

Models for Improving Job Quality in Small Businesses

Immigrant and systemically marginalized small business owners in Minneapolis often lack access to financial, technical, and mentoring resources which limits their opportunities and can undermine their ability to invest in greater job quality for their employees. Additionally, current government and non-profit systems are too often not designed to meet the unique challenges these businesses face. These factors help explain the higher rates of labor standards complaints in industries and neighborhoods in which immigrant and systemically owned businesses are disproportionately represented (*see Minneapolis Context fact sheet*).

Small Business owners want to provide quality jobs for their communities. In a survey of small business owners in the U.S., over two-thirds of respondents indicated they were taking some action to improve job quality for their employees.¹ Additionally, in some instances immigrant and systemically marginalized small businesses are more likely to be community focused. For example, in a study of how small businesses responded to a large minimum wage increase in Seattle, researchers found that immigrant-owned franchises were less likely than other franchises to reduce wages, reduce hours, or fire employees.² Despite their desire to invest in their communities, small businesses are struggling in the wake of the pandemic, with 1 in 3 reporting they are unlikely to survive the next three months without more capital or improvement in the economy.³

While there is no magic solution that can solve this problem, we have compiled a list of creative ideas and best practices from around the world aimed at supporting small businesses and creating good jobs. We present these as examples to begin the conversation, encourage creative thinking, and to serve as suggestions for the Minneapolis Roundtable as we craft viable local solutions.

Community Human Resource (HR) Support: The research indicates that labor violations decrease, and small businesses are more successful when creative solutions are utilized to provide small businesses with the types of HR functions that big businesses take advantage of. Specifically, large corporations utilize what is known as “shared services” to reduce their costs by centralizing finance, purchasing, inventory, payroll, hiring and information technology functions. These systems ensure greater compliance as standardized pay systems have been shown to be highly correlated with less labor law

¹ Conway, Maureen, & Swartzel, Alex. 2020. “The Practice of Improving Job Quality: Views from the Field.” *The Aspen Institute*.

² Somashekhar, Mahesh, James Buszkiewicz, Scott W. Allard, and Jennie Romich. 2022. “How Do Immigrant-Owned Firms Respond to Minimum Wage Increases? Evidence from Seattle.” *Economic Development Quarterly* 36(2):108-123.

³ DePillis, Lydia. 2022. “After Enduring a Pandemic, Small Businesses Face New Worries.” *NYTimes*. July 26.
<https://www.nytimes.com/2022/07/26/business/economy/small-business-recession.html>

violations.⁴ For small businesses, this is often accomplished through the formation of cooperatives. Examples:

- Going all the way back to the 1870s, small farmers across the U.S. organized **the Grange** to provide centralized purchasing and marketing at rates that allowed them to push back against the big robber baron monopolies which controlled the market.
- **The Center for Family Life** in Brooklyn, New York has become a leader in developing worker-owned cooperatives for the City's immigrant communities. A key motivation is to provide centralized HR support which handles taxes, marketing, billing, and legal compliance for domestic workers so they can focus on providing services. CFL has developed two new programs to scale this model: the creation of the nation's first franchise co-op cleaning company and an electronic app platform.
- **The Smart Co-op** in Belgium is a shared service cooperative for independent contractors and micro businesses that boasts 80,000 members in eight countries across Europe. Founded in 1998 to provide administrative service for artists, it centralizes members' tax, accounting, and financial services, as well as other HR needs. In an innovative new program, Smart allows freelancers and gig workers to invoice their contractors directly through the co-op and then receive their earnings as a salary from the co-op, giving them access to social security and other employment protections they otherwise would be excluded from.⁵

Partnerships to Provide Business Mentoring: Immigrant and systemically marginalized small business owners often lack opportunities to engage in formal mentorship programs that provide the knowledge to grow and compete in the wider marketplace. Formalized mentoring programs and University partnerships have been found to have a big impact on small businesses and help connect them to systems to create good jobs.

- **The Cuyahoga County SkillUp Program** in Ohio started in 2017 and has become an innovative model for providing small businesses with mentoring and business training. Participating businesses are placed in an "organizational needs assessment" with county officials, which helps businesses figure out how to improve and informs how the County could better assist them. The program includes skills development ranging from practical skills, like building a business plan, to soft skills, including leadership development. Participating businesses are compensated by the County.
- In **Birmingham, UK** two community groups representing immigrant small business owners partnered with Aston University to design small business HR programs. Based on the group's assessment of the businesses' desires, skills, and needs, professors at the University's business school developed targeted educational programs, including an introduction to social media marketing and platform utilization class, as well as a class on marketing and networking. This example illustrates how local resources and community groups can be leveraged to provide important services for small businesses and to connect them to each other.

⁴ Bernhardt, A., Spiller, M. W., & Theodore, N. 2013. "Employers gone rogue: Explaining industry variation in violations of workplace laws." *ILR Review*, 66(4), 808-832.

