



DRIVERS FOR ECONOMIC OPPORTUNITY AND EMPOWERMENT

Assessing California Small Business
Pathways for Low-Wage Workers

next street



Executive Summary

Small businesses in California are drivers of economic opportunity. With more than 4.3M small businesses in the state, small businesses account for 99.9% of all businesses in California with microbusinesses (less than 9 employees) representing nearly 93% of all small employer firms.¹ Small businesses also employ over half of the state's private sector workforce, contributing over \$400M in employee payroll and salaries annually.² Moreover, as fixtures in their neighborhoods, small businesses mark economic vitality and identity providing essential goods and services for their local communities.

However, California's small businesses are at a crossroads in the aftermath of COVID-19.

The pandemic devastated the state's small business sector, as over 30% of businesses were forced to close and scale back operations to comply with public health measures.³ The state's small business sector has since rebounded with emergency declarations lifted, with revenues and new establishments returning to pre-COVID levels. Nevertheless, the longstanding impacts of COVID-19 remain, as small businesses grapple with inflation and shifting labor conditions attributable to the aftereffects of the pandemic.

Small businesses contribute to a California economy reconciling with the nature of work.

Over decades, a growing divide has split workers earning low- and high wages, contributing to the state's rising income and wealth inequality. Today, more than 4.3M Californians are employed in low-wage work, a majority of whom are Black, Indigenous, and People of Color (BIPOC) and women.⁴ These jobs lack stable working conditions for workers to establish a financial foothold to advance their lives toward economic mobility. These jobs also can be physically demanding and were often deemed as essential work at the height of the pandemic.

Under these circumstances, small businesses now face questions from workers seeking better quality jobs. After the pandemic, workers have reoriented how they view work, seeking jobs with livable wages, stability, and flexibility. For these workers, a quality job encompasses not only the financial dimensions of salaries and benefits but also tangible workplace features and career opportunities that provide pathways for economic mobility. **Their pursuit of job quality has also spurred a desire for autonomy and agency, attracting some to pursue entrepreneurship as an alternative path toward self-sufficiency and wealth creation.**

Motivated as employers, small businesses need support to create quality jobs for their employees.

Offering jobs more accessible to low-wage workers, small companies are known to provide business owners and workers with more flexible and equitable workplaces, fostering closer relationships between management and employees. However, small businesses in California struggle to create quality jobs on traditional monetary dimensions like salaries and benefits due to financial constraints relative to larger businesses. Small businesses also often lack formal human resource departments and expertise for their employees.

Facing these challenges, businesses and entrepreneurs require assistance representative of the vast diversity of California's small business sector. Small businesses travel along various stages of their business journeys – from start-up to survival to growth to maturity – equipping them with different faculties to create quality jobs based on the founder's motivations, the number of employees in the business, and the resources available to improve job quality. California small businesses also operate in different industries with distinct business growth characteristics and levels of job accessibility and mobility. Main Street and Supplier businesses, accounting for over 70% of all small firms in California, represent industries with greater accessibility for low-wage workers and business owners but have lower profit margins to provide competitive wages and benefits.⁵ Meanwhile, High-Growth businesses, such as professional services or tech-focused industries, are better positioned to offer quality jobs across all dimensions but are often less accessible for low-wage workers and have less diverse ownership. **Further, agnostic of industry, BIPOC- and women-owned small businesses, more likely to cultivate equitable workplaces for low-wage workers, face systemic barriers that stifle their business growth and sustainability needed to foster job quality.**

Given these conditions, it is critical that we build California's social infrastructure to foster entrepreneurship and small business sustainability and expand quality job creation through the state's small businesses. This report charts a roadmap with emerging solutions to tackle small business and worker challenges required to foster job quality for business owners and employees alike. We break down our solutions into distinct categories around key small business dimensions – including small business capital, management expertise, and market opportunities – and relevant worker intersections needed to expand access and the availability of quality jobs. **These solutions should be accompanied by necessary public policy reforms that impact how small businesses register, operate, and sell their products and services and address worker needs through the small businesses that employ them and via broader social reforms.**



ACTION**Foster entrepreneurship and small business sustainability****Expand access to small business capital**

1. Expand institutional funding pools directed for small business lending and investments
2. Create a more equitable and transparent capital marketplace
3. Increase access to responsible capital products with flexible terms tailored to business need

Create trusted avenues for business support to build management expertise

4. Increase access to small business services through digital hubs and other community channels
5. Foster specialized services and shared service platforms tailored to small business needs by industry and ownership demographics
6. Improve collaboration between small business and workforce ecosystems for relevant referrals and information sharing

Increase channels to access market opportunities

7. Build Business-to-Consumer (B2C) capabilities for Main Street and consumer-facing small businesses
8. Expand Business-to-Business (B2B) opportunities to Supplier and High-Growth businesses

ACTION**Expand quality job creation through small businesses****Connect small businesses with local workforces**

9. Support small businesses in recruitment and hiring
10. Expand access for job exploration, including through work-based learning and apprenticeship programs

Foster targeted support for small businesses to foster quality job creation

11. Expand affordability of wages and benefits for small businesses and their workers
12. Provide employee assistance resources to small businesses to foster more fair and engaging workplaces
13. Expand career and wealth building opportunities at small businesses through employee training and ownership programs
14. Provide more resources on job quality through Good Jobs toolkits and scorecards

Our hope is that this report serves as a rallying point for continued dialogue and action to support California's small businesses and workers toward economic mobility. The research and solutions highlight the collective action required of public, private, and civic organizations in California to foster quality jobs from small businesses and through entrepreneurship.

Together, we believe we can build a more fair and just economy where all small businesses and workers, particularly those historically underserved, will have the opportunity to grow and thrive.



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Introduction

Small businesses are engines for inclusive growth in California and across the country. In the United States, roughly 30M small businesses employ half of the private sector workforce and have created approximately two-thirds of all new jobs over the last 25 years.⁶

Through employment and business ownership, small businesses serve as a critical means to build individual and community wealth, with two-thirds of local business revenue staying within the community it resides. Small businesses also are important markers of local community identity, offering essential products and services and creating a vibrancy that attracts visitors and new residents alike.

Small businesses in California operate against a backdrop of an evolving economy and workforce. Over several decades, a growing divide separates Californians employed in high- and low-wage jobs, often split by socioeconomic profiles. **4.3M Californians are employed in low-wage jobs, earning \$18.03 per hour or less.** Black, Indigenous, and People of Color (BIPOC) and women constitute the majority of those employed in low-wage jobs; 58% of Latino workers work in low-wage jobs, compared with 41% of the overall workforce.⁷ This longstanding income gap, stemming from labor market discrimination and other manifestations of structural racism, is a key driver of the racial wealth gap.⁸

COVID-19 shifted how workers, particularly those in low-wage jobs, view their relationship to work. Low-wage workers, often subjected to the demanding conditions of essential work during the pandemic, are now reconsidering their employment arrangements, seeking jobs with better stability, agency, livable wages, and flexibility. Further, in pursuit of a better job, low-wage workers have sought entrepreneurship as a route to autonomy, flexibility, and economic empowerment.

With these shifting dynamics, many low-wage workers in California now seek better quality jobs from small businesses and through entrepreneurship. These conditions pose critical questions about the future of California's economy. Do small businesses offer quality jobs to their employees? Are these jobs accessible to the state's workforce currently employed in low-wage work? To what extent do entrepreneurship and small business jobs serve as paths toward economic mobility?

To better understand the relationship between California's small businesses and workforce, The James Irvine Foundation provided a grant to Next Street to study the role that small businesses play in quality job creation for low-wage workers. This study also assesses the assets and gaps of the state's small business and workforce development supports, reviewing the resources focused on serving historically underserved communities. This report culminates in proposed small business and workforce development solutions with the highest potential for quality job creation and economic mobility for low-wage workers.

Next Street is a mission-driven advisory firm revolutionizing how its clients provide capital, services, and market access to small businesses, with national expertise in equitable small business and economic development ecosystems. The James Irvine Foundation is a private, independent foundation focused on a singular goal: a California where all low-income workers have the power to advance economically.



The Research

RESEARCH QUESTION

In 2022, The James Irvine Foundation provided a grant to Next Street to publish a comprehensive study examining the landscape of California's small business sector in relation to the state's low-wage workers, focusing on a multi-faceted set of questions:

To what extent do small businesses in California create quality jobs for its owners and its workers?

How does this differ by industry, size/stage, and ownership?

What are the needs and potential solutions for supporting small businesses—across the spectrum of stages, industries, and regional ecosystems—in offering quality jobs?

What gaps exist in the ecosystems providing business support and quality job creation for small businesses in California?

To foster a comprehensive understanding of the role of small business in economic mobility and quality job creation, this research explores the state of small business in California and the relationship between small businesses and low-wage workers. For this study, low-wage workers are those with wages less than two-thirds the median full-time wage in California⁹ – a consensus measure which many researchers use.¹⁰ Building from this definition, Next Street reviewed characteristics of low-wage workers in the state, considering age, education, race, ethnicity, and gender, among other demographics.

To understand the spectrum of entrepreneurial and workforce development supports, this research analyzes the ecosystem of stakeholders across the state to understand the assets and gaps of the provider landscape supporting, financing, and purchasing from small businesses in California. The research in this study focuses on the state of California with a secondary focus on The James Irvine Foundation's Priority Communities: Fresno, Inland Empire (San Bernadino and Riverside), Salinas, and Stockton. The James Irvine Foundation and Next Street selected these communities based on quantitative and qualitative research prioritizing anchor communities, need and opportunity, and alignment and readiness.¹¹

The findings from this study are intended to inform new strategies and solutions that will support public, private, and civic organizations in California to support small business entrepreneurs and workers to have the power to advance economically. Based on extensive analysis and input from the community, the research presents a wide range of solutions to expand small business growth and promote quality jobs for stakeholders across the ecosystem to utilize in their work.





METHODOLOGY

For this comprehensive study, we applied both quantitative and qualitative research methods across a wide range of sources, including desk research, interviews, data analysis, focus groups, and surveys. Next Street conducted a data analysis of several public and private sources and a literature review of existing reports and academic papers.

Literature Review and Data Analysis.

A literature review conducted for the report involved a comprehensive analysis and synthesis of key findings from existing scholarly articles and research papers relevant to California small businesses, workforce, and quality job creation. Next Street supplemented this research with an analysis of collected data sets from public and private sources, which informed insights around the report's findings and recommendations. The full list of sources referenced are included in the Appendix.

Interviews.

To augment findings from public and private data sources and gather insights on the motivations, capital and business support needs, and quality job perceptions from a wide variety of current experiences, Next Street conducted 34 stakeholder interviews with stakeholders across the small business sector, including business support organizations (BSOs) and financial institutions who offer business services and capital in California.

Focus Groups.

To capture the voice of small businesses in California, Next Street conducted five focus groups with small business owners and employees in key regions and communities, including Los Angeles, the Inland Empire, Fresno, Stockton, and Salinas. The objectives of the focus groups were to capture insights around the perceptions, opportunities, and challenges of small business, quality job creation among California's small businesses, and priority entrepreneurial needs.

Survey.

Next Street designed a survey to better understand the role small businesses play in creating quality jobs. With 227 respondents, this survey focused on the perceptions of small business owners and employees, measuring the qualitative elements of job quality and opportunities to support quality job creation. Through multiple choice, scaled, and short answer questions, the survey gauged which elements of a quality job are essential, asking business owners to evaluate their own businesses against those criteria. The survey was conducted between May and August 2023, and participants were recruited through *User Interviews*, and through survey distribution by community partners and business support organizations. *See Appendix for the full survey details and methodology.*

Steering Committee.

Two Steering Committee meetings were held with 14 stakeholders representing communities across California, including Los Angeles, San Francisco, San Bernadino, Riverside, Fresno, Stockton, and Salinas, to gather information, validate, and provide insights around the findings and solutions. These meetings were held in July and September 2023 and were facilitated by Next Street.



KEY DEFINITIONS

Defining Small Business.

This report utilizes the US Small Business Administration’s (SBA) size standards for defining a “small business,” focusing on businesses with fewer than 500 employees.¹² Within the overarching definition of “small business,” there are a variety of dimensions of small businesses based on total employee count and revenue size. As detailed in the table below, small businesses can range from sole proprietors with no employees to middle market businesses with corporate structures. This research conducted its analysis according to these business sizes, with a focus on employer firms.

Figure 1: Defining Small Business

	Independent Worker	Sole Proprietor	Microbusiness	Small Business		Medium / Middle Market Business	
Employees	Non-Employer		1-9	10-19	20-49	50-99	100-499
Description	Independent workers without formal business structure (e.g., home-based, gig workers)	Solo practitioners with an established practice but no employees	Businesses with a single owner or partnership with initial customer base and legal structure	Businesses that reach stable operations with growing customer base and revenue streams	Growth varies by sector, ownership, and leadership ambitions	Mature businesses with corporate governance and structures and moderate to high growth trajectory	
Revenue	<\$100k	<\$100k	\$100k-\$1M	\$1-3M	\$3-10M	\$10-50M	\$50-200M+

Source: U.S. Small Business Administration



Defining a Quality Job.

The definition of a “quality job” spans a wide spectrum of perspectives, with varying definitions that have evolved across entities and actors. The traditional view of a ‘quality job’ focuses purely on financial dimensions – namely, the relative strength of one’s wages. The U.S. Private Sector Job Quality Index (JQI) focuses on a job’s weekly wages compared to the mean. Jobs with wages above the mean are considered high quality, while those below the mean are considered low quality.¹³ Further dimensions of a quality job assess the level of opportunity that the job presents for economic mobility.¹⁴ This approach allows for cases where work may pay less but provide other elements which build a person’s capabilities.

Bringing together the elements of these two spectrums, this study has adapted the quality job frameworks from the Aspen Institute and Pacific Community Ventures (PCV) – see Figure 2. The Aspen Institute defines job quality as a ‘continuum,’ which recognizes that “jobs are not easily separated into ‘good jobs’ and ‘bad jobs’” but rather an “actionable continuum of moving from low quality to higher quality.”¹⁵ Comprised of three categories—Economic Stability; Economic Mobility; and Equity, Respect

and Voice – the definition also outlines specific foundational elements such as “fair, reliable scheduling practices.”

PCV acknowledges a similar actionable continuum through its Good Jobs, Good Business toolkit. Dividing the elements of job quality into five categories (Living Wage; Basic Benefits; Wealth Building Opportunities; Career Building Opportunities; and Fair and Engaging Workplace), PCV notes that quality jobs have at least *three* of these five elements.¹⁶ Since PCV’s stakeholders are small business owners who may struggle to offer each of the elements of quality jobs in equal measure, this definition of job quality meets business owners more practically where they are by recognizing the difficulty of creating and sustaining quality jobs. For this research, the definitions have been combined in the framework below.

Together, these definitions showcase the broad spectrum of job quality with potential interventions at each business stage. That spectrum is especially relevant to small businesses in identifying common needs in a business’ development where job quality decision points exist and can be further supported.

Figure 2: Defining a Quality Job

Financial Dimensions
Emerging from Low-Wage Work



Living Wage
Sufficiently supports a decent standard of living – covers cost of family’s minimum basic needs where they live

Basic Benefits
Increases economic security, improves health, and promotes work-life balance (e.g., health insurance)

Wealth-Building Opportunities
Enables ability to build assets to achieve long-term financial security for themselves and their families

Career-Building Opportunities
Develops the skills, networks, and experience necessary to advance along a career path (e.g., training, mentorship)

Non-Financial Dimensions
Opportunity for Social Mobility

Fair and Engaging Workplace
Balances the priorities and well-being of employees with the needs of the business (e.g., flexible schedules)

Source: Adaption of quality job frameworks from the Aspen Institute and Pacific Community Ventures

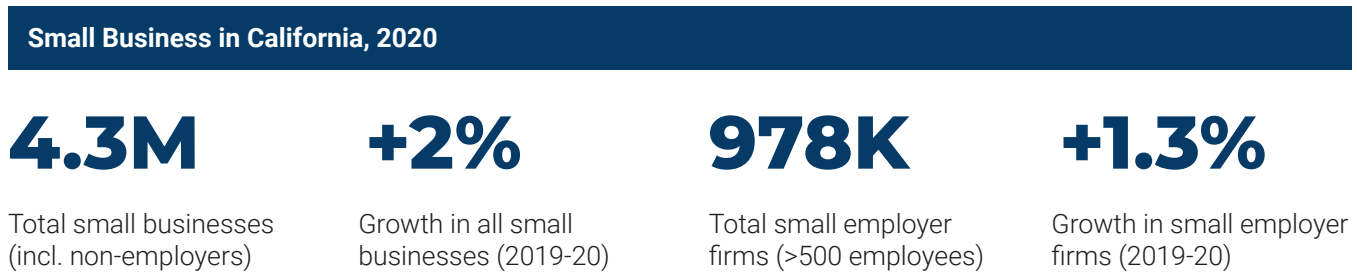
What We Found

SMALL BUSINESS LANDSCAPE IN CALIFORNIA

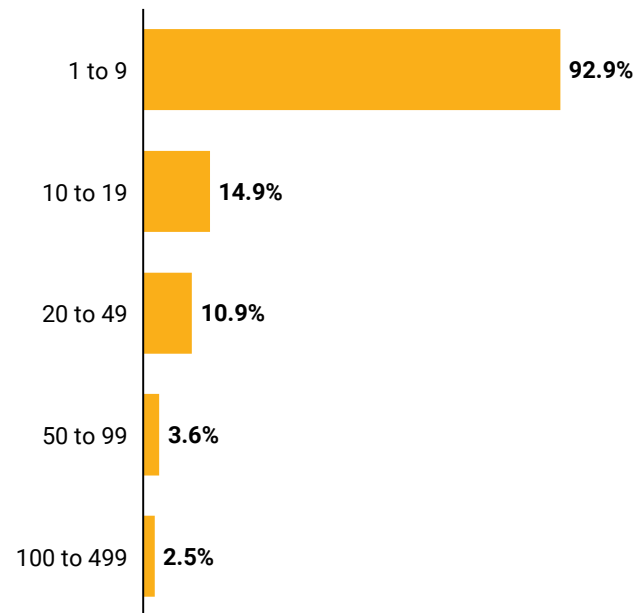
Small businesses are critical in driving the state's economic growth. With more than 4.3M small businesses in the state, small businesses account for 99.9% of all businesses in California, and microbusinesses (less than 9 employees) make up a large proportion of that number, constituting nearly 93% of all small employer firms.¹⁷ The COVID-19 pandemic had an unprecedented impact on California small businesses, with lasting economic shocks throughout the state. In fact, over 6% of firms have closed due to the economic impact of COVID-19, and revenue losses declined on average by about 75% from January through July 2020.¹⁸ While California small businesses experienced a significant shock from the pandemic, there have also been signs of notable recovery in California, with small business revenue and new openings steadily returning to pre-COVID levels.



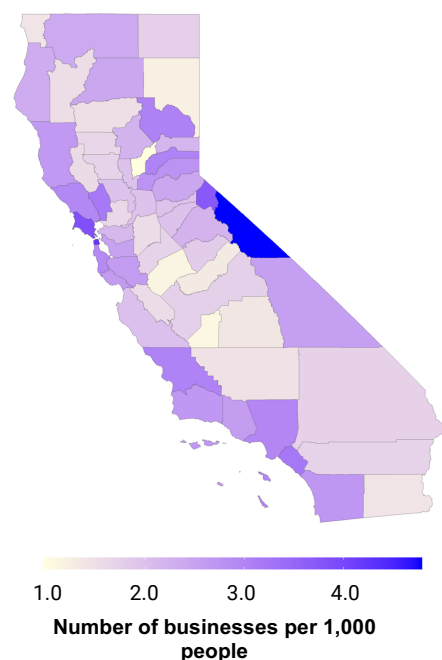
Figure 3: Small Business Snapshot in California



Small Business by Employee Size, 2020



Business Density in California by County, 2020



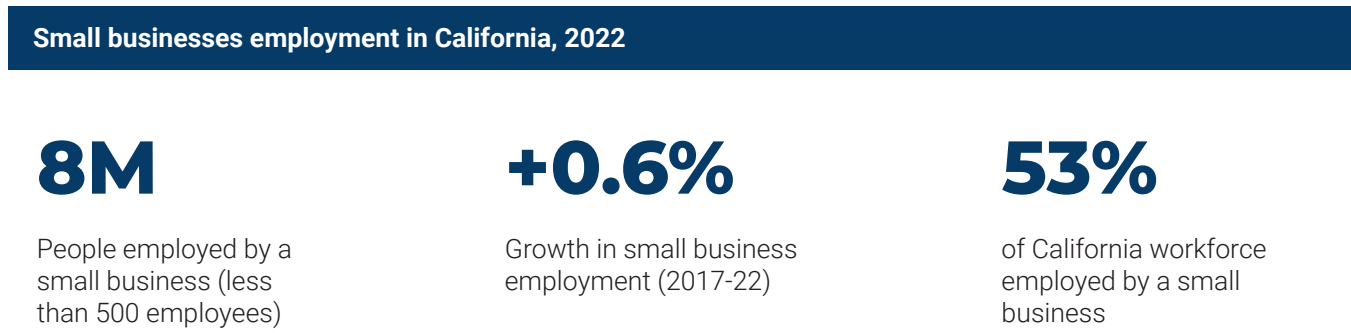
Source: U.S. Small Business Administration (2022); U.S. Census County Business Patterns (2019-20); U.S. Census Nonemployer Statistics (2019-20)

Small businesses play a pivotal role in job creation throughout, employing at least 8M people in the state. Accounting for 53% of the total workforce, small businesses continue to be a primary driver of net new jobs throughout the state.¹⁹

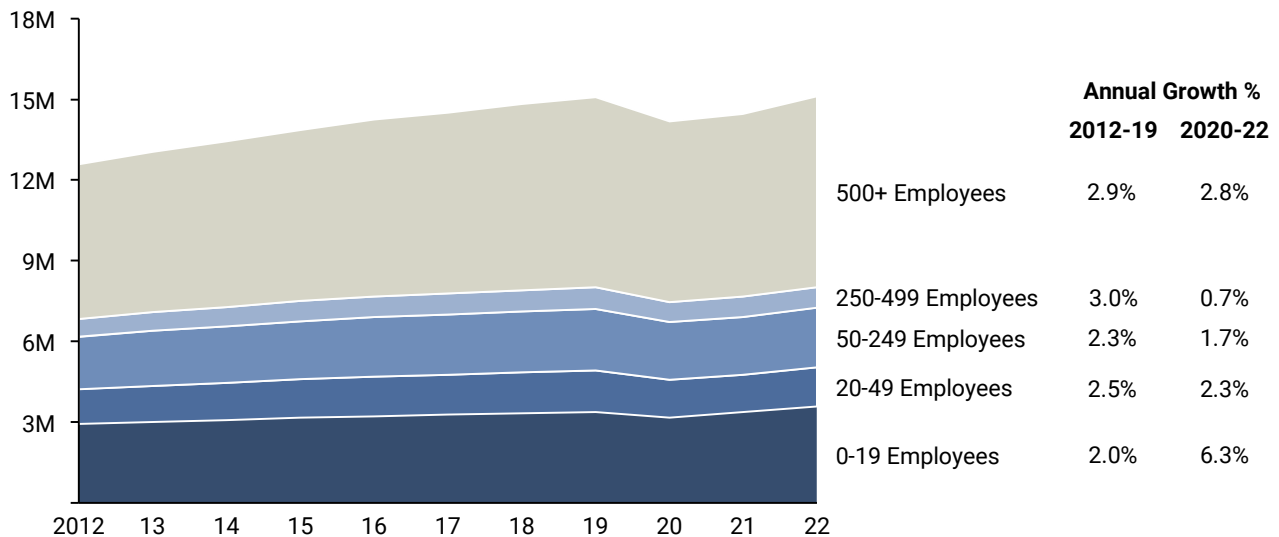
Facing significant reduction in sales and high uncertainty to the economy during the pandemic, many small businesses were forced to lay off workers and reduce operations to survive. Between March 2020 and March 2021, California small businesses gained 1.1M jobs and lost 1.6M jobs, for a net decrease of around 580K jobs.²⁰ However, since 2020, small businesses have created jobs at a higher rate than larger firms, surpassing national averages for net new job creation. Much of this growth is attributed to microbusinesses, which have contributed to an increase of nearly 560,000 jobs in California and have been increasing at a 6.3% annual growth rate since 2020 – see Figure 4.

However, the state of the small business landscape varies when evaluating through the lens of ownership demographics, industries, and their business stage.

Figure 4: Small Business Employment Snapshot in California



California profile: Workforce employment by firm size, 2012-21



Source: U.S. Census Bureau (2023); U.S. Census Quarterly Workforce Indicators (2023)

Small Business Ownership and Workforce Demographics

As one of the most racially and ethnically diverse states in the U.S., historically underrepresented groups play a significant role in both small business and its workforce in California. California is home to 1.9M BIPOC-owned small businesses, making up around 46% of the overall number of small businesses and contributing \$192B in economic output to California’s economy in a given year.²¹ BIPOC-owned small businesses support more than 2.5M jobs annually in California – around 10.9% of all jobs in the state – and support an average of \$82B in labor income. California is also home to the largest number of women-owned businesses nationwide, with higher rates of growth in numbers of firms, employment, and revenue compared with the U.S. average.²²

While these groups’ participation in the small business workforce are on par with its population, disparities in business ownership persist. Of note, there is an underrepresentation of Latino(a)-, American Indian-, Pacific Islander- and women-owned firms relative to population – see Figure 5. These disparities show the distinct barriers that BIPOC- and women-owned small businesses face to start-up, survive, and scale.

Figure 5: California Small Business Ownership and Workforce Demographics

	Population		Labor Force		Business Ownership		Small Business Workforce	
	#	%	#	%	#	%	#	%
Race / Ethnicity								
White	27.6M	71%	10.8M	70%	3M	71%	6M	71%
Latino(a)	15.7M	40%	5.6M	35%	950K	23%	3M	36%
Asian	6.4M	16%	2.7M	18%	754K	20%	1.4M	16%
Black/African American	2.5M	6.50%	1.1M	7%	185K	5%	527K	6%
Other (incl. American Indian)	2.5M	6.50%	884K	6%	33K	1%	471K	6%
Gender								
Men	19.5M	50%	7.4M	53%	2.3M	57%	4.4M	52%
Women	19.5M	50%	5.6M	47%	1.7M	43%	4M	48%

Source: U.S. Census Bureau Population Estimates (2022); U.S. Census Bureau Annual Business Survey (2019); U.S. Census Quarterly Workforce Indicators (Q3 2022)

In particular, BIPOC small business owners face institutional and systemic barriers that stifle their businesses' sustainability and growth. Lower wealth profiles limit the ability of BIPOC entrepreneurs to access capital to start-up and survive, especially financing driven by 'family and friends' networks or capital. Additionally, these businesses often struggle to access traditional lending sources due to discriminatory practices, limited credit histories, or insufficient collateral. Discrimination and structural biases can affect opportunities for networking, mentorship, and accessing markets or contracting opportunities, further impeding their growth prospects. Finally, BIPOC-owned small businesses may operate in communities with fewer resources and inadequate infrastructure, which can impact their ability to thrive.

Further, COVID-19 disproportionately affected BIPOC- and women-owned firms nationally. Given high concentration in industries such as food, retail, and accommodation, a higher proportion of Black- and Asian-owned businesses reported significant decreases in business sales due to COVID than their White counterparts.²³

As an early result of COVID-19, nation-wide, the number of active Black businesses dropped 41%, while Latino (down 32%), immigrant (down 36%), and female-owned (down 25%) businesses experienced similar declines. Challenges with access to capital, technical assistance, and disinvestment contributed to these swift declines.²⁴ These trends, amplified by the pandemic shock, impact countless employees of small businesses and the quality of their jobs.

Small Business Industries

The dynamics and growth of small businesses further vary by industry, which can be clustered by three main industry types: Main Street businesses, High-growth businesses, and Supplier businesses. Figures 6 and 7 charts the characteristics and relevant statistics from these business segments.²⁵

Figure 6: Small Business Industry Descriptions

	Main Street Businesses	High-Growth Businesses	Supplier Businesses
Business characteristics	<ul style="list-style-type: none"> Local businesses serving consumers and other local businesses Low-to-moderate scale potential Often smaller, community-based with operations in place 	<ul style="list-style-type: none"> Fast-growing, often innovation-driven businesses High-margin, high-scale potential Often service-based with local staff and operations 	<ul style="list-style-type: none"> Suppliers to government (B2G) or other businesses (B2B) in traded sectors Moderate-to-high scale potential Can have local supplier facilities
Representative industries	<ul style="list-style-type: none"> Accommodation and Food Healthcare and Social Assistance Personal and Repair Services Retail Trade 	<ul style="list-style-type: none"> Finance and Insurance Information Technology Professional Services Real Estate 	<ul style="list-style-type: none"> Admin Services Construction Manufacturing Transportation and Warehousing

Figure 7: California Small Business Industry Snapshot

	Main Street Businesses	High-Growth Businesses	Supplier Businesses
Number of firms*	446k firms (45% of total)	285k firms (28% of total)	259k firms (26% of total)
% BIPOC owned	43%	25%	35%
% Women-owned	27%	24%	15%
Small business workforce	3.9M workers (48% of total)	1.4M workers (18% of total)	2.8M workers (34% of total)
% BIPOC	36%	21%	33%
% Women	34%	21%	18%
Average business size*	14 workers per firm	11 workers per firm	20 workers per firm
Low-wage worker concentration[^]	2.5M workers (59% of total)	344K workers (8% of total)	1.3M workers (30% of total)
GDP growth by segment	2.5 - 7%	4.5 - 7.5%	6 - 9%

Source: Adapted from the Harvard Business School framework; U.S. Census County Business Patterns (2020); U.S. Bureau of Economic Analysis (2022); NYU Stern (2023); U.S. Census Bureau of Labor Statistics (2022); UC Berkeley Labor Center (2022); U.S. Census Annual Business Survey (2020)

Note: *Based on employer firm data; [^]Representative of all firm sizes (including >500 employees)

Main Street businesses, which encompass local, community-based industries such as food and accommodations, represent nearly half of total firms across California, echoing the significance of local establishments to overarching business activity.²⁶ These businesses also employ nearly half of the state’s workforce, with high concentrations in healthcare, accommodations, and retail trade. Main Street businesses represent a large concentration of BIPOC- and women-owned businesses, while also employing a large proportion of the BIPOC and female workforce in California.²⁷ Female small business workers predominantly work in service-based industries, most notably in healthcare and educational services. However, these businesses often represent low-margin industries with low levels of growth and productivity. Of note, Main Street industries employ nearly 60% of California’s low-wage workers. Retailers and restaurants alone account for almost one-third of the state’s low-wage workers.²⁸

High-growth businesses, on the other hand, represent high-margin industries driving productivity in California. However, despite their contribution to California’s economy, high-growth small businesses employ only a small fraction of the workforce, with low concentrations of low-wage workers. They also report low rates of BIPOC- and women-owned businesses, while employing a low proportion of the BIPOC workforce. This can be attributed to high barriers to accessing these jobs, including advanced degrees and networks that are often limited for BIPOC or low-wage workers or entrepreneurs. BIPOC and women ownership is also underrepresented due to difficulties in accessing angel and venture investments – of note, recent studies found that venture capital-backed startups were disproportionately owned by founders who are men, white, based in Silicon Valley, and Ivy League-educated.²⁹ High-growth businesses are also at risk of slower future growth due to recession fears, rising interest rates, and layoffs in efforts to decrease payrolls, resulting in low employment growth potential and shrinking opportunities.³⁰

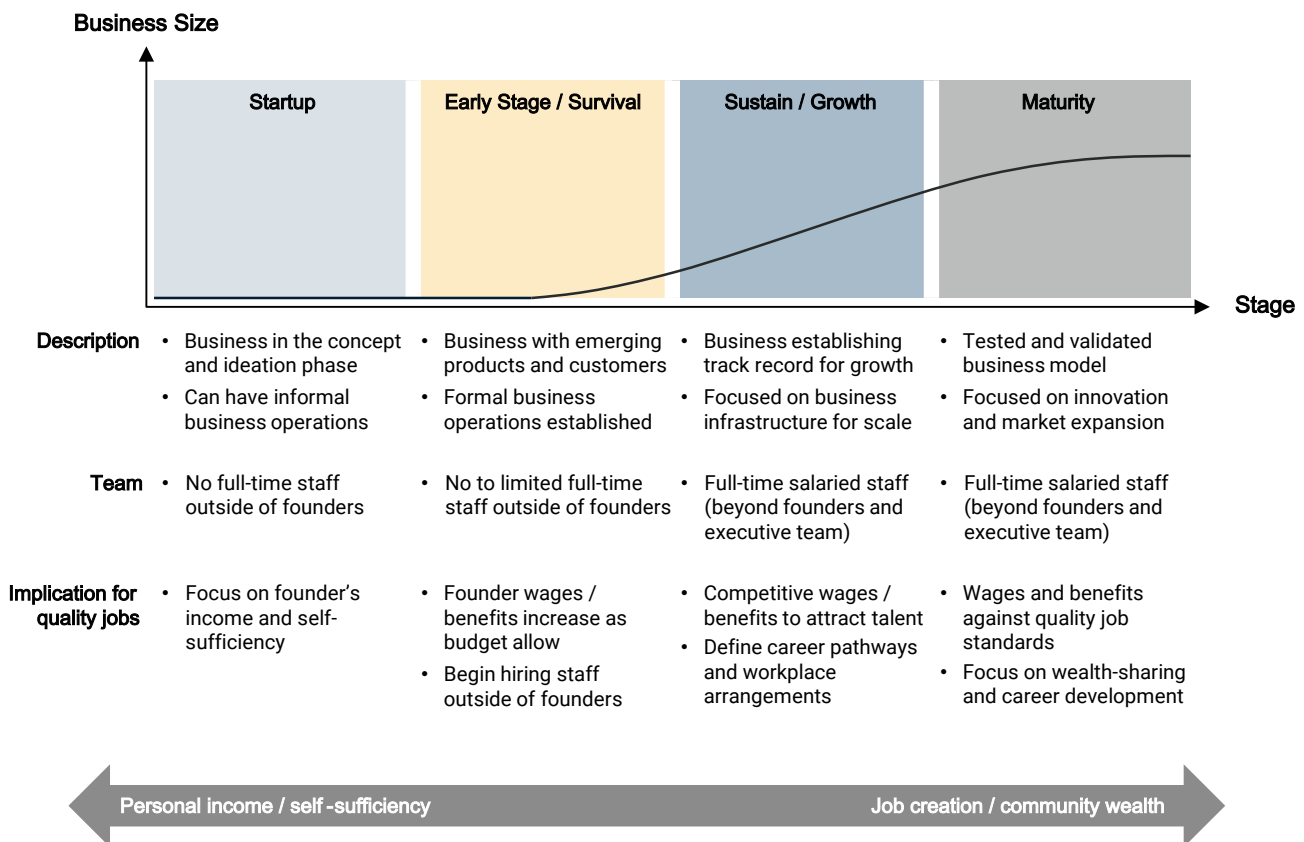
Supplier businesses, which encompass traded sectors such as manufacturing, construction, and transportation, are the fastest growing industries in California and nationwide. This growth has been driven by an influx of public investments in infrastructure upgrades, the net-zero transition, and advanced manufacturing; federal funds from the Bipartisan Infrastructure Law will contribute \$14.5 billion for transportation infrastructure in the state alone.³¹ Industries such as transportation, warehousing, and construction represent the fastest growing workforces over the past five years.³² Despite low representation of female ownership and workforce in supplier industries, Supplier businesses represent increasing numbers of BIPOC-owned businesses and workers. This has considerable implications not only for how small firms are expected to grow but also for how it will impact low-wage workers throughout California, specifically where there may be opportunities or gaps in quality job creation.

