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How CDFIs Promote Job Quality and Reduce Income Inequality

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Since the Great Recession of 2007–2009, income inequality has emerged as one of the leading economic development issues in the United States. The growing gap between the highest- and lowest-income Americans has caught the attention of organizations as diverse as the Federal Reserve Board and Occupy Wall Street.

Community development financial institutions (CDFIs) that support job creation can help bridge this income gap by working with businesses to create quality jobs that offer fair wages, good benefits, meaningful advancement, and wealth-building opportunities. Based on the experiences of four CDFIs, this chapter explains current approaches to quality job creation, identifies barriers to CDFI involvement in this area, and makes recommendations to expand this work.

Our research draws on the examples of four CDFIs that have an intensive focus on quality jobs: 1) ICA Fund Good Jobs, 2) Growth Opportunity Partners (Growth Opps), 3) New Hampshire Community Loan Fund (NH Community Loan Fund), and 4) CEI. We also build on a recent paper—*Moving beyond Job Creation: Defining and Measuring the Creation of Quality Jobs* (2016)—published by InSight at Pacific Community Ventures (PCV InSight).

WHY IS JOB QUALITY IMPORTANT TO CDFIs?

CDFIs are private financial institutions with a mission of serving low-income, low-wealth, and other disadvantaged communities and populations. Many CDFIs create economic opportunity by financing

small businesses. These institutions can increase their impact by focusing not only on job creation but also on job quality.

A CDFI's work toward creating quality jobs can yield ancillary benefits to the institution, one of which is a potentially stronger portfolio quality. There is a growing body of research on the impact of quality jobs on businesses (Brett and Woelfel 2016). If quality jobs do in fact improve business performance through lower recruitment costs, higher employee retention, higher morale, and stronger employee performance, then supporting these businesses may indirectly improve a CDFI's portfolio quality. While more research is needed on the impact of quality jobs on business performance, the four CDFI business clients we interviewed support this hypothesis and agree that the positive outcomes outweigh the costs of higher wages, better benefits, time-consuming performance reviews, and investment in training and recruitment.

WHAT IS A QUALITY JOB?

Before explaining how CDFIs promote quality jobs, we must first define what a quality job is. PCV InSight offers a working definition of a quality job that is based on interviews with CDFIs, impact investors, academics, and others who promote quality job creation (Brett and Woelfel 2016). The organization synthesized what it heard into a single working definition that attempts to capture the spirit of its conversations. PCV InSight defines a quality job as having three or more of the following five components:

- 1) A living wage sufficient to support a decent standard of living or, at a minimum, one that exceeds the median wage offered within the employer's industry.
- 2) Basic benefits that increase economic security, improve health, and promote work-life balance among workers. These include paid leave, health insurance, and a retirement savings plan.
- 3) Career-building opportunities that help employees develop the skills, networks, and experiences necessary to launch a career or advance along a career path. These opportunities can

include training and mentorship—both formal and informal—and avenues for advancement within the company.

- 4) Wealth-building opportunities that enable and incentivize employees to build the assets they need to manage financial emergencies and achieve long-term financial security for themselves and their families.
- 5) A fair and engaging workplace that balances the priorities and well-being of employees with the needs of the business. Examples include offering flexible and predictable schedules, treating all staff with respect and dignity, actively soliciting employees' ideas to improve the business, and helping staff understand how their work contributes to the business's success.

Using this definition as a springboard, we assess how the four CDFIs in our study define quality jobs. They commonly draw on all or most of the components of PCV InSight's definition (see Table 5.1). None explicitly include wealth-building opportunities, although two promote wealth building through training on open-book management, an approach that encourages profit sharing.¹ Three CDFIs explicitly include a component not mentioned in the PCV InSight definition: particular characteristics of *who* is hired to fill a job (e.g., low-income, returning citizen, or disabled populations). One CDFI does not include employee characteristics in its definition but prioritizes jobs that are accessible to individuals who lack a four-year college degree.

This range of definitions expands PCV InSight's framework to include employee preferences and who gets hired, as well as to recognize that employees of a given business may value one or two components much more highly than others.

HOW DO CDFIs PROMOTE QUALITY JOBS?

While some businesses come to CDFIs with quality jobs in place, many need assistance with developing and introducing quality job components. CDFIs offer specialized, intensive development services and

Table 5.1 Quality Job Definitions

CDFI	Quality job definition	Wage definition
PCV InSight	Must have at least three of five components: 1) living wage, 2) basic benefits, 3) career-building opportunities, 4) wealth-building opportunities, 5) fair and engaging workplace	Sufficient income to afford a decent standard of living (as defined by the MIT Living Wage Calculator) or, at a minimum, pays closer to a living wage than its competitors
ICA Fund Good Jobs	Incorporates five core pathways: 1) employment access to those who face barriers to employment, such as race, disability, gender, or a criminal background; 2) a living wage; 3) benefits; 4) a supportive culture; and 5) opportunities for advancement, such as social networking and career ladders	MIT Living Wage Calculator combined with local socioeconomic indicators
Growth Opps	Provides a living wage and at least one other benefit, such as paid leave, retirement, health insurance, or career advancement	MIT Living Wage Calculator
NH Community Loan Fund	No standard definition; customized for each business based on what is important to employees of the business (e.g., flexible schedules or paid leave may be more important than wage)	Exceeds industry median wage
CEI	Depends on community needs (e.g., scheduling or paid leave may take priority over wages); considers wages, benefits, flexible schedules, career advancement, and hiring difficult-to-serve populations	Depends on location (e.g., in some cases, businesses with jobs above Maine’s minimum wage may be “good” in a rural area with high unemployment, especially when other quality job factors are present)

a range of financing products to help businesses establish and achieve quality jobs goals.

Development Services

CDFIs offer a wide range of nonfinancial assistance to businesses committed to creating quality jobs. This is true in terms of topics, delivery mechanisms, and service providers. Assistance tends to be intensive and therefore expensive to provide.

In addition to more traditional business assistance topics—financial management, marketing, and business planning—all of the CDFIs in this case study:

- Educate businesses about the benefits of quality jobs
- Help businesses improve job quality. Examples include:
 - Encourage businesses to cross-train employees to increase job flexibility
 - Encourage businesses to develop a corporate culture that includes soliciting and addressing employee feedback in business strategy and operations
- Work to lower business operating costs by improving efficiencies to help them cover quality job component costs
- Help monitor businesses' finances as quality jobs components are introduced

Improving job quality can include helping businesses with human resource issues such as developing job descriptions, salary scales, recruitment strategies, employee performance plans, and health benefit plans.

Delivery mechanisms can include business accelerator programs, one-on-one business advising, board seats, advisory boards, and peer groups.

CDFIs rely on staff and partners to deliver development services. Partners include volunteer networks, local community colleges, small business development centers, industry-specific consultants, and workforce development agencies. Four examples of CDFIs follow.

ICA Fund Good Jobs leverages an extensive network of volunteers, most of whom are alumni of ICA Fund Good Jobs programs. Subsidized professional services are offered in specific cases. The CDFI's Good Employer Matrix assesses hiring practices, growth rates, and company culture. This tool serves as an entree to extensive conversations with business owners about job quality and how their companies can address community needs.

Growth Opps focuses heavily on helping with human resource issues, such as developing job descriptions and hiring practices, and identifying opportunities for cross-training of employees. It also trains accountants and lawyers (i.e., "centers of influence" in the small business community) to become ambassadors of quality jobs.

NH Community Loan Fund focuses its assistance on employee engagement. Its "Engage Employees" best practices tool guides conversations on the business benefits of engaging employees and serves as a road map to help businesses chart plans to increase employee engagement. The CDFI also encourages most of its business clients to establish advisory boards that can provide expert guidance. While it is labor intensive to establish and provide guidance to these boards, the CDFI finds that they are often more effective, longer lasting, and more economical than working with paid industry consultants.

