

# LOW-WAGE WORK, LOW QUALITY JOBS

Understanding and addressing barriers to job quality for low-wage workers



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**Dalberg**

In the United States, an estimated 53 million workers – 44% of all workers aged 18-64 – could be considered low wage. Their median annual earnings are less than \$20,000. The low-wage workforce is disproportionately composed of Black, Indigenous, and People of Color (BIPOC) and women workers—40% of low-wage workers are Black or Hispanic and 54% of low-wage workers are women, higher than their total shares of the workforce.<sup>1</sup> Black and Hispanic women are particularly likely to work and remain in low-wage jobs.<sup>2,3</sup>

Not only do low-wage workers face significant financial insecurity, they also are heavily concentrated in industries where quality jobs are less common. Low-wage jobs in industries such as retail sales, hospitality, and food service tend to be characterized by high turnover, low job security, unstable hours and pay, few opportunities for professional growth, low employee satisfaction, and minimal benefits and incentives, such as paid leave, affordable health insurance, or childcare.<sup>4,5,6</sup> In other words, low-wage workers not only make less money right now, but the low quality of many of their jobs diminishes

their overall wellbeing and limits their upward economic mobility in the future.

**In the United States, an estimated 53 million workers – 44% of all workers aged 18-64 – could be considered low wage. Their median annual earnings are less than \$20,000.**

The COVID-19 pandemic has underscored the myriad challenges that low-wage workers face. Job losses have been heavily concentrated among low-wage workers, especially within the restaurant and retail industries, where

more than 6 million and 2.5 million jobs respectively have been lost due to the pandemic.<sup>7</sup> Low-wage essential workers who have maintained their jobs have done so in the face of significantly higher risks of exposure to the virus.<sup>8</sup>

As we begin to emerge from the pandemic, it is critical to look at the recovery of workers and businesses through a race and gender explicit lens. Stakeholders, from policymakers to workforce development organizations to financial institutions, have largely focused on the urgent needs of creating new jobs or restoring jobs versus pushing for improvements in the quality of these jobs. While recovering and increasing the number of employment opportunities is of course essential, it is equally important to consider if these jobs provide workers with the compensation, benefits, work environment, and advancement opportunities necessary to ensure overall worker wellbeing and potential for upward mobility.

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<sup>1</sup> Brookings, "Meet the Low-Wage Workforce," 2019.

<sup>2</sup> National Women's Law Center, "When hard work is not enough – women in low-paid jobs," 2020.

<sup>3</sup> Kristal et al., "Benefit Inequality among American Workers by Gender, Race, and Ethnicity, 1982-2015," 2018.

<sup>4</sup> Brookings, "Meet the Low-Wage Workforce," 2019.

<sup>5</sup> For our research, job quality is defined by a set of job quality elements (JQEs) encompassing compensation (living wage), advancement opportunities (formal training, mentorship, promotion opportunities, and recruitment and job transitions), employee satisfaction (flexible hours, stable hours, nondiscrimination policies, worker engagement/team development, job security, open communication, and worker recognition), basic benefits (paid family leave, paid time off, health insurance, and retirement plans), incentives (childcare, transportation, and educational benefits), and wealth-building (paying direct deposit, financial counseling, worker loans, profit sharing/employee ownership).

<sup>6</sup> For additional references on elements of job quality, please see: National Fund for Workforce Solutions, "Designing a Good Job," 2020; PCV InSight, "Moving Beyond Job Creation," 2016; Opportunity Finance Network, "Reducing Income Inequality: How CDFIs Promote Job Quality," 2016.

