

## **A CASE STUDY OF FEE-FOR-SERVICE ACTIVITY**

### **MINNESOTA DEPARTMENT OF ECONOMIC SECURITY**

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**Executive Summary:** The Minnesota Department of Economic Security (MDES) is the state agency responsible for administering programs under the Job Training Partnership Act, the Wagner-Peyser Act, Vocational Rehabilitation and Services for the Blind. The Workforce Exchange Branch of MDES delivers traditional "job service" programs at over 50 local Workforce Centers throughout the state. Their fee-for-service project is the result of efforts undertaken by MDES since 1994 to expand and modernize its labor exchange and job matching programs to better meet the needs of its employer customers. Employers suggested that MDES needed new job-matching tools and MDES management generally agreed with the employers' suggestions about the need for new job-matching tools and, in fact, the suggestions supported and reinforced other items that had recently surfaced on MDES's agenda of reforms. Over a period of time, MDES decided to invest in three different job analysis and applicant assessment systems:

- *Work Keys* offered by American College Testing (ACT) of Iowa City IA
- *Work Profiling System* from Saville and Holdsworth Ltd. (SHL) of Boston MA
- *Advance Workplace Standards Skill Inventory* from Advance Educational Spectrums of Detroit Lakes MN.

Although subtly different, these three systems all enable MDES to offer the following products and services to employers, job applicants and training agencies: *a Job Profile; an Employee Assessment; and a Training Plan*. The three job profiling systems all met MDES' need for more precise job matching tools, but they all required considerable up-front (and ongoing) investment. Because of these budgetary constraints, MDES set up job profiling in 1996 as a pilot project which is expected to become self-sufficient by charging fees to employers for the services performed. Six Job Profiling Service Centers have been set up throughout the state. Thirty MDES staff have been trained in job analysis techniques and MDES has formed a partnership with the Minnesota State College and University System (MNSCU) to administer the project. Four of the six Service Centers are located at community colleges. Although MDES staff prepare the actual job profiles, College personnel are heavily involved in both the testing of employees and job applicants and are exclusively responsible for conducting any special training. The project is administered by a steering committee composed of local office MDES and local campus MNSCU staff. Project results have been very impressive, particularly given the project's short time frame. Over 18 months the project profiled 330 different jobs with 138 separate employers throughout the state, and brought in revenue of \$167,000. However, it also encountered difficulties typical of any effort to introduce a new product or service in a large bureaucratic organization, public or private. When the project began, MDES hoped for a break-even point after twenty four months, or the fall of 1998. At that time there should be a thorough review of the project's financial picture and cash flow. The project is imaginative and, by and large, successful and it would be unfortunate to abandon

the effort without a chance to solve its initial difficulties.

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## Fee-for Service Case Study:

### MINNESOTA DEPARTMENT OF ECONOMIC SECURITY

**Background and Motivation Behind the Project.** The Minnesota Department of Economic Security (MDES) is the state agency responsible for administering programs under the Job Training Partnership Act, the Wagner-Peyser Act, Vocational Rehabilitation and Services for the Blind. The Workforce Exchange Branch of MDES delivers traditional "job service" programs at over 50 local Workforce Centers throughout the state. This fee-for-service project is the result of efforts undertaken by MDES since 1994 to expand and modernize its labor exchange and job matching programs to better meet the needs of its employer customers. Successful job matching compares the skills and attributes of potential employees with those needed by employers. In the past 15 years, however, factors such as corporate downsizing, front line worker empowerment, greater emphasis on teamwork in the workplace, and the widespread introduction of computers have dramatically changed the nature and content of many if not most jobs in the American economy. As a result it has become harder and harder to precisely determine and measure the exact "skills" needed by today's employers and to match them with the "skills" offered by job candidates and incumbent employees. Both academic research and hands-on experience seem to show that the traditional tools used by job service agencies to match jobs with workers are inadequate in the new economy. Better and more precise tools are needed. Minnesota's fee-for-service project is an attempt to develop and adopt new and more relevant job matching tools. In 1994, MDES undertook an organizational self-improvement project known as the *Job Service Redesign*. As part of this project the agency conducted a large number of focus groups and a state-wide survey of employers asking their advice on improving services. This research revealed that employers were often dissatisfied with the quality of the candidates that MDES was referring in response to their job openings. The employers suggested that MDES needed three new job-matching tools:

- a better way to uncover and assess exactly what skills employers need and want in their workers.
- a more effective method of assessing the skills of job candidates, particularly so-called "soft skills" such as the ability to write, listen, and make independent decisions.
- better links with training agencies-particularly community colleges-to ensure that job referrals were being appropriately trained to an employer's unique specifications.

MDES management generally agreed with the employers' suggestions about the need for new job-matching tools. In fact, these suggestions supported and reinforced other items that had recently surfaced on MDES's agenda of reforms:

- MDES wanted to replace the venerable but now out-dated General Aptitude Test Battery (GATB) with a more modern instrument.
- MDES wanted to improve the general performance of its labor exchange functions and to increase its profile in the labor market: MDES now makes only 40,000 placements a year, out of a total of 1.2 million.
- There was a felt need to establish a single "common language" that could be used by both employers and jobseekers to describe skills and employment attributes.
- MDES felt that more precise job profiling would be useful to education reform efforts and in setting up school-to-work programs.
- MDES wanted to establish closer relationships with Minnesota's community college system than

had existed in the past.

### **New Tools Explored.**

Throughout 1994 MDES staff struggled to develop or find the "new job-matching tools" called for by the employers' focus groups. It turns out that there are a number of such tools available in the private proprietary market. Over a period of time, MDES decided to invest in three different job analysis and applicant assessment systems:

- *Work Keys* offered by American College Testing (ACT) of Iowa City IA
- *Work Profiling System* from Saville and Holdsworth Ltd. (SHL) of Boston MA
- *Advance Workplace Standards Skill Inventory* from Advance Educational Spectrums of Detroit Lakes MN.

Although subtly different, these three systems all enable MDES to offer the following products and services to employers, job applicants and training agencies:

- *A Job Profile.* This is a detailed analysis of a position at a specific firm or a generic analysis of similar positions at different firms. The analysis identifies the specific skills and skill levels needed to perform the job well. Each of the profiling systems has a matrix or grid for classifying the skills into categories such as use of applied technology, use of applied mathematics, listening, writing, observation, teamwork and so on. The core of the profiling process is a detailed structured interview with incumbent workers recognized to be proficient "experts" at the particular job. Staff conducting the analysis will also interview supervisors and review job descriptions, other materials and company specific practices and procedures.
- *An Employee Assessment.* This is compiled after giving a job applicant or incumbent worker a series of tests designed to measure his or her proficiency in each of the specific skills identified as needed to perform a previously "profiled" job. The assessment uses paper and pencil tests as well as audio-visual instruments. Since both the job profile and the client assessment use the same measurement categories and "language," the process of matching applicant skills with job needs is much improved.
- *A Training Plan.* Theoretically, each employee's or applicant's assessment can be compared to a job profile of needed skills to readily identify specific gaps in knowledge or skill. These gaps can form the basis for a regime of individualized instruction for incumbent workers. In a larger context, they can also give cues to educators about the needs of local firms and the deficiencies of existing course curricula. This is knowledge that the community colleges and other training agencies find very useful for their planning and course development. The vendors of the profiling systems used in Minnesota all offer to assist educational agencies develop specialized courses if needed.

The three job profiling systems all met MDES' need for more precise job matching tools, but they all required considerable up-front (and ongoing) investment. The job profiling system vendors do not usually perform job analyses and employee assessments for individual firms. They make their money by franchising their system to other organizations such as schools and colleges, counseling centers and other government agencies. They charge these agencies for the license to establish a job profiling "service center," for training and certifying staff in the techniques of job analysis, and for computerized "scoring" of employee assessment tests. As an example, American College Testing (ACT) charges about \$3000 to train and certify a "job profiler" in their Work Keys system.