CEI's Employment Training Agreement (ETAG) specifies a borrower's hiring, wage, benefits, and employee training deliverables. CEI staff use an ETAG assessment tool to track progress toward these deliverables and more. CEI also provides intensive support to help businesses meet their ETAG goals.

While many partner services are provided at no cost to the CDFIs or their business clients, there is a cost to CDFIs in the significant time they devote to managing partner relationships and matching businesses with the right partners.

Financial Products

All four CDFIs provide debt financing. Three provide equity or equity-like products, including growth capital alternatives to debt.

Financing can be used for a wide range of business purposes, some of which are directly tied to creating quality jobs. For example, some loans are used to cover the higher payroll costs of quality jobs. These loans have no prepayment penalty, so businesses can pay them off as soon as their cash flows grow enough to cover payroll.

Many CDFIs provide financial incentives in the form of reduced interest rates or reduced royalty payments if a borrower meets or demonstrates progress in meeting agreed upon quality job promotion targets.

NH Community Loan Fund provides a “good driver discount,” rebating a portion of interest or royalty payments when the business moves forward along its road map to achieving deeper employee engagement and better-quality jobs.

CEI offers an interest rate reduction when a business meets goals set out in its ETAG.

ICA Fund Good Jobs may reduce interest rates when a business hires someone facing barriers to employment.

WHICH BUSINESSES CREATE QUALITY JOBS?

We asked the CDFIs if they think certain businesses are more likely to create quality jobs than others. While too early in the CDFIs’ collective experience to generalize responses, it is instructive to look at the similarities and differences among the four organizations.

Based on the CDFIs’ experiences, the single most critical factor is the business owner’s commitment to job quality. Without this commitment, even growth-oriented businesses with the economic potential to create high-quality jobs will likely fail to do so.

NH Community Loan Fund looks for businesses with high growth potential that want to grow their companies by growing their people and want help finding ways to implement progressive management strategies tied to the bottom line.

Growth Opps works with business owners who are interested in educating and investing in their employees rather than waiting for someone else to train them.

CEI considers a business's leadership commitment to quality jobs when selecting ETAG candidates.

An evaluation of the four CDFIs finds that none of them have size, industry, or age in their funding requirements, although there are concentrations in some portfolios.

Among the CDFIs, there is some agreement that to be in a position to create quality jobs, businesses should be growth oriented and have \$500,000 in annual revenue and at least five employees.²

In terms of industries, there were no real commonalities among the CDFIs. Some do not target specific industries. Among those that do, the industries may have been selected for reasons other than their quality job creation potential. For example, NH Community Loan Fund markets heavily to farm/food businesses because they employ a large portion of the CDFI's market. CEI's concentration in sustainable agriculture, fisheries, nature-based tourism, and renewable energy reflects the CDFI's triple bottom line commitment to the environment rather than its commitment to quality jobs.

ICA Fund Good Jobs was the only CDFI to comment on a business's age. It said that, based on its experience, a business is ready to create quality jobs when it has been generating revenue for several years and is approaching a pivotal point in growth.

What about growth orientation? While ICA Fund Good Jobs and Growth Opps solely target growth-oriented businesses, and CEI devotes its quality jobs efforts to growth-oriented businesses, all recognize that businesses without a traditional high-growth trajectory may have the potential to become quality job producers. The key with these businesses is understanding how to make them more profitable or finding other levers that make quality jobs viable for them. For example,

low-paying jobs can get better if they also provide career advancement opportunities, schedule flexibility, and a respectful work culture.³

ON THE GROUND: WHY CDFI BUSINESS BORROWERS CREATE QUALITY JOBS

Each CDFI introduced us to one of their business clients. Although the four businesses we spoke with are not a representative sample of businesses that produce quality jobs, they all exhibit the general characteristics of high potential quality job producers described by the CDFIs.

