

**RAPID  
RESPONSE**

# Layoff Aversion Guide

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## Chapter One

# Introduction



## CHAPTER ONE

# Introduction

The Department of Labor’s Dislocated Worker Initiative upholds the principle of “prevention of layoffs whenever possible.” The *Layoff Aversion Guide*, a national compendium and “tool kit” of job retention and layoff aversion strategies for States and communities, was developed to support that principle. This *Guide* provides:

- A practitioner’s guide to job retention and job-oriented economic development strategies for States and communities;
- A policy review of the Workforce Investment Act’s (WIA) Rapid Response program, which provides State support for layoff aversion;
- Examples of connections between economic development and workforce development communities;
- An overview of cutting-edge programs and policies in aversion and retention practices, and an analysis of the best strategies, tactics and models in the field.

As this *Guide* points out, there are numerous successful strategies, networks and tools that have been very successful in averting plant closures and business failures while retaining jobs. However, there is very little information about these strategies, and there are no networks or learning tools that analyze and articulate the lessons learned from the basic retention/workforce-connected models currently active in the field. This resource seeks to fill that gap.

## What’s Happening to the Job Market?

Joe and Mary Goodgrief are imaginary residents of an imaginary town in the Midwest. They were both dislocated in the 1990s. After fifteen years, Joe lost his job in a steel plant due to trade impacts. Mary was downsized from an accounting job with a large insurance company headquartered in town. With her modest severance pay, she paid for executive mid-career education sessions at a prestigious in-state university. Joe re-trained to become a medical lab technician at his local community college, through a program funded by his union and company and State training programs.

They both went to work in a medical complex that had expanded in their town, Joe as an x-ray technician and Mary as a mid-level administrator. His salary was reduced, but benefits were okay. They were happy to be able to ride to work together, place their youngster in the medical center’s daycare center, and eat lunch together.

Then one day, the medical center announced that it was laying off 350 people due to a merger with a larger out-of-town hospital corporation. While Mary was given a commitment that her position was safe for one year, Joe’s job was immediately eliminated.

Many other Americans have lived through Joe and Mary's story. The United States has now experienced three major recessions since 1980. Layoffs increased dramatically in the country in the fall of 2001, and job loss was scattered across the manufacturing sector, as well as in other sectors such as services, transportation, tourism, and the financial industry.

Even in the last years of the 1990s, a period of economic growth, manufacturing employment fell by several hundred thousand jobs. And once the new decade began, rising layoffs began affecting many different industries and geographic regions of the country. Despite low unemployment rates and a tight job market in many areas of the country in the 1990s, the employment base continued an erosion of high layoffs that began in the 1970s. An estimated 50-60 million jobs have been permanently cut since that time.<sup>1</sup>

At the peak of the recent economic expansion, about one of every five large U.S. employers reported "downsizing" their workforces. Moreover, more than a third reported simultaneously creating jobs in some divisions while shedding jobs in other areas.<sup>2</sup>

During the strong economic times in the late 1990s, and early 2000s, more than 3 million workers were displaced each year, matching the scale of layoffs in the last two recessions. It has been a tale of two economies: boom *and* bust for millions of Americans. Due to the perception that global economic restructuring is here to stay, *Business Week* stated, "It seems that downsizing is becoming a permanent aspect of U.S. labor markets."<sup>3</sup>

## The Effects of the Changing Economy on Dislocation

***Labor Market Contradictions in the 1990s*** What distinguishes economic cycles today is this problem: job displacement has been occurring at record levels, regardless of whether the economy is growing or contracting. The U.S. Department of Labor (DOL) explored some of these contradictions, in order to assess which populations felt the impact of such economic "churning," and to determine what kind of public response might mitigate these effects. By using a more inclusive definition of the term "worker displacement," the Department found that there would be approximately 3.3 million displaced workers in FY 2000, a continuation of high levels since the mid-1990s.

At this level, the displacement rate was significantly higher during 1995-1997 than the rate during 1987-1989, even though unemployment rates during these periods were similar. And although many displaced workers find new jobs faster than during the recessions, over 60 percent have unemployment of ten weeks or longer and need re-employment assistance.

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<sup>1</sup> Data extrapolated from *The New York Times*, "The Downsizing of America," May 3, 1996.

<sup>2</sup> National Governors Association Center for Best Practices, Draft Issue Brief 2002.

<sup>3</sup> *Business Week*, April 13, 1998.

Manufacturing workers have suffered the most consistently from these recent years of intense job displacement. In the 1995-97 biennial survey of worker displacement by the DOL Bureau of Labor Statistics, some 1.78 million manufacturing workers were displaced. But non-blue collar displacement has also risen dramatically in the past few years, and retail, service, construction, wholesale trade, agriculture, mining, finance and, transportation/public utilities sector jobs were all affected, showing the expansion of the displacement spectrum.

These recent snapshots of the workforce also show that minorities (especially African Americans and Hispanics), those with lower education levels, and other disadvantaged populations continue to experience relatively higher levels of displacement than other groups.

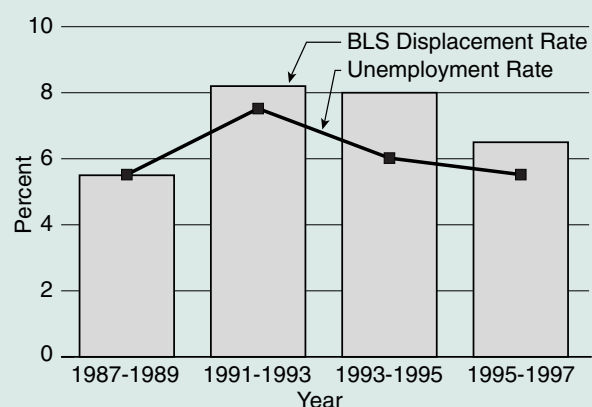
An economic development report on State “retention” scores—the ability of States to maintain existing firms within the State for established periods—has shown that many States are hampered by business retention problems. This problem is even evident in some of the Sunbelt States with high growth levels that attract large numbers of in-migrating firms or start-ups.<sup>4</sup>

***The Importance of these Trends*** The fact that job layoffs rose to levels almost as high as the peak of 3.4 million during the early 1990s recession, meanwhile, is a considerable change in our nation’s economic and employment trends. Fortunately, there are concrete measures that can be undertaken to respond to both the instability of growth, and the problems of economic downturn, and there are valid reasons to undertake these measures.

Based on these trends, this *Guide* makes the following case: given the need to retain companies that might be viable in the future and to retain the skilled workforce it is important for States and communities to maintain basic and strategic industries and to utilize layoff aversion tools. Facilities-at-risk impacted by organizational restructuring during periods of growth may be profitable if managed as a strategic purchase by another company, or managed more efficiently as a stand-alone entity. Facilities-at-risk during economic downturns may be viable *enough* to survive the downturn if critical market, production or financial changes can be made in time. This *Guide* will provide some of the tools needed to accomplish this mission.

Many workers who lose good paying jobs, especially jobs with benefits, are often unable to replace these jobs with comparable ones. Even when a growing economy is creating more jobs in general, it remains important to *retain and maintain* skilled,

**Throughout the 1990s, Job Displacement Was High Even with Low Unemployment Rates**



Source: Department of Labor, ETA, Office of Dislocated and Adult Workers

<sup>4</sup> “BizMiner” 2000 Business Retention Report, ([www.bizminer.com](http://www.bizminer.com)).



value-added jobs, not only for working people, but also for the community-at-large. Not every worker is a privileged “knowledge” worker (A knowledge worker is anyone who works for a living at the tasks of developing or using knowledge, and is often associated with fields such as information technology, legal, teaching, and science.) And, even some of the knowledge workers are now experiencing job instability and dislocation. As reported in *The New York Times*, “Job dislocation is spreading to include nearly every kind of employee. Blue-collar workers, particularly in manufacturing, still make up a majority of the displaced each year, but lately only barely so. Layoffs...are claiming many more administrators and professional people than a decade earlier.”<sup>5</sup>

## Setting the Stage for Layoff Aversion: State and Community Models

The National Governors Association (NGA), the National Alliance of Business, U.S. Conference of Mayors, AFL-CIO Working for America Institute, National League of Cities and other large national bodies have long promoted and endorsed State initiatives that link worker adjustment and economic development/business retention strategies. Many States in the U.S. have adopted innovative Statewide layoff aversion strategies or regional retention programs, including Maryland, Massachusetts, Ohio, Alaska, Colorado, Illinois, Indiana, Maine, Massachusetts, Michigan, Minnesota, New Jersey, New York, Oregon, Pennsylvania and New Hampshire.

Increasingly since the 1980s, States have designed new initiatives for retention and aversion strategies. Some examples of these initiatives are described below:

- Integrated Rapid Response and Layoff Aversion Agency: Massachusetts’ Commonwealth Corporation.** The Industrial Services Program (ISP), now called the Commonwealth Corporation, was established in 1994 as a quasi-public agency with a strong focus on dislocated worker services through peer-support centers, and layoff aversion. The mission of the original ISP was to address the major economic problems of mature industries and manufacturing job loss and respond to the needs of dislocated workers.
- Coordinated Rapid Response and Layoff Aversion: the Maryland Business Resource Network Program.** Maryland’s Division of Business Resources (DBR) was formed a decade ago as a regional business retention/expansion focus of the State’s joint Department of Economic and Employment Development. This program has identified and assisted businesses at-risk of failure as a means of averting closures and retaining jobs. The DBR, now part of a separate Department of Business and Economic Development, has continued to network with the State’s employment division. Through the economic directors in the State’s six regions, the DBR identifies critical industries and coordinates information flow with a Rapid Response team. The division visits approximately

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<sup>5</sup> *The New York Times*, “Downsizing of America,” May 3, 1996.

750 companies a year to discuss incumbent worker training and management training, and to collect information on these firms such as their suppliers, competition, etc.<sup>6</sup>

- **State Rapid Response Prefeasibility Studies: the Michigan Transition Unit.** The Workforce Transition Unit of the Michigan Workforce Commission is responsible for administration of the Rapid Response program under the federal WIA. Michigan's dislocated worker program provides layoff aversion assistance, including Rapid Response, as well as support for management or employee buyouts, sale to other parties, and business restructuring. Prefeasibility studies funded initially by JTPA and now by WIA Rapid Response funds are used to examine the viability of firms-in-distress, and to determine the possibility of Employee Stock Ownership Plans (ESOPs), and other purchase options.
- **A Sub-State Layoff Aversion Contractor: Pennsylvania's Strategic Early Warning Network.** Initially using JTPA funds, the Pennsylvania Department of Labor and Industry (DLI) helped launch the Steel Valley Authority's Strategic Early Warning Network (SEWN) in 1993. SEWN expanded from ten counties to twenty counties in 1995. The Network included a "Regional Retention Team," including the Governor's office, the State regional dislocated worker units, regional technology and planning agencies, city and county economic development groups, industrial unions and chambers, and utility and academic groups to monitor industries and develop strategies to retain key manufacturing industries and jobs when they appeared to be at risk of closure or major downsizing.
- **State Inter-Agency Cooperative Agreements: the Illinois Event-based Performance Management System.** Established in the early 1990s, Illinois' event-based performance management system enables the State to organize, plan, and allocate resources, compile information, and reward grantees based on State and local Rapid Response efforts to serve workers dislocated by layoffs and closings. The Illinois Department of Commerce and Community Affairs (DCCA) attempted to integrate an event-based performance management system with the State's planning requirements, the Governor's Rapid Response Reserve grant application strategy, and the management information, performance standards, and incentive policies.<sup>7</sup> This was one of the more comprehensive State systems developed to monitor dislocation events, utilizing innovative inter-agency coordinating agreements. Overcoming one of the difficulties faced by State Rapid Response programs—the lack of inter-agency information coordination—this model provides a strategy for aversion response.

Many community-based, labor-sponsored and employer association-sponsored retention programs have also been established in the U.S. to address one or more of the components of the retention continuum. A recent report, *Saving and Creating*

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<sup>6</sup> U.S. Department of Labor Employment and Training Administration, "Layoff Aversion Expert Panel Meeting Synopsis," Office of Adult Services, June 14, 2000, p.9.

<sup>7</sup> National Governors Association, "Proceedings from Early Intervention: A Seminar on Best Practices for Enhancing Worker Readjustment Services," September 12-13, 1993, p.77.

*New Jobs: A Study of Industrial Retention and Expansion Programs*, analyzed various community-based job retention and expansion programs and concluded that these innovative projects have provided *innovative, cost-efficient* and *cost-effective* services to the market. (Center for Community Change (CCC), 1998, sponsored by the U.S. Department of Housing and Urban Development and the Pew Foundation).

The CCC study focused on manufacturing for a reason. “In the United States, manufacturing employment has been declining for years, and manufacturing jobs have been shifted away from the central cities where many low income people live. Loss of manufacturing jobs closely correlates with higher rates of poverty and unemployment, especially for African-American males.”

But, on the plus side:

- Manufacturing *activity* has continued to grow even as manufacturing employment has declined.
- Manufacturing is still concentrated in the cities and counties where many low-income people live.
- In terms of wages, benefits and union representation, job quality of manufacturing positions is higher than in other sectors.

The CCC study also pointed out the logic of industrial retention and expansion (IRE) programs. IRE programs assist manufacturing firms already located in a given community to stay and grow. The theory behind IRE activity includes four suppositions:

- In a dynamic economy, some firms inevitably die or depart. But *total jobs* can grow over time if viable companies are retained and able to expand.
- Manufacturers will generally seek to avoid the costs (financial and operational) of moving. Companies—especially smaller, locally owned businesses—have many incentives to stay where they are.
- Existing firms are an “efficient” focal point for economic development efforts. There is often a good reason why they selected their current location in the first place.
- To survive and expand locally, companies need to remain competitive in the market for their products. Particularly for smaller companies, an effective IRE program can improve a manufacturer’s ability to compete by providing assistance in such areas as marketing, technology and location of qualified workers.

The federal government, State and local governments, non-government agencies, and public-private-labor partnerships have utilized layoff aversion strategies to save and create hundreds of thousands of family-supporting jobs. One measure alone—the number of prefeasibility studies focused on layoff aversion, and funded by States—appears to show a 25 percent success rate in firm retention, or partial retention, according to the Ohio Employee Ownership Center. In other words, for every 1000 job losses, it might be possible to *save 250* through a retention *strategy* and *program*, preserving valuable public resources to focus on those job losses that cannot be averted.

## New Opportunities for Integration

The Workforce Investment Act (WIA), signed by the President in 1998 (Public Law 105-220), consolidated more than 60 different job training programs into three major groupings. Federal regulations have incorporated many of the plant closure aversion provisions of the Job Training Partnership Act (JTPA), which were part of the Economic Dislocation Worker Adjustment and Assistance Act (EDWAA), Title III of JTPA (1989).

The specific job-saving integrative provisions found in Section 314 (b) and other sections of the JTPA-EDWAA Act encouraged States to become more active in Rapid Response. A parallel law created the WARN Act (Worker Adjustment and Retraining Notification), a mandatory 60-day plant closing and mass layoff notice provision maintained by the States. The States are again encouraged by WIA to be proactive in anticipating and responding to layoffs.

A number of “best practices” under the proposed Rapid Response provisions of federal job training programs have been shown to assist States and communities in attaining economic stabilization. Specific requirements under Sections 665.300 to 320 in the Final WIA Regulations under Rapid Response activities include “exploring the potential for averting the layoff (s) in consultation with State or local economic development agencies,” including private economic development entities. States must also enable, if necessary, labor-management committees that can participate in retention-oriented aspects of Rapid Response. Finally, the States can assist local workforce boards and elected officers in developing coordinated responses, including access to State economic development assistance.

## Looking Ahead to the *Layoff Aversion Guide*

The “best practice” policy of integrating economic development and workforce adjustment has come full circle. Over the years, many of the prescribed and allowable activities around job retention were first designed, experimented with, fine-tuned, and accomplished by States and communities. Many of the States implemented innovative strategies to ensure economic stability, early remediation of economic harm, and long-term economic transition. By doing so, these early public sector pioneers kept alive some of the original principles of this work:

- To maximize local/State governmental efforts to keep workers working;
- To provide expanded time notification of dislocation events to dislocated worker units;
- To expand the opportunity to work with dislocated workers while they are still drawing incomes;
- To expedite linkages between local-State worker adjustment and economic development agencies.

The *Layoff Aversion Guide* will provide the following information:

- Enabling provisions within dislocated worker legislation that allow States to utilize the workforce training programs to bolster their layoff aversion efforts, including key policy principles. (Chapter Two)
- General background on the economic changes of the past 50 years, the ways in which economic development strategies have responded to the changes, and guide-points to future developments in the field. (Chapter Three)
- An overview of retention strategies, methodologies, and best practices for Rapid Response, employment and training, and economic development practitioners. (Chapter Four)
- Substantial information on State, community, and federal models and programs, to implement sound and effective layoff aversion efforts. (Chapter Five)
- A set of practical tools and communication guides for further learning in and development of layoff aversion strategies. (Appendix)

## Chapter Two

# Policy Review





## CHAPTER TWO

# Policy Review

This chapter will offer answers to many of the key questions asked by policy makers and practitioners about layoff aversion and business retention strategies. It will provide the framework of laws, policies, and standards governing the development of these strategies in the field and describe “best practice” methodologies. Its focus is on the “Rapid Response” program within WIA.

## Section 2.1

### Legislative Framework

*Mission of the Workforce Investment Act.* The Workforce Investment Act (WIA) was signed into law in 1998 (Public Law 105-220), consolidating job training programs into three block grants. The final federal regulations have continued and strengthened the layoff aversion activities allowable originally under the Job Training Partnership Act (JTPA), and the Economic Dislocation Worker Adjustment and Assistance Act (EDWAA), Title III of JTPA (1989).

WIA was enacted in order to establish a new, comprehensive workforce investment system. It is designed to be “locally planned and managed, with substantial business input on the development and delivery of training services.”<sup>8</sup> The new workforce investment system is intended to be “customer-focused, to help Americans access the tools they need to manage their careers through information and high quality services, and to help U.S. companies find skilled workers.”<sup>9</sup>

The new system is interpreted by representatives of organized labor “to ensure that all workers, employers, and communities have the tools and services they need to plan for and manage change and worker dislocation successfully in our dynamic economy.”<sup>10</sup> From the business point of view, “The act challenges business and government, in partnership, to devise a comprehensive, universal system of workforce development that focuses public programs on marketplace needs.”<sup>11</sup>

WIA outlines a set of objectives that are relevant to many types of workforce development initiatives. In principle, workforce development services should provide customer choice of quality services and be:

- Responsive to local business needs

<sup>8</sup> CUED, “The Workforce Development for Economic Development Professionals,” p.12.

<sup>9</sup> Department of Labor, “Rapid Response Technical Assistance Guide,” Chap. 1

<sup>10</sup> Statement of Bruce G. Herman, Working for America Institute, 1999 National Rapid Response Conference, <http://www.workingforamerica.org/documents/rapidresp.htm>

<sup>11</sup> National Alliance of Business, Letter to governor, <http://www.nab.com/content/workforcedevelopment/workforceinvestmentact/gov.htm>



- Universally accessible to all businesses and job-seekers
- Accountable to all customers
- Market-oriented
- Flexible to meet the needs of a diverse customer base

### Legislative Enabling Laws

What legislative framework defines the capabilities and limits of aversion and retention strategies and programs under the WIA legislation? The following documents are the WIA legislative guidelines from the recently adopted federal regulations.

**WIA regulations at Title 20 of the Code of Federal Regulations, Section 665.300 through Section 665.320 describe legislative guidelines to implement Rapid Response activities and outline the allowable activities with respect to layoff aversion.**

#### What are Rapid Response activities?

Generally, **Rapid Response** activities “encompass the activities necessary to plan and deliver services to enable dislocated workers to transition to new employment as quickly as possible, following either a permanent closure or mass layoff, or a natural or other disaster resulting in a mass job dislocation.”

#### Who is responsible for providing them?

##### **The State.**

- (1) Rapid Response is a required activity carried out in local areas by the State, or an entity designated by the State, in conjunction with the Local Board and chief elected officials.
- (2) The State must establish methods by which to provide additional assistance to local areas
- (3) The State must establish a Rapid Response dislocated worker unit to carry out statewide Rapid Response activities.

What legislative framework defines the capabilities and limits of aversion and retention strategies and programs under the WIA legislation? The following documents are the WIA legislative guidelines from the federal regulations.

#### What Rapid Response activities are required?

Rapid Response activities must include:

- (1) Immediate and **on-site contact** with the employer, representatives of the affected workers, and the local community, which may include an assessment of the:

- a Layoff plans and schedule of the employer;
  - b Potential for averting the layoff(s) in consultation with State or local economic development agencies, including private sector economic development entities;
  - c Background and probable assistance needs of the affected workers;
  - d Reemployment prospects for workers in the local community; and
  - e Available resources to meet the short- and long-term assistance needs of the affected workers.
- (2) The provision of information and access to unemployment compensation benefits, comprehensive One-Stop system services, and employment and training activities, including information on the Trade Adjustment Assistance (TAA) program.
- (3) The provision of guidance and/or financial assistance in establishing a labor-management committee voluntarily agreed to by labor and management, or a Workforce Transition Committee comprised of representatives of the employer, the affected workers, and the local community. The committee may devise and oversee an implementation strategy that responds to the reemployment needs of the workers. The assistance to this committee may include:
- a The provision of training and technical assistance to members of the committee;
  - b Funding the operating costs of a committee to enable it to provide advice and assistance in carrying out Rapid Response activities and in the design and delivery of WIA-authorized services to affected workers. Typically, such support will last no longer than six months;
  - c Providing a list of potential candidates to serve as a neutral chair person of the committee.
- (4) The provision of emergency assistance adapted to the particular closing, layoff or disaster.
- (5) The provision of assistance to the local board and chief elected official(s) to develop a coordinated response to the dislocation event and, as needed, obtain access to State economic development assistance. Such coordinated response may include the development of an application for National Emergency Grant under 20 CFR 671.

May other activities be undertaken as part of Rapid Response?

In order to provide effective Rapid Response upon notification of a permanent closure or mass layoff, or a natural or other disaster resulting in a mass job dislocation, the State or designated entity may:

- (1) In conjunction, with other appropriate federal, State and local agencies and officials, employer associations, technical councils or other industry business councils, and labor organizations:
  - a Develop prospective strategies for addressing dislocation events, that ensure rapid access to the broad range of allowable assistance;
  - b Identify strategies for the aversion of layoffs;
  - c Develop and maintain mechanisms for the regular exchange of information relating to potential dislocations, available adjustment assistance, and the effectiveness of Rapid Response strategies.
  - d In collaboration with the appropriate State agency(ies), collect and analyze information related to economic dislocations, including potential closings and layoffs, and all available resources in the State for dislocated workers in order to provide an adequate basis for effective program management, review and evaluation of Rapid Response and layoff aversion efforts in the States.
  - e Participate in capacity-building activities, including providing information about innovative and successful strategies for serving dislocated workers, with local areas serving smaller layoffs.
- (2) Assist in devising and overseeing strategies for:
  - a Layoff aversion, such as prefeasibility studies of avoiding a plant closure through an option for a company or group, including the workers, to purchase the plant or company and continue it in operation;
  - b Incumbent worker training, including employer loan programs for employee skill upgrading; and
  - c Linkages with economic development activities at the federal, State and local levels, including Federal Department of Commerce programs and available State and local business retention and recruitment activities.

## Section 2.2

### Legislative History

To understand the legal origins of “Layoff Aversion” strategies under WIA, one must review legislation in effect prior to WIA. The Economic Dislocation and Worker Adjustment Act (EDWAA), passed in 1988, sought to meet the needs of dislocated workers. Departmental memos dated September 2, 1988, outlined the importance under EDWAA of layoff aversion, particularly with respect to prefeasibility studies.

In the State dislocated worker unit's Rapid Response capability for addressing substantial layoffs and plant closures, EDWAA authorizes a new dimension of involvement not previously authorized in Title III: the ability to provide exploratory funds for the purpose of determining whether a study should be undertaken to determine the feasibility of purchasing the plant about to shut down. This new provision permits the State to provide funds for "a preliminary assessment of the advisability of conducting a comprehensive study exploring the feasibility of having a company or group, including the workers, purchase the plant and continue it in operation." Such an assessment is commonly known as a prefeasibility study.