⁵ Drahokoupil, J. & Piasna, A., 2019, Work in the platform economy: Deliveroo riders in Belgium and the SMart arrangement. ETUI Working Paper 2019.1. <https://ssrn.com/abstract=3316133>.

Engaging Community Intermediaries: When businesses and community groups are connected to each other, shared standards and expectations about job quality and labor law compliance can emerge. For example, following a minimum wage increase in the UK, community institutions helped establish what was “socially acceptable” among immigrant businesses, leading to paying employees the new minimum wage.⁶ Other examples of how important influence from similar businesses within a community include businesses adopting diversity and equal employment opportunity programs.⁷ Community intermediaries (associations, religious organizations, soccer clubs, etc.) are likewise crucial because these institutions can signal to immigrant and systemically marginalized small businesses what the standards are regarding employment practices.

Coordination of government functions: When enforcement is disconnected from an understanding of the needs of small businesses, helping more businesses create higher quality jobs is more difficult. Other models, particularly from Europe, provide an approach that coordinates programs that address business needs.

- In **France and Spain** labor law enforcement is centralized under a single agency; in the U.S., many different bodies might all have authority over a given firm. Given the French and Spanish inspectors holistic agenda, they have much more specific knowledge about and skill to address conditions in each industry, which can help employers identify the root causes of noncompliance. Inspectors offer both technical assistance and punishment, as needed.⁸
- The **Third Italy Model** – named after the Emilia Romagna region’s unique economic system, and composed of networks of small, often cooperatively owned businesses – highlights how governments can centralize small business development in a community-focused way that promotes high quality jobs. While the region’s networks grew out of its artisan history, the government worked to support and nurture this system by: 1) providing shared services and centralized training programs; 2) promoting the creation of small cooperatives; 3) building a centralized export marketing program; and 4) building systems to support the existing ecosystem in the community.

Ongoing Support: Most small business programs operate on a system of “one-and-done.” The Entrepreneurs of Color Fund (ECF), a program of San Francisco area Community Development Financial Institutions (CDFIs) and JPMorgan Chase, found that, given the history of exclusion, building trust with immigrant and systemically marginalized businesses required providing ongoing support. The small business owners who entered ECF’s program were put into a mentorship program before they received any funding. After they received funding, they stayed in the support program with the goal of eventually growing the business to the point that it would need a second round of growth funding, which the ECF

⁶ Ram, M., Edwards, P., Meardi, G., Jones, T., & Doldor, S. 2020. “The roots of informal responses to regulatory change: Non-compliant small firms and the national living wage.” *British Journal of Management*, 31(4), 856-871.

⁷ Dobbin, F., & Kelly, E. L. 2007. “How to stop harassment: Professional construction of legal compliance in organizations.” *American Journal of Sociology*, 112(4), 1203-1243.

⁸ Piore, Michael, & Schrank, Andrew. 2018. *Root-cause regulation: Protecting work and workers in the twenty-first century*. Harvard University Press.

would also provide. ECF found that ongoing mentorship improves job quality as it helps small businesses garner the support and capacity to grow.

The “Not Yet” Not “No” Model: The Entrepreneurs of Color Fund also found that CDFIs had to change their commitment to immigrant and BIPOC small business owners. When a business could not be funded by the program, the ECF adopted a model of saying “not yet” and diverting the business to mentoring and development in the hopes of getting them to “yes.” ECF determined that it was important to not simply say no because denying loans can signal to a systemically marginalized business owner, and subsequently their community, that the program is “not for them.”

Job training and career ladders: One overlooked way immigrant and systemically marginalized small business owners can improve job quality is through providing more training for employees and more opportunities for advancement within the business. For really small businesses, this often means providing employees with skills to start their own businesses or prepare them for more lucrative opportunities. Offering training, regular assessment, and clear paths to advancement has been found to increase workers job satisfaction and firm productivity.⁹ Research indicates offering these programs can benefit workers at a low cost to business owners, as there is often government money available.¹⁰

Pay for upscaling: One path to increasing small business capacity to improve job quality is to subsidize good job creation. As mentioned above, the SkillUp program in Ohio not only provides managerial mentoring but also works with small business owners to design and implement training programs with the goal of compensating workers for their increased skill. While the workers are being trained, the County subsidizes their wages. Eventually, the firms are expected to pay the higher wages under the assumption that the increase in employees’ skills will result in greater productivity and sales.¹¹

⁹ Newman, Amanda, Weissbourd, Jenny, & LaPrad, Jeannine. 2019. “A Retailer Bets On Learning and Development: Goodwill Industries of San Diego County.” *The Aspen Institute*.

¹⁰ Osterman, Paul. 2018. “In search of the high road: meaning and evidence.” *ILR Review*, 71(1), 3-34.

¹¹ Fienerman, David. 2019. “Many Businesses Have Irrational Human Resources Practices. How Cuyahoga County, Ohio is Working to Address That.” *Brookings*. <https://www.brookings.edu/blog/the-avenue/2019/12/19/cuyahoga-county-ohios-experiment-in-helping-businesses-invest-in-talent/>