The leaders of all four businesses are growth oriented and have a conscious commitment to creating quality jobs. All four have more than \$1 million in annual revenue, five or more employees, and a defined growth plan. They offer:

- Above industry average wages. All but one offer wages above their industry median.
- Basic benefits. All offer paid leave; all but two offer health insurance, and those two plan to offer it in the near future.
- Training and advancement opportunities. All offer training and advancement opportunities, two provide generous tuition reimbursement programs, and most of the businesses take pride in having internal promotion policies.
- Wealth building. All offer some form of wealth building, with direct deposit being the most common product.⁴ The second most common wealth-building option is annual bonuses. Only the largest businesses offered retirement plans.
- Employee-centered culture. Each business described an employee-centered culture that prioritizes a high level of respect for employees. All offer predictable and flexible schedules.

BARRIERS TO PROMOTING QUALITY JOBS

The CDFIs we profiled are some of the industry's leading quality job promoters. Yet, their combined scale is limited: annually, their quality job promotion programs provided development services to several hundred businesses and financed fewer than 100.

The main barrier CDFIs face in quality job promotion is their ability to scale up operations and reduce the overall costly nature of the process. The CDFIs recognize that promoting quality jobs is a time-consuming and expensive business. They are keenly aware of their dependence on private grants, foundations, individual donors, and/or public monies to fund operations. Each hopes to achieve greater sustainability through fee structures or streamlining.

We identified five specific barriers to expanding the industry's quality job promotion efforts: pipeline; cost of delivering development services; staff expertise; data collection, management, and analysis; and funding.

- 1) Pipeline. Building a pipeline of eligible business clients can be challenging for any CDFI business lender, not just those focused on quality jobs. Adding a new criterion—the potential to create quality jobs—further narrows the universe of eligible businesses. As in the larger universe of CDFI small business lenders, pipeline issues vary among the four CDFIs, from posing no constraint at all to being a top concern. Not all see the pipeline as a significant barrier, but all have taken steps to attract more businesses, from expanding geographic markets to introducing new financing products to considering businesses that are committed to quality jobs but cannot immediately afford to provide higher wages and benefits.
- 2) Cost of delivering development services. Active quality job promotion requires CDFIs to form deep relationships and provide intensive development services. In spite of partnerships with skilled volunteers and workforce and business development organizations, CDFIs spend significant time and resources on quality jobs development services. Even when CDFI staff are not directly providing the services, they are

spending time identifying volunteers and partners, screening and orienting them, matching them with businesses, assessing their performance, and managing them on an ongoing basis.

- 3) Staff expertise. All four CDFIs depend on partners to help deliver development services, in part because their staff members lack the necessary technical expertise. This includes expertise in developing job descriptions, hiring practices, health care plans, and stock options; incorporating quality job costs and benefits into financial forecasts; and creating efficiencies, such as work flow analysis, reducing redundancies, and eliminating waste.
- 4) Data collection, management, and analysis. Developing a streamlined process for the collection, management, and analysis of quality job promotion data is a common barrier for CDFIs. CDFIs must consider a complex web of information, starting with identifying and defining metrics for wage levels, core benefits, internal advancement, corporate culture, and wealth-building options, and ending with collecting and comparing the data.⁵ Like any CDFI data collection effort, getting business clients to respond to data requests can be challenging. More difficult yet is measuring changes over time, something that requires greater analysis than simply summing up and averaging numbers. Indeed, while all the CDFIs we interviewed collect data from their quality jobs clients, none were able to provide more than a few of the metrics in the short turnaround time we allowed during the research phase of this chapter.
- 5) Funding. The other side of the cost of providing development services is finding sources to cover those costs. The CDFIs we interviewed use a combination of private grants, individual donations, subsidies from parent organizations, federal and state funding, and earned income to fuel their quality jobs efforts. However, major public and private sources directing monies to the specific use of assisting businesses in quality job creation remain elusive. The CDFIs generally agree that, to date, a focus on quality jobs has not helped them attract substantial additional funding.

NEXT STEPS

In this post–Great Recession time of growing income inequality, lingering high unemployment in some regions, and displacement due to gentrification, job quality should be part of the national conversation. It is particularly resonant for CDFIs, whose collective mission is to increase opportunity for all. Based on our research, we make six recommendations to help advance the breadth and impact of quality job promotion efforts in the CDFI industry.