The (Congressional) Conference Report states "the Conferees intend that the use of funds for this purpose be limited and not be the usual practice in closure situations." They anticipate that generally other funding from private or other public sources will be available and clearly state, "It is not the purpose of this provision to supplant those other resources."

A prefeasibility study is generally completed in slightly less than a month. It is estimated that prefeasibility study costs vary between \$5,000 and \$20,000 per company depending on the size of the company, accessibility of information, and the degree to which consultant assistance is required. Costs of the study can frequently be reduced by using university research groups or local lawyers and accountants who will work on a *pro bono* basis or at reduced fees in the interest of the community. The cost of most studies should fall to the lower end of the cost range given. The costs of the feasibility studies that follow a favorable prefeasibility study usually vary from \$50,000 to over \$100,000; however, they can cost as much as \$1 million in very large companies.

What exactly may be done under a "prefeasibility" study? The circumstances under which "prefeasibility" studies may be conducted should be addressed and should address congressional intent that use of funds for such purposes be limited and that this activity not be the usual practice in cases of plant closings. Further, the conditions related to "prefeasibility" studies should include (1) that the group interested in buy-out agree to make retention of employees (emphasis added) a priority, and (2) that the group requesting funds document their efforts to identify and obtain assistance from other sources.

## Section 2.3

### Keywords in Layoff Aversion Coordination

WIA Regulations (Sections 665.310 and 665.320) suggest the development of dislocation monitoring, response and aversion strategies that provide a continuum of services generally performed at the State level. The strategies referred to in the enabling language include the following:

- *Broad Coordination in the Public, Private, Labor, Community and Education Sectors*

Business retention activities are most successful when implemented through broad partnerships at the appropriate level of operation. Federal agencies are improving the coordination of technical and financial assistance for communities and regions, firms and workers impacted by sudden and severe economic distress. At the State level, State departments of economic and/or community development, employment and training and other key agencies should host cabinet-level coordination for State retention efforts. At the regional level, workforce partners should include key political offices, educational institutions such as technical schools, community and vocational colleges, utilities and banks, and regional labor and business groups.

- *Monitoring Economic Trends and Possible Aversion Events*

The Rapid Response program encourages industrial and economic monitoring to alert both transition services and layoff aversion alike as to the potential for plant closures or mass layoffs. There are several information sources available for industrial monitoring, from national sources such as *U.S. Industrial Outlook*, to State, university and non-profit labor market research programs, to private research sources such as *Dun and Bradstreet*.

- *Early Notification and Access through the Worker Adjustment and Retraining Notification Act (WARN)*

Federal law requires employers to give advance notice of a plant closing or mass layoff to local Chief Elected Officials, the State Rapid Response Unit, as well as workers and their representatives sixty days before the official layoff date.

- *Early Warning Systems*

Early warning systems have become a common feature of many different business retention programs. The function of early warning mechanisms is to identify firms at risk of leaving or closing prior to actual decisions by companies to shut down or move.<sup>12</sup> Research and training systems can be established to monitor the early warning signs that a firm or industry may be in trouble.

- *Capacity Building and Support in the Local Community for Rapid Response/Retention.*

In order to plan and implement new layoff aversion programs, it is vital for States and communities to develop institutional capacity and support organizations, partnerships and consortia to monitor, respond to and avert layoffs. Layoff aversion programs require varying levels of expertise or access to retention experts, staff and operations support, and various other points of capacity.

- *Labor/Management Coordination in Rapid Response/Retention*

Employers and workers may choose to establish a labor-management committee (LMC) to facilitate Rapid Response efforts at specific dislocation sites. LMCs

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<sup>12</sup> Gary Fields, "Markets, economic development and business retention," *Economic Development Commentary*, Vol. 20, No. 1, Spring 1996, p.25.

provide information about services, programs, and the labor market; promote early delivery of services; and encourage responsiveness to the specific needs of dislocation sites. They also assist with overall program coordination by increasing company, employee and labor involvement during the transition period.<sup>13</sup>

- *Economic Development Linkages*

Formal and institutional linkages are discussed in a later section and more fully in Chapter 4, Section 5. These linkages should help integrate the workforce adjustment system into the economic development infrastructure.

- *Prefeasibility Assessments and Technical Assistance for Retention*

A prefeasibility study can assess whether it is possible to continue the business operation and under what conditions it might be successful. It can provide objective evidence that there is no likelihood of the business reopening (or not closing). The prefeasibility study will assess basic elements of the business including study methodology, organizational analysis, market analysis, operations/manufacturing analysis, financial analysis, legal analysis, and conclusions.<sup>14</sup>

- *Alternative/Employee Ownership Support*

Employee ownership is where employees of a business operation own a significant percentage of company stock. Most employee-owned companies are established under an ESOP. ESOPs are a special type of tax qualified benefit plan designed to encourage the investment by employees in the stock of the sponsoring employer. Employees become owners of company stock when the employer establishes an ESOP.<sup>15</sup>

- *Incumbent Worker Training*

Investing public resources to support training of incumbent workers may prevent layoffs. The training can help stabilize a company by contributing to increased productivity and overall competitiveness.<sup>16</sup> Even when this type of strategy fails to prevent a layoff, it can still assist workers in gaining new skills. These new skills will help them become reemployed sooner in jobs offering higher income.

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<sup>13</sup> National Governors Association, Employment and Social Services Policy Studies Division “Worker Displacement Continues Even in Good Economic Times,” September 8, 1998. [www.nga.org/center/divisions/1,1188,C\\_ISSUE-BRIEF^D\\_1826,00.html](http://www.nga.org/center/divisions/1,1188,C_ISSUE-BRIEF^D_1826,00.html)

<sup>14</sup> Michigan Department of Career Development, Layoff Aversion Assistance Under the Workforce Investment Act (WIA)

<sup>15</sup> Michigan Economic Development Corporation, *Employee Ownership Bulletin*.

<sup>16</sup> NGA Employment and Social Services Policy Studies division Center for Best Practice, “Investing Public Resources to Support Incumbent Worker Training,” December 8, 1997. <http://www.nga.org/Pubs/IssueBriefs/1997/97018IncumbentWorker>.



## Section 2.4

### Best Points of Coordination and Leverage

There is a rich history in the United States for public, private, labor-management, and community partnerships to intervene in the market when there are market failures. The New Deal brought forth a massive urban and rural jobs program during the Depression. The Great Society ushered in community-based economic development, with a resulting boom in community development corporations (CDCs). Various federal administrations started the Economic Development Administration (EDA), Small Business Administration (SBA), Small Business Investment Corporations (SBICs) and Small Business Development Corporations (SBDCs), Labor-Management Conciliation Service (LMCS), manufacturing modernization extension programs (modeled after the farm extensions), Empowerment Zones, Community Development Financial Institutions Program (CDFI), etc.<sup>17</sup>

Rapid Response dollars can only provide a relatively small proportion of the resources needed to adequately provide an aversion/retention program. This describes methods of leveraging Rapid Response funds with other resources to afford a more comprehensive approach to providing the critical services needed during stressful layoffs and closings.

There are many programs, loans, and technical assistance available for business retention practitioners. Most development financing programs require a business plan, or feasibility assessment, prior to making commitments on a potential project. If WIA prefeasibility studies or similar technical assessments are prepared in a comprehensive and appropriate manner, accessing these funds will be possible.

At the federal level, the kinds of programs that might provide sources of funds for retention include the following:<sup>18</sup>

1. **Loans** made directly to a business or applied as a guarantee to a bank loan, direct venture investments; loans or guarantees.
2. **Technical Assistance** targeted for particular recipients or industry-specific groups.
3. **Grants** usually made to accomplish a specific business-related purpose, such as infrastructure or research/development of new product or process.

The States, counties and cities, for the most part, provide similar programs, sometimes as a pass-through for federal dollars, and often as match or special investment priorities for the specific area. Generally, State and local governments have much larger development budgets proportionate to the federal government, particularly with respect to long-term industrial bond financing programs.

<sup>17</sup> John Mollenkoph, *The Contested City*, (Princeton, N.J.: Princeton University Press, 1983) pp. 47-49.

<sup>18</sup> The appropriate federal agency should be contacted for more information on guidelines and rules on accessing these funds. See Chapter 4, Section 5.

## Section 2.5

### Institutional Barriers

What are the most important institutional barriers to realizing opportunities to create a proactive, integrated retention mission, whether at a State level or Workforce Investment Board level? Many States and communities that have developed layoff aversion programs connected to the workforce development systems. And, while over one-half of the States have developed some form of layoff aversion or jobs retention services, they have not necessarily effectively coordinated the separate State and local agencies responsible for economic and workforce development. Some States have chosen to fund on an annual basis, but not institutionalize jobs retention programs.

There are opportunities for the “integration” of Rapid Response, layoff aversion and job retention in the WIA system. But States must first grapple with the difficult challenges and institutional barriers. Some of these include:

- **Division of Labor** During periods of either economic decline or economic growth with extensive jobs restructuring, States and cities have generally taken the lead in business retention and expansion. The federal government has developed a complementary system for employment readjustment services for dislocated workers that is administered by States and local communities. However, business retention efforts and Rapid Response programs often target the same firms or workforces that are impacted by distress or restructuring. This can lead to unnecessary overlaps and a lack of coordination in public services. On the other hand, some progress has been made as noted by the National Governors Association, “States have increasingly attempted to design and coordinate business retention and worker readjustment services through the development of complementary strategic goals, administrative integration, development of joint marketing and outreach programs, and the collection and sharing of information between agencies and programs.”<sup>19</sup>
- **Professional Barriers** Employment and training personnel in the Rapid Response field have traditionally focused on quickly responding to the immediate reemployment and transition needs of dislocated workers. They are trained to assist people who have emergency needs and have generally not developed the skills to ask the question whether plant closings or mass layoffs could be avoided or mitigated. On the other hand, Rapid Response specialists often come from diverse backgrounds, with many having had business experience; business or economic degrees; a human resources background; labor and workforce experience; or various other occupational histories. Some of the most successful jobs retention practitioners in the nation started out as Rapid Response specialists. There is one character trait that is critical for success in either Rapid Response

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<sup>19</sup> Lederer, John, *Competitive Firms, Skilled Workers: State-Level Design and Coordination of Business Retention and Worker Readjustment Services*, National Governors Association, NGA in Brief, June 1992.



or job retention: the professional must *care* about the lives of the workers affected, the business impacted, and the community that potentially might suffer a plant closing or mass layoff.

- **Competition** The economic development and workforce development “communities” have often been required to vie for limited public dollars and resources sometimes creating “competition.” States that have been able to develop comprehensive, integrated systems or consolidated resources have the potential for more effectively achieving the overall goals of promoting economic growth and reducing economic dislocation whenever possible.”<sup>20</sup> Better communication and coordination can only improve each sector and help to create cost-effectiveness and cost-benefit for the public.

## Section 2.6

### Quality Design Principles

What are the approaches that most effectively use program capacities, leverage additional resources, increase multi-sectoral buy-in, and accommodate market efficiency? This section provides some answers to that question.

The *Rapid Response Technical Assistance and Resource Guide* provides several design principles for best practice in designing aversion programs as listed.

- **Timeliness** The more quickly Rapid Response is begun, the more effective it is. Early interventions allow more time to explore job retention strategies, develop and implement an effective response plan, and provide workers with the moral support and resources necessary to find new employment.
- **Layoff Aversion** When possible, layoffs should be averted. With a range of tools and relationships with other programs and organizations, the Rapid Response team can be in an ideal position to coordinate aversion strategies. In many cases, the Rapid Response staff may refer companies to those entities that can assist them. The aim of aversion could be to help the company make changes so that layoffs are reduced or completely avoided. In other cases, the strategy will be to find a buyer so that the layoffs are avoided in that way.
- **Leveraging Resources** Rapid Response teams should identify and coordinate all available resources to provide workers facing layoff with the services they need. These resources can include support from employers, unions, community groups (including volunteer, religious, and service organizations) and other partners. Resources can be in-kind (equipment, staff time, space and so on) or cash. The foundation to assist in leveraging resources for a specific layoff should be laid in advance by identifying all the resources available that respond to the needs of dislocated workers. Leveraging and coordinating resources also shows the workers that there is a support network for them beyond Rapid Response.

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<sup>20</sup> Ibid.

- **Convenience** All other things being equal, providing meetings and other Rapid Response activities on-site at the company is better than off-site. On-site services offer a convenient place for the workers. Also, they are in familiar surroundings and together with their co-workers. When the worksite is not available or desirable, a site close to the workplace or familiar to the workers (the union hall, a near-by local community site) is also a good alternative. On-going services may or may not be provided on-site depending on various factors including logistics and size of the group.
- **Partnerships** Partnerships can lead to more resources, information, and contacts being available to deal with a dislocation. Some partners who will be involved in most Rapid Response events are the state employment service, and local economic\_development agencies. Other groups that can be involved include all the WIA partners and community-based organizations. The involvement of a specific partner in a particular Rapid Response event should be based on the needs of the event.



## Chapter Three

# Overview of the Economy and Economic Development



## CHAPTER THREE

# Overview of the Economy and Economic Development

While the U.S. enjoyed the success of economic expansion in the 1990s, deep economic changes contributed to unprecedented levels of plant closings. Dislocations and mass layoffs have remained a constant phenomenon in good times and bad. However, innovative States and communities have created new measures to either “avert” or mitigate the harmful impacts of these changes. Successful implementation of these measures requires cooperation among policymakers and stakeholders; business and labor; State and city governments; and regional and local communities. A broad set of tools and resources, including flexible finance programs, training programs, infrastructure improvements, transportation policies, tax mechanisms, and business extension/retention services, are also required.

This chapter provides an overview of important changes in economic development in the United States, starting with economic structural changes after World War II, and leading to the global restructuring of today. Moreover, this chapter examines the important trends in “economic development,” and the strategies that have been implemented to address changes in the economy.

## Section 3.1

### What’s Happening in the Economy

#### .... And How Has Economic Development Evolved?

While governments once intervened in the economy to meet specific public goals, modern economic development history generally begins with policies and approaches used to fight the Great Depression. These “New Deal” programs were based on “Keynesian” economic theory that argued that government should intervene to stimulate the economy, thereby enhancing aggregate demand. President Franklin D. Roosevelt used federal resources to create jobs and critical national infrastructures, such as state highway systems, dams for flood control and electricity, and the construction of public schools. The new jobs generated income and demand for private sector goods and services. The investment in large public projects also stimulated economic activity in the private sector by direct purchases while improving the efficiency of systems critical to effective private sector production.

#### Post-war Economic Prosperity, 1950s-1960s: The First Wave

After World War II, the United States enjoyed post-war prosperity for almost two decades. Supported by its strong economy after the war, the U.S. established the post-war international economic and monetary system. U.S. policy was vitally

important in promoting the exports of American industry. American businesses were actively involved in the post-war reconstruction in Western Europe and Asia, and profits from this involvement enriched the American domestic economy.

The American economy had achieved high productivity, evidenced by a 2.5 percent annual average until 1973.<sup>21</sup> Such productivity supported technological gains during a time of limited international competition. High productivity also guaranteed rising wages for working people and a low unemployment rate with stable job security. This positive cycle led to increased living standards at all income levels, and the gains of economic growth were generally broadly shared.<sup>22</sup>

During the 1960s, the government instituted many of the social and community development programs that are still in place today. Following on the programs enacted to assist citizens after World War II (GI Bill, housing programs, etc.), the “Great Society” implemented new programs to revitalize distressed areas of the country, such as Appalachia, and also provided assistance to urban areas and to disadvantaged populations. As a part of this effort, the Economic Development Administration (EDA) was formed in 1965.

Economic development projects during this period have been called the “First Wave” of economic development. Up to this point, economic development policies were still largely based on the inherited ideas from the 1930s and consisted mainly of public works and infrastructure development. The “First Wave” of economic development involved southern State programs that encouraged industrial recruitment and development and attracted investment by underwriting the cost of relocating, thereby providing needed infrastructure and offsetting routine business expenses. These programs were expanded nationwide by the 1960s.<sup>23</sup>

### **Economic Challenges, 1970s-1980s: The Second Wave**

Triggered by the international “oil shocks” of the early 1970s, many industrial countries entered a low growth period. In addition to this downturn, Europe and Japan, having restored their economic power during the immediate postwar period, emerged in international trade markets as strong industrial competitors against the United States. Then, during the early 1980s, the U.S. suffered a major recession, the most severe since the Depression.

Hampered by lower productivity,<sup>24</sup> high inflation and rising unemployment, industrial companies in the U.S. and many other countries were confronted by drastic changes in the economic landscape during this period of restructuring, and the U.S.

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<sup>21</sup> Dean Baker, “The U.S. Wage Gap and the Decline of Manufacturing,” Paper for the Industrial Heartland Forum, 1996, p.1.

<sup>22</sup> Barry Bluestone, Bennett Harrison, *The Deindustrialization of America: Plant Closings, Community Abandonment, and the Dismantling of Basic Industry*, (New York, Basic Books, Inc., 1982), p.133.

<sup>23</sup> Peter K. Eisinger, *The Rise of the Entrepreneurial State: State and Local Economic Development Policy in the United States*, (Madison, The University of Wisconsin Press, 1988), p.16.

<sup>24</sup> Baker, p.1.

struggled with sharply increasing foreign competition. In order to enhance profitability, businesses searched for low-cost production and reduced labor costs. In this context, plant closings and mass layoffs resulted from such business rationalization strategies. Increasingly, businesses in northern states relocated to the “Sun Belt,” and businesses across America moved overseas.

This economic restructuring contributed to two major socio-economic transformations:

- First, *industrial restructuring*, better known as de-industrialization, dramatically “downsized” the manufacturing sector. Between 1981 and 1990, 9.62 million people lost their jobs due to plant closings alone.<sup>25</sup>
- Second, *an employment sectors composition shift* resulted in fewer manufacturing sector jobs as a percent of overall private sector employment, and more service sector jobs.<sup>26</sup>

The federal administrations in the 1970s and 1980s restructured federal funding to States and cities through “block grants,” encouraging de-centralized planning and development. Promoting deregulation and privatization, some administrations cut back federal spending on economic development and infrastructure projects.<sup>27</sup>

While the federal government generally avoided Keynesian policy approaches, the CETA (Comprehensive Employment and Training) Program of the U.S. Department of Labor briefly provided, in the mid-1970s, public service employment as an economic stimulus. In the 1980s, Congress passed the Job Training Partnership Act (JTPA), which incorporated local Private Industry Councils as a primary focus for local employment and training implementation.

Consequently, during the “Second Wave” of economic development strategy, state and local governments shifted their focus toward “the development and growth of locally-based new and existing industries.”<sup>28</sup> “Second Wave” shifted attention away from infrastructure development, consisting of expensive construction projects, to direct supports for business assistance. In practice, local governments helped to develop technology centers, industrial parks and the infrastructure for manufacturing modernization. Further, some local governments provided entrepreneurial development, export promotion programs, industrial extension, and worker training. A criticism of “Second Wave” approaches was that they were viewed as being

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<sup>25</sup> Congressional Budget Office, “Displaced Workers: Trends in the 1980s and Implication for the Future,” February 1993, p.50.

<sup>26</sup> Robert A. Beauregard, Preface, *Economic Restructuring and Political Response*, (Newbury Park, Sage Publication, 1989), p.7.

<sup>27</sup> AFL-CIO Human Resources Development Institute, “Economic Development: A Union Guide to the High Road” 1998, p.13.

<sup>28</sup> The statement by Dr. Robert D. Atkinson, Senior Analyst, Office of Technology Assessment before the Subcommittee on Economic Growth and Capital Formation Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives on “New Approach to Economic Development”: “Renewing the Economic Development Administration: New Approaches to Economic Development,” March 15, 1993, p.150.



less effective because of institutional fragmentation and little contact with business.<sup>29</sup>

## Continued Changes in the 1990s: The Third Wave

The U.S. entered another traumatic recession in the beginning of the 1990s. After the early 1990s, the American economy achieved a combination of economic growth and low inflation. Many believed that the U.S. economy had undergone fundamental changes and strengthened its competitiveness through the productivity explosion created by new technologies, amid continuing globalization. Economic restructuring during the decade expanded exponentially across industry sectors and occupational fields.

The business sector increased efforts to “downsize” employment in order to establish international competitiveness. And adding to the 1980s blue-collar layoffs, white-collar workers began being displaced in greater numbers. The displacement rate of white- and blue-collar workers was nearly the same by the mid-1990s.

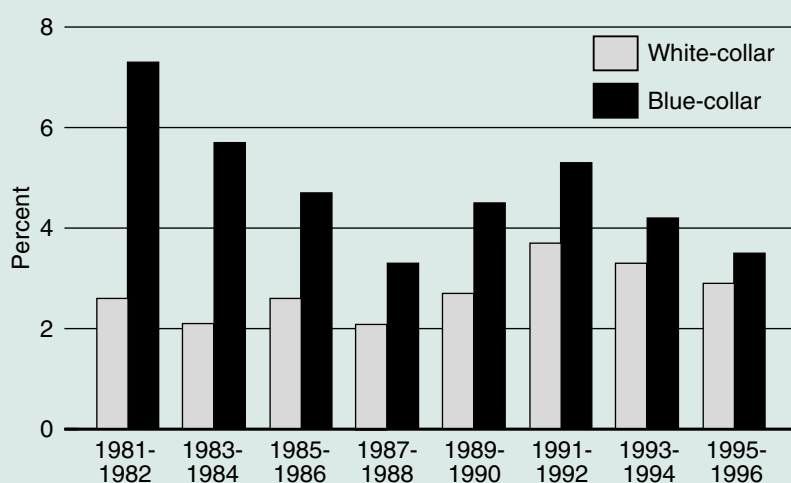
In these contexts, deficit reduction and the continuing de-centralization of government became more popular as an economic policy. In 1988, the federal government adopted the Economic Dislocation and Worker Adjustment Act (EDWAA), as part of JTPA’s increased focus on responding to job loss, and the WARN Act was enacted to provide advance notice of plant closings and mass layoffs.

By the end of the decade, manufacturing layoffs grew rapidly, partly due to increased lower-price imports as a result of the collapse of emerging markets as well as other factors. Other jobs sectors, especially the service sector, were also affected hit hard in the last few years of the 1990s. To address the pressures on U.S. manufac-

turers and other industries as well as problems caused by job insecurity and a lack of high-skilled, well-trained workers, many progressive businesses and unions began initiating “high performance strategies” in the 1990s. The chart shows changes in job growth in the 1990s.

The “Third Wave” of economic development practices were implemented based on the reaction to de-industrialization and increased economic restructuring. “Third Wave” approaches have prioritized retaining and expanding existing businesses, as a path to real eco-

**Displacement Rates Long-Tenured Workers by Occupational Group, 1981-1996**



Source: Department of Labor

<sup>29</sup> Ibid, p.151.

economic growth. These new economic development strategies have aimed to make a broader impact. They “aligned more closely to business needs and focused on providing real services to help small and medium sized manufacturing and technology-based service firms improve quality, product design, productivity, and market savvy in a manner that systematically leads firms to be more productive and competitive.”<sup>30</sup> Additionally, “Third Wave” strategies have supported sectoral initiatives and establishment of “supplier networks.” Along with a stronger focus on the modernization of production processes and a hoped-for “high-performance economy.”

The end of the century brought an increased scrutiny of the kinds of public subsidies used extensively. More recent policies and legislation are requiring greater openness and accountability in public investments, partly as a result of States and cities tiring of “bidding wars” to lure existing and new facilities from other areas. These new strategies increasingly focus on retaining and expanding jobs within existing regional industries.

## Section 3.2

### The Role of Public Policy in Shaping Business Decisions

#### Why Aversion Strategies?

Plant closings and substantial layoffs occur for a variety of reasons, including financial difficulty, mergers and acquisitions, loss of markets, consolidations, foreign competition, product or service obsolescence, shift in parent company focus and other factors. Once a company announces its intentions to close, or substantially downsize, the decision is usually final and irreversible.<sup>31</sup>

While layoff and closing decisions are usually considered “final and irreversible,” that is not always the case. This section discusses why public policy and practice should support efforts to avert and avoid large-scale layoffs.