These charges are not unreasonable, but the need for this substantial up-front investment in staff

training has forced MDES to take a go-slow approach to its plan for state-wide introduction of these new job matching tools. In the best of all worlds-MDES management would say-these new services should be offered free of charge to all employers and job applicants, as part of our taxpayer-supported service mix. But we can't afford to do that because our annual budgets are at best level funded-even shrinking-these days. In addition, it will take considerable time and effort to institutionalize these new services throughout the entire MDES bureaucracy, particularly now when our attention is focused on establishing consolidated one-stop centers in keeping with initiatives from the federal Department of Labor.

Because of these budgetary constraints, MDES set up job profiling in 1996 as a pilot project which is expected to become self-sufficient by charging fees to employers for the services performed. MDES senior management has rather a "wait and see" attitude toward the project, although there is a commitment to expand the services if they can pay for themselves.

### **Project Operations.**

Six Job Profiling Service Centers have been set up throughout the state. Thirty MDES staff have been trained in job analysis techniques at an up-front cost of almost \$100,000. MDES has formed a partnership with the Minnesota State College and University System (MNSCU) to administer the project. Four of the six Service Centers are located at community colleges. Although MDES staff prepare the actual job profiles, College personnel are heavily involved in both the testing of employees and job applicants and are exclusively responsible for conducting any special training needed to fill gaps in employee skill levels. The project is administered by a steering committee composed of local office MDES and local campus MNSCU staff. This gives a grass-roots flavor to the project. MDES top management seems to have allowed the local staff considerable independence to carry out the project on their own.

**Marketing.** The job profiling project was given a high-profile start at a state-wide Minnesota Business Conference in July 1996, but initial marketing efforts went slowly. Businesses simply did not know about the existence of the service. Originally the "profilers" in each Service Center did their own marketing. But in November of 1996 three staff were appointed to be dedicated full-time statewide salespeople. Marketing and sales of services have greatly improved, but sometimes problems now occur because of miscommunication with the employer customers-between what the salesman promises-and what the customer hears-and what the job profile process actually can deliver. Therefore, there is still some ongoing debate among the project's management over the proper assignment of marketing and profiling staff roles.

Marketing these new services to employers is a time-consuming process largely dependent on networking, informal meetings and face-to-face contact between MDES staff and employers. Prior relationships, accumulated trust and reputation of the staff and the agency are very important. Employers have had generally good experiences with the the state's community colleges and therefore MDES' partnership with MNSCU has been important to the success of both the marketing effort and the day-to-day operations of this project. As with most fee-for-service projects, sales and marketing in Minnesota has been as much a matter of uncovering and exploiting immediate opportunities than of following a pre-planned strategy.

However, marketing has also been pursued through more formal means such as contacts with business organizations, advertising, favorable articles in the media, testimony from satisfied customers, and word of mouth.

The marketing staff has found that the things that most pique an employer's interest are:

- the possibility of customized, in-house training of incumbent workers;
- a more precise analysis of the firm's jobs than has been possible heretofore; and
- the ability to recruit and/or retain more appropriate workers.

Employers who have used the system advise that successful long-term marketing success depends on the following:

- the program must meet an employer's real need;
- the services must be flexible enough to deal with demands and needs of various employer customers; and
- the staff must have patience and allow time to build knowledge and trust in the program among customers.

**Pricing and Financing.** It takes 10-12 hours to perform a job analysis. A firm's incumbent employees are usually intimately involved. They are the "subject matter experts" who define what skills are needed and important to successfully do the job. The time and attention of these employees are valuable to their employer and therefore are often hard to schedule. Employers are understandably reluctant to take their best skilled employees away from their jobs for long periods at a time. Therefore, many trips to the firm and interviews are often needed to complete even one job analysis.