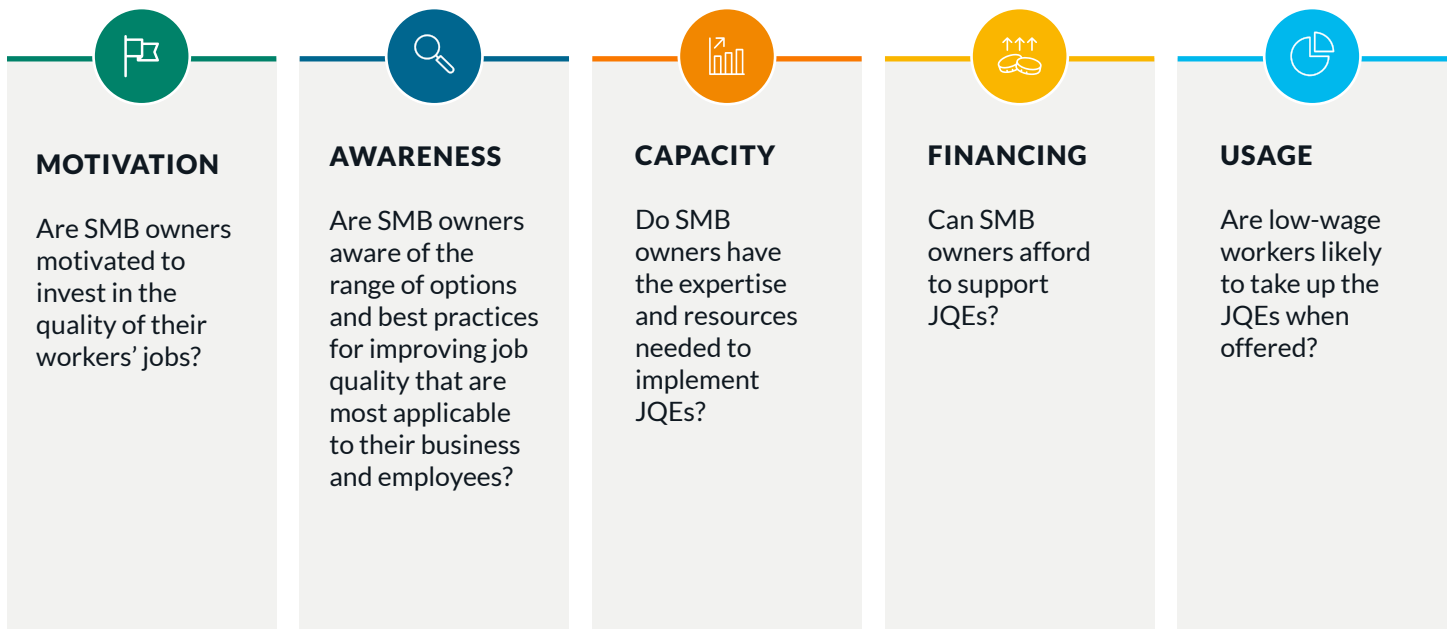
<sup>7</sup> MarketWatch, "The U.S. has only regained 42% of the 22 million jobs lost in the pandemic. Here's where they are," 2020.

<sup>8</sup> Brookings, "Reopening America: Low-wage workers have suffered badly from COVID-19 so policymakers should focus on equity," 2020.

Notably, improving the job quality of low-wage workers, particularly low-wage BIPOC workers, requires a focus on small and mid-sized businesses (SMBs). Half the minimum-wage workforce is employed at businesses with fewer than 100 workers.<sup>9</sup> Since SMBs are a major entry point to developing more and better jobs for low-wage workers, we identified the key barriers holding SMBs back from improving job quality today, as well as the primary ways in which different stakeholders can support SMBs in addressing these barriers.

## 1. IDENTIFYING BARRIERS TO IMPROVING JOB QUALITY IN SMALL AND MID-SIZED BUSINESSES

“Job quality elements” (JQEs) are the features or conditions of employment that contribute to its overall quality.<sup>10</sup> Through a combination of conversations with SMB owners and a review of existing literature, we’ve identified five critical barriers that are constraining SMB owners from adopting various JQEs. These barriers—motivation, awareness, capacity, financing, and usage—may not necessarily emerge in a linear order, and SMB owners may need to contend with multiple barriers at the same time.



<sup>9</sup> Employment Policies Institute, “Who really employs minimum wage workers?” 2013.

<sup>10</sup> Please refer to footnotes 5 and 6 for the full list of job quality elements (JQEs).





## MOTIVATION: Are SMB owners motivated to invest in the quality of their workers' jobs?

Two factors influence an owner's motivation to invest in job quality:

**1. Legal requirements to offer certain JQEs.** Given that employers with more than 50 employees must provide their staff with essential healthcare coverage, an owner's desire to be legally compliant is a major motivating factor in the decision to provide workers with health insurance.<sup>11</sup>



*The expectations are a bit higher in our San Francisco office because people know more about 401(k)s and finances."*

Owner of bicoastal flooring company

**2. The business benefits of JQEs in a particular business context.** This might include an owner's ability to see how investing in job quality positively impacts ROI and the feasibility of implementing a JQE given associated costs. In addition, business owners could consider increases in employee retention when job quality improves as well as

whether the JQE is the norm for the industry. Norms around JQEs vary significantly by industry—for example, only 14% of restaurant workers have employer-provided health insurance, compared to 49% of non-restaurant workers.<sup>12</sup> SMBs may be less motivated to invest in JQEs when taking this step does not appear to confer a competitive advantage in their industries.



## AWARENESS: Are SMB owners aware of the range of options and best practices for improving job quality that are most applicable to their business and employees?

Two factors influence an owner's awareness of investing in job quality:

**1. Knowing which JQEs exist and then navigating how to select and implement them.** For instance, 32% of SMB owners cite "the inability to get clear, unbiased information/data to make purchasing decisions" as a primary challenge in providing workers with healthcare coverage.<sup>13</sup>



*Some business owners have a GM and are not an integral key part of their business. I run the team and am there on site from open to close every single day. That's why I have an attachment to my people. I tell them, 'We're one big family.'"*

Owner of automotive parts retailer

**2. Employer-employee alignment,** including how well SMB owners understand the unique needs of their employees, how much they value and engage with employees, and how well they understand workers' level of satisfaction with the JQEs offered. In our interviews, for example, SMBs frequently cite a lack of perceived employee demand as the reason for not offering JQEs. Approximately 60% of SMBs say that they would be more likely to offer

retirement plans if there were a greater demand for them on the part of employees.<sup>14</sup>

<sup>11</sup> HealthCare.gov, "How the Affordable Care Act affects small businesses."

<sup>12</sup> Economic Policy Institute, "Low Wages and Few Benefits Mean Many Restaurant Workers Can't Make Ends Meet," 2014.

<sup>13</sup> The Commonwealth Fund, "Small-Business Owners' Views on Health Coverage and Costs," 2019.

<sup>14</sup> Pew, "Small Business Views on Retirement Savings Plans," 2017.



## **CAPACITY: Do SMB owners have the expertise and resources needed to implement JQEs?**

Three factors influence an owner's capacity to invest in job quality:

**1. Leadership capacity**, including time and JQE expertise. Time is a scarce resource for the majority of small business owners. A recent survey showed 30% of small business owners work 50 or more hours per week, with the majority working on weekends, making it difficult to reallocate time to prioritize job quality.<sup>15</sup>

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*Since I had to let go of some employees during Covid, I didn't really need a full-time HR person because my company is fairly small. I was able to get my office manager to work on the HR side sometimes.... It's cutting corners here to be able to do something better over here until finances get better.”*

Owner of HVAC company

**2. Operations support**, including HR capabilities and ability to outsource. Seventy percent of small businesses with 5–49 staff have no formal HR function.<sup>16</sup> SMB owners may be reluctant to adopt JQEs, such as retirement plans, that create an additional administrative burden.

**3. Service provision**, including the ability to use external service providers. Some JQEs, such as health insurance and retirement plans, inherently require external service providers and cannot be fulfilled by the SMB alone. The business owner must therefore trust and pay a third party, which may not be financially feasible.



## **FINANCING: Can SMB owners afford to support JQEs?**

Three factors influence an owner's ability to pay for job quality investments:

**1. Costs of various JQEs**, including the extent to which a JQE increases total compensation or administrative costs and impacts the SMB's profitability. For instance, on average, providing standard benefits (e.g., health insurance, retirement plans, paid leave) can account for nearly 30% of an employer's costs of compensation.<sup>17</sup>

**2. Ability to absorb costs internally**, including a JQE's financing needs, the ability for an SMB to self-finance, and business stability. 43% of SMBs with employees had trouble paying operating expenses (including wages) in the past 12 months<sup>18</sup>—firms that already struggle in this regard may not be able to absorb additional JQE costs.

**3. Access to external finance**, including an SMB's potential financing shortfalls, the quality of financial products available to the SMB, and credit risk. While 55% of SMB owners with low credit risk obtained funding through a bank last year, just 36% of SMB owners with medium or high credit risk did.<sup>19</sup> Since credit risk significantly affects the types of financing available to SMBs, it is considerably more difficult for SMBs with high credit risk to finance the adoption of JQEs.

<sup>15</sup> Kabbage, “Small Business Survey,” 2017.

<sup>16</sup> SHRM, “How Small-Business Owners Successfully Delegate HR,” 2018.

<sup>17</sup> U.S. Bureau for Labor Statistics, “Employer Costs for Employee Compensation Summary,” 2021.

<sup>18</sup> Small Business Credit Survey, “2020 Report on Employer Firms,” 2020.

<sup>19</sup> Small Business Credit Survey, “2020 Report on Employer Firms,” 2020.



## USAGE: Are low-wage workers likely to take up the JQEs when offered?

Three factors influence the potential for workers to continually take up JQE offerings:

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*I offer health insurance for my full-time employees, but frankly, since I only have five employees, it's not the world's best plan. I take part in it, but the rest of our employees get their own health insurance elsewhere.”*

Owner of A/V equipment services company

**1. Institutional constraints**, including difficulty workers may have in navigating information about JQEs and the relative importance of JQEs to employees. For instance, only 4 in 10 employees believe their employers' communication about benefits is simple to understand. This lack of clarity may disincentivize employees from wanting or taking the necessary steps to participate in benefits.<sup>20</sup>

**2. Behavioral constraints**, including a mismatch of JQEs with employee financial needs and personal needs, and the availability of alternatives. For instance, as a recent study of employee financial wellness programs found, since “low-income workers typically live paycheck to paycheck, they are often inclined to maximize immediate income at the expense of short-term savings” and may see JQEs that come with the “risk of losing unused funds,” such as flexible spending accounts for health costs, as less attractive.<sup>21</sup>

**3. Structural constraints**, including the affordability of JQEs and time poverty. Affordability was the most cited reason among full-time workers for not taking up retirement defined contribution plans.<sup>22</sup>

## 2. EACH JQE FACES ONE OR MORE BARRIERS TO ADOPTION

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*Childcare is really expensive today, really expensive...If I started offering childcare, that would cut into wages, wage increases, and probably some other benefits as well because childcare is very expensive here in [large city].... I can't wrap my head around how I would pay for that.”*

Owner of retailer

Some JQEs, such as childcare, are constrained by multiple barriers and may require more effort to encourage SMB owners to adopt; others, such as paid leave, face fewer barriers and are likely an easier sell. We've synthesized from our interviews the SMB owners' perceptions of the barriers to adopting these two JQEs.

<sup>20</sup> MetLife, “MetLife's 17th Annual US Employee Benefit Trends Study,” 2019.

<sup>21</sup> Center for Social Development, “Employee Financial Wellness Programs: A Review of the Literature and Directions for Future Research,” 2017.

<sup>22</sup> Pew, “Employer-Sponsored Retirement Plan Access, Uptake and Savings,” 2016.



## Spotlight Childcare – a JQE with significant barriers to adoption



## Spotlight Paid time off - a JQE with few barriers to adoption



### MOTIVATION

SMBs often have little motivation to offer childcare because it poses a significant cost to the business<sup>23</sup> and is offered by less than 10% of small businesses.<sup>24</sup> SMB owners recognize that the JQE is valuable to employees, but they view it as too cost prohibitive to implement.

Most SMB owners consider paid time off as an essential JQE that employees expect, so there is high motivation to provide it. Over 60% of all small businesses already provide paid time off, indicating that it is a common practice, even among smaller businesses.<sup>26</sup>



### AWARENESS

Many different options exist for offering childcare, from providing in-house care to providing worker stipends.<sup>25</sup> Given this complex landscape, owners may not be fully aware of the options that best fit the circumstances of their business and most closely align with their workers' needs and preferences.