Small Business Journeys

Within industries, small businesses in California vary widely in size and capacity for growth while also experiencing common journeys and problems arising at similar stages in their development. Mature small businesses have the sustainability and stability to better dedicate resources to create quality jobs for the owners, their workforce, and the communities in which they operate. Reaching this maturity is often the goal of small businesses in obtaining a level of resource stability, experience, and established operations within the organization.

An entrepreneur’s journey to sustainability and maturity is often marked by stages – as demonstrated in Figure 8. Throughout each, small businesses serve as pathways to quality jobs for their owners and workers as they grow and mature. Startup and early-stage businesses are focused on self-sufficiency and personal income for the founder; sustainable and mature businesses can focus on providing for its staff via wages, benefits, wealth-sharing, and career development. A distinct shift occurs as small businesses move from survival to growth stages, as they are better able to focus on scaling job creation and community wealth.

Figure 8: Small Business Journeys



Source: Adapted from the Harvard Business School framework; Kauffman Foundation; Aspen Institute FIELD

While entrepreneurs have different motivations for starting a business, the small business startup journey is similar for all entrepreneurs, marked by common challenges, from developing a viable idea to securing funding to navigating regulations to register the business.³³ However, as businesses begin to grow, the trajectory diverges, shaped by the unique dynamics of the industry and the ambitions of the founders.

Therefore, while the foundational entrepreneurial goals to survive and grow remain constant, small businesses' journeys differ commensurate to what 'maturity' looks like for each. As demonstrated in Figure 9, High-growth businesses aim to introduce and scale tech-enabled products that address a sizable market need, whereas Main Street businesses aim to sell founder-inspired and -produced goods and services in their local communities. Supplier businesses, on the other hand, aim to sell to businesses and governments, integrating into regional and national supply chains. Therefore, how the organization, team, and business model evolves to develop the product and capture market share differs distinctly according to these business goals. Consequently, implications for quality jobs for both small business owners and its workers vary according to each industry across the business stage. See *Appendix for industry-specific needs at each stage of development.*

Figure 9: Small Business Journeys by Industry Type

	Startup	Early Stage / Survival	Sustain / Growth	Maturity
Main Street businesses	<ul style="list-style-type: none"> Part- to full-time founder commitment, Informal operations; may start as side hustle 	<ul style="list-style-type: none"> May hire first employees Formalizing sales channels; may acquire physical space Legal business entity; may access microfinancing 	<ul style="list-style-type: none"> Grow from micro to small business (5+ employees) Physical space outfit for business growth 	<ul style="list-style-type: none"> Local hiring based on capabilities and function Community-recognized products, stores and offices
High-growth businesses	<ul style="list-style-type: none"> Founding team (1-2 people) Identifiable addressable market with sizable need Legal business entity 	<ul style="list-style-type: none"> Growing management staff Product prototype Growing sales channels Growing operation toward profitability; VC-backed 	<ul style="list-style-type: none"> Team growth with sales and product skillsets Product-market fit Established sales channels Venture-backed funding 	<ul style="list-style-type: none"> Hiring with path towards private equity or IPO Industry-recognized product Diversified sales channels across geographies
Supplier businesses	<ul style="list-style-type: none"> Part- to full-time founder commitment Sales channels through industry connections May start as unregistered 	<ul style="list-style-type: none"> Hiring for contract delivery Primarily focused on sub-contractor opportunities Growing operations; may access bridge financing 	<ul style="list-style-type: none"> Team growth based on proven skill sets Begins to pursue Tier 1 opportunities Future planning based on supplier forecasts 	<ul style="list-style-type: none"> Hiring based on supplier forecasts Tier 1 supplier for diversified customer base Functional org hierarchy with back office

Source: Next Street research and analysis; Harvard Business Review; Main Street America; Nowak Metro Finance Lab; Village Capital

PATHWAYS FOR QUALITY JOBS FOR LOW-WAGE WORKERS

Given their outsized impact on job creation overall, small businesses offer key pathways for quality jobs for low-wage workers in California. These pathways are through entrepreneurship and small business employment for low-wage workers, which, in turn, impacts local communities and economies.

Small Business Owners. Entrepreneurship provides a pathway for small business owners to leverage their business as a means to provide for their families and to improve work arrangements.

Aspiration for better jobs encourages many low-wage workers to pursue entrepreneurship as a route to autonomy, flexibility, and “shift the power dynamic from creating profits for someone else to creating profits for themselves.”³⁴

This is particularly impactful in building self-sufficiency for low-to-moderate income (LMI) populations and communities.³⁵ For LMI populations, entrepreneurship is correlated with dimensions of quality jobs for individuals: increased wealth, savings, job satisfaction, and economic mobility.³⁶ Our study found that small business owners within California are often driven by necessity. Focus group participants cited providing for themselves and their families as their primary motivation to become small business owners, often due to a lack of better employment options. Second to providing for oneself, they also cited being able to improve their work arrangements through flexibility and with greater autonomy.

Small Business Workers. Small businesses are drivers for job creation for workers and the communities that they work and live in, with a considerable impact on low-wage workers and LMI communities in California.³⁷ The devastating impact of COVID-19 shifted how low-wage workers view their relationship to work. During the pandemic, the isolation and precarity of essential, frontline work caused many to be more discerning about their job expectations. In a series of focus groups conducted by the Federal Reserve in 2023, low-wage workers expressed their changing sentiments toward job quality, “increasingly seeing quality attributes as a minimum expectation, rather than aspirational and available only to workers in higher-wage occupations or with higher levels of educational attainment.”³⁸ These shifting expectations position workers to seek jobs with better stability, agency, livable wages, and economic mobility.

As drivers of job creation in California, small businesses play a critical role in offering pathways for low-wage workers who are seeking quality job opportunities and upward mobility.

Nationally, studies have found that small businesses have a significant job-creating presence in economically distressed urban centers, which are more likely to employ BIPOC and low-income residents and to be more supportive of their growth as employees.³⁹ Moreover, through employment and local economic activity, small businesses have a circular effect for strengthening local communities and supporting inclusive growth. When small business owners and employees earn income, they tend to spend it locally; this circulation of money has a ‘multiplier effect’ on economic activity within the community by helping support other businesses, and in turn, creating more jobs. \$68 of every \$100 spent at a local small business stays in the community, whereas only \$43 stays in the community when spent at a non-local business.⁴⁰



DO SMALL BUSINESSES CREATE QUALITY JOBS?

Against this backdrop of the small business landscape in California, this study dives into the research question: **To what extent do small businesses in California create quality jobs for their owners and workers?** The insights detailed in this section summarize findings from our Voice of Small Business survey, focus groups, data analysis, and stakeholder interviews, along with existing research. This study evaluates the level to which small businesses provide quality jobs to owners and workers across all dimensions of job quality. Building on these perspectives, this research dissects these insights, highlighting differences across industries, sizes, stages of development, and ownership demographics.

How do Small Businesses Perceive their Role in Quality Job Creation?

Creating quality jobs is a core priority for small business owners. Our Voice of Small Business survey found that the elements that are most essential for a quality job according to small business owners and workers are living wages and fair and engaging workplaces. In focus groups, small business employees emphasized that the quality of their jobs is not assessed solely by wages and benefits; **quality is determined by a foundation of job security, respect, and flexibility – of which many workers found at smaller companies.**

Small business owners surveyed noted that they are often not able to provide above-market wages or benefits due to their constraints in resources, but they can compensate for this by providing flexibility and engaging workplaces that value their workers. As small businesses grow, they hope to better expand the resources and opportunities offered to staff to be better able to invest in the worker. These results suggest that small business owners may perceive quality jobs as a positive outcome of business success, rather than a condition or prerequisite of business success. This implies that businesses require resources and capabilities to provide quality jobs, while also highlighting the need to make the ‘business case’ for doing so.

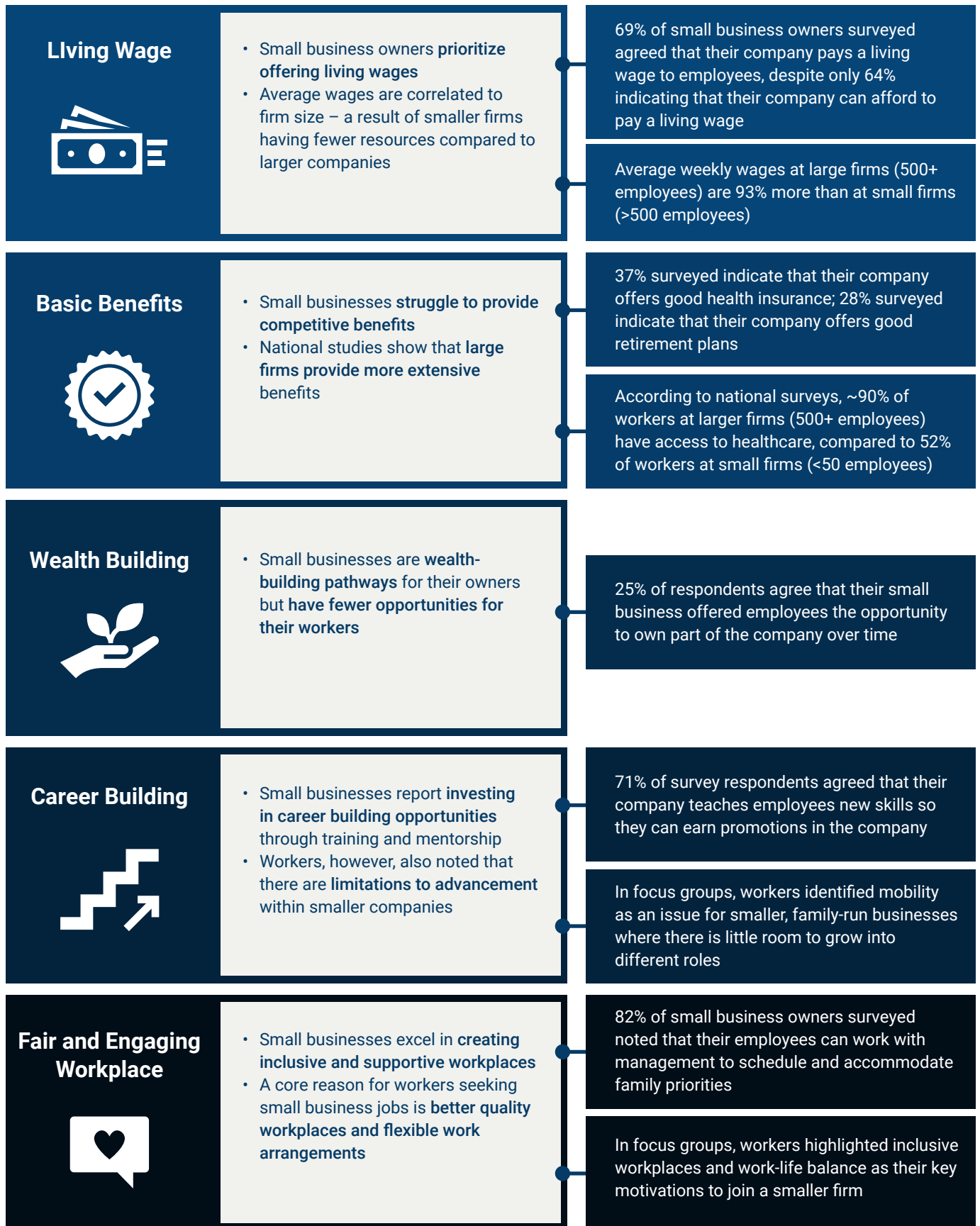
Assessment of Quality Jobs across Dimensions

This research assessed California small businesses’ ability to create quality jobs across the five elements defined earlier in this study: Living Wage; Basic Benefits; Wealth Building Opportunities; Career Building Opportunities; Fair and Engaging Workplace. The assessment highlights overarching themes across each dimension, while also identifying key insights when evaluating across industry types, business size, and owner demographics.

The overarching analysis found that small business owners struggle to create quality jobs when evaluating against traditional financial dimensions—namely, wages and benefits. However, when considering the workplace environments and opportunities for economic mobility, **small businesses are critical in providing quality pathways for low-wage workers via fair and engaging workplaces and career building opportunities to both its owners and employees.** Figure 10 summarizes the insights according to the elements of job quality.



Figure 10: Overall Quality Job Insights



Industry-Specific Insights

Findings from the assessment highlight significant differences in quality jobs across industries, implying targeted interventions for each industry can fill distinct needs in creating quality jobs for their respective workforces.

Main Street Businesses. Main Street businesses are less likely than High-growth and Supplier businesses to offer quality jobs across all dimensions, particularly for wages and benefits. 63% of Main Street businesses, compared to 77% of High-Growth businesses, surveyed in California as part of this research indicated that their company pays a living wage to employees. As highlighted in the small business landscape analysis, Main Street businesses tend to have lower margins, thereby fewer resources to invest in quality job creation. This has significant implications as Main Street businesses employ nearly half of California's total workforce, with a high concentration of California's low-wage workers.⁴¹

Main Street businesses lag in comparison to other industries because they often lack the resources to adequately invest in wages, benefits, and opportunities. 55% of Main Street business owners surveyed noted that access to capital and financing was a top need, compared to 47% of high-growth or supplier businesses.

High-Growth Businesses. High-Growth businesses are more likely to offer quality jobs, particularly through living wages and good benefits, but are often inaccessible and inequitable workplaces for low-wage and BIPOC workers. Survey respondents from High-Growth businesses were more likely to offer living wages (77%), compared to Main Street business (63%) and Supplier businesses (70%). Of note, a significantly higher percentage of respondents from High-Growth businesses reported providing good benefits and wealth building opportunities for its workforce. As high-margin industries, high-growth businesses often provide higher wages, better benefits, and more opportunities for their workforce in efforts to attract and retain talent.

However, high-growth businesses are often difficult for low-wage and BIPOC workers to access. Survey results show that high-growth businesses are more likely to have difficulty hiring (12%) and retaining BIPOC employees (14%), reflecting the inequities in

the workplace. While there is greater opportunity for upward mobility in these industries, identified through the measurement of the average salary increase among low-wage employees, additional analyses have found that high-growth sectors report high gender and racial mobility gaps for Hispanic and Black workers.⁴² These industries also present a high barrier to entry for low-wage workers, often requiring advanced degrees for entry-level positions.⁴³

Supplier Businesses. Finally, Supplier businesses provide stable work environments with living wages and benefits, but often offer less flexibility and entail more difficult working conditions for employees. Survey results demonstrate that supplier businesses provide competitive benefits compared to other industries but (a) have less flexibility in accommodating schedules and (b) have trouble retaining staff – marks of less fair and engaging workplaces. These reflect the physical demands of many entry-level positions within these industries. By leveraging existing worker bargaining power, the results indicate an opportunity to improve working conditions and career building opportunities for lower-wage, entry-level positions.