Companies and corporations make business decisions daily that impact employment, sales, suppliers, customers, and vendors. As the preceding section pointed out, economic restructuring has been increasing in the past few decades. There are situations where economic development and retention practitioners may want to work with business leaders to help shape business decisions. In these circumstances, the public sector may have resources that would be useful to the company, and would allow the business to continue its operations.

This is especially true today, as economic restructuring has resulted in profitable facilities sometimes being closed, as is the case with “downsizing.” While

<sup>30</sup> Robert D. Atkinson, p.152.

<sup>31</sup> Jim Houck, Director, Workforce Transition Unit, Michigan Jobs Commission.

“downsizing” is a sign of the times, surveys by the American Management Association (AMA) have found that companies that are downsizing, for example, are often profitable firms.

In recent years, there has been a pronounced increase in the number of mergers and acquisitions in the United States, with two peaks in M&A activity in the last decade. There was a low point of approximately 1,900 deals in 1980, rising to a first peak of some 3,300 deals in 1987. The amount of activity then slowed back to its original levels, and then rose again in the late 1990s to an all time high of nearly 8,000 deals in 1997 and 1998.<sup>32</sup>

Mercer Associates and other large shareholder advisors have pointed out that financial analyses of the stock price of merged firms tend to show that the shareholder values of these firms dropped relative to other corporations. Additionally, those firms that have been downsized after mergers and acquisitions tend to suffer low morale and productivity.

Markets are not perfect. Since some private decisions can have devastating public impacts, layoff aversion practitioners need to understand how business decisions are made and what programs and policies might help shape them.

### Where to Begin

The first step in designing any kind of economic development program, including layoff aversion programs, is for public policy makers to determine what kind of economy is desirable in their community. The Corporation for Enterprise Development (CFED—[www.cfed.org](http://www.cfed.org)), an economic development think tank, has developed a reputable, regularly issued “Development Report Card for the States,” which examines how states compete effectively for business location and expansion decisions.

The CFED has identified 10 key principles for effective economic development of which the following are related to layoff aversion:

- Strong economies compete on the basis of high value, not low cost (i.e. skilled labor force, modern infrastructure, and high quality of life)
- Investments in development capacity provide the basis of future economic growth (i.e. human, technological, financial and physical infrastructure)
- Government is an indispensable partner in the process
- Government services must meet the highest quality standards for accountability, effectiveness, and accessibility
- Economic development is for everyone, not just business persons
- Competitiveness and equity are two sides of the same coin
- Quality leadership can turn economies around

<sup>32</sup> From *Working Capital: The Power of Labors Pensions*, edited by Fung, Hebb and Rogers, published by Cornell University Press, 2001.

Determining the goals for economic development is the first step. The next steps are to understand how business decisions are made and to determine policies and programs that can shape those decisions based on the kind of local economy desired.

### How are Business Decisions Made?

Why do companies make decisions to locate in certain areas? Historically, national consulting firms studying location decisions have identified a fairly well-known list:

- Proximity to sales market
- Proximity to supplier networks or raw material
- Availability of appropriately skilled labor at the “right” price
- Transportation networks
- Capacity and cost of public utilities
- Quality and cost of education and training
- Availability and cost of land and buildings
- Quality of community
- Quality and price of governmental services
- Availability of public subsidies and tax advantages.

### Can Layoffs Be Avoided?

Sometimes market decisions that lead to divestitures, restructuring and plant closures attract other investors and “strategic buyers,” who leap at market and profit opportunities that the incumbent owners may not have been able to manage or anticipate. For instance, there may be opportunities to find new ownership or reverse a closing decision in the following circumstances.

- Companies close or sell plants or facilities that may be profitable, but not profitable enough. This level of profits could still meet the profit requirements of new owners.
- Companies may sell or close operations that no longer meet their core business application or are viewed as excess capacity to their overall operations.
- The incumbent owners or investors may not have the resources to take advantage of new business strategies.
- The owner of a viable, small family-owned firm retires or passes away without an ownership succession plan.

For the past three decades, there have been hundreds of examples of companies that were scheduled for closing when various “stakeholders,” including employees, management representatives, community groups and labor organizations have organized to rescue the business operation. These intervention methods have saved countless jobs that would have otherwise been lost. Sometimes, the “rescue” is a new buyer. Sometimes, new management or new ideas result in a plan to restruc-

ture a facility.

There are examples of new owners and investors becoming involved in companies that were perceived as being otherwise unattractive. Employee buyouts have occurred in the manufacturing, service, agricultural, transportation and financial industries.

Even in cases of successful buyouts or restructurings, businesses may still suffer some layoffs when the new owners or managers make changes in how the businesses are structured. Still, these examples represent opportunities to save a core part of the business, or retain jobs and avoid the resulting hardships imposed on individuals and their communities when a plant or business totally closes.

### Business Retention: Retaining Skilled Jobs in an Economy

Many of the best models for business retention and layoff aversion were started at the State and local levels. Some of the “best models” are analyzed in later sections. This section discusses why retention strategies have begun to replace or complement industrial recruitment strategies.

A *Business Retention Primer* sponsored by the Economic Development Department of Washington State, has pointed out that when businesses close, local development officials often try to recruit new firms to replace the ones that have left. The *Primer* emphasizes:

Progressive communities—like yours—need to balance strategies that woo companies that are relocating and expanding their efforts with organized efforts to keep local businesses healthy, happy *and local*. Advocates of retention and expansion programs know that *60-80 percent* of all new jobs are created by existing businesses.... Retention services frequently measure their success in what didn't happen—all those local businesses that:

- Didn't pull up stakes and take their jobs with them
- Didn't choose an out-of-area expansion site, but opted instead to grow in the area
- Didn't succumb to the grass-is-greener syndrome or to the high-intensity wooing of other communities and stayed home.

...Local companies are valuable resources their communities can't afford to ignore or lose. They generate jobs and create taxes. In today's economy, it is critical not only to create jobs, but to create jobs that provide family/living wages.<sup>33</sup>

When a job is lost to the local area, the area also loses consumer spending and taxes and suffers the reverse of the spin-off effect, which impacts other jobs in the region. It might also have to spend money, through the federal, State and local governments

<sup>33</sup> *Keeping Businesses Healthy, Happy and Local*, Washington State Community, Trade and Economic Development, Ginger Rich, Program Manager, Business Retention and Expansion Program, 1998.

on increased unemployment compensation, medical and welfare payments, and more serious crisis intervention services. Another impact can be the long-term decline of cities and neighborhoods created when mass dislocations occur. This can be especially true in rural areas where there may be fewer employment opportunities, or in urban centers that have already lost numerous employers.

Economists have shown that each job that is lost can result in lost revenues or increased public expenditures mounting up to \$25,000 per year per job. Multiply that by several hundred or one thousand or more jobs, and the impact can be far reaching. In one analysis of a closure of a moderately-sized manufacturing firm in Chicago, researchers found that the impacts and the total cost to the public were more than \$47 million.

The Center for Community Change (CCC) study on industrial retention programs explained that many such programs also focused on creating positive impacts for low-income people and local communities, noting that these programs are:

- Keeping firms in areas they may otherwise leave,
- Fostering companies' competitiveness and growth,
- Increasing job opportunities for disadvantaged people, and
- Doing so efficiently.<sup>34</sup>

Aversion also makes economic sense, and it is cost-effective and cost-efficient. For many of the community-based jobs retention programs in the nation, the CCC has pegged the average cost for job saved or created at an average of \$200 to \$4,000.<sup>35</sup> When compared to the public costs of dislocation, cited earlier, and the average costs of creating new jobs, estimated at between \$10,000 to \$50,000 for State and federal programs, aversion is extremely cost beneficial.

Finally, it is human capital that increasingly serves as the foundation of competitive advantage. As knowledge and skills become the core drivers of economic competitiveness, how regions implement programs and policies to develop human capital, invest limited resources, and arrange service delivery to continually improve workforce skills will determine whether they are winners or losers in the new economic environment. Retaining businesses also retains key skills in a region's economy. Otherwise, dislocated workers often move from an area.

In summary, workers are becoming more important than ever before in today's companies and corporations—especially those that implement “high performance” practices. At the end of this Chapter, this study will review some of the literature on “high performance” workplaces and the value of high performance to workers, managers, the firm and shareholders alike.

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<sup>34</sup> *Saving and Creating New Jobs: A Study of Industrial Retention and Expansion Programs*, Center for Community Change, 1998 (sponsored by U.S. HUD and the Pew Foundation), p.3.

<sup>35</sup> Ibid, CCC, p.34, 35.



## Section 3.3

### Establishing a Strategy for Layoff Aversion

#### Why Coordinate?

To effectively implement business retention strategies, the workforce development and economic development systems need to be closely coordinated.

In the National Governors Association’s (NGA) pathbreaking review of State and community models for workforce/development integration, the NGA declared:

There are a variety of mechanisms States have adopted to accomplish the coordination of business retention and worker dislocation response programs. Most of these mechanisms have been developed with the basic understanding that both business retention and Rapid Response programs often provide services to the same firms or groups of workers, many of the services are complementary, and that a major focus for both systems is jobs. Starting from these observations, it is clear that there are many opportunities for joint development of strategic goals, joint outreach and marketing of services, sharing of information and research results, and the establishment of effective referral and follow-up procedures.<sup>36</sup>

The NGA review introduced many of the new partnership ideas being adopted by States and communities in the early 1990s. It noted,

Several States have devoted considerable time, resources and attention to the redesign and development of their business retention and worker readjustment programs. The strategic goals that have motivated these efforts differ in each instance, but often the outcome is similar—an integrated system capable of customizing a broad, easily accessible array of services for each individual client (worker or firm).

#### Starting Points for a Layoff Aversion Program

Washington State’s *Retention Primer* concisely states that: “The purpose of a business retention and expansion program is to encourage local businesses and industry to remain in a community and continue to grow.”<sup>37</sup>

A strong layoff aversion program is most successful when it considers:

- What are the specific strategies?

<sup>36</sup> John Lederer, “Competitive Firms, Skilled Workers: Proactive Approaches to Preventing Worker Dislocation and Promoting Economic Growth,” Ibid, p.2.

<sup>37</sup> *Keeping Businesses Happy, Healthy and Local*, Washington State Community, Trade and Economic Development, Ginger Rich, Program Manager, Business Retention and Expansion Program, 1998.

- Is there community buy-in?
- What are the mission and program goals?

Layoff aversion practitioners know that often it is impossible to react to every dislocation. Some dislocations are cyclical or occur in industry sectors that are less crucial to a region's future. A "market analysis" of a State or region would examine three primary issues as a base for developing a retention strategy:

- 1) What *Geographical Markets* related to a practitioner's mission and priorities are within an effective marketing service area?
- 2) What are the *Regionally Important Industries* that offer long-term potential to a region, both those that represent growth of new jobs and those that anchor a "foundation" of firms and supplier-chain relationships that are important to the overall economy?
- 3) What is the *Economic Condition* of companies within these industry sectors?

Many programs target the industry sectors that have a broader and more positive impact in the local community. Some industry sectors are less likely candidates for retention strategies. For instance, business retention and expansion programs generally don't focus on assisting retail and service firms that are in trouble or wishing to expand. This is because the problems faced by these industries, such as erratic market demand or customer traffic, are volatile and not well-suited to outside intervention. These sectors may not provide the quality jobs that are the goal of a retention program, making the program less cost-effective.<sup>38</sup>

## Targeting Manufacturing Industry Sectors

Many successful business retention/expansion programs focus on manufacturing companies and other sectors, such as transportation/wholesale trade, because these industries represent greater economic impact. Manufacturing and value-added jobs also tend to be better paying and create additional jobs in local communities.<sup>39</sup>

The authors of *Manufacturing Advantage* point out that America depends on its manufacturing sector for increases in wealth, improvements in living standards, and competitiveness in world markets.<sup>40</sup> They also contend that there are three salient changes that continue to make manufacturing a critically important industry in the U.S. in terms of productivity and growth.

- First, the new technology has brought computer chips and microprocessor digitalization to virtually all goods production—cars, ranges, overhead cranes, coke ovens, and test equipment—in today's factories and mills.

<sup>38</sup> Ibid, p.10

<sup>39</sup> Ibid, p.10

<sup>40</sup> Eileen Appelbaum, Peter Berg, et al, *Manufacturing Advantage: Why High-Performance Work System Pays Off*. ILR Press 2000, p.3.



- Second, investment in computers has boomed in manufacturing sectors, equaling or surpassing many of the “soft” personal and business services in annual growth rates since 1993.
- Third, many manufacturing industries have been irrevocably affected by new technologies beyond computer and information technology use.

The shift (in manufacturing) has been largely due to new technology that increases productivity—the amount of goods and services produced for each hour worked. Among industry sectors, manufacturing accounts for more than half—57 percent—of technological advancement, both through research and development and through production-process improvements.”<sup>41</sup>

A report on high performance manufacturing in the Great Lakes/Midwest States in the 1990s indicated that a re-emergence of world-class industries and new clusters of industries, along with international transplants, occurred concurrent with de-industrialization in some industry sectors. It further noted that capital expenditures had risen, and the region became a world leader in the export of high value-added manufactured goods.<sup>42</sup>

Other areas of the country experienced a resurgence in hard industries, and the U.S. Department of Commerce and many States responded by creating the national manufacturing Modernization Extension Services (MES) program through the National Institute of Standards and Technology (NIST—[www.mep.nist.gov](http://www.mep.nist.gov).)

A prudent State economic policy is one that *balances* its support for “new” economies with “seasoned” economies. It is tempting for States and cities to offer exclusive financial incentive packages to the latest new technology company; for example, trendy support for the “dot-com” industries has yielded many bankruptcies and failures.

In summary, many successful layoff aversion programs target the retention and modernization of certain existing industries. Here, then, are a few suggestions for a targeting strategy and specific reasons for giving preference to economic retention and growth that balance local economic priorities:

- Target industries that generally pay middle-class wages and benefits and offer job and training ladders for low-income populations. These types of jobs are difficult to replace or replicate.
- Target industries that create greater economic spin-off activity—the multiplier effect. Every \$1 of a manufactured product sold to a final user generates an additional \$1.19 of intermediate (goods and services)

<sup>41</sup> *The Facts About Modern Manufacturing, 2000 Edition*, National Association of Manufacturers, also found on their web page at [www.nam.org](http://www.nam.org), Manufacturing Institute, Introduction, p.1.

<sup>42</sup> The Center for Economic Development, H. John Heinz III School of Public Policy Management, Carnegie Mellon University, “Rebuilding America: Lessons from the Industrial Heartland,” December 1992, p.10-11.

activity.<sup>43</sup> For every hard industry job, from one to five additional jobs are created in the economy.

- Target industries that drive productivity gains in the economy and provide a “customer” for advances in technology.
- Target industries that offer “diversification” of the economy. Witness the differing impacts on varying occupations and regions during the problems created by the “dot-com meltdown” of 2000-2001.
- Target industries that provide a foundation for new industry clusters. Hard industry *and* soft industry sectors—new and old—are more integrated than ever. Hard industries are incorporating high tech changes while technology and service jobs serve hard industries.
- Target a balance of industries. Focusing exclusively on one “hot” industry segment—a high-growth biotechnology segment, for instance—may ignore the derivation and dependence of that economic group on older agricultural or chemical industries.

### Layoff Aversion Strategies Make Sense!

In summary, States and communities benefit because layoff aversion:

- Retains good jobs in the economy
- Retains critical industries in the region
- Creates an anti-poverty strategy
- Can lead to new industry sector growth strategies and to new advanced jobs in the economy
- Provides a logical path to coordination of State and local workforce adjustment and economic development
- Leads to new labor-management-community partnerships.

## Section 3.4

### Strategies to Better Ensure Long-term Retention: Modernization and High Performance Programs

#### The Changing World of Work

The workplace has changed rapidly over the last three decades. Since the 1970s, global competition has been so strong that companies have had to adapt dramatically to survive. In some cases, adaptation has meant modernizing facilities and processes to become more productive. Frequently, this modernization has also

<sup>43</sup> Ibid, *Manufacturing Facts*, Section One

required developing new work systems to manage communication and work flow more efficiently. These changes in the workplace have increased employers' demand for an educated and skilled workforce. They have also placed additional pressure on the workforce development system to more effectively respond to that demand.

States, with federal support, have been actively working to construct a workforce development system capable of producing a dynamic, world-class workforce. The coordination of worker adjustment and business retention strategies can and should be a key component of that development. Worker employment and training, and business retention programs are ideally suited to provide integrated support for "workplace change" programs. This is especially true, given the national proliferation of incumbent worker programs, managed by training and development agencies alike.

As described in an NGA publication,

Consistent and complementary goals for business retention and worker readjustment programs can ensure that scarce resources are properly targeted where they are likely to have the greatest impact. Strategic goals may focus on achieving...competitive advantage, productivity, and quality enhancement for all industries and firms in the State—including technology transfer and diffusion, lifelong learning, promotion of total quality management, and other longer-term economic growth strategies and concerns.<sup>44</sup>

Workplace change models include practices from industrial modernization to "high performance" workplace models to the emerging concept of "stakeholder firms." By addressing the training needs and knowledge practices of workers, the workplace change approach does not just provide training on specific skills and techniques of the job or production. Rather, it seeks out strategies to promote greater cooperation between management and labor in production techniques as firms attempt to upgrade their production capabilities.

Given the growing need to modernize industries, layoff aversion practitioners have come to understand that technological change works best when workers and management work together on design and planning. This section summarizes the major models in modernization and workplace change programs.

### Labor-Management Cooperation

The quarter century after the end of World War II was an era of increasing productivity, economic expansion, and rising real wages in the United States. It has been argued that, starting in the 1970s, U.S. firms were not prepared to compete with world-class quality standards presented by firms from Germany, Japan and other

<sup>44</sup> Lederer, John, *Competitive Firms, Skilled Workers: State-Level Design and Coordination of Business Retention and Worker Readjustment Services*, National Governors Association, NGA in Brief, June 1992, p.2.

countries that sharply cut into U.S. markets in industries including auto, steel, aerospace, computer, semiconductor. Just as nineteenth century craft systems evolved to mass production, companies would now have to transition again and transform their work systems if they were to survive and prosper. No longer would the longstanding “model” work:

During the first two thirds of the twentieth century, industrial plants combined large-scale production of standardized products (mass production) with “scientific management” principles and a sharp division of labor (Taylorism) that relegated most blue-collar jobs to repetitive, mind-numbing jobs. Conception was separated from execution. Managers were paid to think and workers to follow directions.<sup>45</sup>

In these last two decades, management, labor and the public sector began to experiment with labor-management committees and new work systems. Some of the earliest, called “Quality of Work Life” programs, led to mixed results. Traditional labor-management committees are now prevalent in virtually all industries, and they bring together labor and management representatives to discuss issues of mutual concern regarding their companies.

New workplace change models in the 1990s began promoting more information sharing and workforce participation in strategic decisions. These included:

- “Early warning training,” which provides information and strategies to workers and managers to understand the warning signs of a distressed company.
- “Open-book management,” which provides training for workers and managers on how to understand the company’s balance sheet and income statements, to give workers a better sense of the direction of the firm.
- Employee ownership training, which in worker-owned firms, teaches workers to think about the overall success of the firm and provides governance structures to ensure their voices are heard
- “Lead mentor training” and self-directed work teams, which help workers to train themselves and promote the idea that the workforce is capable of organizing itself for the future.

## Origins: Manufacturing Modernization

The health of one of the nation’s primary industries, manufacturing, received a number of wake-up calls in the 1980s as factories closed by the hundreds:

“U.S. manufacturers and industrial regions today are challenged by increasing competitive pressures to improve productivity, technology, quality, work organization, product design and marketing...compared with major international competitors, U.S. firms have failed to devote enough atten-

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<sup>45</sup> Ibid, *Manufacturing Advantage*, p.4-5

tion to improving manufacturing or process technology (President's Commission on Industrial Competitiveness 1985; Kaikumar 1986; Cohen and Zysman 1987; Dertouzos et al. 1989).<sup>46</sup>

Since then, the U.S. government and numerous States have established “manufacturing modernization programs” to provide financing and technical assistance to modernize, upgrade and improve manufacturing facilities and workplaces. The first industrial extension programs, like the industrial bond financing programs, were started in southern states. These programs were modeled after the agricultural extension service. With regional field offices staffed by professional engineers, industrial extension programs assisted in industrial attraction strategies and helped local firms resolve technical problems and improve their use of technology.

While manufacturing employment has continued to decline, much of the remaining industrial base requires modernization support efforts that include computerized design and development, process engineering, revised accounting systems, and worker skills upgrading.

As an important component of modernization strategies, voluntary quality standards for businesses were introduced by the International Organization for Standardization in Geneva. The ISO 9000 standard series is designed as an international framework for quality assurance, endorsed by numerous countries to ensure quality among trading partners. Among the best practices promoted by advocates of ISO standards are requirements that employees be not only well-trained but also immersed in a “learning organization.” Today, businesses frequently specify that a company must be ISO 9000 certified (or one of its variations) in order to bid on subcontracts.

The Manufacturing Extension Program (MEP), administered by the Department of Commerce's National Institute of Standards and Technology, and requiring State matching funds, is a national network of State-based, not-for-profit Centers in more than 400 locations nationwide, whose sole purpose is to “provide small and medium-sized manufacturers with the help they need to succeed.” The Centers serve all 50 States, the District of Columbia and Puerto Rico. State Rapid Response programs and One-Stop Centers can contact these Centers to assist a firm that is not competitive and to work toward partnerships that upgrade the technological skills of incumbent workers.

The MEP has long recognized the importance of these programs to smaller firms:

“While problems of technology upgrading and modernization abound in U.S. firms of all sizes, they are most acute for existing small and midsize manufacturers, especially small, single-plant enterprises...(these) lack the financial, technical, and training resources needed to upgrade their manu-

<sup>46</sup> Philip Shapira, “State Initiatives to Modernize U.S. Small and Midsized Manufacturers,” in *Financing Economic Development*, edited by Bingham, Hill and White (Newbury Park, Ca., Sage Publications: 1990), p.191.

facturing technologies and methods. These firms form a crucial part of the U.S. manufacturing base.”<sup>47</sup>

The types of programs that MEPs offer businesses include:

- Process improvement
- Quality management systems
- Plant layout
- Energy audits
- Computer Aided Design (CAD)/Computer Aided Manufacturing (CAM)/Computer Aided Engineering (CAE)
- Product development

For more information on this program, visit [www.mep.nist.gov](http://www.mep.nist.gov).

## Toward High Performance Workplaces

Struggling with the need to ensure that both firms and workers benefited from increased productivity gains, company managers and enlightened unions began moving towards the high performance/high skills model in the mid 1990s. The “high performance work environment” asks questions related to the following issues:

- **Information Flow**—do workers receive adequate information regarding the companies’ plans and priorities and economic condition, and do they receive adequate feedback on operations?
- **Decision-making Structure**—are participatory team processes utilized?
- **Jobs Skills Sharing**—do workers learn a broader set of skills from the work setting?
- **Management Structure**—is the workplace overly hierarchical, or can it be “flattened,” transforming the role of managers toward leadership and facilitation?
- **Strategic Investment**—do workers have the ability to recommend strategic investments in technology decisions?
- **Progress Sharing**—do workers share in increased economic security as a result of their participation, particularly if the company gains additional profits?
- **Training and Education**—does the company provide continuous improvement training and education to its workforce?

There is new research providing statistical surveys and analyses of industries undergoing high performance work practices. In terms of the automobile industry, “research confirms ...that the most technologically advanced plants are not always the most productive. Instead, the automobile plants that combine high technology with innovative workplace practices achieve the highest levels of productivity and quality (MacDuffie 1995).”<sup>48</sup>

<sup>47</sup> Ibid, Shapira, p.199, 191.

<sup>48</sup> Ibid, p.7, 23.