Since this JQE is considered a standard offering, approaches to implementation are well established and SMB owners generally align with staff, resulting in few awareness issues.



### CAPACITY

In most instances, offering childcare requires an external service provider, which requires SMBs to be willing and able to pay a third party.

SMBs could choose to outsource management of paid time off to an HR provider if the business lacks internal capacity, but the task could also be managed independently. Administration may be a barrier to SMB owners that have little internal capacity but are also unable to outsource to an HR provider.



### FINANCING

Childcare may create uncertain cash flows for an SMB, since demand for childcare will vary based on staff needs. SMBs may need ready access to financing to cover the cost of childcare during certain high-demand periods.

Paid time off may create uncertain cash flows due to unpredictability or inconvenient timing. SMBs may need ready access to financing to cover the cost of paid time off during certain high-demand periods.



### USAGE

Similarly, childcare may not be a relevant JQE if most staff members do not have young children, so it would not be of interest to the SMB owner.

The risk of limited usage of paid time off poses a slight barrier; on average, 60% of small business workers do not use paid time off (consistent with workers at large businesses).<sup>27</sup>

<sup>23</sup> Society for Human Resource Management, "National Study of Employers," 2017.

<sup>24</sup> U.S. Bureau of Labor Statistics, Employee Benefits in the United States," 2020.

<sup>25</sup> Clutch, "How to Offer Childcare Benefits at Your Business," 2020.

<sup>26</sup> U.S. Bureau of Labor Statistics, Employee Benefits in the United States," 2020.

<sup>27</sup> U.S. Bureau of Labor Statistics, Employee Benefits in the United States," 2020.

### 3. OPPORTUNITIES FOR STAKEHOLDERS TO ENGAGE IN IMPROVING JOB QUALITY FOR LOW-WAGE SMB WORKERS

The onus for improving job quality in SMBs cannot be placed solely on SMB owners. As we begin to emerge from the COVID-19 pandemic, stakeholders should consider how they can uniquely support SMBs in recovering, and improving their resilience and stability, with an emphasis on job quality.

**Field practitioners** (e.g., workforce intermediaries, skills development organizations, career management services, educational and research institutions) can work with SMBs directly to motivate them and increase their awareness of the business benefits of providing higher quality jobs. Alongside other support they offer SMBs, field practitioners can provide information on how job quality strengthens resilience and increases stability, and can serve as intermediaries between SMB owners and other stakeholders (e.g., employees, other businesses, service providers, and financial institutions).

**Government** (e.g., legislative bodies, administrative bodies) can implement policies to encourage and make it easier for SMB owners to adopt JQEs. This may include more intentionally building job quality into the Biden Administration's plan for equitable SMB support, as well as passing minimum wage laws that are on par with the statewide cost of living (such as Arizona's \$12/hour minimum wage) and executing legislation that makes easier for SMB owners to offer benefits (e.g., the SECURE Act). Additionally, to assist the financial recovery of SMBs, government can continue supporting legislation that expands access to capital for SMBs in need, such as the State Small Business Credit Initiative.<sup>28</sup>

**Advocacy organizations** (e.g., industry organizations, organized labor) can push for legislative and industry-wide changes that address the structural constraints of certain industries, such as the extremely low-margin and high-turnover nature of food services or the unstable nature of retail sales. It is especially critical to target industries that have impacted a large number of low-wage workers due to the pandemic, such as accommodation and food services, healthcare, and retail, to ensure that they become more equitable as they rebuild.<sup>29</sup> The Fair Workweek Initiative, for example, pushed 25 major retail brands, including Starbucks, Gap, and Urban Outfitters, to end scheduling that requires workers to be on-call without any guarantee of work.<sup>30</sup> These changes at major retailers influence the entire industry, including SMBs.

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<sup>28</sup> CNN, "What's in the \$1.9 trillion rescue plan for small businesses," 2021.