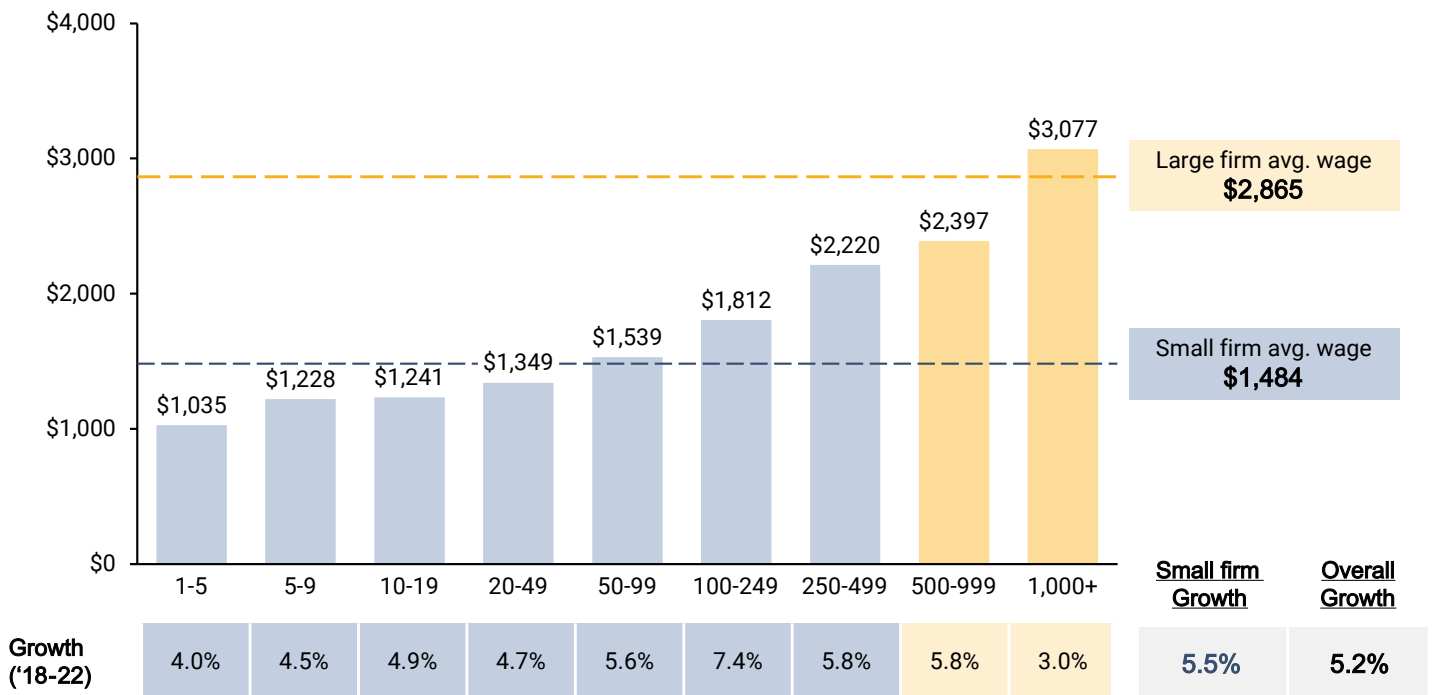
This opportunity is coupled with the macroeconomic trends that are driving the growth of Supplier industries. Despite having limited firm presence relative to other industries, supplier businesses are increasingly driving employment, representing the highest employment growth rates in recent years (6.5% in Transportation & Warehousing; 4.6% in Construction). Coupled with high employment growth potential, supplier industries also have high rates of job accessibility, indicating opportunities to influence quality job creation for low-wage workers. Transportation and Construction, in particular, represent the fastest growing occupations in California that do not require a bachelor's degree. Occupations such as truck driving report high rates of upward mobility.⁴⁴

Business Size-Specific Insights

Prior research and studies concluded that the larger the company, the higher the job quality. A pre-pandemic Gallup survey of workers discovered that their ratings of 10 job quality elements were higher for larger companies.⁴⁵ Low-income workers said larger companies paid better, more predictably, and offered benefits that they were more satisfied with. According to an analysis of available Bureau of Labor Statistics data, the average earnings of workers in California increase significantly as firm size grows. Average weekly wages at larger firms (500+ employees) are 93% more than average weekly wages at small firms (<500 employees), as demonstrated in Figure 11.⁴⁶ This contrast is even more stark for microbusinesses. The average wages at large firms with more than 1,000 employees are nearly triple that of small businesses with less than 5 employees. While wages have been increasing across all firms, wages at small firms have been growing at a faster rate than large firms, particularly for middle market businesses (100-499 employees).

Figure 11: Average Weekly Wage by Firm Size

Average Weekly Wage by Firm Size (Q1 2023)



Source: U.S. Census Bureau of Labor Statistics (Q1 2023)

Conversely, the pre-pandemic Gallup survey of workers found that low-income workers were more likely to rate smaller companies highly for non-monetary elements of job quality. 92% said they felt a sense of purpose (75% at large companies), and 88% said they had control over their hours and/or location (78% at large companies).⁴⁷ Flexibility, purpose, and agency in one's work cannot compensate for lower pay, but these positive elements of working at small firms are still important contributors to job quality. National compensation surveys from the Bureau of Labor Statistics also find that coverage from benefit packages at small firms decrease significantly with size. For example, employees of smaller firms are significantly more likely to (a) pay "out of pocket" for deductibles and (b) have deductibles over \$2,000. Of note, the national compensation surveys noted that access to childcare benefits nearly quadruple at large firms. Other benefits such as financial planning, bonuses, and student loan repayment also increase significantly when firm sizes are above 500 employees.⁴⁸



Our Voice of Small Business survey results confirmed these assertions. Surveyed small business employees and owners indicated that **firms with over 20 employees are more likely to create quality jobs across all dimensions** aside from fair and engaging workplaces. Benefits and career building opportunities are more frequently offered in firms with over 50 employees, highlighting the high costs and scale required to better invest in staff. However, regardless of firm size, small businesses provide fair and engaging workplaces. These results imply that as firms grow in employee size and revenue, they are better resourced to provide living wages, benefits, and wealth and career building opportunities for low-wage workers. This has significant implications for BIPOC and women entrepreneurs who face distinct barriers to grow and scale due to limited access to capital, networks, and market opportunities.

Demographic-Specific Insights

This research's results suggest that BIPOC-owned small businesses are more likely to provide flexibility, mentorship, and equitability in workplaces that BIPOC employees and owners are not able to find at larger firms. In alignment with Prosperity Now's study on quality jobs, Black and Latino(a)-owned small businesses provide more equitable workplaces for both their owners and workers. The Prosperity Now study found that 92% of employees at Black and Latino(a)-owned small businesses were satisfied with the fairness of opportunities from their employer and were more likely to report that they had the "appropriate amount of say about their jobs"⁴⁹

The Voice of Small Business survey results confirm these assertions. Respondents who owned and were employed by BIPOC-owned companies reported low levels of difficulty in hiring or retaining BIPOC employees. In addition, the majority of respondents from BIPOC-owned companies agreed that management worked with employees to accommodate family priorities (81%) and is more likely than other firms to teach employees new skills (74%).

These findings imply that BIPOC-owned companies are not only more likely to provide employment and opportunities to BIPOC workers but also are more likely to provide engaging workplace conditions that invests in its workforce.

However, BIPOC entrepreneurs report higher difficulties in accessing capital, customers, and services to be able to start up, scale, and mature. Access to capital and growth strategies were the highest reported need for BIPOC-owned businesses. A handful of respondents noted that they will not approach support organizations due to trust, but to a higher degree, the belief that they do not qualify for their services. Focus group participants highlighted the need for supporting growth strategies, marketing, and capital, but noted the structural barriers that keep underserved communities from accessing credit and crucial networks:

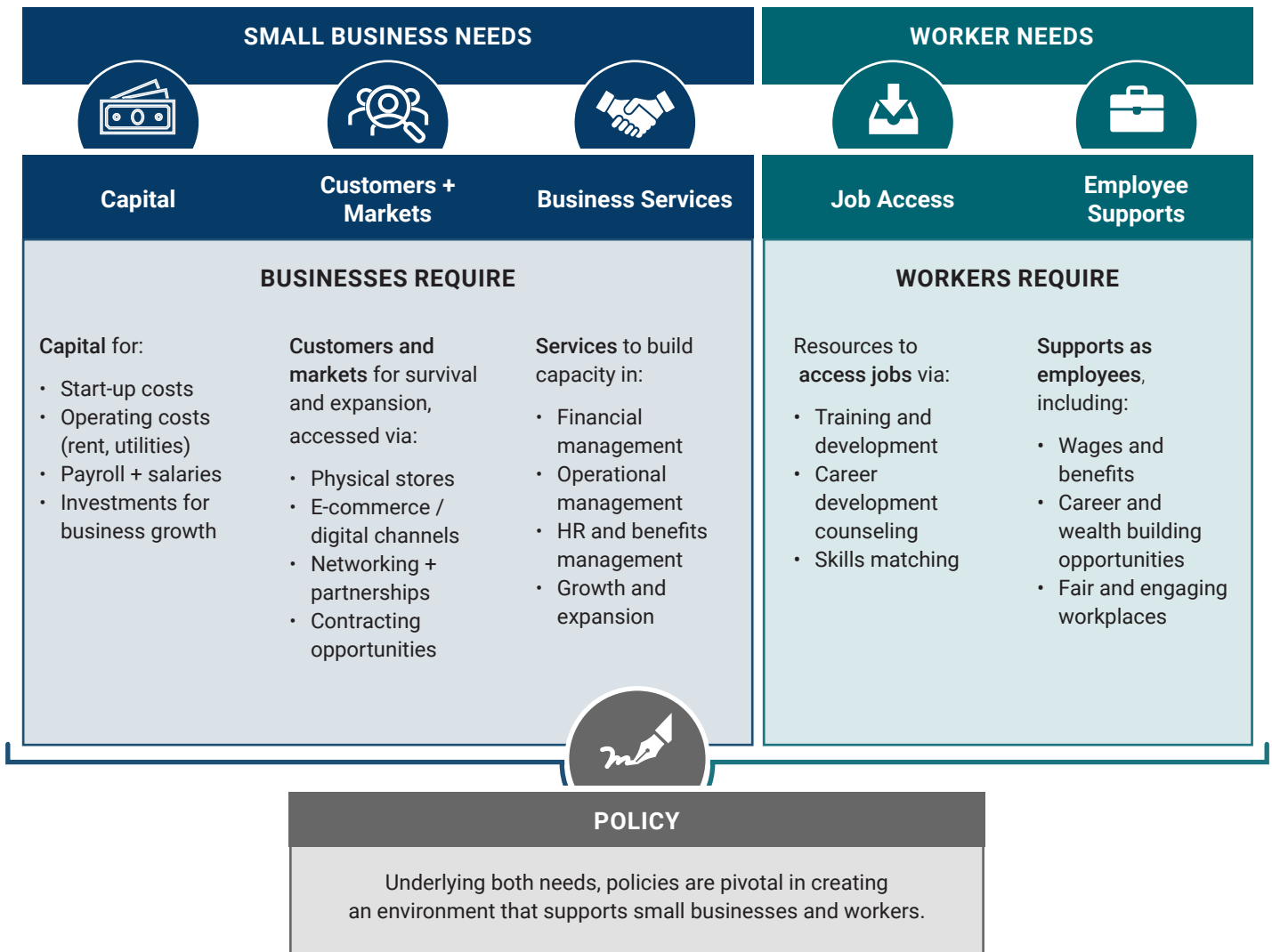
"As an immigrant, it is very difficult for me to ask for a loan... I went to several places to ask for a loan, and nobody wanted to lend me money... If you do not have residence or paperwork, loans are not accessible."

Proposed Solutions

This research culminated in a set of solutions designed to move California ecosystems to support small businesses in creating pathways for low-wage workers to access opportunities to advance economically. Despite prioritizing quality jobs as important pathways for low-wage workers, our research confirms that small businesses face distinct challenges in achieving sustainability and maturity along their small business journeys by accessing capital, customers, and services, and intentionally creating quality jobs for their employees by expanding access and employee supports.

The solutions identified are intended to address these gaps across both **small business needs** and **workforce needs** (see Figure 12). On one hand, small businesses require the capital, customers, and capabilities to be able to offer and build their own capacity in providing quality jobs. Small business needs encompass main priorities in accessing capital and financing, customers and markets, and business assistance and services. On the workforce side, small business workers require resources to obtain and contribute to quality jobs. Workforce needs encompass the requirements to develop and support the small business workforce, including access to jobs and worker supports like skills training and development. Underlying each set of needs are policy solutions that would create a regulatory environment that best supports small businesses and workers in providing, obtaining, and maintaining quality jobs.

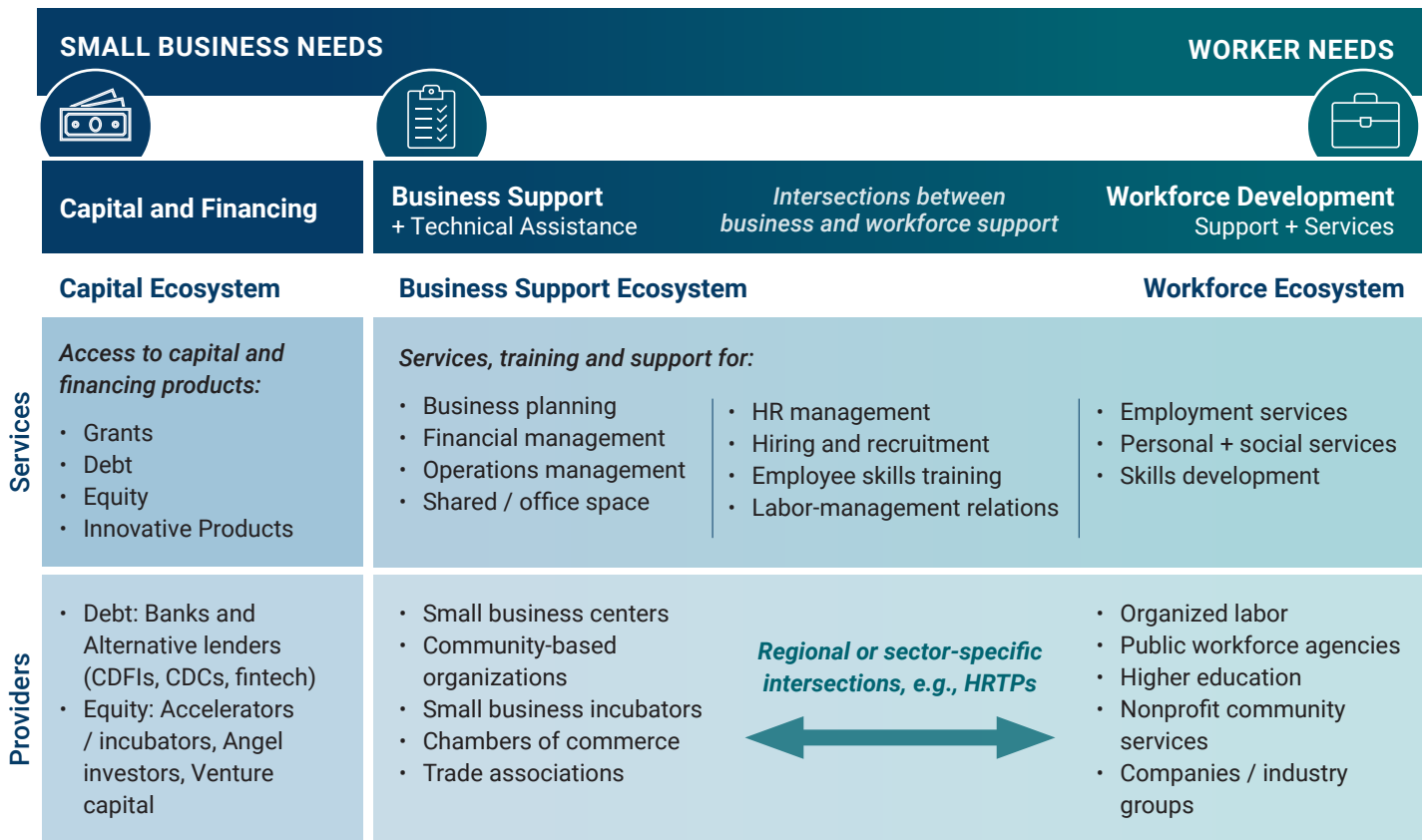
Figure 12: Priority Needs



SMALL BUSINESS AND WORKFORCE ECOSYSTEMS

Ecosystems are key to addressing these needs and providing the necessary support for both small businesses and their workforce – defining “ecosystems” as systems of interdependent actors and relations directly or indirectly supporting the creation, sustenance, and development of small businesses or workforces within a city or region. Small businesses are both served through a capital ecosystem to provide access to capital and financing products and business support ecosystem that provide a range of entrepreneurial services, training, and technical assistance. Workers, on the other hand, are supported by a workforce development ecosystem that works to both develop skills while also connecting the workforce with potential employment.