MDES charges about \$1600 to perform a job profile; and about \$85 to assess an employee's skills using computer-graded test instruments. These prices can be reduced if more than one job is being analyzed at the same firm. All paying customers are employers. No fees are ever charged to job seekers or employees. Except for a few very small firms, no employer has ever complained about the price MDES charges for the job profiling service. A more important cost to employers is the down-time of their employees while the process is taking place.

If a job profile or employee assessment uncovers a need for training, community college personnel negotiate separately with employers to design and deliver these services, either at the college campus or at the employer's firm. In such cases, employers are billed separately by the colleges. The employers negotiate their own arrangements with their workers concerning payment of wages during training, whether attendance at classes is mandatory and other issues.

Revenue from *profiling and assessment* accrues to MDES which has set up dedicated accounts for this project. Revenue from *training* accrues to the college and university system. Both MDES and the colleges can send a joint invoice to an employer. Payments are then apportioned between the agencies in proportion to their effort.

No other private vendors of profiling services have ever complained about competition from MDES or about MDES' special relationship with the three specific vendors whose products form the basis of this project. No employer has complained that "these government services should be free."

Except for the dedicated marketing staff, job profilers are all regular local office MDES employees who also perform their regular duties. They do job profiling when the need arises and charge their time to the project's account.

**Successful Results.** Project results have been very impressive, particularly given the project's short time frame. In 18 months between 1996 and 1998 the project profiled 330 different jobs with 138 separate employers throughout the state, and brought in revenue of \$167,000. These revenues were paid directly by employers themselves, and sometimes by third parties such as economic development agencies or employer organizations who want to provide a service for their members. Size of employer customers ranges from 3 employees to over 2000 employees, although the average is a mid-sized firm in the 100 to 250 employee range. Jobs profiled run the entire gamut, including managerial, technical, clerical and operative positions. Most customers have had more than one different job title/position profiled.

Employers who have used the project's services give them high praise. There has been considerable repeat business. Project personnel have been involved in the complete restructuring of at least one large firm in the St. Paul area.

**The Future of the Project.** MDES' Job Profiling project has encountered difficulties typical of any effort to introduce a new product or service in a large bureaucratic organization, public or private. Top management wants to "wait and see" before embracing new services statewide. Some local office managers are enthusiastic about the new services, others are not. Some of the originally trained staff have not worked out successfully. There are issues of local versus central control. MDES and MNSCU both pull and tug the project in their own directions. Other priorities divert attention. All these are growing pains that can be expected to resolve themselves eventually.

More important is the question of long-term financial viability of the project. Revenues must cover not only direct costs of operations but also the marketing and administrative expenses for the project to become truly self-supporting. And something must be set aside from income to eventually recover the up-front costs of staff training, software acquisition and establishing the Service Centers. Marketing the job profiling service has proved to be a relatively expensive, labor intensive process. So has the actual job profiling itself, which requires multiple visits by staff to an employer's site. It appears that to date revenues have not completely covered costs. MDES' regular budget cannot carry this loss indefinitely and some feel that time is running out for the project to "prove" itself. Suggestions have been made to spin off the project to a separate non-profit corporation, or to MNSCU, whose financial resources are greater, or to the state's newly established one-stop centers.

Hopefully other, less dramatic, solutions to these financial problems will be tried first. The price of the services could be raised to cover costs more fully. Management could concentrate on serving only large firms to take advantage of economies of scale in staff time. Alternative sources of income could be pursued.

When the project began, MDES hoped for a break-even point after twenty four months, or the fall of 1998. At that time there should be a thorough review of the project's financial picture and cash flow. Better job matching and more precise employee skill assessment are critical and ongoing needs for employers in Minnesota's current low-unemployment economy. This project is an imaginative and by and large successful attempt to meet those needs. It would be unfortunate to abandon the effort without a chance to solve its initial difficulties.

Attachment:

**Program Information** presented MDES staff person David Niermann at the 1998 One-Stop Conference

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