKFORCE (2022)
Changes in company mindset may fill vacancies

KEY FINDINGS

- Data indicates the pool of available workers will remain tight, and businesses will continue to struggle with a worker shortage.
- An important source of labor may be found in disconnected workers—individuals with life barriers to employment.
- Companies can be both profitable and provide meaningful opportunities to people in underdeveloped communities.
- Hiring disconnected workers may require companies to use a different mindset, one based on affinity of place—an approach that built "company towns."

BACKGROUND

Businesses are struggling to find workers in today's economy, particularly employees needed for high-demand middle-skill jobs. These are positions that do not require a four-year college degree but do require training beyond high school.

In today's advanced manufacturing and precision production market, middle-skill workers use advanced machinery and processes, such as those used for medical device or pharmaceutical production. Middle-skill workers need specialized skills to produce precision products. A formalized education can help them fully develop those skills.

Only in the workplace can employees truly demonstrate their existing skills and ability to learn new skills. Yet businesses may forgo hiring workers who could learn the required skills by prioritizing hiring people who already possess those skills. The—perhaps implicit—assumption that workers must bring most or all necessary skills to a job rather than learn any of them on the job may contribute to worker shortages and lost economic opportunity both for the company and individuals.

FINDINGS

In Indiana and much of the Midwest, the supply-demand gap for employees likely will continue to worsen as the existing workforce ages and as current or potential workers choose to relocate for personal and professional reasons. Economists and policy makers point to current unemployment rates—nearly 4% nationally and about 2% in Indiana[i]—as the cause of labor shortages.

What is not reported as widely are two additional—and equally important—elements of the equation: the number of potential workers who are not in the workforce and what worker participation will look like over time.

As it turns out, the labor force participation rate—the number of people who are not working nor institutionalized, but who are seeking work—remains well below the January 2020 pre-pandemic level.

The labor participation rate in the United States includes people who are either working or seeking employment. In January 2020 that rate was about 63% or roughly 164 million people. By May 2022, the rate fell to 62%, lowering the civilian labor force by more than 400,000 people.

In contrast, over this same time, the eligible U.S. workforce population has grown by 4 million people. If the participation rate was the same as January 2020, about 3 million more people would be employed or seeking work. Knowing there are 3 million fewer workers participating in the workforce helps explain why the national economy is experiencing such a labor shortage.

Indiana's labor participation rates were the same as national rates over this same period. As Figure 1 shows, however, the long-term trend is more alarming. Indiana's labor participation rate has significantly declined from a peak of about 71% in February 1995.

IMPLICATIONS

RECONNECTING DISCONNECTED WORKERS TO THE ECONOMY

Despite the labor shortage, many workers still find themselves left behind by an increasingly automated and globalized economy. These changes have led to chronic unemployment and demotivated potential workers. Also, many in this group face life barriers to employment, such as a criminal record, substance abuse disorder, or low educational attainment. These specific barriers tend to make potential workers unattractive to many employers. Too often, companies bypass workers who face barriers to employment and have been left behind by the workforce.

When companies experience labor shortages, they face difficult choices. They may need to reduce production, relocate their operations to places where they can find more workers, or try to recruit traditional workers from other communities.

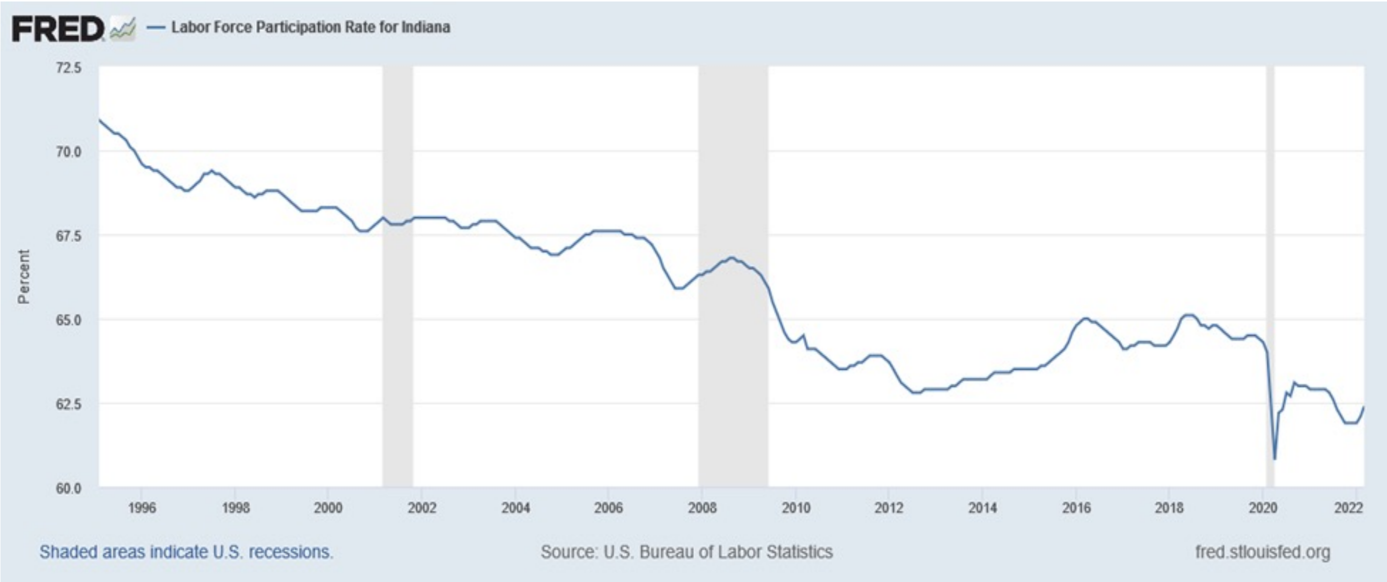
However, a change in employer mindset may be key to alleviating labor shortages while bringing capable workers back into the economy. Employers may earn a strong return on their existing capital investment if they focus on two key areas: (1) reconnecting overlooked and disconnected workers to better-paying jobs in the modern economy, and (2) simultaneously investing in training and supporting programs to assure those workers' success.

AFFINITY OF PLACE

Companies consider several factors when deciding where to locate. These factors often include traditional labor and capital costs weighed against the firm's market position, access, and pricing power. Other important factors include, for example, the qualities, skills, and aptitudes of potential workers; public policies supporting worker supply and development; and the public amenities available to the company's workforce.

One factor that can be very motivating—but typically does not appear in cost-benefit analyses—is affinity of place, that is, a company's desire to locate in a place that

Figure 1. Indiana labor force participation rate, January 1996–March 2022



may have special meaning or opportunities for it, such as personal connection to the CEO, or a company's founding in that place or state. For example, Microsoft began in New Mexico but relocated to Redmond, Washington, because that is where Bill Gates and Paul Allen were raised.[ii] In another example, Viking Ranges created a new domestic manufacturing facility in Greenwood, Mississippi, because founder Fred Carl wanted to help his hometown create jobs and a better quality of life for the citizens who lived there.[iii]

In Indiana, many communities have benefited from location and expansion decisions that are not purely based in economics but that also are strongly related to affinity of place. In places such as Batesville (Hillenbrand Industries), Jasper (Jasper Engines), and Indianapolis (Eli Lilly), companies have become connected to the community while also being profitable. These and many other companies are seeking out ways to be both a profitable, sustainable business and to makea positive social and economic impact on the community.

In these examples, company leaders see a higher purpose to their organization's existence beyond net income. This purpose is built on the notion of social responsibility and connectivity to community that is complementary to net income. This mentality drives company actions toward investments that make a return for both the company and the local community.

RECOMMENDATIONS

REVIVING AN OLD MODEL

Throughout much of the 20th century, companies that focused on affinity of place decided to build manufacturing businesses in locations that became known as company towns.

Company towns provided residents with economic and social stability through production jobs. These jobs often led to intergenerational increases in education, income, and social opportunities. Company towns were characterized by neighbors who worked and socialized together. Children often had the chance to work for the same company as their parents, providing a steady workforce for the business and steady employment for community members. Most importantly, the company felt a responsibility to the community, and in return, the community felt a loyalty to the company. When companies connect deeply within their communities it creates a reservoir of goodwill and trust that helps build and maintain the vitality of the business when obstacles arise.

Today, globalization has made the notion of a company town nearly obsolete, contributing to today's worker shortages, in addition to immediately lost jobs. Instead of focusing on investing in people and developing the quality of life in the communities where globalizedfirms are located, many businesses have placed a priority on labor production alone.

If more companies saw themselves as members of their communities and embraced a company-town mentality as a workforce strategy, they may be able to address both labor supply challenges and improve life for people and communities that have been abandoned, disinvested, and underdeveloped.

INVESTING IN PEOPLE AND PLACES

In Northeast Indianapolis, Cook Medical recently cut the ribbon on a medical device manufacturing facility at the corner of 38th Street and Sheridan Avenue. The development of this facility illustrates the potential benefits of investing in training and support for disconnected workers.

In remarks at the ribbon-cutting event, Cook Medical President Pete Yonkman said the facility is not experiencing a shortage of potential workers. In fact, Yonkman said they had a waiting list of applicants who want to work there.[iv] These potential employees live in the same community as the plant—a part of Indianapolis that has lost economic opportunity, public investment, and neighborhood safety and security. Some of them also face employment barriers, such as having police records, substance abuse histories, or having not graduated from high school.

In partnership with Goodwill Commercial Services, Cook is creating a version of the company town model localized to Northeast Indianapolis. The project extends employment, education, and career-growth opportunities to potential workers who have been overlooked or undervalued by other employers. Cook has learned that life barriers, such as incarceration or past drug use, do not automatically indicate that a potential worker is unskilled, untrainable, or unreliable. Theseworkers have access to many support services that can help them overcome barriers to employment. This approach increases their chances of succeeding in their jobs while reducing the employer's risks, both real and perceived.

Investments in recruiting a disconnected workforce may simultaneously address the workforce shortage problem and provide a pathway toward building a renewed community identity. While many states have begun to embrace programs that encourage hiring disconnected workers, it is still up to companies to seek and hire them.

Government programs can help reduce perceived risk and reduce the investment cost of hiring workers who face barriers to employment,[v] but it will be companies' affinity of place and focus on seeking a combination of profitability and meaningful community development that will no longer result in people and communities being left behind.

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