“The core of a high-performance work system (HPWS) in manufacturing...is that work is organized to permit front line workers to participate in decisions that alter organizational routines. This may be used by using shop-floor production teams or through employee participation in problem solving or quality-improvement teams and statistical control process....(Workers) also need incentives to invest in obtaining additional skills and to engage in activities, such as problem solving, in which the effort expended is difficult for managers to specify or monitor. Employment security and incentive pay motivate workers to expend extra effort on developing skills and participating in decisions. Embedding work organization practices such as broader job descriptions, team production, and responsibility for quality in a human resource system that provides increased training, employment security, and pay incentives for nonmanagerial employees has the greatest effect on plant performance (Katz et al 1985; McDuffie 1995; Ichniowski, et al. 1997; Rubinstein 2000).”<sup>49</sup>

In summary, many communities, coalitions of workers and employers, educational institutions, and regional community institutions are utilizing high performance principles to expand and create innovative approaches to job creation, job retention and local economic development. This “high road” strategy means that:

- Communities have a voice in shaping local and regional economies, to ensure working-family-friendly development.
- Companies compete on the basis of quality goods and services, innovation and value—not exclusively on the basis of cost.
- Community members have access to education and training, leading to family-sustaining jobs and secure career paths.
- Employees have a voice in the jobs they do and can help shape products and service quality, job structure and technology use, customer service and other crucial operating components to be the most effective.
- Economic opportunities are open to every member of the community.<sup>50</sup>

The next chapter will examine the components of best practices in economic development, detail the layoff aversion tool kit, and suggest the beginnings of broader strategies for workers, companies, communities, and other stakeholders to *retain and regain* their regional advantage.

<sup>49</sup> Ibid, p.7-8

<sup>50</sup> Derived from *High Road Partnerships Report, Innovations in Building Good Jobs and Strong Communities*, Working for America Institute, 2000.

**From the  
Layoff  
Aversion  
Tool Kit...  
Job Retention  
Strategies**





## CHAPTER FOUR

# From the Layoff Aversion Tool Kit... Job Retention Strategies

## The Tool Kits of Development Agencies

As the policy review section noted, the Workforce Investment Act identifies layoff aversion and job retention as important components of workforce development. Even so, retention itself has a relatively short history in economic development. Practitioners may face difficulties in financing retention projects, given the preference in the economic development field to finance new development projects. However, there are numerous federal, State, and local programs and subsidies that are applicable to layoff aversion. Since retention programs involve a wide range of professionals for successful service delivery, the agencies represented by these professionals can have access to these resources. This chapter will review some of the tools, resources, and successful development strategies used by retention experts.

### Section 4.1

#### Surveying the Development Field

The economic development field is huge, and, like employment and training, resides at many levels: local, regional and State governments; the non-profit and private sector; community, regional and national organizations. Development programs have included everything from broad investment strategies to stimulate the economy to micro-loan programs at the local level to help minority women establish businesses.

Economic development is a term used to describe government policies and programs aimed at stimulating job creation and economic growth. The market economy is not always a sufficient system by itself for reaching these objectives or ensuring broader social benefits. To diminish poverty and to ensure equity in economic and employment systems, public policy has supported efforts to achieve vibrant relationships among markets, governments, communities and people.

“In practice, economic development is essentially the process by which individuals and organizations make decisions to invest in certain businesses and areas. Through innovations and adaptations these investors increase their capacity to create wealth. The results are new or retained jobs.”<sup>51</sup>

<sup>51</sup> <http://www.oit.doe.gov/financing/intro2.shtml>

Typically, development agencies provide a variety of loans or grants to assist in the infrastructure for businesses. This can include roads and industrial parks, business incubators or single buildings, as well as equipment and machinery. There are also financial supports for businesses to locate, start up, relocate, expand or modernize. Often, agencies will provide technical assistance to the management of businesses, which includes business planning, new product development, new assembly or production processes, and assistance with related workforce training.

## Section 4.2

### Early Warning Networks

One of the first steps in effective job retention strategies is the establishment of early warning systems to identify and track firms and industrial sectors that may be in trouble, or that might benefit from early economic development assistance. “Understanding early warning indicators, whether identified as immediate danger signs or as long-term patterns, can buy a community necessary time to develop alternatives to plant closures and job loss.”<sup>52</sup> Monitoring activities are an essential component of successful job retention strategy, and also assist in providing earlier rapid adjustment response services.

States already collect Labor Market Information to support their workforce investment systems.<sup>53</sup> Labor market information (LMI) is the science of collecting, analyzing, reporting and publishing economic activities to describe and predict the relationship between labor demand and supply. Governments at the federal, State and local levels also depend on LMI to determine new policies, make monetary decisions, and pass legislation reallocating resources. Although LMI systems differ from State to State, the following data are usually found in State-generated products:

- Labor force and unemployment data
- Employment data by industry and occupation and projected employment in these categories
- Population and related demographic data
- Local economic trends and characteristics, including cost-of-living information
- Occupational data by gender and race
- Occupational wage rates and earnings data by industry and geographical area

This data can be useful in analyzing the trends of industries in a region, whether that industry is growing, stable or declining in sales, employment, etc. The above data are updated at various intervals, ranging from monthly to every two years, depending on the specific item. Beyond LMI data, there are many timely sources of

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<sup>52</sup> Ginger Rich, p.42.

<sup>53</sup> U.S. Department of Labor Employment and Training Administration, “Assessing the Workforce Development Needs and Resources of Your Community: Conducting a Community Audit,” Office of Adult Services, 2000.

information that States and local governments can analyze to anticipate what is happening in certain industries or with certain firms:

- The WARN Act (Worker Adjustment and Retraining Notification) is the federal 60-day warning alert of mass layoffs or plant closures. This information can be developed into listings useful for analyzing layoff activity within a State and region, for instance, by industry sectors, sub-regions, occupations, etc.
- The Federal Trade Act Office in the Department of Labor and State Rapid Response Offices should also have Trade Act Petition information. It is online at [www.doleta.gov/tradeact/](http://www.doleta.gov/tradeact/).
- Layoff data from unemployment filings also shows distinctive patterns of layoffs in a sector or firm, using SIC (standard industry classifications) codes, or other occupational codes. These can be compiled as often as weekly if necessary.
- Public loan defaults are development loans that companies have failed to repay. Through inter-agency and intra-agency sharing agreements, this information can be made available from State development departments. These problems are often mirrored by bank defaults and other financing problems.
- *Dun and Bradstreet (D&B)* reports provide information on firms and industries under stress. The *D&B Alert* tracks sudden changes in firms.
- *Moody's Industrial Manual* and *Standard & Poors* provide basic information on major companies, such as facilities by location, and company performance data.
- Utility companies maintain reports of usage drops (i.e. elimination of a shift, cutbacks in overtime, fewer machines operating, etc.).
- Representatives of a company's customers and suppliers may learn if a company is in trouble through reduced products, services or payments. This information is generally available in the field.
- *U.S. Industrial Outlook*, published by the Department of Commerce (DOC), analyzes current and forecasted trends for U.S. industries by four-digit SIC code.
- Major business magazines, regional business journals, and local and regional newspapers report changes in management or markets; strengths and weaknesses of products; legal, labor, and compliance issues, etc.
- Company annual and quarterly reports provide financial information on specific firms. These can be obtained through the website for the Securities Exchange Commission (SEC—<http://www.sec.gov>), also listed in the compendium. All public companies have to file two documents. One is the 10-K, the annual report, and the 10-Q, the quarterly report. Basically, these two documents are the official, legal statements on a company's financial health. The law requires them to be accurate, although there can be a "PR spin."

Some States, cities and regions have established "early warning networks" as described in more detail below. One tool already mentioned—the federal WARN Act—requires employers to give local Chief Elected Officials, the State Rapid Response Dislocated Worker Unit, as well as workers, and their representatives,

advance notice of a plan closing or mass layoff.<sup>54</sup> Information from these WARN notices can be used to help establish an early warning system. Another common practice of business retention programs is to conduct surveys off either businesses and/or labor unions to determine potential economic performance problems that have the potential of leading to layoffs or closures. These are sometimes conducted hand-in-hand with business visitation programs.

These early warning mechanisms have become a common feature of many retention programs. The function of early warning mechanisms is to identify firms at risk of leaving or closing prior to actual decisions by companies to shut down or move.<sup>55</sup> The logical networks of early warning “informants” include the likely stakeholders—local mayors and council members, local unions, civic and religious institutions, chambers of commerce, utility firms, industry groups and other institutions.

Industry decline may be due to several causes. Once an industry declines, financing, long-term investment, operating cash flow, and availability of loans, etc. may become a serious problem. Here are some early warning signs from common causes of firm decline.

### Early Warning Checklist: Causation Factors and Warning Signs

FACILITY	COMMUNITY
<ul style="list-style-type: none"> <li>• Obsolete physical plant</li> <li>• Outmoded operating procedure</li> <li>• Lack of spare parts</li> <li>• Machinery old and outdated</li> <li>• Speed-ups lead to older worker layoffs</li> <li>• Repairs are not made</li> <li>• Inefficient production process</li> <li>• Equipment not up to quality standards</li> <li>• Environmental problems</li> <li>• Facility is in a metropolitan or suburban area that is gentrifying</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of access to raw materials, energy, products and services</li> <li>• Lack of skill in local work force</li> <li>• Lack of quality or availability of land or infrastructure</li> <li>• Local/state tax or regulatory policies</li> <li>• Lacking transportation</li> <li>• Proximity to market changes transportation costs, etc.</li> <li>• High insurance rates</li> <li>• Poor access to trucking/rail/water/air</li> <li>• Utility rates high, or lack of energy availability</li> </ul>

*continued*

<sup>54</sup> *Rapid Response Technical Assistance and Resource Guide*, Chapter 5, p.2.

<sup>55</sup> *Ibid*, p.25.

### **MARKET**

- Demand or sales declines
- Products, processes or services become obsolete due to technological innovation
- Increased domestic or foreign competition
- Changes in state/national taxation, regulation, monetary policies
- Change in international relations (re: markets or supplier/customers)
- Inventory stagnant
- Loss of market share
- Industry sector declines

### **ORGANIZATION**

- Managers, skilled workers or machinery moved to new plant
- New plant is opened in low-cost location
- Research and development are cut back
- Fewer product lines produced
- Parent corporation has major problems
- Corporate merger acquisition creates excess capacity
- Change in profit, market targets or distribution systems
- Local subsidiary is milked for other investment
- Hours and overtime eliminated
- Managers replaced frequently
- Weak management practices
- Irregular work or production schedules
- Lack of workforce training, upgrading or training cutbacks
- Sales staff/marketing cut
- Aging owners
- Shifts reduced
- Increase in subcontractors, temporary workers
- Lack of management and engineering talent

## **Section 4.3**

### **Prefeasibility Studies to Explore Alternatives or Buyout Options**

Over the past 25 years, hundreds of companies were scheduled for closing when various interest groups, including employees, management representatives, community groups and labor organizations have organized to rescue the business operation. Employee buyouts have occurred in the manufacturing, service, agricultural, transportation and financial industries. These intervention methods saved countless numbers of jobs that otherwise would have been lost.<sup>56</sup>

Early response is critical in dislocation events. As discussed earlier, an important initial step in Rapid Response is to assess the reason for the announced plant closing or mass layoff. This initial inquiry should be made immediately after the Rapid Response Dislocated Worker Unit (DWU) receives notice or information that a business closing or significant mass layoff is on the horizon. If there is any reason offered by management, labor or other stakeholders that there might be an opportu-

<sup>56</sup> This and other parts of this section are contributed by Jim Houck, Director of the Workforce Transition Unit of the Michigan Department of Career Development.

nity to retain the business operation through a buyout or restructuring, it may be prudent to launch an initial evaluation and prefeasibility study.

The layoff aversion provisions of WIA Rapid Response allow States and designated agencies to devise and oversee development of prefeasibility studies to avert plant closures, through options such as having workers explore the purchase of the plant or company and continue its operation. Over the past ten years, many States have used prefeasibility studies as a critical tool in job retention. The cost to fund a prefeasibility study is minimal (\$5-10,000 generally) in comparison to the economic impact of a plant closing or mass layoff.

A study can also serve a number of important functions, such as providing objective evidence for the likelihood of business retention or expediting worker commitment to seeking new employment. If the report confirms that there are no alternatives to closure, that information sometimes provides “closure” to workers who might have unrealistically hoped the plant could remain in operation.

Time is of the essence when a plant closing or mass layoff is announced. Often, a WARN notice may be the earliest indication of the impending event. In such a circumstance, it is vital that the prefeasibility study process take no longer than 30-45 days. It is difficult to fix a specific time requirement, and sometimes 60 days (WARN notice) is not enough time. The time and structure for the prefeasibility study must be carefully based on the specific circumstances of the firm, workforce and regional economy.

The process should be sensitive to the needs and interests of workers and unions (if present). A study should not be used as a means of decertifying a union if one already exists. The study effort should jointly involve both labor and management, since both have an obvious stake in the outcome of buyouts.

The prefeasibility study, if it is to be a useful instrument to determine the likelihood of success of a buyout or restructuring, should contain information on key elements of the business operation for assessing a company’s relative health including:

- **Organizational structure:** present salary structure, possible willingness of all stakeholders to restructure operations, work system, and compensation as a last alternative;
- **Market:** trends in the industry, the company’s market share, etc.;
- **Operations/manufacturing:** condition of equipment, equipment as compared to state-of-the-art, potential need for capital investment;
- **Financial:** a preliminary evaluation of a purchase price, the company’s present profitability and expenses, the ability of a potential buyer to finance the purchase;
- **Legal:** prospects for a smooth ownership change and other restructuring issues;
- **Conclusions and methodology:** recommendation to proceed or not, and how.

Basic questions should be answered in the study including:

- Are present owners amenable to a buyout?



- Is the firm organized for a smooth transition?
- Are products or services in a growing, declining, or stable market?
- Can the facility be an efficient producer in the industry?
- How does the plant's profitability compare to its competition?
- Has the plant been maintained in satisfactory condition?
- What is the potential for the plant to exist as an independent firm or subcontractor?
- Are there any substantial environmental considerations?

Jim Houck, Director of the Workforce Transition Unit of the Michigan Department of Career Development, has described some of the most important State policy considerations in conducting a prefeasibility study in a companion *Technical Assistance and Resource Guide* from US DOL. These are as follows:

The following represent some Frequently Asked Questions (FAQs) concerning Rapid Response and prefeasibility studies.

*What is the State Rapid Response DWU role?*

The role of the Rapid Response DWU in the prefeasibility study process must be determined, and that role varies from State to State. Some Rapid Response DWUs may have individuals who have the expertise and experience to provide some level of initial assessment and technical assistance to facilitate the buyout effort. They could help determine whether or not the prefeasibility study should be conducted in a given situation.

*Will the prefeasibility process be contracted out?*

If the Rapid Response DWU has little or no expertise in the prefeasibility study process, it may elect to contract out the entire process to an outside entity, perhaps a university-based employee ownership center, a non-profit institution, a local or regional economic development institution, or a private firm with experience in this area.

*Who will initiate studies?*

An outside neutral party, normally a consulting firm with special expertise in conducting these studies, should conduct the feasibility study. If a neutral party does not do the study, the conclusions may be perceived as biased. The prefeasibility study is the first step in determining whether or not a buyout or transition to alternative ownership is at all possible. If there is a strong likelihood of success, additional studies are required, including a full feasibility study, a business plan, a valuation analysis and perhaps Employee Stock Ownership Plan (ESOP)<sup>57</sup> assessments, if appli-

<sup>57</sup> Alan Okagaki, Kris Palmer, and Neil S. Mayer, *Strengthening Rural Economies: Programs that Target Promising Sectors of a Local Economy*, Center for Community Change, 1998, p.15.



cable. The same firm that performs the prefeasibility study prepares many of these follow-up studies. If a new firm is brought in to continue the effort, much of the initial effort in preparing the prefeasibility study will be lost. Valuable momentum and time, which are often at a premium, will be lost. It is a good idea to ensure that the contractor has expertise to provide “start to finish” technical assistance and study capability. If there are any gaps in their skill base, they should have linkages with other experts to ensure deal consolidation with a minimum of delay and duplication.

*What is the relationship between the Rapid Response DWU and State economic development functions?*

In some States, there is no clear role definition between the Rapid Response DWU and economic development functions. Often, these functions are vested in different departments in State government and there are varying degrees of communication and cooperation between them. The conduct of prefeasibility studies crosses the line between economic development and workforce development. Assisting firms with restructuring or a transition to alternative ownership may be viewed as the prerogative of economic development staff. It may be necessary to establish formal linkages between the State departments responsible for workforce development and economic development activities with respect to prefeasibility studies. An explicit Memorandum of Understanding may be developed to identify the specific responsibilities of each party.

*How much will the prefeasibility study cost?*

States may have limits on the amount of funds that they can provide to conduct prefeasibility studies. That limit can be a function of contracting procedures and administrative functions unique to State procurement practices.

Many firms will agree to conduct prefeasibility studies for \$10,000 or less if there is some assurance they will continue to be involved in the arrangement if it goes forward. They may view the prefeasibility study as a “loss leader” with the possibility of additional compensation at a later date. The costs of additional studies beyond the prefeasibility study can easily exceed \$20-30,000, and substantially more in complex and large-scale transactions. The WIA does not support these follow-up study costs. The source of these additional funds must be identified in the prefeasibility study.

When the initiative to purchase the company comes from employees, unions representing employees, or management groups representing the larger workforce, the employee buyout process should be an organized effort. The undertaking is usually a complex and time-consuming task, with many real and apparent stumbling blocks along the way. There are several procedural tasks that will enhance the probability of success of the buyout effort.

The first task will be to establish a “core” group or buyout committee and then to determine employee support for the initiative. Usually, a small core group of employees will be established to serve as the focal point for the buyout. It will normally consist of labor or employee and management representatives who will serve to represent the interests of all the employees. A lead person may be identified as the primary spokesperson and contact person for the core group or committee. In a union situation, there may be co-chairs. It may be necessary to incorporate the buyout committee so that it can legally enter into contracts and administer various sources of funds to support the buyout effort.

The buyout committee should continuously assess the willingness of the workforce to support the initiative. This will require frequent and effective communications by the committee. If there is not widespread employee support, it may very difficult to make progress with the negotiations. Employee loyalty to the company, availability of jobs with comparable pay in the area, etc. may affect the interest of the workforce.

The buyout committee will oversee the performance of the prefeasibility study and any follow-up studies, such as full feasibility studies, business plans, valuation studies and Employee Stock Ownership Plan documents, and will be the direct link between employees and the consultants, Rapid Response DWU staff, and other involved parties. It will continue to provide a vehicle to communicate with the broader workforce and help drive the project forward to a successful outcome.

## **Section 4.4**

### **Sectoral Strategies**

Sectoral strategies have been major tools for economic development since the early 1960s. Such strategies target an industry based on an area’s perceived comparative advantages, and create relationships with key stakeholders in that industry. The strategies also improve economic opportunities helping low-income individuals and families in that industry. Sectoral strategies are a more sophisticated approach to industrial recruiting, which employ public subsidies provided by local and State government, while targeting local workforce needs. Ideally, sectoral strategies help industry to improve operations, benefiting low-income communities as well as enhancing industry development.

According to the study done by the Center for Community Change, “the distinguishing feature of these sectoral efforts is ‘that they started with an analysis of the State or local economy, identified key sectors, and organized services around those sectors’.”<sup>58</sup> Sectoral programs could theoretically provide a wide range of assistance depending on the sector’s needs, for example:

- Organizing cooperation among companies in the same industry

<sup>58</sup> Ibid, p.15.

- Developing technological centers
- Enhancing technology transfer
- Developing new products
- Job training
- Conducting research and development
- Addressing specific competitiveness issues

Many sectoral programs have attempted to create greater opportunity for less advantaged populations with support from local government or community-based organizations. Currently, many sectoral programs identify shortages of skilled workers as a major impediment to growth in their sectors. As a result, workforce development programs are often a major component of a sectoral strategy. Market development is another important component of a program to restore competitiveness of the sector in global economy.

## Section 4.5

### Linkages with Federal, State and Local Development Agencies

Economic development services related to layoff aversion activities can be catalogued in five ways:

- *Loans*, made directly to a business or applied as a guarantee to a bank loan, usually providing a lower rate or more favorable loan terms;
- *Grants*, usually made to accomplish a specific business-related purpose, such as infrastructure, or research/development of a new product or process. Grants can also be made on a matching basis to companies to provide incumbent worker training;
- *Contract awards*, made for products or services provided by a company to local, State or federal governments;
- *Credits or exemptions*, generally tax incentives awarded to businesses that create new jobs or contribute to economic growth in a community or region;
- *Technical assistance*, generally targeted for industry-specific groups, especially those whose businesses are “at risk.”

**Federal Economic Development** The federal government sends hundreds of millions of dollars to the States every year for broad economic development purposes and maintains a number of important programs for economic development.<sup>59</sup> These programs include the provision of:

- **Direct venture investments, loans or guarantees** through such agencies as the Small Business Administration (SBA), the SBIC program (small business invest-

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<sup>59</sup> United States General Accounting Office, “Economic Development: Multiple Federal Programs Fund Similar Economic Development Activities,” September 2000, p.8.

ment companies) and rural agencies such as the Agriculture Department; and more recently, the Community Development Finance Institutions program of the Treasury Department, which funds local community loan/equity funds.

- **Extensive networks of technical assistance providers**, including the Manufacturing Extension Partnership (MEP), providing manufacturing modernization services through centers in all fifty States (Commerce Department), and Small Business Development Centers, providing business planning assistance through academic centers nationwide (SBA).
- **Major economic research studies**, including economic distress adjustment grants, have been funded by the Economic Development Administration, which also provides financing programs through its network of State Economic Development Districts (EDDs), as well as Energy, Interior and Agriculture Departments, and the Environmental Protection Agency (EPA).
- **Community Development Block Grants (CDBG)** are provided to States and cities for community development programs for broad purposes through the Housing and Urban Development Department (HUD).
- **Job training programs**, including incumbent worker training programs, are funded by the Department of Labor, primarily through the funds allocated to the States and local areas under the Workforce Investment Act. Their presence locally is through the One-Stop Career Center System.
- **Regional revitalization programs** are provided through multi-State initiatives such as the Appalachian Regional Commission (ARC).
- **Special initiatives**, such as military downsizing, have been started under various programs in the Defense Department; and trade-impact programs, such as the Trade Adjustment Assistance Center (TAAC), have also been introduced.

A new initiative of the Office of Economic Adjustment in the Commerce Department has been established to coordinate federal, State and local agencies in the event of sudden closures and mass layoffs that have a broad effect on a region or community. This is a model for the types of State and sub-State coordination and linkages that can be built to establish layoff aversion and jobs retention networks (see EDA, Chapter 5).

**State Economic Development** States provide grants and loans for economic development activities, designate distressed areas for special funding and tax incentives, and use taxing and bonding authority to raise funds for economic development initiatives. The States' programs predominantly consist of loans, tax credits, grants, and bonds. Within States are regional, district, and local planning entities that help address the needs of specific geographic areas through planning efforts, and also arrange to secure project funding.<sup>60</sup> Most cities have active economic development programs, as do many counties, small towns and multi-county regions.

At State levels, departments of economic development maintain funding programs and staff that work with and may fund local economic development programs.

<sup>60</sup> Ibid, p.8.

They also work directly with firms to assist in the start-up, expansion, retention or buyout of businesses. State economic development and employment and training agencies alike may provide funds for customized job training and incumbent worker programs. Often these programs are provided through a partnership in cooperation with local community and technical colleges.

**Effective Partnerships** What are the logical institutions at the State and sub-State level that can be coordinated to accomplish layoff aversion goals? At the State agency level, the following organizations can be involved: the economic and community development, labor, treasury, and revenue departments and State/federal representatives; at the county and city levels, chief executives and councils, and other elected leaders, local agencies and colleges; and in the private sector, labor and management and various chambers and associations, banks, utility companies, telecommunications/media companies, accounting and law firms, investment banks, community-based and community development organizations.

In summary, there is a wide array of institutions at the State and sub-State level that can be coordinated to assist in a job retention and layoff aversion effort. Rapid Response units and other local and State individuals responsible for layoff aversion/business retention services need to familiarize themselves with the economic development agencies and resources available. Relations with these agencies should be established ahead of time to assist coordination when a layoff aversion situation presents itself.

## Section 4.6

### Alternatives to Layoffs

This chapter has described potential economic development partners and resources for layoff aversion strategies as well as methods of identifying firms that may be at risk. The question now becomes what can be done to assist a firm to stabilize and minimize or eliminate layoffs? The following list describes some of the common strategies employed by practitioners to assist companies in regaining economic health.

- **Work-Sharing** Many States provide partial unemployment benefits to workers of companies affected by business downturns. This allows a subsidy for workers to work flexible and part-time hours in order to preserve overall firm employment until the downturn passes. Work-sharing is allowable under federal unemployment law, permitting States to set aside a portion of the unemployment pool for this purpose.
- **Incumbent Worker Training** Ongoing incumbent worker training is, in general, a valuable investment for a business that can have a positive impact on its bottom line. An evaluation of existing workers' skill needs, cross-training potential, and new training required as a result of technology or workforce change, can lead to a plan funded by the company and/or those States/local WIBs that have established incumbent worker training programs. Most States

utilize the economic development agencies to manage these programs. This training is now an allowable activity as part of WIA Rapid Response funds. In this time of emphasis on total quality management, etc., small and mid-sized employers unable to provide the resources for these areas may become vulnerable or “at risk.”

- **Operations and Cost Reviews** When firms are in trouble, the first step is to identify what is causing the problem. Are there problems with productivity? Are there problems with managing costs? Programs like the Manufacturing Extension Program (MEP) or outside consultants can help a firm identify whether there is a single choke point in the production line or whether there is a need to re-engineer the entire manufacturing process.
- **Good Management, Labor-Management Cooperation** Sometimes, new leadership is needed so the company can become more productive or entrepreneurial. If there are conflicts on the shop floor, intervention is needed to help labor and management groups to talk and listen to each other and to properly analyze problems or situations that are of current or strategic importance.
- **Financial Restructuring** Many “at-risk” manufacturing companies experience a fiscal crisis in which an immediate restructuring of the balance sheet is required to maintain the company’s viability. Sometimes an unbalanced or inappropriate capital structure itself is the problem; more often financing problems are merely symptomatic of deeper underlying problems that are market-based or operational in nature. Financial restructuring can involve but is not limited to refinancing or renegotiating existing debt, raising additional debt, renegotiating trade payables and other liabilities, raising additional equity capital and other financial engineering tools.
- **Modernization and Upgrades** If the equipment and machinery in a facility has deteriorated in its condition or effectiveness, or if the production system has not kept up with the industry as a whole, a strategic or wholesale modernization or upgrade of the facility may be in order.
- **Conversion to New Products** If a business is under threat of closing because a main product line has declined in markets, the company might be able to identify new products and markets.
- **Succession** In many cases, closely held businesses are sold with a resulting loss of jobs when the new owner restructures them. The retirement of a business owner can precipitate a business closing in absence of a successorship plan. These examples represent opportunities to save jobs and avoid resulting hardships imposed on individuals and their communities when a plant or business closes.
- **Employee Buyouts** WIA prefeasibility studies can assess the viability of a company or group to purchase the plant and keep it in operation. When the initiative to purchase the company comes from employees, unions representing employees, or management groups representing the larger workforce, the employee buyout process should be an organized effort, with a well-established



buyout committee. The undertaking is usually a complex and time-consuming task, with many real and apparent stumbling blocks along the way.

- **General Buyouts** Another last resort may be to work with a plant's management and employees in generating the initial due diligence material required to determine the feasibility of a general buyout. A buyout committee can be formed to expedite this process, as well. Various options available include a leveraged acquisition or arranging for an outside third party acquisition. Often "strategic buyers" that would maintain operations and employment at the most viable levels possible are the best alternative.
- **Rapid Response and Early Intervention Services** When a plant shutdown or a layoff cannot be fully averted, Rapid Response and early intervention services can help place workers in other jobs before layoff. Counseling and information services can help identify transferable skills and other occupational opportunities in the same or other industry sectors. O\*NET Online, State LMI products and Web sites, career information delivery systems, ACINet, OES industry/occupation information as well as Job Banks and résumé services may be useful. Where appropriate, training might be identified to enhance the current skill set.



## Chapter Five

# Layoff Aversion and Retention Models



## CHAPTER FIVE

# Layoff Aversion and Retention Models

## Introduction

This chapter provides information on “best practice” job retention and layoff aversion models among community-based, federal, State, and local government approaches. It also provides samples of model retention cases under “real crisis” conditions, and includes typical institutional and constituent reactions. Additionally, the chapter provides information on each model’s history, organizational structure, mission, accomplishments, typical services and activities, funding and resources. Case study examples are also provided for most of the models.

Chapter 2 described five types of State strategies for delivering coordinated Rapid Response and/or retention services to companies and workers. This chapter provides additional State and sub-State models and focuses on how to deliver coordinated services depending on various stages or goals of the retention process. Aversion and retention models are categorized under five key strategy components:

- Early Warning Monitoring:** Utilizing industry and labor market systems and networks to monitor and predict plant closures in order to implement response and prevention strategies.
- Assessment:** Providing prefeasibility assessments to determine continued financial and market viability of business or facility.
- Response:** Implementing broad retention strategies and services to maintain and strengthen industries.
- Sectoral Strategies:** Developing urban and rural models targeting industrial sectors in geographic areas.
- Workplace Change:** Supporting the development of high-performance workplaces that help to increase company performance, improve working conditions, and stabilize employment through such methods as incumbent worker training and labor-management cooperation.

The chapter concludes with examples of national and inter-State retention and aversion strategies. These examples provide information on funding opportunities, national coordination efforts, and further uses of the strategies described in the chapter.

## Section 5.1

### State and Sub-State Initiatives

#### Early Warning Monitoring

There have been dozens of “early warning” strategies implemented by States and communities across the country, including business calling programs, community-based plant closure prevention efforts, and other variations. Chapter Four describes many of the best tools that have been put to use among varied institutions. This section provides two examples of early warning strategies. The first is from the State of Maine, which has built upon its business-calling program to develop broader employment retention planning. The second example describes the New York Industrial Retention Network, which has developed a mix of manufacturing-generic, region-specific (boroughs) and sectoral early warning monitoring systems.

#### State of Maine Employer Service Strategy

**History:** The State of Maine is actively working to integrate its workforce development and economic development programs. The State’s twenty-three Career Centers are grouped into nine regions and supervised by Regional Employer Assistance Representatives (REAPs). The State’s nine REAPs are aligned with the State’s business development specialists from the Department of Economic and Community Development. A part of this integration also includes the development of the Employer Service Strategy (ESS), a broad-based early warning and response strategy.

**Structure of the Organization:** The Employer Service Strategy is coordinated through Maine’s Bureau of Employment Services, the Governor’s Training Initiative, and the Business Visitation Program (a business retention program jointly funded by the Maine Chamber and Business Alliance and the Department of Labor).

**Mission:** The goal of the ESS is to develop consistent high-quality capacity to retain and support jobs and employers throughout the State. Its method is a coordinated multi-agency effort to assess employer need and develop strategies that strengthen local industries.

**Services and Results:** The first step in the development of the ESS was to assemble a training curriculum and provide a series of workforce development certification courses to community stakeholders. The goal of the course was to train a cadre of “certified specialists” who are qualified to create an ESS. The ESS is a comprehensive assessment of a company’s competitiveness, organizational needs, and workforce issues. Certified specialists use the tool to build strategies addressing a company’s job retention and workforce expansion needs. Each course runs five days and includes hands-on activities, presentations from employers, and guidance on demand-side workforce development issues. A central concept that guided the design of the course was the inter-relatedness of workforce and economic development. For example, certified specialists were not only trained to recognize workforce needs during an employer assessment, but also to understand and

respond to other business issues impacting the company's competitive position, such as its production processes, new technologies, and organizational structure. To date, over 80 representatives from Maine's regional Career Centers, adult education providers, chambers of commerce, and community technical colleges have completed the certification training. The State has set a goal of more than 58 ESSs to be completed by this cadre of "certified specialists" within the next year.

Second, the Maine team developed a customizable employer survey prototype. The survey tool collects the training and business needs of Maine's employers based upon a specific industry sector or geographical community. In turn, community and industry leaders use the data to create sustainable workforce development strategies. The survey prototype is housed in the State's new One-Stop Operating System (OSOS) software, accessed through the State's twenty-three Career Centers. It has over 400 different questions that can be customized depending on customer needs. Data obtained from the survey is entered into a central clearinghouse database for storage and is intended for future use by career center staff, economic development professionals, industry groups, and other community stakeholders. Career center staff are the "gatekeepers" of the data, but future plans call for interested community stakeholders to have up-front access to the data via the Internet. So far, the Maine Metal Products Association and the Bethel Area Chamber of Commerce have used the tool to survey their constituents, store the data in a central repository for cross uses, and develop action plans based on survey findings. Success with the Maine Metal Products Association has led to inquiries from the Maine Wood Products Association and the Maine Marine Resources Association. Both of these industry associations plan to use the survey tool to undertake a similar industry assessment effort. The future goal is to expand these partnerships to all of the major trade associations linked to the targeted industries outlined in the State Economic Development Plan. Each Career Center will also offer the survey prototype as a tool to be used by regional and community-based economic development organizations.

**Funding and Resources:** ESS has received funding from special federal grants, State and local governments.

**Partnerships:** The partnership includes multiple State and local agencies, community colleges, the Chamber of Commerce, and industry associations.

## **New York Industrial Retention Network**

**History:** Despite decades of decline, New York remains a center for manufacturing. More than 208,000 people are employed in manufacturing in New York City—more than the combined manufacturing employment in Detroit, Michigan; Gary, Indiana; and Youngstown, Ohio. The New York Industrial Retention Network (NYIRN) points out that manufacturing is a particularly important source of

employment for people who lack the formal education to find jobs in other industries, often providing well-paying jobs with benefits.<sup>61</sup>

According to Executive Director Adam Friedman, the New York Industrial Retention Network was launched in 1997 with JTPA-Title III funds from the Ownership Transition Services program of the Empire State Development Department. It was started with the help of the Center for Labor and Community Research (CLCR) and Locker Associates, in collaboration with the Brooklyn Economic Development Corporation, the Pratt Institute Center for Community and Environmental Development, and other local and State development and workforce training organizations.<sup>62</sup>

**Structure of the Organization:** NYIRN is a non-profit corporation that operates in all five boroughs of New York City. It operates as a public-private-labor-community consortium. The organization was originally housed at the offices of the Brooklyn Economic Development Corporation. While it now has its own offices, it continues to share space with other organizations to strengthen the relationships with those groups and to facilitate services throughout the city.

**Mission:** NYIRN is a collaborative initiative launched to strengthen New York City manufacturing sector, save manufacturing jobs, and build the capacity of their retention network participants. It has had a notable effect in its short history of expanding its efforts citywide, a considerable undertaking, and broadening its focus on three industry sectors.

### Services and Results:

- **Early Warning Network.** NYIRN mobilizes diverse “stakeholders” in the economy in an “early warning network” (see “Partnerships”). These participants identify companies that are at risk before a crisis occurs and works with the network to develop and implement comprehensive strategies to assist those firms.
- **Industry Research.** The NYIRN conducts strategic industry research in New York City, developing information on numerous business health, capital investment and workforce issues, and has conducted general research based on “aging owner” surveys, as well as other surveys identifying specific problems affecting manufacturing firms. NYIRN has also conducted extensive research on three industry sectors: food, printing and apparel. NYIRN has developed and maintains a manufacturing database of 6,000-8,000 firms that is updated on a regular basis.

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<sup>61</sup> This information obtained from Adam Friedman, Executive Director, and from interviews with the staff of NYIRN. Research sources include NYIRN’s “The Little Manufacturer That Could,” May 1999.

<sup>62</sup> This information is taken from the organization’s Annual Reports and other organizational materials.

- **Business Retention Services.** Through its members, NYIRN helps manufacturers to recruit skilled workers and implement training programs; learn about new technologies and increase productivity; cut energy costs; obtain financing; find new space and relocate; develop ownership succession plans; and work with community groups to address neighborhood problems.
- **Succession Planning.** NYIRN plays a particularly active role in helping firms to resolve problems arising out of ownership transitions. NYIRN can help prevent such ownership crises by linking owners to expert advisors in the areas of family business succession, employee and management buyouts, and sale to outside buyers. NYIRN can also help owners to identify potential buyers.
- **Industry Sector Programs.** NYIRN was an early advocate for sectoral-based industry retention and growth strategies. NYIRN has pursued such an approach to overcome the “disconnect” between the industries’ needs and the difficulty of delivering services to a large number of small businesses. This approach seeks to leverage industries’ resources and to create an inclusive economic development process. NYIRN has developed sector initiatives in the printing, apparel and food industries in New York. From the original research on industry sectors, NYIRN has moved on to develop new industry sector retention programs. In each case, NYIRN will develop a partnership with one or more industry sector trade associations and appropriate unions.
- **Trust for Industrial Space.** One of the key problems affecting all urban manufacturers is the issue of gentrification and its impact on real estate prices and rents. NYIRN has been exploring strategies to utilize private and community-oriented financing to purchase buildings in manufacturing districts as “trusts for manufacturing space.” This would prevent the sale and demolition of manufacturing workspaces for higher-value uses. NYIRN is seeking to institutionalize this type of assistance through a Trust for Industrial Space that could acquire space or assist in financing other not-for-profits.

**Funding and Resources:** NYIRN receives funding from State and local governments and development organizations, banks and foundations, utilities, and, through an affiliation with a major labor-management skills training program, federal job training funds.

**Partnerships:** NYIRN has brought together over 70 local borough governments and development organizations, unions, utilities, banks, business and financial advisors/consultants, real estate agencies and other institutions and constituents who have an interest in manufacturing and jobs retention. Some of the partners include the founders listed above and the following organizations (a partial listing): Banana Kelley Community Improvement Association (Bronx), the Brooklyn Chamber of Commerce, Chinatown Manpower Project (Manhattan), the Greater Jamaica Development Corporation (Queens), Con Edison, the Industrial Technology Assistance Corporation, the New York City Central Labor Council, Citibank, Ernst and Young, and many others.



**Case Examples:** Since NYIRN has focused on sectors, the following examples reflect industry-wide efforts in New York City.

- ***Food Sector Initiatives:*** NYIRN released “Food From New York”, a study of the economic impact and needs of the food manufacturing sector. The study found that the food industry employs over 15,000 people in New York City and projected that the industry would grow an additional 1,000 jobs over a two-year period. This growth was driven by “domestic export” and the growing national demand for specialty, particularly ethnic, foods. NYIRN recently initiated a marketing assistance program to help small food companies that serve local ethnic markets to cross over into regional and national markets.
- ***Needle Trades Labor Management Collaborative/Capacity Building:*** The Union of Needle Trades, Industrial and Textile Employees (UNITE) commissioned NYIRN to do a study of land use in New York City’s Garment Center. The area has experienced strong real estate pressure and many owners were seeking to remove protective zoning and convert manufacturing buildings to office uses. In an effort to “map” the important, large employers in the heart of the city, NYIRN engineered a door-to-door survey of 2,500 commercial spaces and documented the extraordinary concentration of apparel in that area.
- ***Printing Collaborative:*** NYIRN organized a coalition of labor and management organizations in the printing industry and community groups to support a new fund to help printers faced with displacement and gentrification. The organizations collaborated to document the businesses and jobs that would be threatened by new zoning and other land use changes and persuaded the City to create an \$8 million fund to reimburse printers for their relocation costs.

## Assessments

The examples of assessment practices in this section come from the States of Michigan and Washington. Michigan pioneered the use of prefeasibility assessments through several gubernatorial administrations, and its model has been replicated widely. The Washington program highlights a strong partnership between the State and a labor organization. As documented in Chapter 4 of the *Guide*, an important initial step in Rapid Response is to assess the reason for the announced plant closing or mass layoff. If there is a reasonable chance of layoff aversion, a prefeasibility study should be made immediately after the Rapid Response Dislocated Worker Unit (DWU) receives notice or information that a business closing is on the horizon.

### Michigan Workforce Transition Unit

**History:** Michigan’s economy, hit hard by the recessions of the early 1980s and 1990s in its key industries, such as automotive, continued to suffer downsizing throughout the 1990s. The Michigan Workforce Transition Unit was initially created in 1985 in response to these dislocation problems. The Unit was formalized in the early 1990s as part of the Michigan Jobs Commission, a joint effort of the State’s economic and workforce development resources, and connected to “Account

Management Teams.” These teams included a number of specialists, with expertise in management, regulations, workforce issues, business research, and infrastructure needs.<sup>63</sup>

**Structure of the Organization:** The Michigan Transition Unit is an office of the Michigan Department of Career Development. This office coordinates with Rapid Response, employment and training, and the economic development components of State government.

**Mission and Results:** The Workforce Transition Unit of the Michigan Department of Career Development is responsible for administration of the WIA-funded Rapid Response program. Michigan’s dislocated worker program also provides layoff aversion assistance, including Rapid Response, support for management or employee buyouts, sale to other parties, and business restructuring. Michigan has conducted 11 prefeasibility studies in the last decade; five studies led to either successful ESOPs or plant retentions.

**Services and Activities:**

- **Transitional Services.** Like most active Rapid Response programs, the Center provides extensive outreach and Rapid Response assistance, including trade assistance, to workers affected by mass layoffs or plant closings.
- **Prefeasibility Studies.** Prefeasibility studies funded initially by JTPA Title III and now by WIA are used to examine the viability of firms-in-distress, and to determine whether an Employee Stock Ownership Plan (ESOP) would be appropriate as an equity-sharing and tax-favored financing strategy.
- **Worker Transition Committees (i.e. Labor Management Committees).** Like other active Rapid Response programs, Michigan assists labor and management in the development of labor-management committees to provide strategic response to dislocations.
- **Coordination and Communications.** The Unit has developed extensive guides and application materials for its prefeasibility program, as well as other transitional services, in order to provide good educational materials for workers and managers.

**Funding and Resources:** Primary funding for the prefeasibility studies comes from Workforce Investment Act Rapid Response funds.

**Partnerships:** The Transition Unit coordinates its retention efforts with labor, management, and State and local development agencies, and maintains a list of private management consultants to call on for prefeasibility assessments.

**Case Study: Adrian Fabricators, Inc.** In 1983, Adrian Fabricators, a fabrication company in Adrian, Michigan, making steel mesh containers, declared bankruptcy. The workforce was reduced to approximately twenty struggling workers. The workers made a request for prefeasibility study funds to the State of Michigan for

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<sup>63</sup> Information obtained from Michigan Transition Unit Director Jim Houck, and materials provided by the Unit.

assistance in evaluating the potential for an employee buyout. The study was conducted and a new, employee-owned company, *Adrian Fabricators, Inc.*, was established. A new management team was installed, and the company received financial assistance from the federal Economic Development Administration (EDA).

The firm, after several uncertain years, has expanded to 200 employees, and manufactures “Cargotainers,” steel mesh stackable storage containers that are popular in the industry. That product line has since substantially diversified, and the company’s majority ESOP now owns 95 percent of its stock. The State also provided labor-management assistance to the management of the firm and the workers, represented by the UAW. Adrian Fabricators, Inc. is recognized as a true long-term success story in the history of employee ownership and labor management relations.

### Washington State Labor Council Labor Liaison Program

**History:** The Washington State economy has enjoyed economic booms and suffered economic busts for the last three decades. In the 1970s, the aerospace sector contracted dramatically, and in the 1970s and 1980s, the lumber and fishing industries declined, as was the case all along the West Coast. In the 1980s, the shipbuilding industry and related manufacturing sectors lost dozens of companies and plants, as the military build-up came to an end and the fisheries industries continued to decline. Over the last decade, there has been a broad re-positioning of the economy, with aerospace giant Boeing mostly growing and key high technology industries expanding exponentially in size and employment. Both of these growth “engines,” though, have been recently undergoing major restructuring.

The Labor Liaison Program was started by the Washington State Labor Council in the mid-1980s to respond to layoffs of union members, and to provide layoff aversion/retention analysis in cases that might result in jobs being saved.<sup>64</sup>

**Structure of the Organization:** The Labor Liaison Program is an office of the Washington State Labor Council and currently employs two Liaisons positions and support staff.

The program maintains an “early warning system” of key informants and contacts from labor unions, workers, State employment service and Rapid Response representatives and others. Once a plant closure or mass layoff is identified, the program provides prefeasibility studies to determine if operations can be maintained to avoid layoffs.<sup>65</sup>

**Mission and Results:** The Washington State Labor Council, AFL-CIO has endeavored to allow working people facing layoffs to be involved in the discussion and decision to avert job loss. The Program has been responsible for prefeasibility

<sup>64</sup> Information obtained from Jim Tusler, the senior member of the Washington State Labor Council (WSLC) Labor Liaison Program, and materials provided by the WSLC.

<sup>65</sup> U.S. Department of Labor Employment and Training Administration, “Layoff Aversion Expert Panel Meeting Synopsis,” Office of Adult Services, June 14, 2000.

studies or technical assistance leading to nine employee buyouts, and numerous other prefeasibility studies that led to layoff aversion success.

**Services and Activities:** The Labor Liaisons participate in “Rapid Response” activities during plant closures and mass layoffs, providing:

- **Transitional Services.** Working as part of the State’s Rapid Response Teams, the Labor Liaisons are committed to ensuring that the affected workers have access to the best job retraining and reemployment program opportunities available. Assistance is also available to assist workers in applying for State and federal unemployment and other benefits available to working families. The Program has specialized in providing assistance with trade benefits and other special programs.
- **Labor-Management Committees.** Under Rapid Response, the Liaisons provide independent assistance to workers and unions in establishing labor-management committees, sometimes called worker transition committees, to provide strategic response to dislocations.
- **Prefeasibility Studies.** With advance notice in a pre-layoff situation, the Liaisons may work with interested individuals in accessing funds for prefeasibility studies to review plant closure prevention options.<sup>66</sup>

**Funding and Resources:** The Washington State Employment Security Department funds the Labor Liaison Program. The Labor Council also contributes substantial in-kind resources to the project, including support staff, office space, and other in-kind resources.

**Partnerships:** The Labor Liaison Program coordinates its activities with a broad array of employment, training, social, labor-management and development services, including the Washington State Employment Security Department and their dislocated worker programs, local One-Stop and Career Links Centers, labor unions and industry representatives, city/county agencies, community colleges, US DOL, and federal trade adjustment assistance programs.

**Case Study: Cabinet Shop.** In 2000, employees of a cabinet production shop in Everett, Washington, contacted the Labor Liaison Program. The sixty employees represented by the Carpenters Union were concerned that an aging owner was making plans to retire without an ownership succession plan. The owner was concerned about his employees, who had been productive workers and had made his company very successful. The Labor Liaisons met with the employer and the employees to discuss the closure. During this meeting, the Program raised the options of an employee buyout or an outside buyout as an alternative to closing the company. Both parties agreed to pursue the feasibility of these options.

After a successful request to the State Department of Employment Security, \$10,000 from WIA Rapid Response/dislocated worker funds was used to conduct a prefeasibility study. Within three days, a labor-management buyout committee

<sup>66</sup> From interviews with Jim Tusler, Labor Liaison, Washington State Labor Council, AFL-CIO, and reports of the Labor Liaison Program

was organized, designed a scope of work for the study, and selected a consultant. Key goals of the buyout committee were to retain as many family-wage employee jobs as possible and to maintain the collective bargaining relationship.

The consultant who was hired by the committee interviewed every employee as part of the prefeasibility study to assess the collective view of how the company could succeed in the future. The study confirmed that the market for the product was growing, and prioritized the maintenance of the company's ongoing customers as the critical path to success for a viable business. Given the reality that the company leased instead of owned real estate, financing was viewed as a problem. However, while financing issues were being discussed, a wealthy individual approached the employer and expressed an interest in becoming an owner-manager. Within a few weeks, the workers agreed to the buyout and signed a mutually agreeable four-year labor agreement with the new owner.

The purchase was greatly facilitated because of the initiative taken by the Labor Liaison Program to obtain an agreement with the aging owner to pursue alternatives. The new buyer became aware of the potential buyout opportunity because of the labor-management committee and received critical information on the viability of the firm from the prefeasibility study. Since the purchase, the company has expanded, adding a new facility, and hiring an additional 20 workers.

### Response: Key Retention Strategies and Services

When firms in distress are identified, quick, cost-effective and meaningful professional services are vital in analyzing the situation and providing immediate responses. Early “fixes” are often followed by longer-term supports to assist firms and workers through the transition to stability. The following two models in Pennsylvania and Massachusetts are examples of major institutional program approaches—one a sub-State contractor, the other a part of a State's quasi-governmental agency. The Pennsylvania Steel Valley Authority (SVA) provides basic retention, turnaround and buyout services; the Massachusetts Economic Stabilization Trust provides flexible financing and management turnaround services as fundamental tools to strengthen business health.

#### Steel Valley Authority's Strategic Early Warning Network

**History:** From 1975 to 1995, the Western Pennsylvania region suffered economic devastation as it lost more than 157,000 high-quality manufacturing jobs.<sup>67</sup> The Pittsburgh region suffered the most severe industrial and economic dislocations in the nation in the 1980s, caused by the devastation of the steel and related industries. The City of Pittsburgh and eleven mill towns founded the SVA in 1986 to retain and revitalize the region's economic base. The Pennsylvania Departments of Labor and Industry (DLI) and Commerce (DOC), supported by local business chambers,

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<sup>67</sup> Working for America Institute, *High Road Partnerships Report: Innovations in Building Good Jobs and Strong Communities*, p.35.



labor groups, and political leaders, contracted with the SVA to create a layoff aversion program in ten counties in 1993.

Today, the Authority's *Strategic Early Warning Network* (SEWN) operates in twenty counties that cover most of Western Pennsylvania. The SVA has received national recognition for its early warning systems, job retention efforts and response to closure problems.<sup>68</sup>

**Structure of the Organization:** The Commonwealth of Pennsylvania formally charters the SVA as a regional development organization with local governance.<sup>69</sup> It is structured as an inter-municipal economic development agency incorporated by the City of Pittsburgh and eleven municipalities. The SEWN Network is staffed by professional finance and engineering staff; the primary staff are housed in the SVA's Pittsburgh-area office, and there is a satellite office in Erie.

**Mission and Results:** The SEWN Network, through a regional retention team and other partners, monitors industries and provides services to retain and assist manufacturing businesses-at-risk. SEWN attempts to provide private-sector solutions and public-sector support for these "at risk" companies with a focus on small and middle-market size firms. As a result of its efforts, the SVA has conducted early warning investigations of over 220 businesses, employing almost 30,000 workers, and the Network has had a positive impact on saving or creating 8,000 jobs, ensuring the survival of dozens of small businesses in the region.

**Funding and Resources:** The SEWN Network has had a budget averaging a total of \$150,000-300,000 annually for the last several years, with primary funds derived from WIA Rapid Response dollars, matched with local government and foundation support.

#### Services and Activities:

- **Timely Identification of At-Risk Businesses.** The SEWN Network utilizes numerous intelligence gathering tools, including "early warning" research sources (WARN notices, Dun and Bradstreet reports on company problems, newspaper notices, etc.) and coordinates a Regional Retention Team that acts as both a conduit for early warning information and a resource for coordinated responses to mass layoffs. The Team includes the Rapid Response office, as well as the Governor's "Action Team," regional economic development coordinators for the Commonwealth, and local economic development agencies, private consultants, utilities, etc.
- **Initial Viability Assessments.** Within 48 hours of a request, the SEWN Network cooperates with management and the workforce to provide an evaluation/situational analysis of a company at risk. It also makes referral(s) to other public or private agencies where indicated and appropriate.

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<sup>68</sup> Ibid, p.35.

<sup>69</sup> Center for Community Change, p.16.

- **Key Services Delivery.** The SEWN Network provides business planning, financial restructuring assistance, operational restructuring and cost management advice, succession planning and employee/management ownership transition (ESOPs, etc), and labor-management relations.
- **Prefeasibility Studies.** Through a special federally funded program coordinated through the U.S. Department of Labor and the Ohio Employee Ownership Center, the SEWN Network provides prefeasibility funds to assess the potential for employee buyouts and other alternatives to layoffs for steel and aluminum-related industries impacted by trade (see The National Steel/Aluminum Retention Initiative described in greater detail later in this chapter).

**Partnerships:** The SVA assembled a regional retention team as a part of SEWN. The team included the Governor's Action Team, the State dislocated worker units, regional technology and planning agencies, city and county economic development groups, industrial unions and chambers, and utility and academic groups.

**Case Study: General Cable Industries.** In December 1995, the SVA-SEWN Network was informed by the regional dislocated worker coordinator of a 60-day WARN notice to close General Cable Industries, an automotive ignition wire factory in Altoona, Pennsylvania. General Cable, formerly Carol Cable, had been purchased by a British corporation, which assessed its long-term profitability. The company's management and 250 workers, represented by the International Union of Electrical Workers (IUE), had attempted over the years to implement new work systems to make the plant more efficient and productive, but were unsuccessful.

The SEWN Network staff intervened and organized several weeks of meetings with local and corporate management from out of State, and local and district union leadership, along with the Governor's office, local public officials, and regional economic development leaders who were part of the SEWN Retention Team. As a result of re-building communications among the "stakeholders" of the company, the SEWN staff was invited to conduct a "viability assessment," similar to a prefeasibility study, as to whether or not workplace changes could be made to return it to profitability.

It was discovered that a new "work cells" production system had in fact not been operationally functional, was a source of a considerable lack of shop floor communication, and cost problems for plant production. The SVA provided production cost analysis and longer-term labor-management advice to the plant in the mid-and late summer of 1996, successfully bringing the company and union to a new long-term labor agreement on the re-organization of the workplace.<sup>70</sup> The company has maintained the same employment level for at least six years following the intervention.

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<sup>70</sup> This and other information derived from SVA Executive Director Thomas Croft, SEWN Staff, *SVA Journal*, and other SVA documents.



## Economic Stabilization Trust<sup>71</sup>

**History:** Massachusetts and New England began experiencing the deterioration of the textile and other basic industries even before the 1970s. By the 1980s, the erosion of manufacturing, electronics and defense industries intensified. The Massachusetts Industrial Services Program (ISP) was created by the “Mature Industries Commission” legislation in 1984 to respond to the needs of mature industries and workers in those industries. It bridged economic and workforce development capacities through programs that monitored the economy and critical industries, implemented preventative programs to avoid plant closures, established Rapid Response and worker assistance centers with strong peer networks for those who lost their jobs; and provided assistance in creating employer and labor union partnerships. The ISP launched some of the early defense diversification programs, using incumbent worker training as well as technical assistance, to enable firms to diversify markets and products.<sup>72</sup>

The Massachusetts Economic Stabilization Trust (EST), one of the original programs of the ISP, has been effective in providing flexible financing to assist in the stabilization of manufacturing firms. The Trust provides higher risk financing and loans to small to middle-sized manufacturing firms that are unable to secure adequate working capital financing in the private sector. It also provides management and turnaround assistance to distressed companies.<sup>73</sup>

**Structure of the Organization:** The ISP, now called the Commonwealth Corporation, is a quasi-public organization that develops and implements a wide range of economic, workforce and youth development initiatives. The Business and Employee Services Division oversees the Trust and provides Rapid Response, trade adjustment assistance, and employee ownership and involvement services. Six loan officers form the core staffing for the financing and business consulting services of the Trust. Each of these individuals has manufacturing operating or ownership experience.<sup>74</sup>

**Mission and Results:** The mission of the original ISP was to address the major economic problems of industrial competitiveness and manufacturing job loss. The broadened mission of the Commonwealth Corporation is administering and delivering a wide range of public and privately-funded services to meet the labor needs of businesses; improve current and emerging workers’ skills; foster career success through lifelong learning; and retain, sustain, improve and create job-generating businesses.

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<sup>71</sup> The EST began as one of the programs of the Industrial Services Program. Since its inception, the ISP has undergone one major merger and two name changes. It is now called the Commonwealth Corporation.

<sup>72</sup> John Lederer, p.5-8.

<sup>73</sup> Commonwealth Corporation, [www.commcorp.org](http://www.commcorp.org).

<sup>74</sup> This and other information derived from interview with Robert Baker, Vice President of the Business and Employee Services Division of the Corporation. [www.commcorp.org](http://www.commcorp.org)

The Trust's primary focus is to strengthen the management tools and capabilities of borrowers so that their employees can survive and thrive in their jobs. Funds are used to help companies stabilize, expand, leverage private funds, and establish a relationship with a traditional lender. Assistance is targeted to companies that are committed to retaining and/or adding jobs in Massachusetts. The Trust has made loans as part of its current portfolio to over 90 firms and has assisted dozens more, stabilizing thousands of jobs.

**Funding and Resources:** The Trust is part of the Commonwealth Corporation. It was initially financed by the State and federal grants from the Economic Development Administration. The EST operates as a revolving loan fund receiving repayments on the loans and investments made to companies. In 2000 the Trust received \$200,000 in operational support from the State's WIA Rapid Response/workforce funds for its turnaround manufacturing assistance services, matched by companies it engages, allowing the Trust to provide up to \$10,000 each in subsidized consulting services to each client seeking to preserve jobs.<sup>75</sup>

**Services and Activities:**

- **Turnaround Management Assistance:** EST staff provides turnaround management assistance to companies. Additionally, the Trust retains specialized consultants when a client company needs specific types of experience. Examples of consulting services include managing turnaround, improving productivity, controlling inventory, improving operating margins, etc. When agreeing to bring in an outside consultant, the Trust and the client company execute a simple one-page agreement detailing the scope of work that binds both parties to equally share the consultant costs.
- **Financing Investments and Loans:** The Trust offers a wide variety of financing including working capital, lines of credit for inventory, bank guarantees on lines of credit, term financing, and loans for capital equipment purchases. In 2000, the Trust originated 42 loan transactions with a value of \$7.5 million.
- **ESOP Financing:** The Trust provides assistance to companies interested in establishing employee stock ownership plans (ESOP), including feasibility assessments and referrals for technical assistance and financing.

**Partnerships:** The Trust partners with banks and community development finance institutions, private turnaround and ESOP consultants, other agencies of the Commonwealth of Massachusetts, and local governments and development, community and education institutions.

**Case Study: Northstar Industries.** Northstar Industries is a manufacturing firm in Methuen, Massachusetts, that produces pre-manufactured natural gas metering and regulating facilities. Its all-in-one modular gate system offers a highly efficient alternative to traditional multiple building systems. Northstar's smaller facility design had also been awarded environmental honors from the gas industry for being efficient and environmentally friendly. Northstar's design-to-manufacturing system

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<sup>75</sup> Economic Stabilization Trust, "Business Profiles in Courage," Annual Report 2000.

utilizes an interesting modular construction process where a team consisting of its union craftspeople, company engineers, business managers, and industry specialists oversees production, from pipelines to end users.

In 1999, after six years of business, the owners hit a “plateau” during which the company needed more capital to grow to meet the challenges of the energy market, but they could not obtain enough traditional financing to do so. The Economic Stabilization Trust provided a timely loan of \$400,000, practical technical assistance and links to other valuable resources for the company. As a result of this support and the leadership of the firm, the company has increased its sales from \$1 million in 1996 to projected sales of \$17.5 million in 2001, growing its employment base ten-fold to 50 employees in the process.<sup>76</sup>

## Sectoral Strategies: Urban and Rural Models

In the following sections, three organizations are presented as models of sectoral strategies to retain and help grow industries over the longer term. As explained in Chapter Four, sectoral strategies target an industry based on an area’s perceived comparative advantages and the importance of that industry in the local economy. These strategies create relationships with key stakeholders in that industry and implement activities aimed at improving the viability of the industry and the economic opportunities of low-income individuals and families in that industry. Each of the model organizations provides unique and sector-specific services corresponding to the needs of industries and workers. The Garment Industry Development Corporation (GIDC) in New York is an urban sectoral model, and the Hosiery Technology Center (HTC) in North Carolina and Northwest Wood Products Association (NWPA) in Oregon are examples of industry sector models in rural areas.

### New York: Garment Industry Development Corporation (GIDC)

**History:** New York City is the fashion capital of the United States, supported by hundreds of apparel manufacturers, which now employ 70,000 apparel manufacturing workers or about one-third of the city’s manufacturing base. However, since World War II, the garment industry in New York has struggled with high real estate prices, overseas competitors and loss of domestic market share. In the 1970s especially, the apparel industry in the United States began losing hundreds of thousands of apparel production jobs.<sup>77</sup>

Between 1989-1998, New York City lost more than 30,000 apparel jobs, many of them held by immigrant workers. During the early 1980s, in response to this devastating loss, the International Ladies Garment Workers Union (today known as UNITE) began advocating for a coordinated response to the problems faced by its

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<sup>76</sup> “Business Profiles in Courage,” 2000 Annual Report, Economic Stabilization Trust, Commonwealth Corporation, p.11.

<sup>77</sup> Maureen Conway and Suzanne Loker, “The Garment Industry Development Corporation: A Case Study of a Sectoral Employment Development Approach,” The Aspen Institute, 1999, p.5-16.

members and the industry.<sup>78</sup> In 1984, the union, trade associations and city officials created the Garment Industry Development Corporation (GIDC) as a means of developing retention strategies and increasing the competitiveness of the New York garment industry.<sup>79</sup>

New York City's apparel manufacturing and contracting is largely concentrated on women's and children's apparel. Small contractors employing fewer than 40 workers complete most apparel production. There is a large concentration of contractors in Chinatown and in mid-town Manhattan, and smaller numbers in Queens and the Bronx. According to GIDC staff, "The industry has traditionally provided an opportunity for immigrant workers to not only work but to establish their own businesses as apparel production contractors. Start-up costs are minimal, with possible equipment rental and little required inventory."<sup>80</sup> Workers are primarily Chinese or Latino, and 90 percent of the workforce is female.

**Structure of the Organization:** The GIDC is a nonprofit consortium of the UNITE union, the garment industry, and the New York government. The GIDC offers a comprehensive array of support services for workers and the workplace, and has been involved in the effort of retaining union jobs and the industry in New York.

**Mission and Results:** GIDC's strategy is designed to contribute value-added programs and services that maximize the competitiveness of New York City apparel manufacturers and simultaneously retain, grow and improve jobs. GIDC has trained thousands of workers and managers, and helped to generate more than \$35 million in new sales to its member firms and the industry.

**Services and Activities:** The GIDC targets both small and mid-size firms and workers in a large, multi-ethnic workforce.

- **Technical support.** GIDC provides a wide array of direct technical support to the industry, including real estate assistance, domestic and international marketing services, productivity improvement programs and training/education services to upgrade the skills of both management and labor.<sup>81</sup>
- **Incumbent and workforce training.** In the area of training, customized on-the-job training and classroom training for production modernization are developed and delivered by former garment industry workers. GIDC operates a modern training and support center in Chinatown, equipped with the latest in technology advances in the needle trades and garment industry. Training is taught in Chinese dialects and Spanish and is offered to dislocated and incumbent work-

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<sup>78</sup> High Road Partnerships Report, Working for America Institute, 2000, p.28.

<sup>79</sup> This and other information derived from interviews with Linda Dworak, Executive Director of the Garment Industry Development Corporation (GIDC), and from U.S. Department of Labor Employment and Training Administration, "Layoff Aversion Expert Panel Meeting Synopsis," OAS June 14, 2000.

<sup>80</sup> Maureen Conway and Suzanne Loker, p.15

<sup>81</sup> Working for America Institute, 2000, p.28

ers. Advanced training is provided to workers and managers. Additional training also provides English language skills.

- **Business Assistance.** The GIDC offers re-engineering, plant layout assistance, and design help to create modular-manufacturing systems. GIDC conducts management training for small business owners and managers.
- **Marketing.** GIDC has an export promotion program to help the industry access new markets and the manufacturers sell their products overseas. GIDC also provides services to contractors to secure new business. This includes a virtual showroom of manufacturers, accessible through their Web page. The GIDC also has a uniform program to bring city and State uniform business back to local factories.

**Funding and Resources:** The annual budget for GIDC is approximately \$2 million, which comes from various sources.<sup>82</sup> The base funding comes from the labor management fund, a fund negotiated between UNITE and the industry based on an amount paid into the fund by the employer per labor hour. Other revenue includes funds generated from federal, State and local economic development agencies, city grants, and federal training funds from the Department of Labor.

**Partnerships:** To accomplish its many initiatives, GIDC has established a broad network involving local industry, community, education, and economic development organizations. These partners include its founders, UNITE, the New York Skirt and Sportswear Association and the Greater Blouse, Skirt and Undergarment Association, as well as the City of New York, the Industrial and Technology Assistance Corporation (ITAC), the local manufacturing extension program, and the Consortium for Worker Education.

## North Carolina: Hosiery Technology Center

**History:** Over 300 hosiery mills are located in North Carolina, which produces 60 percent of all hosiery manufactured in the U.S.<sup>83</sup> While much of the North Carolina textile industry has lost plants to Asia and Latin America, the hosiery industry has been relatively stable, suffering a relatively modest loss of employment over the last 10 years. However, the hosiery industry has been impacted by market changes driven by global competition, computer technology, and shifts in purchasing from wholesale purchasers to large retailers such as Wal-Mart and K-Mart.<sup>84</sup>

The Hosiery Technology Center (HTC) is composed of several sites. The first center was founded in 1990; presently there are two centers, located at Catawba Valley Community College in Hickory and Randolph Community College in Asheboro. Prior to the establishment of HTC, the Carolina Hosiery Association (CHA) was formed in 1963. CHA is a network of 200 North Carolina hosiery firms employing between 25 and 100 workers.

<sup>82</sup> DOL Layoff Aversion Panel, June 2000; GDIC Annual Reports.

<sup>83</sup> This and other information derived from interviews with according to Dan St. Louis, Director of the Hosiery Technology Center.

<sup>84</sup> Okagaki, Palmer, and Mayer, p.27; and DOL Layoff Aversion Panel, June 2000.



The idea for establishing the Hosiery Technology Center arose at a CHA retreat as a means to address several issues confronting the industry: modernization, upgrading employee skills and retaining good workers who were leaving for jobs in other industries.<sup>85</sup> The HTC was modeled after the existing Furniture Technology Center at one of the same colleges.

Of the 38,400 hosiery workers in North Carolina in the 1990s, most are female (92 percent) and minorities. While this workforce was initially viewed as a low-cost pool of labor, that advantage has been eroded. Thus, the industry continues to need help modernizing and upgrading the skills of its workers.

**Structure of the Organization:** The Hosiery Technology Center is a joint program of Catawba Valley and Randolph Community Colleges. An advisory committee and various other committees composed of CHA representatives guide the group.

**Mission and Results:** The HTC helps the hosiery industry compete in a global environment through training, research and development and partnerships. It believes that the strategy for layoff aversion is to keep the industry healthy by improving the skills of the workforce, a key for hosiery sector competitiveness. According to the Center for Community Change (CCC), which conducted a major performance evaluation of HTC as part of a broader analysis of rural and urban job retention initiatives in the U.S., “Our conclusion is that...HTC is having major impacts on competitiveness and job opportunities, and at a low cost per job.” These impacts include the numbers who receive broad-based training and education, the numbers placed in jobs, wages and job quality (ranging from \$8.50 to \$12 for more technical jobs, above the area median income), and targeting of opportunities to minority and disadvantaged populations.<sup>86</sup>

**Funding and Resources:** The State government, through community college funds, provides the primary support for the Hosiery Technology Center. The State legislature has created pass-through funds for HTC through the two community colleges. Additionally, the North Carolina Departments of Labor and Commerce provide funding support for the Center. HTC’s budget has grown rapidly from \$37,500 in 1990 to over \$300,000 in later years. Additional resources have come from equipment vendors, which have provided HTC with state-of-the-art machines. The State labor department has provided job-training funds, and the Southeast Manufacturing Technology Center has also provided support.<sup>87</sup>

**Services and Activities:** HTC focuses on the areas of training, technology transfer and equipment modernization, and marketing.

- **Incumbent Worker Training.** The Center offers services, including workers skill upgrade courses, computer-aided draft design (CAD) and computer-aided manufacturing modeling (CAM), integrated purchasing and cost systems, improved inventory control and quick delivery systems, strategic planning, Total

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<sup>85</sup> Ibid, p.23.

<sup>86</sup> Ibid, p.41-42.

<sup>87</sup> Ibid, p.39.

Quality Management (TQM), and improved personnel management methods.<sup>88</sup> The program also provides English-as-a-Second-Language training to persons of Vietnamese, Hmong and Mexican heritage, most of whom have very limited English proficiency and, perhaps, none.<sup>89</sup>

- **Welfare to Work Training.** In partnership with the CHA and North Carolina Department of Commerce, the HTC has trained workers who were on welfare rolls and successfully helped them locate employment in the industry.
- **Marketing.** The Center provides marketing services through several courses to business leaders. It also organizes a roundtable for industry associations on a regular basis.
- **Research and Development.** Cooperating with the industry, the Center provides research and development for hosiery manufacturing, and has produced reports on preserving, modernizing and expanding the industry in North Carolina.

**Partnerships:** The most important work of the Center has been in developing partnerships with the two hosiery associations. Other partners include the State Labor and Commerce Departments that sponsor classes for job training; the College of Textiles at North Carolina State University that provides assistance with testing; and the University of North Carolina that has conducted industry research for the Center.<sup>90</sup>

## Oregon Northwest Wood Products Association

**History:** The wood industry is recognized as one of the most important segments of the Oregon economy. In the 1970s and 1980s, the industry in Oregon and throughout the Pacific Northwest suffered severe job losses, especially in primary logging and sawmill operations. Long-term causes include the depletion of this natural resource and low-cost imports from overseas.<sup>91</sup>

In 1990, in response to these continuing problems, the Oregon State Government created the Northwest Wood Products Association (NWPA), originally called “Oregon Wood Products Competitiveness Corporation,” which was funded by the legislature with \$2.3 million for its first two years. NWPA is an association of secondary wood products manufacturers that assists member firms in the areas of market development, capital access, technology and training and supply development.

**Structure of the Organization:** NWPA is now an independent, non-profit, and self-financed trade association. Initially funded as a State program, NWPA was spun off as an independent organization in 1993. Its membership consists of sec-

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<sup>88</sup> Ibid, p.41.

<sup>89</sup> Hosiery Technology Center, brochure

<sup>90</sup> U.S. Department of Labor Employment and Training Administration.

<sup>91</sup> This information derived from interviews with Dennis Brock, Executive Director of the Northwest Wood Products Association (NWPA), and U.S. Department of Labor Panel on Layoff Aversion, June 2000.



ondary wood products firms and represents 80 companies with an employment base of 8,000. The staff has varied skills and is made up of professionals who have worked in the wood products industry for many years. The Director has a background in industrial networks and entrepreneurial public/private ventures, and exhibits politically savvy and strong business management skills.

**Mission and Results:** NWPA aims to enhance the competitiveness of the secondary wood products industry of Oregon and recruit new markets for Oregon's wood products industry. NWPA has graduated more than 2,200 students from wood products courses, and assisted many of its member firms.

**Funding and Resources:** The NWPA's core budget has varied from \$500,000 to more than \$700,000. The program was initially funded by the State legislature but has since achieved a varied funding base. The mix of funding for this budget and training and special programs not part of this budget includes membership dues, State funding from the Oregon Economic and Community Development Department (OECDD), consulting funds, contributions from county economic development groups, community colleges, private sector business donations, and other sources.<sup>92</sup>

**Services and Activities:** The Association offers diversified services according to its five different objectives.

- **Marketing.** The Association provides marketing services to promote Oregon manufacturers and the wood products industry through "Made in Oregon" program promotion. Additionally, the "NWPA Pavilion" travels to domestic and overseas trade shows, makes customer referrals through the Trade Lead program to market and export its members' products, and organizes prior buyers/sellers conferences.
- **Training and Technical Assistance.** NWPA's training and technical assistance programs target efforts to "remain competitive on a global scale," focusing on better production performance, higher quality products, and higher skilled employees. NWPA has partnered with almost 200 firms and numerous colleges to graduate several thousand students in wood products courses. The Association also originated the Secondary Wood Products Training System as a cooperative business education program.
- **Capital Access.** NWPA has developed programs that have provided over \$14 million in financing to more than 60 manufacturers and access to 100 financial service providers through the Capital Hotline.
- **Supply Development.** NWPA addresses policy issues such as the problem of low-cost imports, helps companies turn waste into profits through the Wood Exchange List, and promotes use of underutilized and/or lesser-known species of wood.<sup>93</sup>

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<sup>92</sup> Ibid, p.39.