<sup>29</sup> CNBC, "Hardest-hit industries: Nearly half the leisure and hospitality jobs were lost in April," 2020.

<sup>30</sup> Fair Workweek Initiative, "Industry Change."



**Service providers** (e.g., health insurance and retirement plan providers) can devote more effort and resources to informing SMBs about alternative forms of benefits and offer benefits that better meet the needs of SMB owners and employees, such as pooled benefits and portable benefits. While the bill authorizing pooled employer plans has gone into effect only this year, it has great potential as an alternative retirement plan for SMBs to offer to their employees without incurring many additional administrative or fiduciary responsibilities.<sup>31</sup>

**Financial institutions and intermediaries** (e.g., banks, fintech lenders, credit unions, community development financial institutions [CDFIs]) can offer high-quality, patient, and flexible financial products to SMBs to enable them to finance their JQE investments. As SMBs recover from the pandemic, it may be best to supplement long-term, patient capital that focuses on job quality with short-term emergency capital to cover immediate costs, such as operating costs. This is the approach taken by Pacific Community Ventures (PCV), a Bay Area-based CDFI, through its Good Jobs, Good Business initiative. Not only does PCV provide patient, flexible capital to SMBs interested in job quality, but it also provides monetary benefits for each JQE an SMB implements and a free business advisor to determine the JQEs that are the best fit for each business.<sup>32</sup>

**Philanthropy** can play a convening or funding role to support the broader ecosystem of actors. This may include bringing together actors to facilitate learning and collaboration and minimize redundant interactions with SMB owners, as well as investing in promising job quality initiatives. It is also especially important at this moment for philanthropies to ensure the immediate survival of critical actors that engage directly with SMBs, such as community-based financial institutions (e.g., CDFIs) and workforce development nonprofits.

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<sup>31</sup> PAI, "Pooled Employer Plan Benefits for Small Business Owners," 2021.

<sup>32</sup> Pacific Community Ventures, "Good Jobs, Good Business."

## 4. TRUE ECONOMIC RECOVERY MEANS REAL IMPROVEMENT IN JOB QUALITY

The conversation around job quality has been somewhat overshadowed in the past year by more immediate concerns related to the pandemic. Just as the pandemic has had significant implications for low-wage workers, it has also pushed SMB owners to prioritize short-term survival and the immediate needs of their workers. The effect has been in many cases to stall or postpone progress on JQEs—such as a living wage or some benefits—that are difficult for SMBs to implement while operating with thin margins.<sup>33</sup>

At the same time, however, the pandemic has underscored how owner and worker interests can align. The Good Jobs Institute, for instance, found that a retail chain's sales productivity grew by 20% after decreasing schedule variability,<sup>34</sup> and The Aspen Institute recently spotlighted one restaurant business that decreased its employee turnover by investing in advancement opportunities for its employees.<sup>35</sup> Ultimately, the safety and stability of workers are essential for business resilience and success.

As influential actors in the SMB ecosystem, field practitioners, government bodies, advocacy organizations, service providers, financial institutions, and philanthropic funders must more intentionally bring SMBs into the job quality conversation to ensure that jobs are not just being created and maintained, but also actively improved.

At this precarious moment for low-wage workers in the U.S., there are many opportunities for concerned actors to have a significant impact on creating a more equitable economy by working directly with SMB owners to improve job quality. At the same time, stakeholders can engage more deeply in making the financial, structural, and policy ecosystems in which SMBs operate in a way that is more conducive to improving job quality. By understanding the stages of JQE adoption and the barriers that SMBs face, actors will be better able to provide SMBs with targeted and meaningful support to create equitable work environments that empower and enable all workers.

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<sup>33</sup> Aspen Institute, "Job Quality in Practice Webinar – Job Quality in the Age of COVID-19: Strengthening Frontline Management and Supporting Workers," 2020.

<sup>34</sup> Harvard Business Review, "The Case for Good Jobs," 2017.

<sup>35</sup> Aspen Institute, "Job Quality in Practice Webinar: Can Investing in Workers Support Small Business Resiliency Through the Pandemic?," 2020.