Figure 13: Small Business and Workforce Ecosystems



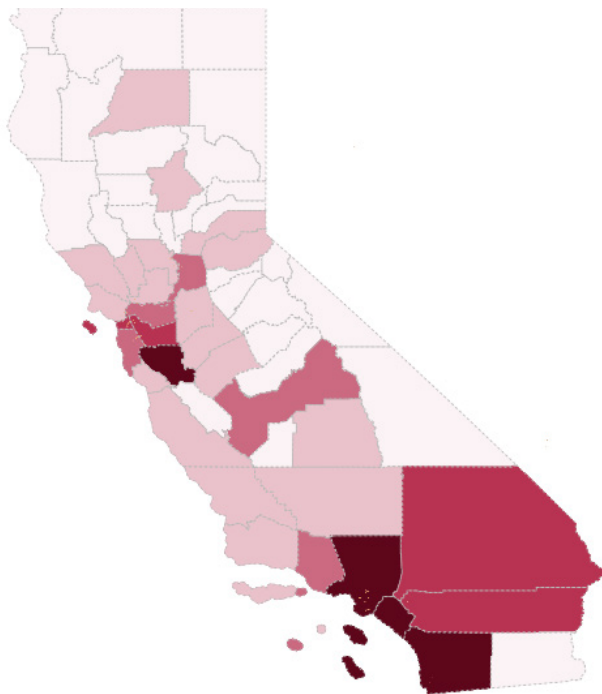
As demonstrated in Figure 13, small business support and workforce support intersect in its assistance for the small business worker by providing services related to human resources, recruitment, and employee skills and support. Therefore, the ecosystem requires similar intersections to support all facets of small business growth and workforce development.

A collaborative regional support ecosystem is essential for providing comprehensive solutions to small businesses within a community. While there are growing small business ecosystems throughout California, increased regional collaboration and specialization are required to meet the distinct and growing needs across business stages and industries. While gaps vary, this analysis found that business support ecosystems across all regions are under-resourced and lack strong regional connections, where they are highly concentrated in large metropolitan or upper-income areas.⁵⁰ Ecosystems further focus on early-stage, high-growth businesses, given California’s robust tech-focused industries, but this highlights gaps in supporting community or supplier businesses looking to scale. Additionally, across all regions, gaps in access to capital persist in low-income areas and communities of color, further driving disparities.

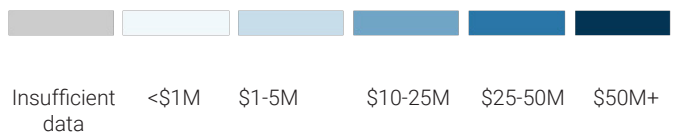
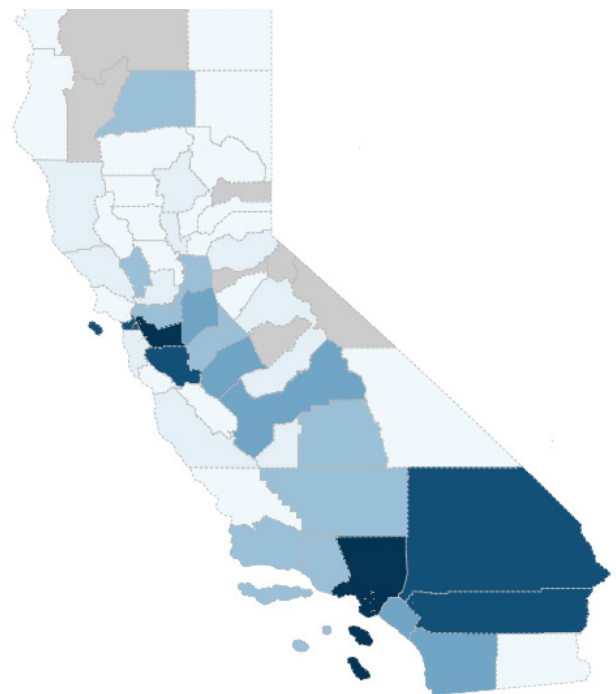
Capital and business support ecosystems vary across regions in the extent to which stakeholders and initiatives collaborate to provide access to capital products and services to small businesses. Historically, small business lending and business support activity has been highly concentrated in California's large metropolitan areas: Los Angeles and San Francisco. However, in recent years, there have been notable increases in small business investments in other regions such as the Inland Empire and Fresno – a reflection of both burgeoning small business activity and increasing collaboration in the ecosystems that support it. Of note, the Inland Empire region have seen increased lending activity in recent years - \$2.7B in 2019 alone, a 24% increase from 2017.⁵¹ While community development financial institutions (CDFIs) have been increasing investments and access to flexible capital to small businesses throughout low-income regions in California, there are few physical locations that provide small business lending in the Northern and Central regions. While momentum from COVID funding and regional convenings improved collaboration in regions, many areas such as Central Region would benefit from regional collaboratives to drive towards clear small business strategy, investments, and goals.

Figure 14: Capital Ecosystem – Lending by Regions

Total (\$) Small Business Loans (2019)



Total (\$) CDFI Small Business Investments (2017)



Source: CRA (2019). CDFI Fund (2017), FDIC (2020) – Accessed via PolicyMap

Workforce development ecosystems in California are primarily industry- or region-focused, with few existing intersections with the small business ecosystem.

There is a broader need to integrate small business development within City and County workforce and community development initiatives to be able to leverage and collaborate across resources.

Small business owners are infrequently connected with workforce development boards for support and are notably lacking in representation for employment networks, work-based learning programs, and hiring platforms focused on serving low-wage workers. Emerging initiatives like **High Road Training Partnerships** administered by the California Workforce Development Board and **Community Economic Resilience Fund (CERF)** administered by the Governor's Office of Planning and Research, the California Labor Workforce Development Agency, and the Governor's Office of Business and Economic Development have begun to connect with small business and workforce ecosystems, but more intentional connections are required.

Addressing these gaps and building the capacity of these ecosystems will be key to providing comprehensive support for small businesses and workers. This report will explore the priority needs, corresponding solutions, and example models in detail further in efforts to provide a roadmap for ecosystem stakeholders.

SMALL BUSINESS SOLUTIONS

Across industries, regions, and stages of development, we have found entrepreneurs universally rely on critical factors such as access to capital, customers, and services, as well as essential services, to sustain and expand their ventures. Without adequate capital, businesses struggle to initiate operations, invest in growth, or navigate unforeseen challenges. Furthermore, securing a customer base and accessing broader markets are fundamental for revenue generation and long-term stability. Equally important are support services, which encompass everything from mentorship and training to financial guidance, enabling entrepreneurs to make informed decisions and enhance their business acumen. Alongside these elements, a conducive policy environment plays a pivotal role. Policies that encourage entrepreneurship and streamline regulations are indispensable, creating a foundation upon which small businesses can thrive, innovate, and contribute significantly to the economy. See Figure 15 for a full description of solutions and strategies to address small business needs.



Figure 15: Small Business Solutions

Expand access to small business capital

1. Expand institutional **funding pools** directed for small business lending and investments

- **Credit enhancement pools:** Form credit enhancement funds to loosen balance sheet constraints among community financial institutions and enable them to make more direct investments
- **Capital aggregation and securitization:** Establish capital aggregation pools and securities selling loans from community financial institutions to institutional investors

2. Create a more equitable and transparent **capital marketplace**

- **Place-based funds:** Form new and build upon existing catalytic pools of capital dedicated for providers seeking to invest in targeted neighborhoods or commercial corridors
- **Centralized platform:** Develop regional centralized, digital platforms with capital sources/options for small businesses

3. Increase access to **responsible capital products** with flexible terms tailored to business need

- **Product innovation programs:** Encourage entries of innovative products with flexible terms and features through operating grants and go-to-market strategies support in the local market

Create trusted avenues for business support to build management expertise

4. Increase **access to small business services** through digital hubs and other community channels

- **Digital small business hub:** Implement a centralized digital repository that integrates a database of resources with an online community forum for businesses and stakeholders

5. Foster **specialized services** and **shared service platforms** tailored to small business needs by industry and ownership demographics

- **Specialized TA and incubators:** Establish incubators for micro-entrepreneurs seeking to startup and grow their businesses, building capacity for industry- or demographic-specific services
- **Shared services platform:** Create network of professional services providers (e.g., accounting, legal, HR) to provide expert advise to BIPOC-owned small businesses

6. Improve **collaboration** between small business and workforce ecosystems for relevant referrals and information sharing

- **Ecosystem coordination:** Establish regional coalitions to coordinate ecosystem initiatives and organizations
- **Peer-to-peer cohorts and liaisons:** Create cohorts of small business owners of color with similar industry or shared experience to share learnings and provide peer support

Increase channels to access market opportunities

7. Build **Business-to-Consumer (B2C)** capabilities for Main Street and consumer-facing small businesses

- **Marketing and e-commerce support:** Partner with experts in e-commerce and digital marketing to provide low- or no-cost training to small businesses to build capabilities
- **Main Street programs:** Establish neighborhood-based programs and partnerships to connect businesses with local market opportunities via directories and property acquisition

8. Expand **Business-to-Business (B2B)** opportunities to Supplier and High-Growth businesses

- **Anchor institution collaboration:** Create a collective of anchor institutions with shared commitment to purchasing from diverse-owned small businesses
- **MWBE market access:** Support BIPOC small business owners to access contracting opportunities by forming buyer-supplier relationships and growing via networks and advice

Expand Access to Small Business Capital

The Need.

Access to capital remains the most important priority flagged by small businesses, particularly those of color, who require capital to start up, survive, and grow.

Structural barriers have prevented BIPOC business owners or small businesses from LMI communities from securing loan and investment capital from the city's financial institutions.

While the pandemic brought unprecedented levels of funding and grants to aid small businesses, significant declines in capital supply have led to gaps that have disproportionately impacted BIPOC entrepreneurs' ability to access capital. One of the most significant gaps is the lack of capitalization and funding pools that enable capital providers to provide grants, loans, or investments to small businesses, particularly for responsible lenders who better serve LMI and communities of color. Capital in California is highly concentrated among large traditional banks and VCs, and CDFIs lack access to secondary markets (whereby they can bundle and sell loans), restricting activity and scalability for community lenders.

The capital marketplace has further failed to reach BIPOC-owned businesses. Early-stage businesses face disproportionate difficulties securing needed capital due to lack of availability of "friends and family" funding within their networks, insufficient credit histories and documentation, and systemic racial biases.⁵² Additionally, bank branch closures have exacerbated inequitable regional or local access to capital for small businesses in Black/Latino(a) or LMI neighborhoods.⁵³ Finally, the current capital products are often inflexible and costly, failing to meet the needs of moderate-to-high growth BIPOC-owned businesses. Capital products offered by traditional banks often come with strict lending criteria, high interest rates, and collateral requirements due to perceived 'risks' of small business lending.

Emerging Solutions.

Capital formation is critical to ensuring that funding pools are available for institutions to engage in small business lending and investment. Facilitating access to the capital markets for community financial institutions and de-risking small business activity for community lenders would help to increase aggregate capital supply. **Credit enhancement pools** could support these institutions mitigate risks associated with small business lending by loosening balance sheet constraints and thereby enabling more direct investments. Structured as loan loss reserves, guarantees, and/or risk-sharing agreements, these enhancements cover potential losses on loans or investments that may not be otherwise supported by traditional capital markets. Furthermore, establishing **capital aggregation pools and securities** selling and trading loans from community financial institutions to institutional investors would expand access to capital markets for community lenders and direct resources at scale. With \$1.18B in the recent allocations from the U.S. Treasury's State Small Business Credit Initiative (SSBCI) 2.0 to California, there is an opportunity to catalyze lending or investments through the Small Business Loan Guarantee program or the Venture Capital Program for small businesses that experience capital access barriers.

Building upon catalytic pools of capital, the formation of **place-based funds**—investment pools dedicated for providers seeking to invest in targeted neighborhoods or commercial corridors—is an opportunity to intentionally increase capital availability in low-income areas where gaps exist. Additionally, stakeholders can also create a more equitable capital marketplace by creating a **centralized digital platform** that better connects underserved businesses, particularly low-income or BIPOC entrepreneurs in areas exacerbated by the closure of physical bank branches, with responsible capital resources and options.



Finally, the ecosystem has an opportunity to encourage the entry of innovative, flexible products or terms to local and regional markets, considering the distinct needs of small businesses and gaps in the market. Lending products with relationship-based underwriting standards, flexible payments, and re-borrowing terms will support the sustainability of Main Street and supplier businesses in California. As a more accessible option for small business owners who do not meet traditional lending requirements, innovative products such as *revenue-based financing* would enable entrepreneurs to retain control of one's company while also providing flexible payments sensitive to revenue-based fluctuations. **Product innovation programs** that provide operating grants and local partnerships to support the market entry of types of products would create greater availability of capital for small businesses in different regions throughout California.

An Example Model.

The California Rebuilding Fund and its partnership with Connect2Capital serves as an example that ecosystem stakeholders can replicate locally and statewide to expand the marketplace for responsible capital. Connect2Capital – an online network bridging the gap between small businesses and mission-driven lenders – managed the pre-application matching process for the loan fund that made it easily accessible for small businesses throughout California to apply and connect with the financing they needed.⁵⁴ The fund was able to issue 1,425 loans – 65% of which went to MWBEs and 87% of which had 10 or fewer employees.⁵⁵

Create Trusted Avenues for Business Support

The Need.

While capital and customers are key to start-up and survival, wrap-around services and technical assistance are equally important as small businesses expand and mature.

Entrepreneurs from low-income areas or communities of color often lack dedicated start-up or growth support, particularly in building “back-office” functions that are required to survive and scale. The generalized support provided to small businesses often falls short in addressing the unique and nuanced challenges faced by BIPOC entrepreneurs, as these initiatives may not be tailored to the specific industries or cultural contexts that characterize their businesses.

Even when there is a robust range of services in the ecosystem, many entrepreneurs do not know about them or how to find them. This can be attributed to a lack of trusted channels to reach these businesses. Access and navigation are particularly difficult for solo-entrepreneurs or immigrant-owned businesses where English is not their first language. Without a clear ‘quarterback’ in the ecosystem, initiatives and programs tend to be siloed with no central database to help business owners navigate resources.

Emerging Solutions.

Ecosystem stakeholders can leverage existing business support programs by creating **digital small business hubs** that would serve as easily reachable channels to access supports. Implemented in different localities, these hubs can integrate a database of resources and local initiatives with an online community forum for businesses and stakeholders.

To better serve distinct gaps in the ecosystem, organizations would benefit from creating specialized services and platforms tailored to needs specific to the industry and business owner segments that they serve. **Specialized technical assistance**, for example, can be enhanced with specially designed services and advising for emerging industries, such as transportation and warehousing. **Specialized incubators** for Black- or Latinx-owned businesses could provide support that addresses the distinct barriers that entrepreneurs of color face in starting and growing their businesses. Leveraging **peer-to-peer cohorts** of small business owners of color within

similar industries can similarly provide platforms to share learnings and peer support. Additionally, a **shared services platform** can leverage and connect a network of professional service providers to provide the back-office services that businesses often require but lack the resources to obtain.

Finally, increased collaboration between small business and workforce ecosystems is critical for providing the comprehensive support that local businesses require. **Ecosystem coordination** can be achieved through the establishment of regional coalitions to coordinate initiatives. Building out strong coordinating bodies not only leverages existing momentum through regional convenings—such as those conducted through the Community Economic Resilience Fund (CERF)—but also can include establishing an Advisory Council with key stakeholders, instituting a tracker for ecosystem metrics, and mapping current capabilities and investments.

An Example Model.

The Cook County Small Business Source provides an example of a collaborative ecosystem that brings together partners across public, private, and social sectors to serve local small businesses. Established in 2020 in response to the pandemic, The Source has evolved into an ongoing initiative that directly connects small businesses in Cook County with guidance and support by providing no-cost business advising, resources, events, and grants. Serving more than 15K businesses through direct assistance, The Source has activated a network of over 50 local business support organizations and referral partners that directly support entrepreneurs and work towards shared goals.

Access to Customers and Markets

The Need.