- 1) Increase awareness of how businesses benefit by providing quality jobs. The CDFI industry can approach this in two ways: share existing research on the benefits of quality jobs and conduct its own research. Existing research on quality jobs is based on analysis of businesses that are larger than typical CDFI clients. New research based on the CDFI experience would offer the added benefit of expanding existing research to include smaller businesses.
- 2) Determine which development services interventions have the greatest impact and find ways to make them more cost effective to deliver. CDFIs provide assistance on a myriad of topics through a web of delivery mechanisms. Research into which ones have the greatest impact could help CDFIs narrow their focus to a more manageable set of development services. With a narrower list, CDFIs can explore ways to deliver them more cost effectively.
- 3) Identify the best business-level metrics to measure quality job creation and create systems to collect, manage, and analyze this data. The PCV InSight research makes clear recommendations for metrics, data collection instruments, analysis, and presentation of findings. It would be helpful if CDFIs could agree on and adopt a common set of metrics. Then, recognizing that systems that promise high response rates and are able to quickly analyze the data and produce presentation charts and tables are lacking, an effort should be made to develop a system or systems. Such a system would save CDFIs time,

frustration, and money, and facilitate research on which interventions are most effective.

- 4) Assess CDFI impact. Using CDFI-collected data, conduct research to determine whether CDFIs' quality jobs interventions are truly making a difference at the business, employee, and even the employee's household level.
- 5) Consider expanding targets for quality job interventions. Businesses with low profit margins and no growth plans employ many unskilled low-wage workers in CDFI markets. These businesses might be candidates for introducing low- and no-cost interventions, such as predictable and flexible schedules, advancement opportunities, and direct deposit. CDFIs that currently prioritize quality job promotion, as well as other CDFIs, could broaden their impact on quality job creation by working with these businesses. Given the high percentage of low-wage jobs in CDFI markets, this approach could yield significant community impact.
- 6) Encourage funders to fully support quality jobs. The CDFI industry and its advocates and key stakeholders should encourage private, public, and philanthropic institutions interested in issues of income inequality to recognize the costs of—and support—CDFIs' quality jobs work. In the short term, funding support can both cover these costs and support the research needed to ultimately lower them. In addition, there may be opportunities to loosen the restrictions on some funding programs so the programs can be used to promote quality jobs among a larger population. For example, programs that target dislocated workers could be loosened to include job loss prevention so that CDFIs could use them to add job quality to their job retention activities.

Today, a few CDFIs actively promote quality jobs. As more CDFIs get involved in this work, it will become easier to accomplish many of these recommended next steps, and more businesses, employees, and communities will thrive.

Notes

1. Definitions of open-book management vary, but it is generally accepted to include the following components: sharing the income statement and balance sheet with most employees; sharing other data with employees (such as productivity and plant utilization/quality data); encouraging employees to use the information in their daily work; training employees to understand financial numbers; and sharing the financial results through a gain-sharing program. See <https://www.nceo.org/articles/open-book-management> (accessed February 22, 2018).
2. This is not to say that microenterprises and family-based “mom and pop” businesses do not or cannot create quality jobs. While a typical goal of these lifestyle businesses is to create a self-employment option for the owner and, for some, jobs for family members, they have options for offering job quality. See Gomez, Thetford, and Klein (2015).
3. For more on this subject, see Conway and Dawson (2016).
4. While direct deposit is not by itself a wealth-building tool, it can be an important first step for both employees and businesses. Direct deposit can make saving easier for employees and allows them to access some external savings programs such as the U.S. Department of the Treasury’s myRA retirement product for employed individuals who don’t have access to another retirement plan. Businesses that are not able to provide wealth-building options directly can provide direct deposit as an indirect way of helping their employees build wealth.
5. See Brett and Woelfel (2016). This publication advances the conversation, providing suggestions for metrics, definitions, analysis, and presentation of findings.

References

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