<sup>93</sup> Northwest Wood Products Association, organizational introduction booklet

**Partnerships:** NWPA is partnering with 155 companies, and three community colleges for their training programs. The Association also developed partnerships with Oregon's OSHA programs and worked with Ecklund Industries in the development of the "Autoloader" an ergonomically designed lift table.

## Workplace Change: High Performance Workplaces

One of the most effective means of retaining employees is utilizing joint labor-management cooperation efforts to solve problems and create a healthy work environment. The Labor-Management Council for Economic Renewal is a sector-focused labor-management partnership made of small and mid-sized firms, represented by United Auto Worker local unions primarily in southeastern Michigan.

### Labor-Management Council for Economic Renewal

**History:** The automobile industry has, like steel and other basic industrial sectors, suffered major restructurings, downsizings and plant closings in the last several decades. Many of the smaller firms in the auto "supply chain" have also faced tremendous pressure from global competition and changing relationships with the "Big Three," and they are often strapped for financial and staff resources. The unionized sector of small auto industry businesses faces growing threats from non-unionized suppliers and other low-wage competitors. Finally, there has been a chronic wage and benefit gap between employees at large and small employers.

The Labor-Management Council for Economic Renewal (LMCER) was created to ensure that UAW-represented employers enjoy the benefits of a high-performance work organization to secure their markets. LMCER has focused not only on "incumbent worker" training, but unemployed and welfare training as well. Its original grant was intended to foster networking among smaller businesses as an economic development strategy, and the union believed that its existing relationships with numerous auto suppliers and other manufacturers would provide a good basis for pursuing this strategy. The union was also committed to helping local leaders develop more constructive relations that would lead to better performance and working conditions.<sup>94</sup>

**Structure of the organization:** The LMCER is a nonprofit, tax-exempt membership organization of firms and union organizations in southeast Michigan. It was launched by UAW Region 1A to provide service to Independent Parts & Suppliers, its competitive shops sector. This project was started based on grants from the State of Michigan. In 2000, the Council had approximately 44 firms and 20 union and organizational members.<sup>95</sup> Maureen Sheahan has been the Executive Director from the start.

**Mission and Results:** LMCER's mission has been to bring together labor and management in UAW Region 1A and southeast Michigan to increase the competi-

<sup>94</sup> Maureen Sheahan, *Joint Approaches To Meeting New Quality Standards*, a presentation at the National Labor Management Association National Conference, 1996.

<sup>95</sup> U.S. Department of Labor Employment and Training Administration.

tiveness of small and mid-sized firms and enhance the job security and quality of life for all employees through generating inter-firm cooperation, fostering constructive labor-management relations, and by helping work sites provide employees with a meaningful voice in the decisions that impact their lives.

The Council is dedicated to assisting its members in choosing high-performance strategies that increase quality, efficiencies, and market responsiveness while expanding training for workers and providing them with a greater voice in the workplace.

During the 1990s, more than 1,000 labor and management participants representing more than 70 work sites and 25 local unions engaged in LMCER programs.

**Funding and Resources:** LMCER was initially funded through State grants. LMCER has also received funding from the Federal Mediation and Conciliation Service (FMCS), Workforce Investment Act (WIA) and welfare-to-work grants. Organizational membership dues provide base funding, and the Council also receives consulting fees for services.<sup>96</sup> General budget levels have averaged \$200,000 annually.

### Services and Activities:

- **Promotion of Services:** The Council has provided a broad array of educational services to its members through membership meetings, conferences, task force activities, magnet and on-site training programs, individualized consulting, publications, and resource coordination.
- **Training:** Since 1990, LMCER has offered more than 120 programs that cover high performance leadership, employee involvement, team concepts, total quality management, Americans with Disabilities Act, ISO/QS 9000 and more. LMCER has more recently provided “work-to-work” training services to welfare recipients and laid-off union members, originating from its “Excellence in Manufacturing Employment Project.”<sup>97</sup>
- **ISO/QS 9000 Advocacy Project:** This project was launched in response to auto supplier members’ need to quickly meet the very challenging demands of the new combined Big Three quality standard, QS 9000, which is based on ISO 9000. In trying to satisfy the difficult demand for reduced prices and higher quality product, this project found an incredible opportunity that motivated members to adopt labor-management partnerships and participative practices.
- **Publications:** Publications have included a “Participative Implementation Process Manual” and “Lessons in Labor-Management Partnership for ISO/QS 9000” that have been disseminated nationwide, as well as case studies that are easily customized for communicating with shop floor workers, and other technical support materials.

**Partnerships:** Local universities, colleges, government agencies, and private providers have worked with the Council in numerous ways to provide members with

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<sup>96</sup> This information was obtained during the U.S. Department of Labor meeting on layoff aversion strategies, and additional publications and reports of the LMCER.

<sup>97</sup> High Road Partnerships Report, Working for America Institute, p.31.

technical assistance, training, and consulting services, and the Council helps members select among numerous options. Through its role in CoNDUIT, a federally-funded project designed to assist small and mid-sized firms in adopting the latest Computerized Numerical Controls (CNC), simulation and computer networking and training technologies, the Council offers more extensive on-site assessment of operations and relations, access to Internet technical assistance, workshops, and other services. LMCER has also worked the Michigan Manufacturing Technology Center to provide training and technical assistance to plant managers and workers on manufacturing modernization projects.

**Case Study: NSK Corporation** The United Auto Workers Local 38 surveyed union members in 1994 as part of an effort to determine if members would like to participate more in shop floor decisions affecting their jobs. The 170 workers from NSK Corporation, formerly Hoover Bearing, in Lansing, Michigan, overwhelmingly responded yes. LMCER provided ideas to the Local, which formed a joint steering committee to oversee the adoption of a self-directed team-based work organization for its next contract. The Steering Committee selected Workplace Transformation, a consultant also recommended by LMCER, to work with them to design the new work organization and begin the training and support system work needed for the teams. By the mid-90s, performance improvements that resulted from the teams' continuous improvement initiatives secured employment at the facility against stiff competition from other potential contractors. In each of the contracts since 1994, the company and union have made revisions to their modern operating agreement. In 2000, the Local created a full-time Union facilitator position to support and reinvigorate the teams and is now working on a three-year plan to expand the boundaries of the teams' self-direction.

## Section 5.2

### National Initiatives

As local areas seek to develop response and retention strategies, it is useful to know about available national resources and previous efforts. The U.S. government has generated many initiatives over the years to address large-scale industrial crises and regional dislocations, as well as longer-term economic decline. The two initiatives described below—one a federal agency, and the other an inter-State initiative—are examples of industrial retention and revitalization models initiated at the federal level.<sup>98</sup>

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<sup>98</sup> These two initiatives were reported at the U.S. Department of Labor Employment and Training Administration, Office of Adult Services, Layoff Aversion Meeting, June 14, 2000.

## *Federal Economic Response Agency*

### **U.S. Department of Commerce Economic Adjustment Division Economic Development Administration**

The Economic Development Administration (EDA) was created to generate new jobs, help retain existing jobs and stimulate industrial and commercial growth in rural and urban areas experiencing high unemployment, low income, or severe economic distress. EDA works in partnership with State and local governments, regional economic development districts, public and private nonprofit organizations, and Indian tribes to empower communities to plan and implement local and regional economic development and revitalization strategies.<sup>99</sup>

Like the Department of Defense's economic adjustment office that responds to defense downsizing, the EDA's Economic Adjustment Division (EDA-EAD) provides grants to communities that are coping with sudden and severe economic crisis. The Division works to bring together other federal and State agencies and, when necessary, coordinates the federal response to economic dislocations. The Division reviews information such as mass layoffs and community health statistics when making a decision to respond to a request from a local area experiencing economic crisis.

As a method of providing a broad response to economic crisis, the Division generally brings together other federal agencies and departments that have resources and expertise appropriate to the situation. The other federal entities involved have included the Small Business Administration and the U.S. Departments of Labor, Agriculture, Education and Defense. The agencies included in the response activities will depend on the need and strategy. At the request and with the support of community leaders, the Division will provide strategic planning grants and technical assistance to local development districts or development organizations as described below:

- Planning grants to assist economic development planning and implementation activities such as economic analysis, definition of economic development goals, determination of project opportunities, and formulation and implementation of development programs that include systematic job creation and retention efforts.
- Technical assistance grants including the dissemination of information about economic development programs, projects and emerging issues available to practitioners.

The Division also examines requests from communities to assist in layoff aversion or mitigation efforts. Generally utilizing outside consultants, the Division will provide companies with advice on technology, competitiveness, and restructuring. When a grant is made to local development authorities, these groups can retain a private consultant to conduct prefeasibility and feasibility studies to explore alternatives to

<sup>99</sup> EDA Web site, [www.doc.gov/eda/](http://www.doc.gov/eda/).



layoffs. The Division will also assist with transition prior to layoff, support strategies to reduce impacts on individuals and communities, and help in the creation of new economic activity to replace business that has been lost. Given the time required to review and process requests, EDA assistance generally works best in situations where there is substantial advance notice.

Another useful program for job retention and layoff aversion is EDA's Trade Adjustment Assistance Program. The EDA uses a network of 12 Trade Adjustment Assistance Centers to help manufacturers and producers injured by increased imports prepare and implement strategies to guide their economic recovery. Using the Centers for eligibility assistance, firms that qualify can receive cost-share assistance from the TAAC, typically, from a private sector consultant. EDA will pay 50 percent or \$75,000, whichever is less, while the firm pays the remaining share. Types of assistance include market research, development of new marketing materials, new technology ideas, and assistance with ISO-9000, etc.

Usually, a SWOT analysis, a study to determine "Strengths, Weaknesses, Opportunities, and Threats," is required by a community once it receives EDA-EAD support. The Division will bring together a "federal team" that informs local partners about the resources that are available among agencies. The goal is to push "ownership" of the planning process down to the community level and provide the tools and assistance to address problems facing the community.

**Case Study: Hathaway Shirts.** On May 6, 1997, it was announced that the two plants of the Hathaway Company in Waterville, Maine, would be shut down. Prior to the announced closing, the workers at the company had initiated a program to improve productivity and quality at the Waterville factory, home of the original trademark. However, after cost-cutting measures including removing the famous Hathaway "patch" from the shirt, previous owners WARNACO decided to abandon the company. This company, at 160 years old, was the oldest shirt company in America and a large employer for the community. Because of its rich local history and the large number of jobs provided, the 400 workers, UNITE, the union representing the Waterville employees, and community leaders launched a campaign to retain the company and find a buyer for the two plants.

The community asked the EDA for help, and EDA responded with a \$1 million federal grant to the city of Waterville. This funding, combined with assistance from the State of Maine, allowed the city to purchase the factory. After a six-month campaign to save the company, an investment group led by a former governor, agreed to buy the Hathaway plant and label, and purchased both facilities. The city then leased the Waterville building to the new buyer. UNITE Local 486 in Waterville signed a three-year contract with the new company that improved both jobs and pay rates, and health and pension benefits.

According to the company's Web site, "After a 12-year hiatus, the gentleman's shirt is back and so are many of Hathaway's old customers like big-name department stores.... The new ownership of the company has restored job security, customer

service and style innovations, including the signature red ‘H’ discreetly embroidered at the base of every placket, hand-turned collars and three hole buttons.”<sup>100</sup>

**Case Study: Martinsville, Henry County.** The Martinsville/Henry County area of southern Virginia contained one of the highest concentrations of textile workers in the Commonwealth of Virginia. The area has been impacted severely in recent years by trade-related facility closings/cutbacks in the textiles/clothing sector. In the last seven years, the Martinsville/Henry County area lost ten major textiles/clothing sector employers and more than 5,500 well-paid jobs due to changing trade patterns and cost disadvantages in relation to foreign manufacturers.

Many of these closings involved major employers; three of the firms were approximately 1,500 employees or more; another affected 750 workers. In response to the job dislocations and economic adjustment problems being experienced in the Martinsville/Henry County area, the EDA helped convene a multi-agency task force to assist the community. Under the leadership of the National Economic Council, the office brought together the Departments of Labor, Education and Agriculture to develop a new “Economic Adjustment Strategy” for the region. A grant was awarded to the regional development district to form this multi-county strategy to address the layoffs.

As a part of this initiative EDA has provided support for the following projects:

- West Piedmont Planning District Commission: \$60,000 from an Economic Adjustment Program grant was awarded in FY 2000. Grant funds are being used for the development of an economic adjustment strategy designed to find ways to mitigate the impacts of NAFTA, as well as the impact of agricultural regulations on the textiles, tobacco, and dairy products sectors.
- City of Martinsville: \$700,000 Public Works grant was awarded in 1997 for the construction of infrastructure (roads, sidewalks and gutters, street lighting, water lines, sanitary sewer relocation) to allow for the Phase I development of the 60-acre Clearview Business Park, located in the City of Martinsville.
- City of Martinsville: \$700,000 in additional grant funds was awarded in FY2000 for the acquisition and renovation (interior subdivision, roofing, flooring, improvements to loading dock, landscaping, signage, asbestos abatement, etc.) of an approximately 23,500 square foot building. The building will become a mixed-use small business incubator. The building is located in the historic district of downtown Martinsville and until recently served as the headquarters of a major textile manufacturer. In addition, the building will be integrated into a state-of-the-art fiber optics network that will encourage entrepreneurial development in high-tech oriented sectors. Dislocated workers will receive hiring priority as firms are incubated.
- Henry County Public Service Authority: In addition, EDA is considering an application for assistance in the amount of \$840,000 that would be used for

<sup>100</sup> [www.hathaway.com](http://www.hathaway.com)



construction/installation of new water lines to extend water service to the County's single largest employer, VF Imagewear. VF Imagewear has relied upon ground-well sources for process water. Without a new water supply, company operations and its 3,200 jobs are threatened. EDA hopes the project will prevent another in a series of major dislocations.

## Coordinated Inter-State Initiatives

### National Steel/Aluminum Retention Initiative

The National Steel/Aluminum Retention Initiative (NSARI), managed by The Ohio Employee Ownership Center, is a national program created to respond to large layoffs in the steel and aluminum industry. This industry has been in a state of heightened economic turmoil since 1997-98, when the collapse of markets in Southeast Asia and problems in other emerging markets led to a substantial increase in lower-cost imports.

Authorized by a small Congressional budget initiative, NSARI provides funding for initial technical assistance to steel and aluminum companies, as well as to industry suppliers that are exploring employee ownership. The short-term goal of the initiative is to provide Rapid Response to employee efforts to pursue ownership. The long-term goal is to anchor jobs and capital in communities where people work and to build an economic base for the future.<sup>101</sup>

Based at Kent State University, the Ohio Employee Ownership Center (OEOC) provides a broad range of support to employee-owned companies and worker-owners. The OEOC also administers a state-sponsored program to provide prefeasibility studies, funded through Rapid Response. OEOC has organized a national network of five regional partners with substantial experience in business and job retention to administer the NSARI program at a multi-State level. The partners include:

- The **ICA Group**, located in Boston, is a national not-for-profit organization that seeks to create and save jobs through the development and strengthening of employee-owned and community-based businesses. ICA serves most of New England in the NSARI effort.
- The **Business Retention & Expansion Program (BREP)**, Washington State Department of Trade and Economic Development, located in Seattle, works to retain and expand manufacturing and processing firms to reduce the number of business closures, layoffs and failures that result in significant job loss. The program will also cover Oregon for NSARI.
- The **Steel Valley Authority (SVA)**, located in Pittsburgh, is a multi-municipal development agency. For the last 10 years SVA has managed an innovative small business retention program that covers most of Western Pennsylvania, and will also cover western New York and West Virginia for NSARI.

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<sup>101</sup> John Logue, Project Director, NSARI; Director, Ohio Employee Ownership Center (OEOC).

- The **Center for Labor & Community Research (CLCR)**, located in Chicago, is a non-profit consulting and research organization that specializes in new approaches to community development, having particular expertise in manufacturing. CLCR will serve Illinois and surrounding States for NSARI.
- The **Ohio Employee Ownership Center (OEOC)** oversees the national effort and provides outreach, information and preliminary technical assistance to employees and business owners interested in exploring employee ownership within Ohio.

The impetus for this initiative came from the steel industry import crisis that has been damaging steel companies and the communities that depend on them. According to the Congressional authorization, a “flood” of subsidized, low cost steel imports since 1997 has harmed the steel industry. For instance, at least seventeen steel firms have declared bankruptcy since 1997, resulting in thousands of layoffs. The funding for this program provides preliminary technical assistance to buyout and restructuring efforts in the steel and aluminum industries. Good candidates for assistance include:

- plants and facilities being divested by steel and aluminum companies,
- steel or aluminum companies undertaking restructuring,
- steel and aluminum workers facing wage concessions, and
- suppliers to the steel and aluminum industries under pressure as a result of the crisis and steel company bankruptcies.

In addition, there may be established employee-owned companies in these industries that might benefit from additional technical assistance in their efforts to avert possible shutdowns or major layoffs.

# Appendix



# The Layoff Aversion Compendium

This appendix provides a “Layoff Aversion Compendium,” a set of practical tools and communication guides for further learning and development in layoff aversion strategies. The *Guide* itself contains several short tools to assist in developing layoff aversion strategies. This compendium provides additional tools.

## Section 1

### Layoff Aversion Tools

The first set of sample aversion tools has been supplied by the Workforce Transition Unit of the Michigan Department of Career Development. While these documents focus on employee ownership as a priority outcome from a prefeasibility study, they are relevant for non-ESOP alternatives to layoffs as well.

- ***Sample application for a preliminary business retention study:*** This provides a generic application format for workers, unions and/or managers who are interested in applying to a Layoff Aversion Program for funding support for a prefeasibility study.
- ***Sample pre-qualified bidder application:*** Michigan wisely pre-qualifies consultants who have an interest in conducting prefeasibility studies. This application obtains information on potential bidders so that there is a pool of qualified consultants available.
- ***Sample request for proposal:*** When the State or a sub-State grantee is ready to post a qualified bid to identify potential consultants, this sample request describes the company and industry issues, and lays out a process and timeframe for the bidder to reply.
- ***Sample process of performing a prefeasibility study:*** Michigan’s process is described here, with key players involved, critical schedules, and important sign-offs.

The second set of tools is supplied by the Business Retention and Expansion Program of the Washington State Department of Community, Trade and Economic Development. These tools are also available in their Business Retention and Expansion Primer, cited earlier, *Keeping Businesses Healthy, Happy and Local*.

- ***Sample Economic Development Business Survey,*** provides a generic business survey that is useful in determining key business or employment trends that are facing companies. Some of these trends may signal retention problems.
- ***Sample Public Official Letter,*** is an example of a business retention/expansion program outreach letter to local businesses.

## Sample I

### Application for Preliminary Business Retention Study<sup>1</sup>

**Date of contact** \_\_\_\_\_

**Name of Company** \_\_\_\_\_

Address \_\_\_\_\_

City/State/Zip \_\_\_\_\_

Phone Number \_\_\_\_\_

**Contact Person/Position** \_\_\_\_\_

**Name of Plant Manager/CEO** \_\_\_\_\_

Address \_\_\_\_\_

City/State/Zip \_\_\_\_\_

Phone \_\_\_\_\_

**Date of Plant Closing Announcement** \_\_\_\_\_

**Date plant closing to take effect** \_\_\_\_\_

**Number of employees affected** \_\_\_\_\_ management  
 \_\_\_\_\_ hourly

**Union(s) involved in plant (if any)** \_\_\_\_\_

**Name of local bargaining committee president/chair (if applicable)** \_\_\_\_\_

Address \_\_\_\_\_ Phone \_\_\_\_\_

**Name of Union International Rep/Business Agent (if applicable)**

Agent \_\_\_\_\_

Address \_\_\_\_\_ Phone \_\_\_\_\_

Agent \_\_\_\_\_

Address \_\_\_\_\_ Phone \_\_\_\_\_

**Upon whose behalf is application being submitted?**

☐ Group of managers/salaried employees

☐ Group of hourly employees

☐ All employees, including salaried and hourly

**Are signatures of representatives of the applicant and/or applicant group attached to the application?**

☐ Yes ☐ No

**If "no," please explain:** \_\_\_\_\_

**Are company financial statements for the past three years included with the application?**

☐ Yes ☐ No

**If "no," please explain:** \_\_\_\_\_

**Is the current owner of the business willing to consider or commit to sale of at least 30 percent of the business to employees?**

☐ Yes ☐ No

**If "yes," has evidence of that commitment been provided (e.g., signed letter from owner)?**

☐ Yes ☐ No

**Briefly describe reasons why the applicant believes that this business can be retained and operated successfully:**

\_\_\_\_\_

**We, the undersigned, support this application for a preliminary study to assess the potential for successful operation of the company as an employee-owned enterprise.**

NAME \_\_\_\_\_ POSITION \_\_\_\_\_

<sup>1</sup> Designed by Michigan Department of Career Development

## Sample II Pre-Qualified Bidder Application<sup>2</sup>

Date: \_\_\_\_\_

Name of firm: \_\_\_\_\_

Address: \_\_\_\_\_

City/State/Zip: \_\_\_\_\_ Phone: \_\_\_\_\_

Contact: \_\_\_\_\_

Please describe the capabilities of your firm to perform business retention prefeasibility studies:

---

Please describe your experience in working with unionized firms:

---

Please indicate the firm's fee scale for performing prefeasibility and business retention work:

---

Please indicate if your firm specializes in a particular industry:

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<sup>2</sup> Designed by Michigan Department of Career Development



### Sample III

#### Request for Proposal<sup>3</sup>

The Michigan Department of Career Development (MDCD), Workforce Transition Unit, is seeking proposals to conduct a preliminary study to assess the feasibility of successfully operating Machinery, Inc., of \_\_\_\_\_, Michigan, as an employee owned firm. The MDCD is cooperating in this effort.

Background: Machinery Inc., is a subsidiary of X company, a privately-held firm that manufactures mining and other heavy machinery, salvage, and industrial cranes, and other fabricated structural metal products. X company was purchased by its current owner, Z, in March 1988. The Northern Michigan facility currently employs approximately 100 hourly workers and 8 managers, with 34 on layoff. Hourly workers are represented by the United Local #000. There is strong labor and management interest in assessing the feasibility of a buyout. The President of the firm, Y, has indicated a willingness to assist in conducting the prefeasibility study and in drafting a business plan.

Much of the work produced at the plant, is performed under subcontract. It does not currently have the capability of bidding directly for its own contracts. Currently, the greatest competition to the plant comes from other plants owned by the parent company.

The operating facilities and equipment of the Y plant are antiquated, as described by management and union leaders alike. The Y plant has seen a good portion of its operations transferred to the parent's other plants in area A and area B since the owner took over. This has occurred in spite of the fact that hourly workers have made marked improvements in productivity during that time. Management has stated that, while a final decision may be made to retain the Y plant, it plans to issue a 60-day WARN notice to close the facility. Various indicators lead MDCD to believe that a shutdown is a distinct possibility. Because of this, it is imperative to complete the feasibility study within a very short time period (21 days from the date of receiving the contract to conduct the study).

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<sup>3</sup> Designed by Michigan Department of Career Development, with slight modifications

## Sample IV

### Process of Performing a Prefeasibility Study<sup>4</sup>

1. Plant closing is announced; notice received by Workforce Transition Unit (WTU) Workforce Consultant (WC).
2. WC, Account Manager, or other representative makes initial contact with firm; informs principal parties of the existence of a program to explore the possibility of a buyout of plant.
3. Upon notification by the WC, the local Michigan employment agency, a community organization, a management or employee group, union or other referral source, WTU contacts representatives within plant and arranges a meeting to discuss the business retention/prefeasibility program, to provide an orientation to employee ownership, and to discuss the buyout process.
4. WTU meets with buyout committee (which needs to be formed independently) and prepares application for prefeasibility study, if desired.
5. A buyout committee, composed of company managers and/or union/employee group, applies for pre-feasibility to be done.
6. The Prefeasibility Review Committee (PFRC) reviews the application and makes recommendations for action to be taken; the application is referred to the Director of the Michigan Department of Career Development for approval.
7. The Director of the WTU reviews the prefeasibility application and the recommendation of the PFRC and approves or rejects the study.
8. WTU distributes Request for Proposal (RFP) (via FAX machine or overnight mail) to prequalified consultants interested in bidding on the study.
9. Consultants FAX proposal to WTU within 5 working days; consultants send hard copy by regular mail.
10. Proposals reviewed and evaluated by PFRC using the Proposal Evaluation checklist.
11. Consultant selected by Prefeasibility Committee within 48 hours of close of bid.
12. PFRC makes recommendation to award contract to Director of WTU who approves contract with prefeasibility consultant.
13. Consultant notified immediately by FAX.
14. Boilerplate contract, tailored to situation, issued to consultant for signature, following MJC contract protocol (information on contract monitoring process is outlined in another memorandum, which is attached).
15. Consultant begins work.
16. Consultant phones in mid-study report to WTU Director.
17. Consultant completes study and delivers report, with recommendations and conclusions, to buyout group and PFRC representative.
18. PFRC reviews report with consultant.
19. Representatives of PFRC discuss follow-up plans (if appropriate) with representatives of buyout committee.
20. WTU will provide follow-up assistance to the buyout group, if appropriate.