Connecting small businesses with customers and markets are necessary to survive and scale, but Main Street and supplier businesses – particularly women- or BIPOC-owned businesses – struggle to access local markets and larger contract opportunities.

For Main Street businesses, opportunities to sell products and services with local markets surfaced as a need to start up and scale. The pandemic profoundly altered how local businesses access customers and navigate markets, with a significant shift towards digital channels. However, this transformation has left many Main Street businesses who lack digital capabilities and resources to build e-commerce infrastructure behind.

For Supplier businesses, Minority and Women-Owned Business Enterprises (MWBEs) often struggle to access contracting opportunities due to unequal networking, capacity limitations, and a lack of mentorship. Even as supplier industries expand rapidly throughout California, structural barriers and lack of technical knowledge prevent MWBEs from obtaining prime contract opportunities.

Emerging Solutions.

An integrated approach to expanding market access requires both building capabilities of Main Street businesses while also broadening contracting opportunities for Supplier businesses. On the Business-to-Consumer (B2C) side, **Main Street programs** can play a key role in expanding local market access by better connecting Main Street businesses with local clientele. Neighborhood-based programs and partnerships can enhance the ability of small businesses to establish storefronts through investments in commercial corridors or training on property acquisition. They can also expand visibility through local business directories or small business events. Providing **marketing and e-commerce support** can further enhance the capabilities of consumer-facing small businesses to participate in the digital marketplace. Through digital training programs or partnerships with e-commerce service providers, Main Street businesses can better build their online presence and e-commerce capabilities.

For Supplier businesses, expanding the Business-to-Business (B2B) opportunities for diverse-owned small businesses is a distinct need throughout California. Ecosystems will need to further collaboration among its public, anchor, and corporate institutions in its purchasing to address it. **Anchor institution collaboratives** could further this commitment by not only establishing goals and streamlining compliance requirements but also creating centralized procurement hubs and forums for local procurement professionals to provide support for small businesses in the local economy. These commitments should be coupled with intentional efforts to increase **market access for MWBEs** by forming buyer-supplier relationships through networks and advice. This can take on the form of local matchmaking events with buyers, mentor-protégé programs for women or BIPOC entrepreneurs, or contract financing workshops.

An Example Model.

Philadelphia Anchors for Growth and Equity (PAGE) provides a model of a regional anchor collaborative that leverages institutional purchasing power to help local and diverse firms create jobs and generational wealth in underserved communities. The partnership, which connects the Economy League, the City of Philadelphia, and more than a dozen regional institutions, is working to build a cohort of diverse local firms “job ready” to work in institutional supply chains by supporting these businesses via programming and capital.

WORKFORCE SOLUTIONS

As small businesses progress in their journeys to maturity, they require tools, resources, and capabilities to create quality jobs for their workforces. Supporting workforces includes creating employee supports across all dimensions of quality jobs. The legislative environment should both directly support workers **and** enable small businesses to do so. See Figure 16 for a full description of solutions and strategies to address workforce needs.

Figure 16: Workforce Solutions

Connect small businesses with local workforces

1. Support small business in **recruitment and hiring**

- **Employment networks:** Establish regional networks between workforce agencies and small business support organizations to match workers with small business jobs
- **Sector workforce partnerships:** Expand representation from the small businesses ecosystem in industry workforce partnerships, including High Road Training Partnerships
- **Small business hiring platforms:** Facilitate digital employment solutions for small businesses to post job openings and connect with workers participating in workforce programs

2. Expand **access for job exploration**, including through work-based learning and apprenticeship programs

- **Career exploration programs:** Establish programs connecting small businesses with prospective workers to explore careers through fellowships and internships
- **Work-based learning programs:** Assist small businesses in introducing apprenticeships and other work-based learning programs

Foster targeted support for small businesses to foster quality job creation

4. Expand affordability of **wages and benefits** for small businesses and their workers

- **Benefits awareness programs:** Encourage small business participation in government benefits programs like CalSavers through community outreach
- **Benefits purchasing cooperatives:** Organize cooperatives for small businesses and their workers to access healthcare, childcare, and other insurance benefits
- **Portable benefits programs:** Establish portable benefits pilot programs for gig workers and solo entrepreneurs

5. Provide employee assistance resources to small businesses to foster more **fair and engaging workplaces**

- **Employee Assistance Programs:** Subsidize small business Employee Assistance Programs (EAPs) to offer resources to employees facing personal or work-related challenges
- **Small business HR programs:** Sponsor programs for small businesses to establish HR practices and access specialized expertise and services from experienced HR professionals

6. Expand **career and wealth building opportunities** at small businesses through employee training and ownership programs

- **Employee training programs:** Introduce subsidized small business employee training programs through local community colleges, vocational schools, and online learning platforms
- **Employee ownership models:** Promote programs advising and financing small businesses and their workers for cooperative business structures

7. Provide more **resources on job quality** through Good Jobs toolkits and scorecards

- **Good Jobs toolkits:** Disseminate job quality toolkits appropriate to the small business industry and stage making the business case for quality jobs
- **Good Jobs scorecards:** Disseminate Job Quality scorecards for investors and other small business stakeholders to evaluate businesses to measure and track quality job creation

Job Access

The Need.

The ability to recruit and attract local talent is a top reported need for small businesses looking to scale, particularly for High-growth and Supplier businesses. Small businesses report struggling to find the technical or industry-specific skills they require, often having to compete with larger companies for talent. For High-Growth businesses, low-wage workers face difficulty in accessing jobs due to the skills and experience requirements. Consequently, small businesses face the cyclical challenge where they require skilled workforces to grow, but local workers often lack career pathways or clear entry points to build relevant work-based experience.

Emerging Solutions.

Increased intersections between business support and workforce ecosystems are pivotal to increasing opportunities for connecting and building local talent within small businesses. These intersections have the potential to further integrate small business into existing workforce partnerships, networks, or platforms for recruitment and hiring. Establishing **regional employment networks** between workforce agencies and BSOs, for example, can facilitate matching workers with jobs at small businesses through existing regional job fairs or matchmaking programs. Facilitating digital employment solutions via **small business hiring platforms** can further connect job openings within local businesses with workers participating in workforce programs. Finally, expanding representation of small businesses or BSOs in **sector workforce partnerships**, such as California's High-Road Training Partnerships, would foster further collaboration for impact.

Stakeholders can expand opportunities for local talent to explore career pathways and gain on-the-job experience with small businesses. Creating or encouraging **small business career exploration programs**, such as job shadowing, fellowships, or internships, allows prospective workers to explore careers with small businesses. **Work-based learning programs** assists small businesses in introducing apprenticeships that not only expands access to job opportunities but also builds technical skills for local workers.



An Example Model.

The Brooklyn Chamber of Commerce's Good Help Staffing Service offers no-cost employment services to small businesses, facilitating the recruitment and retention of qualified workers by providing pre-screened candidates through a network of 200+ community-based job training and placement organizations. By connecting business support and workforce services, the program aims to bring job search techniques and employable skills directly to local jobseekers while also streamlining the hiring processes for small businesses.

EMPLOYEE SUPPORTS

The Need.

Overall, the conversations around ‘job quality’ is still nascent; small business owners often see job quality as an outcome rather than a condition for success. Stakeholders, investors, and owners often miss the ‘business case’ for quality jobs, and further lack the resources, knowledge, and investments – including monitoring and evaluation metrics – to give small business the tools to execute on providing quality jobs.

Small businesses therefore require targeted resources to support employees across the dimensions of quality jobs: wages, benefits, career building opportunities, wealth building opportunities, and fair and engaging workplaces. Small businesses are forced to compete with larger firms who have the resources and purchasing power at scale. Due to the lack of dedicated resources, small businesses require additional support and knowledge to intentionally create better workplace environments for their workers.

Emerging Solutions.

Creating and disseminating practical, targeted resources is key to building the capacity of small businesses in quality job creation. These resources, or **Good Jobs toolkits**, offer technical assistance via evidence-based, high-impact interventions for all dimensions of quality jobs, including compensation, employee engagement, and benefits. Targeted interventions in improving workplace environments include subsidizing or sponsoring **small business human resources (HR) programs** that provide entrepreneurs with a comprehensive HR toolkit, compliance checklist, or expert advice from HR

specialists. Stakeholders can increase small businesses’ knowledge on **employee ownership models** by providing advising and financing of cooperative business structures. There is also an opportunity for the creation and dissemination of **Good Jobs scorecards** that can be used by investors or stakeholders to measure and track quality job creation.

Innovative approaches can further increase the capabilities of small businesses in providing

comprehensive benefits, increasing services for employee retention, and improving workplace environments. Through partnerships with local support organizations or chambers of commerce, **benefits awareness programs** have the potential to encourage participation in existing programs such as CalSavers – California’s retirement savings program that ensures all workers can save for retirement through automatic payroll contributions facilitated from their workplace. **Benefits purchasing cooperatives** can additionally play a critical role in leveraging group purchasing power to lower costs associated with providing healthcare, child care, and other insurance benefits. For gig workers and solo entrepreneurs, pilot **portable benefits programs** present an opportunity to understand the impact they can have in providing retirement savings and healthcare coverage without a traditional corporate structure. Similar opportunities include subsidizing and leveraging local community colleges, vocational schools, and online learning platforms to provide **employee training** for small business workforces to address skills gaps or provide necessary certifications.

An Example Model.

Pacific Community Ventures (PCV)’s Good Jobs Toolkit is a key, practical resource that provides targeted support to small businesses in creating quality jobs. PCV also establishes the business case by asserting that high-quality jobs can create short- and long-term cost savings for a business’ bottom line. Promoting evidence-based, high-impact interventions, PCV couples its offerings of technical assistance with providing affordable capital to increase the capacity of small businesses to create good jobs. While PCV provides these resources online with options to connect with advisors, there is an opportunity to further disseminate and share these resources with local communities and small businesses throughout California.

POLICY SOLUTIONS

The Need.

Across both gaps in workforce and small business needs, it is key to recognize that small businesses do not operate in a vacuum. Policy dictates how a small business starts up, operates, and is defined and regulated. However, current regulatory environments are often cited as a top concern for business owners in California. According to a study conducted by Cato Institute, California is a state with one of the highest regulatory barriers for businesses, measured by high occupational licensing, entry barriers, and regulation-created costs.⁵⁶ For businesses starting up, for example, registration processes and regulations make it difficult for business owners to navigate forms.

This is exacerbated for historically underserved small businesses or rural, low-income regions that do not garner high levels of investments. Disparities between the availability of Minority and Women-Owned Business Enterprises and their utilization on government contracts, for example, highlight the structural barriers for BIPOC business owners in public spheres. Furthermore, BIPOC small businesses owners often lack organized political representation to be able to advocate for or voice their needs, with limited channels to reach or influence local or regional policymakers. This is coupled with the need for supportive workforce legislation that often impacts small businesses' ability to create quality jobs for both the owners and the employed workers.

Small Business Policy

Small businesses would benefit from policies and platforms that support their ability to start up, operate, and scale. While non-exhaustive, we have outlined priority public policy reforms below.

Advocacy Platforms.

Small businesses typically do not have the political power to influence policies at the local, state, and federal level. The creation of advocacy platforms and

Los Angeles-based Inclusive Action for the City, for example, is a model of a local platform that aims to advance inclusive growth through collaborative research and community-driven policy advocacy. Its Los Angeles Street Vendor Campaign, formed in 2021 to push for changes in the California Retail Food Code, was a city-wide effort to create a permit system for street vendors, and now focuses on advocating for the equitable implementation of new vending rules in Los Angeles. This community-driven approach and engagement can be replicated across California to meet distinct local needs of small businesses.

On the state and federal level, advocacy platforms are crucial in elevating small business voices, conducting research to help inform complex small business

networks would enable small businesses to have a shared advocacy agenda and coalition structure for broader community development policies. This is particularly significant for historically underserved small businesses—often those in under-resourced, low-income communities, or BIPOC entrepreneurs who face distinct barriers in start-up, survival, and growth.

On the local level, community-driven advocacy is pivotal in changing how local governing institutions and policies work to better serve underinvested communities.

issues, and providing shared policy recommendations throughout California. Advocacy organizations include California-based Small Business Majority, which works with several business and community organizations to design solutions that promote inclusivity. For example, its support for SB 633, which requires non-English speakers be given a translated document of their contract before signing, reflects its community-driven solutions and inclusive policy actions. Its research communicates the need for strong small business-friendly measures to policymakers as well as educates small business owners about how these policies shape their bottom line.

Regulatory Reform.

Starting a small business is a time-intensive undertaking and there are limited supports to help small business owners navigate the rules and regulations associated with it. Several layers of regulations at all local, state, and federal levels often harm California small businesses due to disproportionate cost burdens, economies of scale in compliance, and entry barriers.

While non-exhaustive, policy actions to reduce the regulatory barriers for small businesses in California include:

- Reviewing and simplifying all registration and licensing regulations
- Streamlining local and state government business registration processes
- Reforming occupational licensing rules and regulations
- Eliminating low-value permits, licenses, and other approvals
- Ensuring bureaucratic processes are faster and more transparent
- Requiring government agencies to include a 100-word “plain language” summary of all regulations
- Liberalizing rules for home-based businesses

Eliminating repetitive, overlapping regulations amongst various agencies would greatly reduce the burden on small businesses. For example, in June 2023, a Los Angeles Business Steering Committee was established to review and identify existing fees, taxes, processes and timelines connected to establishing and operating a business.⁵⁷ Identifying these barriers and taking direct action will help increase accessibility, support start-ups in navigating policies, and reduce the time, energy and money allocated to these requirements.

Tax credits and incentives.

Tax credits and incentives are an important lever that governments can use to encourage small business growth, particularly for underserved businesses and low-income communities. The continuation and expansion of existing tax incentives in California will continue to help drive investments and spur small business growth. Tax credits that support California small businesses include:

- **California Competes Tax Credit**, which provides tax credits to those who are looking to grow across the state, relocate to California from a different state, or stay in the state
- **California Opportunity Zones**, which aims to drive investments in economically-distressed areas
- **Main Street Small Business Tax Credit**, which provides financial relief to small businesses impacted by COVID-19

Procurement Reform.

Procurement has been a continuous challenge for small businesses, and governments play a critical role in procurement due to their substantial purchasing power. However, according to a study conducted by Bipartisan Policy Center, the number of small businesses providing common products and services to the federal government shrank by 38% from 2010 to 2019. Even more dramatically, the number of small businesses entering the procurement marketplace as new entrants declined by 79% from 2005 to 2019.⁵⁸

Reforms to the procurement process and policies can help support the growth and scale of small businesses. Enacting procurement reform can reduce procurement barriers, improve transparency, create uniformity across government agencies, and increase participation from small and diverse-owned businesses. Leveraging local, state, and federal governments in their roles as buyers, priorities include:

- **Expanding the breadth of small business participation, increasing diversity, and reducing entry barriers for government contracts** by establishing specific annual diversity goals and raising the simplified acquisition threshold
- **Improving transparency, accountability, and oversight** by improving data collection in subcontracting report systems
- **Enforcing payment timeline reforms** for prime contractors and their subcontractors. The federal QuickPay Initiative, for example, ensures contracts are paid in a timely fashion
- **Limiting contract bundling and increasing negotiation opportunities** for small business to partake in bundled contracts
- **Streamlining certification processes** for small businesses and suppliers

Workforce Policy

Finally, public policy reforms can support both workers directly and through the small businesses that employ them.

Child care reform.

Inadequate supply of child care force parents to leave the workforce, and small businesses often are not able to provide child care benefits due to its high costs. The shortage of child care disproportionately affects low-income communities. Black and multiracial families face problems with child care at nearly twice the rate of white parents.⁵⁹

The COVID-19 pandemic exposed the need for child care investments at the local, state, and federal levels. Implementing policies that would increase access and help working parents afford child care is essential to supporting the small business workforce, which includes:

- **Sustaining and expanding government funding for child care providers**, such as the Child Care Stabilization Act, which would extend vital federal child care stabilization funding
- **Implementing and expanding universal Pre-K in California**, while also ensuring quality standards at scale and implementing solutions that treat child care as a publicly funded institution. Several states have implemented universal pre-k for 4 year-olds including Iowa, Florida, Vermont, Wisconsin, West Virginia, and Oklahoma with other states introducing bills to do the same⁶⁰
- **Providing subsidized child care programs**, particularly for low-income families, such as CalWORKs
- **Supporting the integration of child care with community assets**, such as co-located developments and housing, in government-subsidized projects
- **Requiring provision of high-quality child care to leverage public dollars**. The CHIPS Act, for example, requires semiconductor manufacturers that apply for more than \$150M of direct funding must provide access to child care for facility and construction workers⁶¹

Healthcare reform.

Healthcare is a crucial aspect to a quality job, but quality healthcare is often difficult for small businesses to afford and compete with larger firms. A survey conducted by the Small Business Majority found that nearly 7 in 10 small businesses find healthcare costs a top concern for their business.⁶²

Policy solutions across local, state, and federal governments to ensure greater health insurance affordability include:

- Implementing long-term premium assistance programs
- Expanding health care coverage options for immigrants
- Lowering the Medicare age criteria in California to include individuals ages 60 and older
- Establishing a state-wide program to provide partial wage replacement for family or medical leave
- Implementing caps on small group market premiums

While there have been policy solutions enacted that support small business employers in providing health insurance, many of these programs are not widely known. In 2021, for example, The Colorado Option's small group market premium reductions were enacted to ensure health insurance carriers are utilizing all tools to lower healthcare costs. However, this program only covered 142 participants with many small businesses unaware of this opportunity. The Small Business Majority indicated that the brokers who offer small group healthcare plans often do not inform employers of these opportunities and many insurance carriers failed to reach the required premium reduction targets across the state. To ensure that policies like The Colorado Option reach small business employers, it is crucial that there is continued oversight and enforcement.⁶³

Employee incentives and wage subsidies.

Many small businesses struggle to recruit and retain employees as they are unable to provide competitive wages or benefits. To attract employees to the small business sector, there are a myriad of policy solutions that would both increase opportunities for employees at small businesses and bolster wages. Below are policy solutions targeting employee recruitment and retention:

- **Providing wage subsidies** to support businesses in hiring employees and paying living wages. Wage subsidies have been shown to increase wages and employment, with long-term impacts. Implemented in 2013, San Francisco's STEP Forward program, for example, resulted in greater levels of employment and a higher likelihood for participants to be employed in higher-quality jobs.⁶⁴
- **Incentivizing employers to offer training opportunities to their employees.** The Employment Training Panel administered by the State of California's Employment Development Department, for example, provides funding to small business employers for training that upgrades the skills of their workers.⁶⁵
- **Increasing funding for learning programs for small business owners** to inform them of effective hiring and retaining practices
- **Expanding Earned Income Tax Credit** programs to increase small business employees' incomes
- **Supporting state efforts to establish publicly administered retirement savings programs,** such as "Secure Choice," which can help small businesses, employees, and self-employed entrepreneurs access retirement plans

Work policy reform.

Even when small businesses can provide employees with the elements of a quality job, small businesses are incredibly susceptible to the impacts of economic shocks and financial challenges. Work policy reform would support both small businesses and workers during economic shocks, which includes:

- **Amending the WARN Act to account for small business needs.** During the COVID-19 pandemic small businesses were impacted significantly more than larger firms. By the end of 2020 small business revenues and the number of small businesses open had decreased by 30% compared to the year prior.⁶⁶ The WARN Act system was designed for large-scale layoffs and does not address the needs of small businesses making already struggling small businesses in economic shocks further burdened.⁶⁷
- **Introducing employment retention credits.** To aid small businesses during economic shocks and support employees without causing additional barriers for small businesses, employee retention credits prove to be a useful tool. During the COVID-19 pandemic, the federal government enacted the Employee Retention Credit, which encouraged small businesses to continue to pay employees during the pandemic, providing up to \$26K per employee in tax credits.⁶⁸

Call to Action

In recent years, California's small businesses have demonstrated resilience in the face of unprecedented challenges, driving economic opportunity and jobs to local communities across the state. As we emerge from the pandemic, the need to support small businesses and to create quality jobs for workers, especially those in low-wage positions, is more pressing than ever. It is critical that we build California's social infrastructure to foster entrepreneurship and expand quality job creation through the state's small businesses.

Our hope is that this report serves as a rallying point for continued dialogue and action to support California's small businesses and workers toward economic mobility. The solutions outlined in this report present a roadmap toward this shared goal. Using this research, we call upon public, private, and civic organizations to unite in action to foster quality jobs from small businesses and through entrepreneurship.

What does this mean for you? We recognize both the complexity of solutions as well as the collective action required, where each stakeholder has a role to play. While non-exhaustive, we've summarized some near-term actions for key actors below.

For Local and Regional Providers

Directly serving small businesses and its workers

1. **Understand local demands and gaps** for the small businesses and workers that you serve. Challenges, opportunities, and gaps vary by region, industry, and demographics. In a rapidly changing economic landscape, develop knowledge of local contexts and distinct needs of the business and worker segments you serve. Use the detailed small business stages and industry-specific needs in the appendix as starting points.
2. **Tailor capital products and services** to these needs. This includes creating more responsible capital products and specialized services that will support entrepreneurs in starting up, scaling, and growing as well as integrating quality job resources into advising services.
3. **Increase accessibility for historically underserved businesses.** This requires intentional efforts or channels to address distinct barriers for entrepreneurs in low-income communities or BIPOC- or women-owned small businesses in accessing capital, markets, or services.

For Funders

Seeking to invest in ecosystems and solutions

1. **Aggregate pools of funding to support the ecosystem and its stakeholders.** Across California, many direct providers are effectively serving their communities but do not have the resources they need to scale and meet the demand. Investing in organizations, initiatives, and ecosystem efforts will expand the ability of providers to support small businesses.
2. **Invest in small business and workforce solutions.** Use this report and the solutions identified as a roadmap to provide funding for programs and initiatives that seek to support small businesses in quality job creation across the state. This includes piloting innovative solutions or expanding existing initiatives in California.



For Convenors

In respective local and regional ecosystems

1. **Facilitate partnerships and collaboration** across small business support and workforce development ecosystems. Bringing all actors to the table will create more intentional solutions to create quality jobs with small businesses.
2. **Establish regional coalitions** to coordinate ecosystem initiatives and organizations through platforms for knowledge sharing and best practices.

For Advocates

Working to advance both local and state-wide small business priorities

1. **Champion and elevate small business voices**, particularly for historically underrepresented small businesses, by creating platforms, coalitions, and networks that allow for shared advocacy agendas.
2. **Advocate for public policy reforms** that impact how small businesses register, operate, and sell and address worker needs through the small businesses that employ them and via broader social reforms. The policy solutions outlined in this report can serve as a starting point.
3. **Increase awareness of small business and worker needs** by continuing the conversations in the spaces that you work. Sharing this report with partners and stakeholders across all sectors, including policymakers, can serve as a catalyst for that.

While we recognize that there are many additional critical actions and players, we hope that the research and solutions provided through this report serve as a starting point for continued dialogue and action. Together, we believe we can build a more fair and just economy where all small businesses and workers, particularly those historically underserved, will have the opportunity to grow and thrive.



Acknowledgements



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This project was made possible by the participation of small business owners and employees in collaboration with key stakeholders across California. We are grateful to the 277 business owners and employees who gave their time to participate via the survey, the 36 stakeholders, small business owners and employees who provided invaluable insights through focus groups, and the 34 stakeholders who helped provide a comprehensive understanding of the role of small business in economic mobility and quality job creation through one-on-one interviews. In particular, the research team would like to recognize the 14 stakeholders in key Priority Communities who validated and provided insights around the findings and solutions of the research through the Steering Committee.

The following individuals supported this project as participants in the Steering Committee and individual interview conversations to ground the research in community perspectives shed light on relevant small business and workforce development trends that impact low-wage workers in California. We greatly appreciate their engagement and commitment to this work.

Business Stakeholder Interview Participants

Members denoted in bold were also members of the Steering Committee

- **Access Plus Capital: Tate Hill**
- **Accion Opportunity Fund: Adriana Eiriz**
- **AmPac Business Capital: Brian Kennedy Jr.**
- Aspen Institute: Maureen Conway, Joyce Klein
- **CAMEO: Heidi Pickman**
- Coastal Enterprises Inc: Betsy Biemann
- Community Foundation for Monterey County: Michael Castro, Laurel Lee-Alexander
- Cresar Capital Fund: Juan Hernandez
- **Edge Collaborative: Ann Rogan**
- **El Pajaro Community Dev. Corp: Carmen-Herrera Mansir**
- **Fresno Metro Black Chamber of Commerce: Dr. Cassandra Little**
- ICA Fund: Hannah Shr
- **Inclusive Action for the City: Andrea Avila**
- **Lendistry: Tunua Thrash-Ntuk**
- **Microenterprise Collaborative of Inland Southern CA: Pamela Deans**
- NYCEDC: Melinda Garrett, Liat Krawczyk, Brett Mons
- **Pacific Community Ventures: Bulbul Gupta**, Casey Bell
- Riverside Community College District: Debra Mustain
- San Diego/Imperial SBDCs: Danny Fitzgerald
- San Joaquin Community Foundation: Amy Nelson
- **Small Business Majority: Josaline Cuesta**, Bianca Blomquist, Mark Herbert
- Stratified Insights: Marlene Orozco
- **TMC Community Capital: Daniel Fernandez**
- UCLA Labor Center: Dr. Ana González-Vásquez
- **Uplift San Bernardino: Noraly Sainz**
- Upskill Chino Valley: Zeb Welborn
- **Vision View/HOPE: Laneesha Senegal**

About the research team

We would also like to acknowledge the contributions from Next Street who produced this report and underlying research.

Next Street

- Spencer Lau
- Sumaila Palla
- Jessica Uy
- Annika Jonas-Day
- Benjamin Collinger

Appendix



APPENDIX A: Voice of Small Business Survey Methodology and Results

Next Street designed a survey to better identify the opportunities and challenges for quality job creation across small businesses. The survey focused on the perceptions of small business owners, measuring qualitative elements of job quality, and opportunities to support quality job creation. The survey, which required 10-12 minutes and was available in Spanish and English, requested a business owner’s basic demographic information, location, role in a small business, and various characteristics of their business (e.g., industry and number of employees).

Through multiple choice, scaled, and open-ended questions, we asked about the degree to which certain elements were essential to the respondent’s understanding of a quality job and asked them to evaluate their businesses against those criteria. We developed Likert scale statements to test the attitudes about the dimensions of quality jobs at the respondent’s company. The statements were created from our own analysis and adapted from questions by Pacific Community Ventures and Towards Employment intended to engage employers.^{69 70}

Figure A-1: Survey Methodology and Questions to Evaluate Quality of Jobs

	Living Wage	Basic Benefits	Career Building Opportunities	Wealth Building Opportunities	Fair and Engaging Workplace
To what extent do small businesses create jobs with...	...sufficient income to afford a decent standard of living?	...benefits that increase economic security, improve health, and promote work-life balance?	...opportunities to develop the skills, networks, and experiences necessary to launch a career or advance along a career path?	...chances for an employee to build the assets they need to manage financial emergencies and achieve long-term financial security?	...a work environment that balances the needs and wellbeing of staff with the needs of the business?
Example Scaled Questions	<ul style="list-style-type: none"> • My company can afford to pay a living wage to employees. • My company pays a living wage to employees. • Employees at my company earn the same as they would at another company in the same industry. 	<ul style="list-style-type: none"> • My company offers good health insurance to employees. • My company offers a good retirement plan to employees. • My company can afford to provide good benefits to employees. 	<ul style="list-style-type: none"> • My company teaches employees new skills so they can earn promotions in the company. • My company pays or reimburses employees for industry relevant education and certifications. 	<ul style="list-style-type: none"> • My company offers employees the opportunity to own part of the company over time. • My company offers individual performance-based bonuses. 	<ul style="list-style-type: none"> • Employees work with management to set their schedules and accommodate family priorities. • Creating quality jobs is a core priority of my company. • My company has trouble retaining BIPOC employees.

The survey was conducted between May and August 2023. We recruited participants via User Interviews, a digital platform that invites people to take surveys via social media advertisements. Candidates completed a short questionnaire to confirm that they either own or work for a small business (fewer than 500 employees). Once recruited, we prioritized selecting small business owners and employees who identified their businesses as majority BIPOC owned. Although our sample includes business owners from across California, we focused on those located in The James Irvine Foundation’s Priority Communities: Fresno, Salinas, San Bernardino, Stockton, and Riverside.

In addition to identifying survey respondents via User Interviews, we asked business support organizations and other community-based organizations in those cities to distribute the survey to small business owners in their networks.

Limitations of the survey include that respondents were not randomly selected, but rather drawn from a convenience sample of people who are signed up for a survey platform. In addition, the survey was distributed through the internet, possibly missing business owners who have less access to, or familiarity with, the internet.

Figure A-2: Survey Respondent Demographics

Respondents

- 227 complete

Location

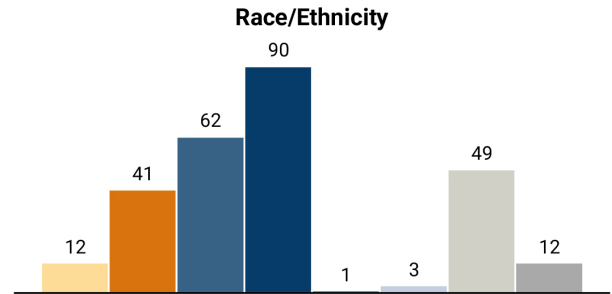
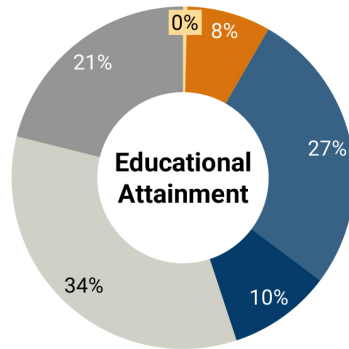
- 25% live and 13% work in an Irvine Priority Community

Age

- 86.8% are between ages 25-54

Gender

- 52.9% female
- 40.1% male
- 7% trans + nonbinary + other + prefer not to answer



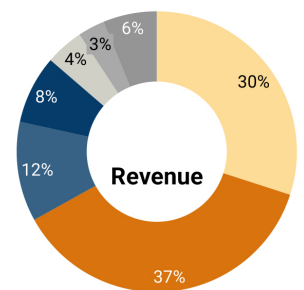
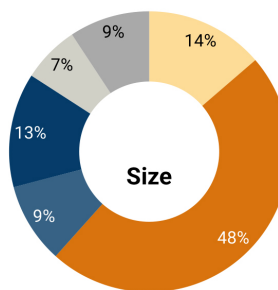
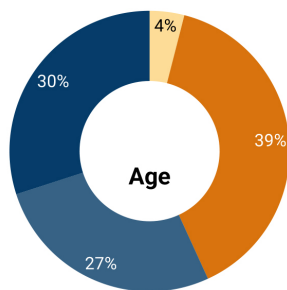
- American Indian or Alaska Native
- Asian
- Black or African American
- Latino(a)
- Middle Eastern or North African
- Native Hawaiian or Other Pacific Islander
- White
- Other

Note: 7 respondents selected two or more.

Figure A-3: Survey Respondent Business Characteristics

Top Industries

- 1) Construction (14.5%)
- 2) Professional, Scientific, and Technical Services (13.7%); Other Services (11%)
- Examples of Other Services from respondents included: insurance, security services, wellness centers
- 3) Retail Trade (11%)
- 4) Accommodation and Food Services (8.4%)
- 5) Arts, Entertainment, and Recreation (7%)
- 6) Manufacturing (6.2%)



- 0 years
- 1-5 years
- 6-10 years
- 11+ years

- Self Employed
- 1 - 9 people
- 10 - 19 people
- 20 - 49 people
- 50 - 99 people
- 100 - 499 people

- \$100,000 or less
- \$100,000 - \$1 M
- \$1 M - \$3 M
- \$3 M - \$10 M
- \$10 M - \$50 M
- \$50 M - \$200 M
- Don't Know/Prefer Not to Say

Figure A-4: Survey Insights and Responses

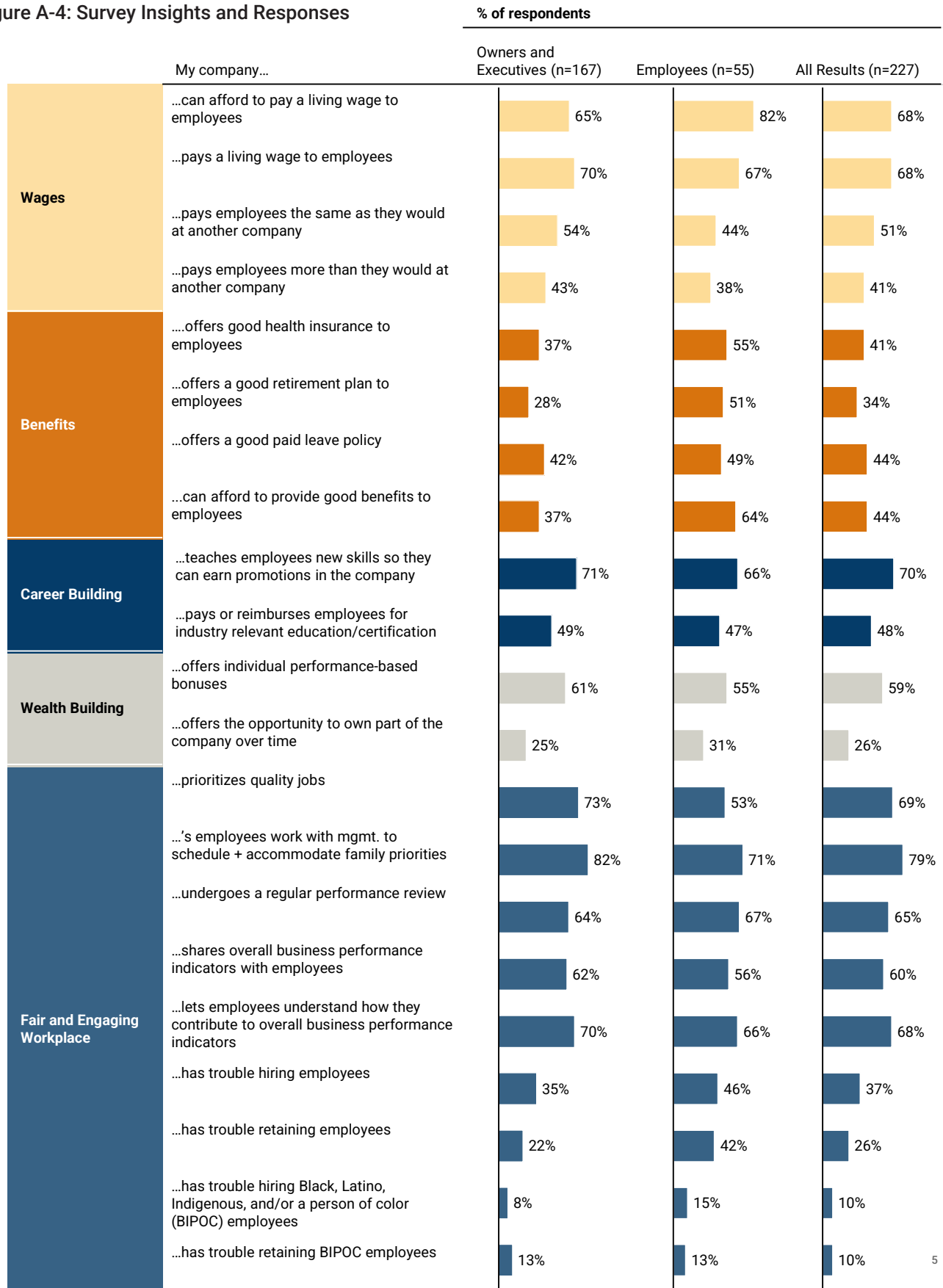


Figure A-5: Survey Insights on Resource Needs

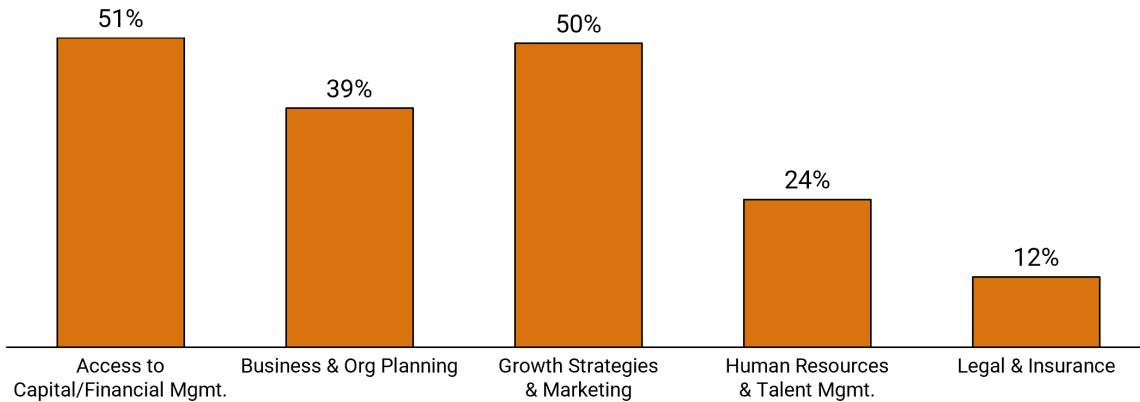
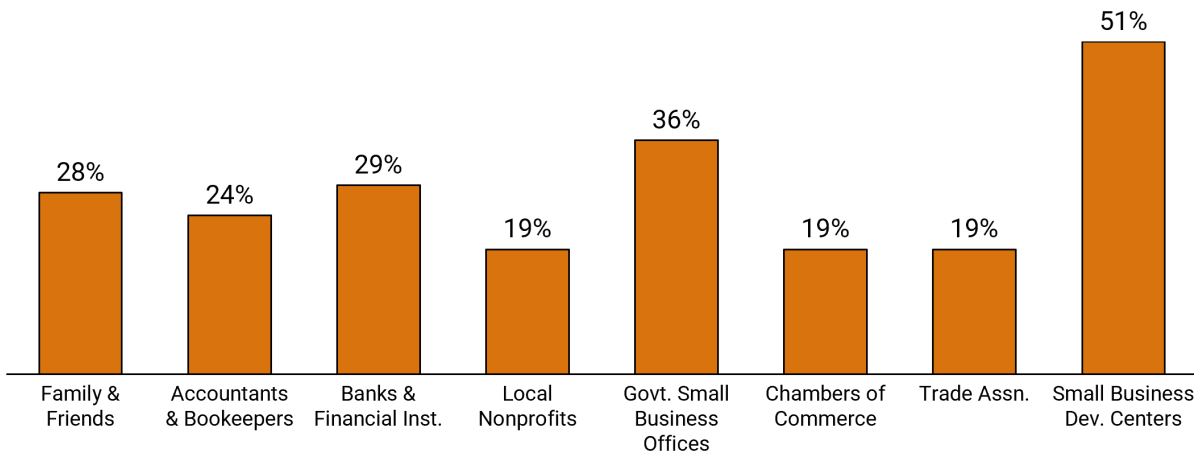


Figure A-6: Survey Insights on Resources Utilized



APPENDIX B: Representative Industry Details

Figure B-1: Representative Industries and NAICS codes

	Main Street Business	High-Growth Business	Supplier Business
Rep-resentative industries (based on 2-digit NAICS)	<ul style="list-style-type: none"> • Retail Trade (44-45) • Educational Services (61) • Healthcare and Social Assistance (62) • Arts, Entertainment, and Recreation (71) • Accommodation and Food Services (72) • Other Services (Personal and Repair) (81) 	<ul style="list-style-type: none"> • Information (51) • Finance and Insurance (52) • Real Estate and Rental and Leasing (53) • Professional, Scientific, and Technical Services (54) 	<ul style="list-style-type: none"> • Construction (23) • Manufacturing (31-33) • Wholesale Trade (42) • Transportation and Warehousing (48-49) • Administrative and Support Services (56)

APPENDIX C: Small Business Journeys by Industry

Note: **Bold** indicates characteristics unique to business type

Figure C-1: Small Business Journey – Main Street Business

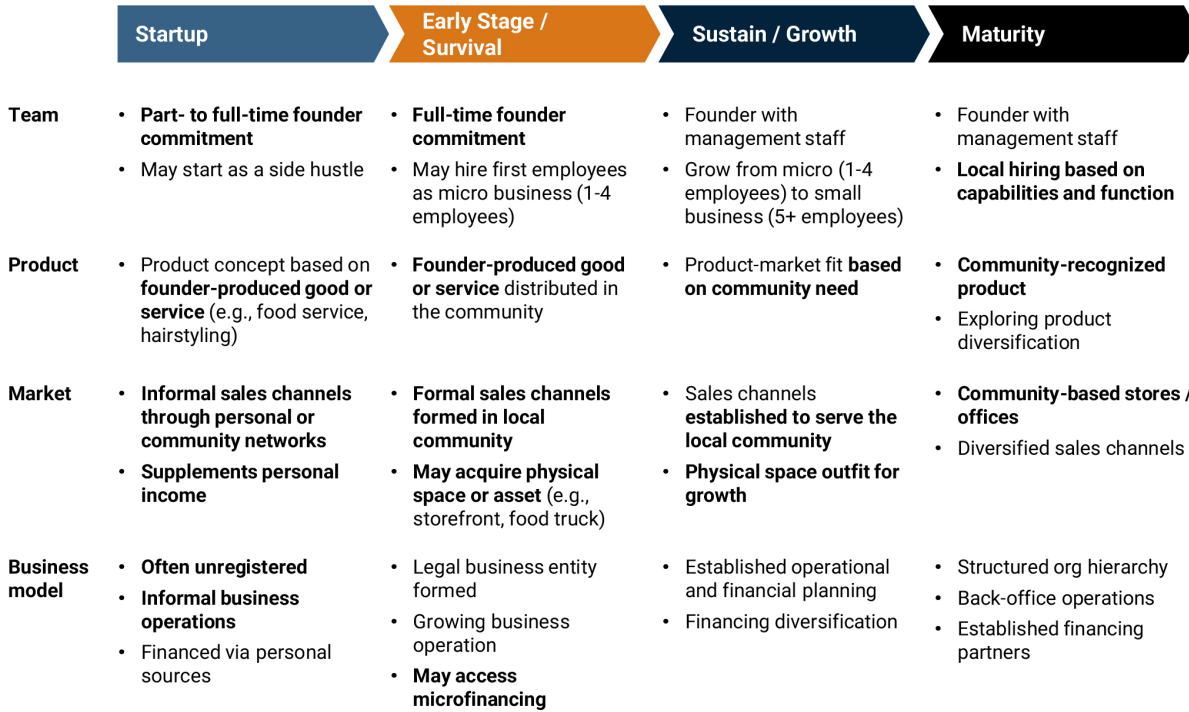


Figure C-2: Small Business Journey – Supplier Business

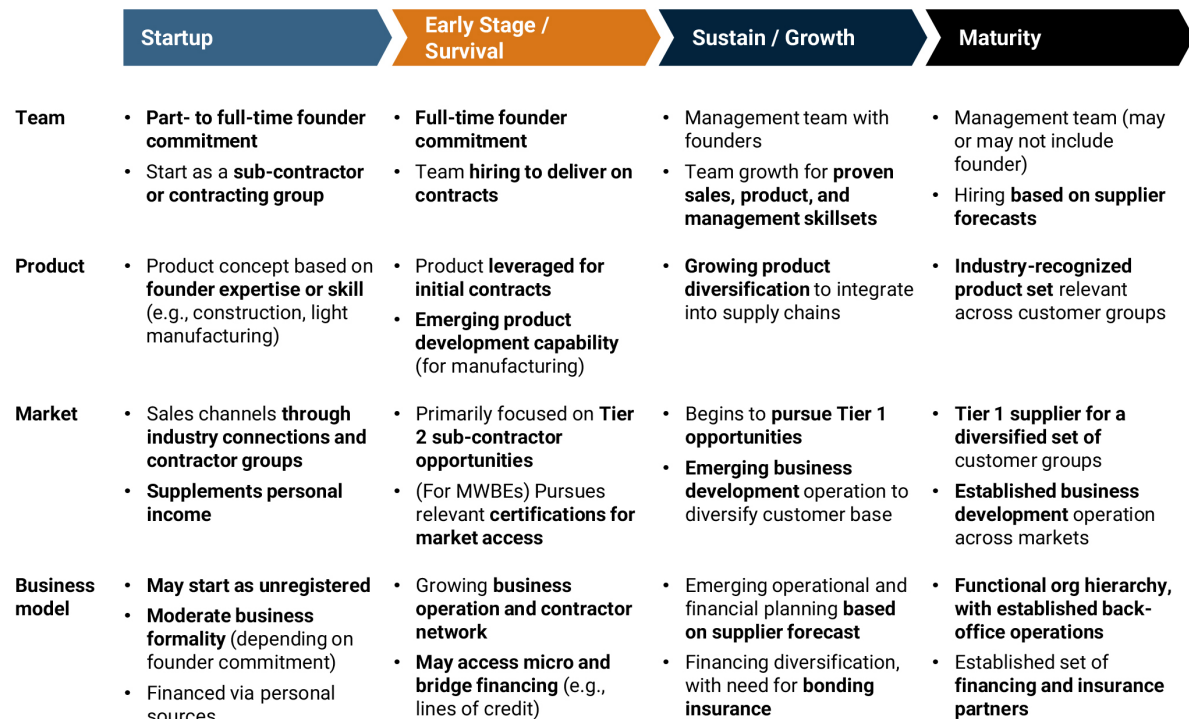


Figure C-3: Small Business Journey – High-Growth Business

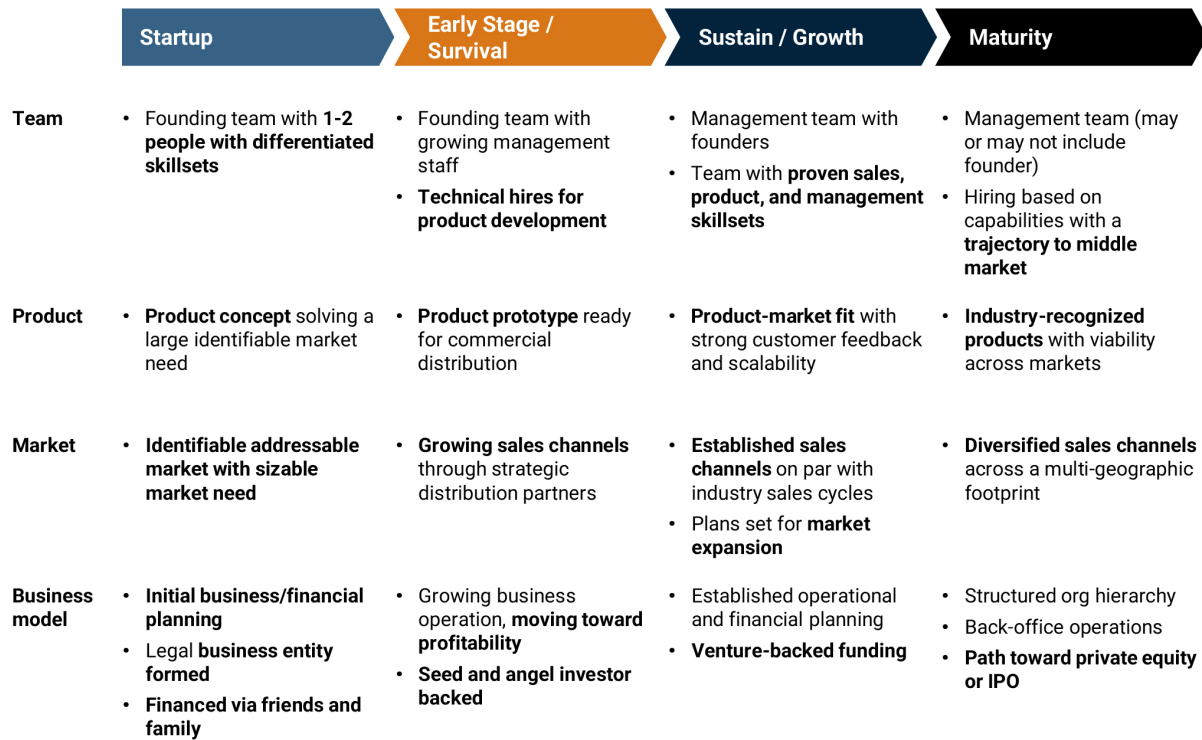


Figure C-4: Small Business Needs and Pain-Points by Industry

	Main Street Business	High-Growth Businesses	Supplier Business
Business objectives	Sustain their businesses in their communities , with some interested in establishing storefront locations to connect with local customers	Scale and grow their businesses to capture market share of product or service by achieving revenue growth and efficiently expanding operations	Operate and grow their businesses by bidding for and delivering upon supplier contracts with public and private sector buyers
Common pain-points	<ul style="list-style-type: none"> Access to commercial space and real estate Cash flow and financial management Hiring from local talent pools Marketing and sales to the local community 	<ul style="list-style-type: none"> Access to angel and VC investor networks Financial and growth planning Market access and sales in target industries Product development and expertise 	<ul style="list-style-type: none"> Certifications and proposal writing expertise Cash on hand for contract delivery Seasonal and inconsistent sales cycles Technical expertise in industrial supply chains
Capital needs	<ul style="list-style-type: none"> Working capital for payroll and operating expenses Capital investments for equipment Commercial real estate purchase and rehabs 	<ul style="list-style-type: none"> Seed capital to develop a proof of concept Venture capital for business growth M&A financing for businesses near exit 	<ul style="list-style-type: none"> Bridge financing for contract delivery Capital investments for equipment or machinery Bonding insurance for contract delivery
Other business support needs	<ul style="list-style-type: none"> General business planning and management education / advice Financial and access to capital assistance 	<ul style="list-style-type: none"> Accelerator and incubator support for startups Business planning for strategic growth Operations support in starting and scaling the business, including talent acquisition 	<ul style="list-style-type: none"> Supplier development and certification support Industry-specific guidance in supplier industries

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