# What if Cities Challenged Local Businesses to Reinvent Social Responsibility?

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June 2016

**This essay is part of a five-part series that explores how city leaders can promote local economies that are inclusive of all their residents. The framing brief, "Open Cities: From Economic Exclusion to Urban Inclusion," defines economic exclusion and discusses city-level trends across high-income countries (Greene et al. 2016). The four "What if?" essays suggest bold and innovative solutions, and they are intended to spark debate on how cities might harness new technologies, rising momentum, and new approaches to governance in order to overcome economic exclusion.**

## What's the Big Idea?

In the wake of the Great Recession, real wages are continuing to decline, household economic security remains fragile, contingent labor and job instability are on the rise, and public safety net spending has been substantially strained and put under scrutiny. At the same time, large businesses donate billions of dollars a year to charity as part of their corporate social responsibility strategies (CECP 2015); and local businesses are often significant donors to charitable causes and organizations in their cities, funding everything from school supplies for children to skills training to after-school programs.

Local charitable contributions may address economic exclusion for a subset of lower-income people who receive this kind of assistance. Greater impact on household economic security and financial independence, however, might be achieved by creatively redirecting businesses' resources to improve job quality.

The private sector has tremendous power to expand opportunity and improve the quality of jobs. Business leaders in a wide range of sectors—in large corporations and more modestly sized ventures—are experimenting with innovative ways to accomplish these goals. These businesses are motivated by a variety of factors, including civic pride and values, the need to adapt to changing circumstances, and the desire to improve their overall profitability (Levine, Popovich, and Strong 2013).

But these innovative practices remain the exception rather than the rule. With labor unions in sharp decline, local communities have few tools at their disposal to motivate businesses to make needed improvements in job quality. As a result, local governments mostly wield blunt instruments, like minimum wage laws, paid family leave, or ordinances regulating hours or benefits, in an effort to improve well-being. Though these types of public mandates are important tools, we need other levers in the local toolkit that spark businesses' self-interest in moving toward better quality jobs.

Many large businesses are already making sophisticated use of their own "big data" to fine-tune their operations and, in some cases, to influence the policy debate (Bates et al. 2014). What if local communities could find new ways of motivating these businesses to harness this capacity to make jobs better for low-income employees? Could communities use report cards for businesses to create this incentive?

# How Would This Work?

In an ideal world, diverse stakeholders—businesses, public officials, advocacy groups, and the general public—would share common pieces of knowledge about the impact of business models in their communities. This transparency could spur competition among firms to produce better outcomes as well as inform public policy (e.g., larger tax, regulatory, and safety net programs) and shape metrics for firms to signal their value in private equity markets.

Cities could create a public platform where they share a report card for local businesses by sector and business size. Consumers could use the report cards to make choices, policymakers could leverage the bully pulpit and use the report cards to prioritize resources, and businesses could use them to benchmark their practices with their peers and tout their civic bona fides in promoting employee financial security. The report card could leverage three different kinds of data:

- **Firm impacts**: Low-road labor practices can lead to both high turnover and high costs for employers in terms of recruitment, hiring, and training. Low-income employees who are under stress are also less likely to be engaged or enthusiastic about their workplace.[1] They may miss more days of work or be late more often, make more mistakes, get injured more frequently, be less attentive to customers, and be less likely to safeguard their employer from waste and fraud. Businesses track internal data on wages, hours, benefits, and employee dependents (through tax exemptions). Some also document and analyze certain employee data, including absenteeism, turnover, and costs associated with separation, vacancy, recruitment and screening, and orientation and training (Aspen Institute Workforce Strategies Initiative 2005). However, nearly all businesses lack a systematic framework to assess and compare their

employees' well-being with other industries, firms, and the local labor market. Moreover, it is unlikely that businesses are able to understand the connection between employee well-being and firm productivity and practices. Understanding these elements within the context of firms' profitability would help businesses tweak their models and cultivate a better understanding of the concrete trade-offs they face in their communities.

- **Public impacts**: When businesses use low-road employment policies, the public picks up the tab in the form of safety net benefits; but these costs are mostly invisible to employers and not associated with businesses in the eyes of local taxpayers. In addition, cities and local governments often provide direct tax credits and subsidies to businesses to support their development and expansion. These are public investments in private business for which the public should expect a favorable return. On the flip side, local residents know little about the positive public contributions that businesses make through the jobs they create, the taxes they pay, and the resources they donate.

- **Employee impacts**: When employers do not provide adequate resources for economic security and the public safety net falls short, workers pay the price. Like public costs, personal costs of low-road business practices are also mostly invisible to employers. Businesses need information about these personal costs to contextualize their firms' costs. This might include information about food insecurity, housing instability and homelessness, and overall financial well-being, which has been linked strongly to both overall health and medical costs and performance and productivity on the job.[2]

Cities could start by assembling basic report card information on their own. Data on many firm impacts, like wages and benefits, are collected through the unemployment insurance system and could, in theory, be used for this purpose. Public costs are available in many local administrative data systems, and cities could solicit information on employee impacts from local workers, with the assistance from local advocates.

Over time, businesses—particularly ones with unfavorable ratings on their report cards—may have substantial incentive to track and provide information on their firm impacts and encourage or facilitate more universal reporting of employee impacts. Firms may also want to help shape the types of information that the report card includes in a way that will allow them to publicize positive wage and benefit policies for low-income workers as well as the taxes and other contributions they make to local communities. Cities could eventually use these platforms to highlight best practices of sectors and individual firms, which could raise their public profile and enhance their reputation over lower-performing peers. For businesses, this approach could be just as effective in appealing to consumers and potentially attracting capital as publicizing their donations to local charities.

The idea of a job-quality report card could accelerate the momentum of businesses that are already actively applying "good jobs" strategies like Costco, Mercadona, Trader Joe's, and QuikTrip (Ton 2014). In the process of reviewing information on this triple bottom line, firms reluctant to introducing these strategies may find they have a vested interest in leveraging employer and employee data to enhance

productivity. Improving the quality of jobs for low-income workers may have far-reaching benefits, lowering turnover for entry-level workers and actually lowering recruitment costs for mid-level positions that might be filled more cost effectively by training and promoting workers from within. And other firms—particularly those in jurisdictions considering ordinances on wages or working conditions or those mobilized by popular movements like Fight for 15—may see taking the lead on experimentation as a viable alternative to unwanted top-down regulation.

Information from the report card can help spur employers to test and scale diverse ways of improving job quality and making their business more profitable and sustainable over the long term. There are many ways to accomplish this (Levine, