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How Forward-Looking Investors Can Incentivize the Creation of Quality Jobs

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Introduction

While businesses, workers' organizations, and government may seem most poised to create and preserve higher-quality jobs, private and public entities investing in businesses also have a key role to play in bolstering quality work opportunities within those companies. In fact, private and public funders are uniquely suited to incentivize promising practices that build and sustain quality jobs, help companies track important components of quality jobs within their organizations, and support companies' quality job goals through technical assistance and capacity building.

This brief describes three promising strategies investors are using to promote higher-quality jobs: 1) prioritizing and incentivizing quality jobs via loan requirements, including reduced interest rates or loan fees, or through their procurement practices; 2) equipping businesses with tools to support quality jobs; and 3) measuring and tracking progress against these over time. The greater part of the brief presents several examples of how funders are working with businesses to pioneer strategies to encourage and invest in quality job creation and preservation.

Elements and Importance of a Quality Job

For a variety of reasons, more businesses are embracing strategies to improve the quality of the jobs they offer. While in the past, workforce improvement efforts may have centered more on strategies of “upgrading the worker”—building the skills and qualifications of workers—the tide is now shifting toward an emphasis on “upgrading the job” as well: ensuring that jobs are of higher quality to benefit both workers and the businesses that employ them. This perspective change reflects the growing acknowledgment that for employees to be successful on the job, they need to have stability in their lives and, ideally, opportunities for advancement. As these factors increase, workers become more engaged and productive in the workplace, which can result in lower employee turnover and higher overall productivity for the businesses that employ them. In other words, there is an opportunity for a win-win scenario for the businesses that invest in higher-quality jobs and for their employees.

There are a number of facets that contribute to the stability of workers' lives. Of course, livable wages are crucial, but so are stable and reliable pay schedules and work hours that are sufficient, steady, and scheduled predictably enough for workers to balance other responsibilities in their lives. High-quality jobs can promote health and wellness through the provision of health benefits, paid sick leave, and safe working conditions in supportive workplaces free from discrimination and retaliation. An important aspect of a quality job incorporates an element of the worker's voice, in which they are safely able to raise issues without repercussion. Moreover, workers in quality jobs ideally have opportunities to learn and grow on the job, with access to skill building, cross-training, and career development and advancement. Finally, quality jobs may offer workers the opportunity to save for retirement and build their wealth to support a stable future for themselves and their families.

Investor Strategies to Support Quality Jobs

Prioritizing and Incentivizing Quality Jobs

Some funders are looking to serve their communities by strategically directing investments to businesses that are dedicated to providing higher-quality jobs in those communities. In some cases, funders may require businesses in their portfolios to provide specifics on how they plan to create and sustain quality jobs, based on the measures of quality jobs as described above. They might also partner with reputable community organizations to identify businesses with an interest in creating quality jobs that fit a strategic target profile, such as those located in underserved or rural areas struggling with underemployment or a mismatch between area workers' skills and available jobs.

Investors can use the loan agreement process to incentivize the creation and maintenance of good jobs. Businesses might be asked in initial loan discussions to measure the quality of their current positions and agree upon standards to work toward within a certain time period in order to qualify for the loan. In exchange, the business receives an attractive loan rate or rebates on loan fees commensurate with improvements in job quality. Such agreements help to reinforce the investor's prioritization of and the business's commitment to quality jobs, encourage businesses to see quality jobs as part of a good business strategy, and hold businesses accountable for delivering on established benchmarks of quality-job creation and preservation.

Equipping Businesses with Tools to Support Quality Jobs

Investors may find that while businesses' management are excited about the idea of improving job quality, some companies still lack the resources or expertise to implement the improvements needed to create and sustain quality jobs. Here, investor organizations that understand the constraints of a portfolio company's monetary and human capital resources can provide crucial assistance to help a business's quality-job intentions become reality.

To get the business started on this path, investors can provide a quality-jobs business tool kit or a list of workplace-services organizations that can provide the technical assistance, including operations and personnel management, to help businesses achieve their goals. The investor can also provide assistance in crafting a plan that pushes businesses to take on goals that are both ambitious and realistic. Investors can establish check-in points over the life of the loan at which businesses can reassess how well they are meeting their goals and investors can work with them to make any adjustments needed.

Investors have the advantage of learning from the experiences of the set of businesses in their portfolio and can surface lessons to inform and refine their technical assistance and milestone requirements for existing and future businesses in the portfolio. Investors working with a portfolio of businesses can begin to develop rules of thumb

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about what elements companies can incorporate more effectively at different stages of growth and at different sizes. Small businesses, in particular, have to work hard to navigate the day-to-day challenges of running their businesses, but working with savvy investors can help them do this in a way that does not lose sight of larger goals around prioritizing quality jobs.

Helping portfolio businesses build their understanding and capacity around quality jobs is another important technical-assistance role investors can play. For some businesses, assistance may be needed in developing their human resources team's capacity to introduce and sustain key components of quality jobs, such as career advancement plans or performance review programs. Businesses may also benefit from investors facilitating a peer-to-peer exchange between leadership teams in businesses working to implement a quality-jobs strategy, to share promising practices and work through challenges with one another's support and advice.

Measuring and Tracking Progress

Job quality-focused investors often require businesses they support to track and report key measures of quality jobs, both before and throughout the life of their loans. Investors typically conduct an initial assessment or ask businesses to self-assess the quality of their jobs to set a baseline and determine a plan for improvement and enhancement. Progress measures may include data on wages, benefits, health and wellness offerings, promotions and development, performance reviews, and savings and retirement options. Tracking these measures gives investors the opportunity to hold portfolio businesses accountable and address any areas where businesses may be facing challenges in achieving their set goals.

Some investors are also encouraging other funding organizations, and community development financial institutions (CDFIs)¹—mission-driven private financial institutions dedicated to delivering responsible lending to low-income communities—have decided to put job quality front and center among their requirements for portfolio businesses. By sharing their tool kits and road maps, which provide guidance for tracking these measures, and showing how businesses can make tangible progress, mission-driven investors hope to bolster the ability of the CDFI industry to transform the lives of American workers and their families while supporting resilient and successful businesses.

Case Studies: Investors Embracing Strategies to Promote Job Quality in Portfolio Businesses

The following case studies are the product of multiple interviews and conversations held between April 2018 and March 2019 with the organizational leaders profiled to comprehend their motivation, prioritization, and timeliness to promote quality jobs.

Coastal Enterprises Inc. (Brunswick, Maine)²

Coastal Enterprises Inc. (CEI) is a mission-driven nonprofit investment organization that has worked to improve employment opportunities for people in Maine for over 40 years, particularly in rural areas. CEI makes between 70 and 85 loans to businesses each year, totaling approximately \$15 to \$16 million.

Based on discussions with employers facing challenges finding and keeping employees in a tight labor market and full-time workers struggling to support their families, CEI developed a Good Jobs Framework to help both businesses and workers thrive through a quality-jobs strategy. The framework calls for jobs to provide a living wage determined by the Massachusetts Institute of Technology's Living Wage Calculator³; basic benefits, including paid time off, employer-subsidized health coverage, and a retirement savings plan; and a fair and engaging workplace that offers advance notice of work schedules, annual performance reviews, and training opportunities to develop new skills. CEI applies this framework during the initial due-diligence process when evaluating potential loans and investments, and it collects data from new borrowers and prospective businesses that have been in operation for at least 12 months.

CEI works directly with businesses to better understand their investment needs and workforce challenges, collaborating with each business to determine which aspects of the company's jobs could be improved to the mutual benefit of the company and its employees. CEI then incorporates these selected job standards into the loan agreement at signing, along with tracking and reporting requirements on each measure. At closing, CEI measures the number and quality of existing jobs at the business and, in exchange for working with CEI to improve job quality as agreed, the business benefits from an attractive loan rate. Business must then report to CEI on new job openings and new hires, including anonymized demographic data, and provide annual progress reports on each measure.

To support small businesses that want to provide higher-quality jobs but lack human resources expertise to do so, CEI also provides robust advising services and dedicated trained staff resources. In 2017, CEI's certified business advisors mentored 2,000 businesses at different stages of their business development, and 100 of the 2,000 businesses that were mentored took advantage of CEI's loan product offerings, equity, and grants. This mentorship process uses a high-touch approach that allows CEI to understand its business customer from every facet. An initial assessment provides a platform for discussing opportunities to address business challenges that can be overcome by investing in employees or making workplace changes, and subsequent

technical services include business planning, credit and financing, financial analysis, marketing, sales, and operations management.

Pacific Community Ventures (Oakland, California)⁴

Pacific Community Ventures (PCV) is a 20-year-old California-based social enterprise and CDFI that provides resources and capital to businesses. PCV invests in small businesses, with a mission-driven focus on small business owners who are unable to access traditional loans, and it has a track record of combining capital investments with high-touch technical assistance.

PCV developed an internal tracking tool for businesses that focuses on five core components of job quality: livable wages, benefits, opportunities to move up within the organization, wealth creation, and workplace engagement opportunities. PCV recommends that at least three of these components should be in place for a job to be considered high quality. Businesses in PCV's portfolio use the tracking tool to provide PCV with information on the number, location, and wages of each employee. The businesses also specify which of the following benefits employees receive: a minimum of 10 days per year of paid leave, employer-subsidized health insurance, a retirement savings plan, employer contributions to a retirement savings plan, 12 hours per year of training, reimbursement for obtaining relevant credentials or certifications, an ownership or profit-sharing stake in the company, schedules received at least two weeks in advance, and/or formal performance reviews. PCV records this information for each business at underwriting, then updates the data annually to track each business's progress. To date, over 200 PCV clients are using the tracking tool. PCV enters agreements with each of the businesses in its portfolio to ensure that it is investing in high-quality jobs, and it provides rebates on loan fees to companies that achieve predetermined improvements in the quality of the jobs they offer.

PCV also offers a road map to other CDFIs interested in tracking job quality. PCV suggests that investors select questions that pertain to the core components of job quality and include these questions in client surveys; develop a scoring criteria to quantitatively assess survey responses; determine how many jobs the CDFI supports that have some or all of the established quality job components; establish job quality targets for their portfolio based on the data; and use the data to measure overall impact and inform future investment decisions.

To provide smaller businesses with a how-to guide on creating and sustaining higher-quality jobs, PCV developed a novel *Good Jobs, Good Business* tool kit,⁵ which they piloted in 2018 with 20 partner businesses across the country. Each pilot business committed to using the tool kit and implemented at least one aspect of a high-quality job, sharing feedback on the tool kit with PCV as it works toward this goal. PCV monitored the businesses throughout the pilot year and will continue to do so each year following the pilot, tracking their progress over time while checking in with the businesses to ensure they are receiving the support they need. In 2019, PCV launched the Good Jobs, Good Business as an interactive digital platform which is widely being used by partner CDFIs and small business owners across the country.

The feedback the pilot businesses have been providing is helping PCV to better understand the particular challenges small businesses face in working toward job quality

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improvements. For example, PCV has learned that one unexpected change in the plan, such as losing an employee, may reverberate through the business's team, leaving little time for measures intended to help improve job quality, such as training intended to improve employee engagement. PCV is using this feedback to reflect on how to help small businesses continue to prioritize job quality improvements even as they face unexpected challenges along the way.

PCV works with a wide variety of organizations, such as the As Kneaded Bakery⁶ in San Leandro, California, established in 2016. As the business grew and demand for its bread increased, the owner needed capital to move out of a shared commercial kitchen. PCV provided the initial seed funding, which was not available through a traditional bank, to move to a new space and purchase the equipment to build out the space. The owner went from handling all aspects of the bakery (baking, hiring, training, administration, etc.) to having the need to develop appropriate systems, so she joined the Good Jobs, Good Business pilot program, which paired her with a pro bono advisor with a background on business strategy. Together, the owner and strategist began working on a specific set of measurements for internal controls and used the set of strategies to develop systems and invest in employees.

Blue Highway Capital (Biddeford, Maine)⁷

Blue Highway Capital (BHC) stimulates and reinforces the growth of small companies in rural and other underserved areas of the United States where private capital is scarce yet necessary to capitalize on growth opportunities. BHC partners with business owners and operators to accelerate growth, improve operating performance, and increase the value of the companies.

BHC is a private growth fund that participates in the U.S. Department of Agriculture's Rural Business Investment Program, which pools funding from local banks, farm credit banks, and impact foundations to provide equity investments for businesses in rural and underserved areas. BHC's strategy is to explicitly support the creation and preservation of quality jobs, with 75 percent of its capital earmarked for businesses located in rural, disadvantaged communities.

The businesses that work with BHC tend to be midsized businesses with at least \$5 million in revenue that can demonstrate profitability, forecast 10 percent growth, and show a proven business model. At underwriting, BHC partners with a community organization to identify businesses that fit this profile and have an interest in creating quality jobs. Businesses in the fund will be required to provide specifics on the total number of jobs they have, the types of positions they offer, and the wages and location of each position, and they must explain how they intend to incorporate attributes of a quality job.

BHC is working with Next Street, a business advising firm, to develop a reporting system that allows BHC to measure progress on several metrics related to job quality, including a living wage, basic benefits, career-building opportunities, wealth-building opportunities, a fair and engaging workplace, ownership composition, training, and the workplace environment. BHC will require the businesses it supports to provide progress

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reports on these measures over the investment period—typically 12 to 18 months—and will survey the businesses two years after that period as well.

HCAP Partners (San Diego, California)⁸

HCAP Partners has been around for 20 years, with a mission to generate top-quartile returns while having a positive impact on underserved businesses and their communities. HCAP is a provider of capital to lower-middle-market companies throughout California and the Western United States, raising \$310 million across 40 investments and three funds. HCAP is a recognized impact fund manager focused on improving job quality standards; it has 9,000 employees across the investment portfolio, of which 1,300 jobs noted improvements.

HCAP Partners works with a mid-market tier of businesses with \$10 million to \$75 million in revenue and \$1 million to \$5 million in earnings before interest, depreciation, taxes, and amortization, and supports place-based efforts that create quality jobs for low- to moderate-income earners.

HCAP has developed an impact framework that it calls the Gainful Jobs Approach, which tracks quality job measures and also builds a strategic roadmap with actionable goals around improving job quality for each of the business in which HCAP invests. The Gainful Jobs Approach assesses six job-quality elements: access to broad-based participation plans that can lead to wealth creation; on-the-job training designed to develop a pipeline of employees for internal promotions; wages that support a sustainable livelihood; paid leave; health and wellness programs such as employer-subsidized gym memberships and wellness challenges; and mental health support programs. To measure progress over time, HCAP conducts an annual workplace-practice survey at each business to collect employee responses assessing these elements, and it requires quarterly updates from businesses on progress toward job quality improvement goals.

HCAP also works with the capacity limitations of each business, breaking down major job quality improvement goals into achievable pieces to be completed over the course of the investment period—typically three to five years—making the goal more manageable for each business. For example, a company that does not have a retirement plan in place may not be able to offer such a benefit within one year. Instead, HCAP will structure the improvement so that the first-year goal focuses on researching the appropriate type of plan for the business, the second-year goal centers on rolling out the plan and educating employees about it, and the third-year goal aims for a certain percentage of employee participation in the retirement savings plan.

Bancolombia (Medellín, Colombia)⁹

This final case study is on procurement practices, whereby Bancolombia is influencing and strengthening its supply chain.

Bancolombia is the largest commercial bank in Colombia and a full-service financial institution that provides a range of financial products and services to individuals and businesses throughout Colombia and Latin America. Bancolombia has a sustainability model that includes internal policies of purchases, human rights, climate change, financing and investments, relationships with stakeholders, and measuring against environmental goals. The bank has a history of working with businesses across multiple sectors and its suppliers to advance and measure how businesses can positively affect internal controls that can lead to good business practices and translate into good economic jobs.

In 2016, Bancolombia launched its Measure What Matters (MWM) initiative in partnership with U.S.-based nonprofit B Lab¹⁰ and B Lab's South American partner, Sistema B¹¹, to measure its own progress on job quality and assess and develop the sustainability of its critical supply chain. Bancolombia's critical suppliers are required to complete a comprehensive third-party impact assessment, designed by B Lab, which measures business practices in five key areas of sustainable impact: governance, workers, community, environment, and clients. Within the "workers" impact area, many of the questions speak to job quality elements, including compensation, benefits, training, worker engagement, employee ownership of the company, and health and safety. Since the MWM program launched, a total of 141 suppliers have completed the assessment.

After a supplier takes the MWM assessment to set a baseline on its practices, Bancolombia helps the supplier identify and target areas for improvement and then provides it with one-on-one technical assistance. When one of its suppliers was interested in improving worker practices related to employee benefits, retention, and talent development, Bancolombia shared its own promising practices in these areas and helped guide the supplier in implementing changes. Of the 61 suppliers who have been assessed through MWM over two years so far, 70 percent have demonstrated year-over-year performance improvements in worker safety practices, employee benefits, rates of job creation, local hiring practices, and internal promotions.

Beyond this supplier-assistance relationship, Bancolombia also encourages collaboration among its suppliers to improve their job quality. For example, Bancolombia sponsors a supplier business peer-to-peer exchange group that helps the businesses connect with one another, identify challenges they may be facing as they work to improve the quality of the jobs they offer, and share practices they have discovered.

Conclusion

The strategies and real-world promising practices highlighted in this brief demonstrate the important role that banks, CDFIs, fund managers, and early-stage investors can play in incentivizing the creation of quality jobs, assisting businesses in improving their offerings and performance around job quality and measuring businesses' progress around their job quality goals. As more organizations begin to follow suit and further research demonstrates the significance of these trailblazing interventions, it is our hope that other sectors will recognize the importance of prioritizing and incentivizing quality jobs and

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strategically directing investment in support of businesses that promote quality jobs while providing the necessary technical assistance and capacity building.

Many of the organizations that partnered with businesses noted that the emphasis on quality jobs enabled those companies to focus on their business more holistically rather than on the immediate day-to-day tasks associated with running the business. Some of the businesses cited the tool kit as being helpful in reflecting on how to grow their business and opportunities for improvement. These promising practices to incentivize job creation lay out an achievable road map for further investor-business partnerships to help businesses become financially sound while also creating quality jobs to strengthen our economy.

About the Author



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Endnotes

¹ See “What Is a CDFI?” <https://ofn.org/what-cdfi>.

² Case study drawn from interview with Betsy Biemann, chief executive officer of Coastal Enterprises Inc., in 2018-2019. See <https://www.ceimaine.org/about/staff-directory/> for more information.

³ See “Living Wage Calculator,” <http://livingwage.mit.edu/states/25>.

⁴ Case study drawn from interview and conversations with the Pacific Community Ventures leadership team—Mary Jo Cook, president and CEO; Daniel Brett, associate director of Research and Consulting; and Tom Woelfel, director of Impact Advisory Services—in 2018-2019. See <https://www.pacificcommunityventures.org/team/> for more information.

⁵ *Good Jobs, Good Business*, Pacific Community Ventures, http://www.pacificcommunityventures.org/wp-content/uploads/sites/6/PCV_Good-Jobs-Good-Business.pdf.

⁶ For more information, see “Meet Our Latest Borrower: As Kneaded Bakery,” <https://www.pacificcommunityventures.org/2018/04/06/meet-our-latest-borrower-as-kneaded-bakery/>.

⁷ Case study drawn from interview and conversations with Karin Gregory, co-founder and general partner of Blue Highway Capital, in 2018-2019. See <http://bluehighwaycapital.com/team/> for more information.

⁸ Case study drawn from interview and conversations with Bhairvee Shavdia, senior associate of HCAP Partners, in 2018. For more information, see <https://www.hcapllc.com/team-1/2015/9/26/r5weqqm05ownlp0nxgyzqlmkm5i2k2>.

⁹ Case study drawn from interview and conversations with Andres Felipe Perilla Rodriguez, sustainability specialist at Bancolombia, in 2018-2019. For more information, see <https://www.grupobancolombia.com/wps/portal/personas>.

¹⁰ <https://bcorporation.net/about-b-lab>.

¹¹ <http://sistemab.org/>.