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<sup>4</sup> Designed by Michigan Department of Career Development, with slight modifications

## Sample V

### Economic Development Business Survey

Company Name: \_\_\_\_\_

Address: \_\_\_\_\_

Your Name: \_\_\_\_\_

Position with Company: \_\_\_\_\_ Phone Number: \_\_\_\_\_

#### A. BACKGROUND

A.1 Please indicate you company's primary product or service category:

A.2 How many years has your business been in operation at this location?

A.3 What percentage of your product is sold in the following areas? (Must total 100 percent)

Local (100-mile radius) \_\_\_\_\_ %      National \_\_\_\_\_ %

Regional \_\_\_\_\_ %      International \_\_\_\_\_ %

A.4 Please estimate your company's total gross revenues for last year:

☐ Under \$1 million

☐ \$16 to 50 million

☐ \$1 to 5 million

☐ \$51 to 150 million

☐ \$6 to 15 million

☐ More than \$150 million

#### B. COMPANY DESCRIPTION AND HISTORY

B.1 How many locations does your company have?

B.2 If more than one, how many are in this country?

B.3 What is the corporate structure of local firm?

☐ Sole Proprietorship

☐ Corporation (public)

☐ Corporation (closely held)

☐ Other (specify)

☐ Partnership

B.4 Are you currently trying to expand into new markets or products?

☐ New markets

☐ New products

☐ Neither

If yes, a. Where \_\_\_\_\_

b. What \_\_\_\_\_

c. Does this represent a significant change from current product line? \_\_\_\_\_

B.5 To what type of customer do you sell your product?

(Estimate percentage sold to each type below. Must total 100 percent)

Manufacturing firms \_\_\_\_\_ %

Direct to consumers \_\_\_\_\_ %

Building contractors \_\_\_\_\_ %

Institutional/public \_\_\_\_\_ %

Wholesalers \_\_\_\_\_ %

Other (Please describe) \_\_\_\_\_ %

Retailers \_\_\_\_\_ %

## C. EMPLOYMENT AND LABOR

C.1 Please estimate how many employees your local firm:

Has today: _____	Will have in 1 year: _____
Had 1 year ago: _____	Will have in 5 years: _____
Had 5 years ago: _____	

C.2 If you anticipate employment decreases, please indicate reasons.

- |  |  |
|--|--|
| <input type="checkbox"/> Do not anticipate decrease    | <input type="checkbox"/> Changes of ownership      |
| <input type="checkbox"/> Decline in sales              | <input type="checkbox"/> Change in technology      |
| <input type="checkbox"/> Foreign competition           | <input type="checkbox"/> Regulatory compliance     |
| <input type="checkbox"/> Change in labor skills needed | <input type="checkbox"/> Decline of supplier links |
| <input type="checkbox"/> Increase production costs     | <input type="checkbox"/> Other (specify)           |
| <input type="checkbox"/> Lack of capital               |  |

C.3 How many shifts does your company operate? \_\_\_\_\_

C.4 If you had more orders, do you currently have the capacity to produce more? \_\_\_\_\_

C.5 How are your workers trained? (Check all the apply)

- |  |  |
|--|--|
| <input type="checkbox"/> On the job        | <input type="checkbox"/> Community college             |
| <input type="checkbox"/> Vocational school | <input type="checkbox"/> Union/ Apprenticeship program |
| <input type="checkbox"/> Trade school      | <input type="checkbox"/> Other (specify)               |
| <input type="checkbox"/> University        |  |

C. 9 How significant a problem is employee turnover?

C.10 How much trouble do you have replacing skilled employees?

C.11 How do you hire workers?

C.12 Are there specific jobs you are having difficulty in filling? (specify)

C.13 What percentage of your employees are unionized?

C.14 What percentage of your time is spent on complying with federal, State and local regulations?

## D. TRENDS AND OUTLOOKS

D.1 What has been your average annual growth in the last five years?

D.2 How serious a problem is cash flow in your company?

D.3 Is your business seasonal?

D.4 Is your company suffering from an economic impact or trend?

D.5a Do you anticipate any problems with your financing needs?

D.5b What kind of financial help might you need? (Check all that apply)

- |   |  |
|---|--|
| <input type="checkbox"/> Short-term loans   | <input type="checkbox"/> Loan guarantees |
| <input type="checkbox"/> Low-interest loans | <input type="checkbox"/> Other(specify)  |
| <input type="checkbox"/> Long-term loans    |  |

**D.5c What type of capital do you need? (Check all that apply)**

- |                                     |                                |
|-------------------------------------|--------------------------------|
| <input type="checkbox"/> Working    | <input type="checkbox"/> Land  |
| <input type="checkbox"/> Investment | <input type="checkbox"/> Other |
| <input type="checkbox"/> Equipment  |                                |

**D.6 How important are the following factors to the financial condition of your company?**

- |  |   |
|--|---|
| <input type="checkbox"/> Material costs        | <input type="checkbox"/> Energy costs             |
| <input type="checkbox"/> Labor costs           | <input type="checkbox"/> State and local taxes    |
| <input type="checkbox"/> Interest rates        | <input type="checkbox"/> Training/retraining      |
| <input type="checkbox"/> Selling costs         | <input type="checkbox"/> Land, construction costs |
| <input type="checkbox"/> Transportation costs  | <input type="checkbox"/> Other (specify)          |
| <input type="checkbox"/> Regulatory compliance |   |

**D.7 How important are the following factors to your current operations?**

- |   |  |
|---|--|
| <input type="checkbox"/> Foreign imports      | <input type="checkbox"/> Transportation problems     |
| <input type="checkbox"/> Domestic competition | <input type="checkbox"/> Labor productivity          |
| <input type="checkbox"/> Changing markets     | <input type="checkbox"/> Labor availability          |
| <input type="checkbox"/> Outdated machinery   | <input type="checkbox"/> Inadequate supplier network |
| <input type="checkbox"/> Insufficient space   |  |

**D.8a Within the next two years, how likely are you to be involved in the following:**

- |  |  |
|--|--|
| <input type="checkbox"/> Reduction of workforce              | <input type="checkbox"/> Downsizing of existing facility             |
| <input type="checkbox"/> Acquisition of other companies      | <input type="checkbox"/> Purchasing equipment to increase production |
| <input type="checkbox"/> Merger with other companies         | <input type="checkbox"/> Retirement of major owner/stockholder       |
| <input type="checkbox"/> Acquisition of your company         | <input type="checkbox"/> Site closure by company HQ                  |
| <input type="checkbox"/> Expansion in domestic markets       | <input type="checkbox"/> Employee ownership                          |
| <input type="checkbox"/> Expansion into (of) foreign markets |  |
| <input type="checkbox"/> Relocation to another state         |  |
| <input type="checkbox"/> Expansion of existing facility      |  |

**D.8b If you are considering relocation or expansion, where are you looking?**

- |  |   |
|--|---|
| <input type="checkbox"/> Within city                     | <input type="checkbox"/> Outside Washington state |
| <input type="checkbox"/> Within county                   | <input type="checkbox"/> Outside United States    |
| <input type="checkbox"/> Other Washington state location |   |

**D.9a What is your overall opinion of the county as a place to do business?**

**D.9b What is your overall opinion of the State as a place to do business?**

**D.9c Why did you say that?**

## E. LOCAL GOVERNMENT SERVICES

**E.1 Economic development initiatives— What economic development programs are you aware of?** (Please put an X in front of the programs you are aware of and those you have used in the past two years.)

- |  |   |
|--|---|
| <input type="checkbox"/> Industrial Revenue Bonds/<br>Umbrella Bond Program          | <input type="checkbox"/> Local Economic Development<br>Council                |
| <input type="checkbox"/> Small Business Administration<br>financing                  | <input type="checkbox"/> Small Business Development Center                    |
| <input type="checkbox"/> Department of Community, Trade<br>and Economic Development: | <input type="checkbox"/> Export Assistance Center                             |
| <input type="checkbox"/> Community Finance Program                                   | <input type="checkbox"/> Center for International Trade in<br>Forest Products |
| <input type="checkbox"/> Business Assistance Center                                  | <input type="checkbox"/> International Marketing Program<br>for Agricultural  |
| <input type="checkbox"/> Community Development<br>Loan Fund                          | <input type="checkbox"/> Commodities & Trade                                  |
| <input type="checkbox"/> Local Revolving Loan Fund                                   |   |

**E.2 Rate each of the following local government services.**

Use this scale: 1-Poor 2-Average 3-Above Average 4-Excellent 5-N/A

- |                                  |  |
|----------------------------------|--|
| ___ Overall local govt. services | ___ Permitting process                           |
| ___ Water supply                 | ___ Schools (K-12)                               |
| ___ Waste water treatment        | ___ Community college/university                 |
| ___ Police services              | ___ Vocational/technical institutes              |
| ___ Streets and roads            | ___ Access to Child Care Services<br>information |
| ___ Fire protection              | ___ Access to social services                    |
| ___ Planning department          |  |

**E.3 Please indicate those areas in which you feel you could use assistance.**

- |   |   |
|---|---|
| <input type="checkbox"/> Finance            | <input type="checkbox"/> Marketing                    |
| <input type="checkbox"/> Personnel          | <input type="checkbox"/> Export/Import                |
| <input type="checkbox"/> Energy costs       | <input type="checkbox"/> Equipment                    |
| <input type="checkbox"/> Accounting control | <input type="checkbox"/> Job skill training           |
| <input type="checkbox"/> Working capital    | <input type="checkbox"/> Business succession planning |
| <input type="checkbox"/> Regulatory         | <input type="checkbox"/> Employee ownership           |
| <input type="checkbox"/> Business planning  | <input type="checkbox"/> Other (specify)              |
| <input type="checkbox"/> Inventory          |   |

**E.4 If primary company owner is over 50, has an in-house successor been identified?<sup>5</sup>**

<sup>5</sup> From Primer, Business Retention and Expansion Program of the Washington State Department of Community, Trade and Economic Development, with modifications.

## Sample VI

### Public Official Letter<sup>6</sup>

Office of the Mayor

Date

Ms. Jane Doe, President  
General Manufacturing Group  
123 Main Street XYZ City, CA 90000

Dear Ms. Doe:

The economic well being of our city comes from existing firms in our industrial and manufacturing sector. Because of its importance to our community, positive steps are being taken to identify and meet the needs of these firms.

To support this effort, an in-depth survey of industrial and manufacturing firms is being conducted under the sponsorship of the Mayor's Office in cooperation with the City Manager's Office, the Chamber of Commerce, and the Manufacturers Association. The survey consists of interviews between business leaders and representatives of one of the participating organizations.

The survey will help keep us abreast of your company's plans and determine if you are satisfied with this community as a place to do business; and in turn, we would like you to know about services to businesses available through this office.

I respectfully invite you to participate in this important survey. Shortly, one of our interviewers will contact you for an appointment. Your candid responses to the survey question, which will be held in strict confidence, are vital if you and we are to benefit from this business outreach program. The interview should require approximately one hour of your time. You will be provided with a summary report when an analysis of the results is completed.

We are committed to fostering a vibrant economy here in the City of XYZ. Your participation will help us continue these important efforts.

Sincerely,

JOHN SMITH  
Mayor

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<sup>6</sup> From Primer, Business Retention and Expansion Program of the Washington State Department of Community, Trade and Economic Development.



## Section 2

### Online Resources: Helpful Web Sites

#### Federal Government Agencies

- **Appalachian Regional Commission:** [www.arc.gov](http://www.arc.gov)  
The Appalachian Regional Commission's mission is to be an advocate for and partner with the people of Appalachia to create opportunities for self-sustaining economic development and improved quality of life.
- **Department of Commerce, Economic Development:** [www.doc.gov/eda](http://www.doc.gov/eda)  
The Economic Development Administration provides grants and loans for economic development, including economic adjustment. The site also references development studies.
- **Department of Energy, Office of Industrial Technologies:** [www.oit.doe.gov/financing](http://www.oit.doe.gov/financing)  
This particular site provides program information on financing manufacturing efficiency and growth. It explains both State and federal programs for financing business and economic development.
- **Department of Housing and Urban Development:** [www.hud.gov](http://www.hud.gov)  
The U.S. Department of Housing and Urban Development provides block grants to states and counties for community development.
- **Department of Labor, Employment and Training:** [www.doleta.gov](http://www.doleta.gov)  
The DOL Employment and Training Administration is the major federal workforce training agency that facilitates support for the training of adults, youth, and dislocated workers. The Web site contains useful information for workforce development professionals.
- **Manufacturing Extension Partnership:** [www.mep.org](http://www.mep.org) manufacturers.  
MEP is a nationwide network of not-for-profit Centers in over 400 locations nationwide, whose sole purpose is to provide small and medium-sized manufacturers with the help they need to succeed. The Centers, serving all 50 States, the District of Columbia, and Puerto Rico, are linked together through the Department of Commerce's National Institute of Standards and Technology.
- **Small Business Administration:** [www.sba.gov](http://www.sba.gov)  
SBA is a federal agency to help small business development mainly by facilitating various financing sources, grants, tax incentives, business loans, etc.
- **Workforce Investment Act Information:** [www.usworkforce.org](http://www.usworkforce.org)  
This site is provided by DOL-ETA and delivers information on WIA legislation, implementation resources, policy-related information, and WIA State plans, etc.

#### State Agencies

- **Commonwealth Corporation:** [www.commcorp.org](http://www.commcorp.org)  
The Commonwealth Corporation is a quasi-public organization providing a wide range of workforce development, business retention and assistance programs.

- **Maryland Department of Business and Economic Development:** [www.dbed.state.md.us](http://www.dbed.state.md.us)  
DBED stimulates private investment and helps create jobs, and attracts new businesses to the state. This site hosts the Division of Business Resources.
- **Michigan Department of Career Development, Workforce Transition Unit**  
[www.michigan.gov/mdcd](http://www.michigan.gov/mdcd)  
Michigan has operated a dislocated worker program since 1986. The MDCCD-WTU has oversight for this program, which includes acting as the official state recipient of WARN notices and directing the operations of the Rapid Response Team effort in response to these notifications.
- **Washington State Community, Trade and Economic Development:** [www.cted.wa.gov](http://www.cted.wa.gov)  
The Office of Trade and Economic Development delivers business assistance services including their Business Retention and Expansion program.

### **National Organizations**

- **Capital Ownership Group:** <http://cog.kent.edu>  
COG is an informal association of people from 14 countries on six continents whose mission is to broaden employee and democratic ownership.
- **Center for Community Change:** [www.communitychange.org](http://www.communitychange.org)  
CCC is a national level community development organization which expertise community organizing, leadership training, jobs and economic development.
- **The Corporation for Enterprise Development,:** [www.cfed.org](http://www.cfed.org)  
CfED is an economic development think tank that produces annual State development report card.
- **Council for Urban Economic Development:** [www.iedconline.org](http://www.iedconline.org)  
CUED is the leading organization for economic development professionals. The site includes publications, research, training and many hotlinks.
- **The Foundation for Enterprise Development:** [www.fed.org](http://www.fed.org)  
This non-profit organization provides leading-edge employee ownership strategies to entrepreneurs and key executives.
- **Manufacturing Extension Partnership:** [www.mep.nist.gov/](http://www.mep.nist.gov/)  
MEP is a nationwide network of not-for-profit Centers in over 400 locations nationwide, whose sole purpose is to provide small and medium-sized manufacturers with the help they need to succeed. The Centers, serving all 50 States, the District of Columbia and Puerto Rico, are linked together through the Department of Commerce's National Institute of Standards and Technology.
- **National Alliance of Business:** [www.nab.com](http://www.nab.com)  
NAB is a national business organization focused on, among other things, improving the competitiveness of the workforce.

- **The National Association for County Community and Economic Development (NACCED): [www.nacced.org](http://www.nacced.org)**  
NACCED is a nonprofit national organization composed of county government agencies that administer community development, economic development, and affordable housing programs.
- **National Association of Counties: [www.naco.org](http://www.naco.org)**  
The National Association of Counties (NACo) continues to ensure that the nation's 2,000 counties it represents are heard and understood. NACo's membership represents over 80 percent of the nation's population and has supported programs for dislocated workers and small businesses.
- **National Association of Manufacturers: [www.nam.org](http://www.nam.org)**  
NAM is a national organization to enhance the competitiveness of manufacturers and improve living standards by shaping a legislative and regulatory environment, and to increase understanding among policymakers, the media and the general public about the importance of manufacturing.
- **National Center for Employee Ownership: [www.nceo.org](http://www.nceo.org)**  
NCEO is a non-profit membership and research organization supporting employee ownership/participation.
- **National Governors Association: [www.nga.org](http://www.nga.org)**  
The National Governors Association (NGA) is the collective voice of the nation's governors. NGA's Center for Best Practices provides technical assistance to the States and federal agencies, has been involved in the implementation of the Workforce Investment Act (WIA), and has promoted incumbent worker and other training and development initiatives.  
**The National Labor Management Association (NLMA): [www.nlma.org](http://www.nlma.org)**  
NLMA is a national membership organization devoted to helping management and labor work together for constructive change.
- **National League of Cities: [www.nlc.org](http://www.nlc.org)**  
The mission of the National League of Cities (NLC) is to strengthen and promote cities as centers of opportunity, leadership, and governance. NLC has been active over the years in economic development and employment and training.
- **The National Network of Sector Partners (NNSP) [www.nedlc.org/nnsdp](http://www.nedlc.org/nnsdp)**  
NNSP was established to expand the use and effectiveness of sectoral interventions to improve employment and economic development opportunities for low-income individuals, families and communities.
- **National Skill Standards Board: [www.nssb.org](http://www.nssb.org)**  
The NSSB is a coalition of leaders from business, labor, employee, education, and community and civil rights organizations created in 1994 to build a voluntary national system of skill standards, assessment and certification systems to enhance the ability of the United States workforce to compete effectively in a global economy.

- **Northeast-Midwest Institute:** [www.nemw.org](http://www.nemw.org)  
NEMW is a Washington-based, private, non-profit, and non-partisan research organization focused on Northeast and Midwest states. One of its major initiatives is to support the development of a strong manufacturing base.
- **U.S. Conference of Mayors:** [www.usmayors.org](http://www.usmayors.org)  
The United States Conference of Mayors is the official nonpartisan organization of cities with populations of 30,000 or more. There are about 1,100 such cities in the country today. The Conference promotes small business, training and development.
- **Working for America Institute:** [www.workingforamerica.org](http://www.workingforamerica.org)  
American unions are building high-road partnerships in communities all around the country. The AFL-CIO has created the Working for America Institute (formerly the Human Resources Development Institute) to support these labor-led strategies for building skills and raising living standards in our communities.

### Regional Development and Workforce Organizations

- **The Center for Labor and Community Research:** [www.clcr.org](http://www.clcr.org)  
This site offers extensive regional and national experience in early warning systems for plant closures and strategic planning. (Based in Chicago.)
- **Garment Industry Development Corporation:** [www.gidc.org](http://www.gidc.org)  
This organization offers extensive experience in industry modernization and worker training and education in New York City; co-sponsored by UNITE and garment firms. Provides assistance nationally.
- **Hosiery Technology Center:** [www.hosetech.com](http://www.hosetech.com)  
The Hosiery Technology Center is a unique hosiery-specific training center to help the North Carolina-centered hosiery industry to compete in a global environment through training, research and development, and partnership.
- **ICA Group:** [www.ica-group.org](http://www.ica-group.org)  
The ICA Group is a regional and national not-for-profit organization which seeks to create and save jobs through the development and strengthening of employee-owned and community-based businesses. (Based in Boston area.)
- **New York Industrial Retention Network:** [www.nyirn.org](http://www.nyirn.org)  
The New York Industrial Retention Network (NYIRN) is a city-wide not-for-profit organization established to strengthen New York City's manufacturing sector, save manufacturing jobs, and build the capacity of the organizations in NYIRN's network that provide services to manufacturers.
- **Northwest Wood Products Association:** [www.nwpa.org](http://www.nwpa.org)  
NWWPA is an association of wood products manufacturers centered in Oregon that helps firms grow and be more profitable through programs in the areas of Market Development, Capital Access, Training and Technology, and Supply Development. NWWPA serves the industry both as a provider of services as well as a connector.

- **Ohio Employee Ownership Center:** <http://dept.kent.edu/oeoc/>  
OEOC provides a broad range of services for employee-owned companies and those who want to establish them. Also manages prefeasibility studies for the State in Ohio, and coordinates the National Steel/Aluminum Retention Initiative. (Based at Kent State University.)
- **Steel Valley Authority: Visit SVA’s “investment” project,** [www.heartlandnetwork.org](http://www.heartlandnetwork.org)  
This site offers extensive regional and national experience in job creation and retention, early warning systems, employee ownership, state and community planning, strategies for economically-targeted pension investments. Email: [sewn.sva@att.net](mailto:sewn.sva@att.net). (Based in Pittsburgh, PA)
- **Washington State Labor Council, AFL-CIO:** [www.wslc.org](http://www.wslc.org)  
WSLC provides Rapid Response activities and retention programs covering prefeasibility studies and technical assistance leading to employee buyouts.
- **Wisconsin Regional Training Partnership:** [www.wisafclcio.org](http://www.wisafclcio.org)  
Reached at Wisconsin State AFL-CIO, this organization offers extensive experience in collaborative labor/management industry modernization and training in the Milwaukee area.
- **Worker Center, King County Labor Council, AFL-CIO**  
The Center has a broad range of experience in Rapid Response, economic development, employee ownership, capital investments, education and training including school-to-work. Email address: [mainoffice@wc-kclc.org](mailto:mainoffice@wc-kclc.org). (Based in Seattle.)

## Economic Research and Information

- **The Aspen Institute:** [www.aspeninstitute.org/](http://www.aspeninstitute.org/)  
The Aspen Institute is a global forum that convenes leaders from diverse disciplines to address critical issues that confront societies, organizations, and individuals. The Institute has conducted a number of studies on retention, development, and training.
- **John Brandow’s “Bizminer”:** [www.brandow.com](http://www.brandow.com), [www.bizminer.com](http://www.bizminer.com)  
This site presents great information on state and metro-area business vitality and retention scores and other measures of economic health. Some data is free.
- **Bureau of Labor Statistics:** [www.bls.gov](http://www.bls.gov)  
DOL’s BLS is a federal institute that collects and analyzes a broad range of information related to labor markets, GDP, inflation, average hourly earnings, worker safety and health, productivity, and economic analysis.
- **Corporate Information:** [www.corporateinformation.com](http://www.corporateinformation.com)  
This site has several features that allow visitors to research a company (public or private, foreign or domestic).
- **Dun and Bradstreet:** [www.dnb.com](http://www.dnb.com)  
D&B is the leading provider of business information for credit, marketing, purchasing, and receivables management decisions worldwide. A fee-based service, D&B can provide infor-

mation on the conditions of businesses in specific sectors and regions, including “stress tests,” which identify firms with potential financial problems.

- **EDGAR On Line:** [www.edgar-online.com](http://www.edgar-online.com)

SEC Filings may be accessed here.

- **Hoovers Online:** [www.hoovers.com](http://www.hoovers.com)

This is a comprehensive source of information on publicly-traded companies.

- **Thomas Register Online:** [www.thomasregister.com](http://www.thomasregister.com)

This site offers an online database of manufacturing firms—product descriptions; some corporate background, including estimated sales.



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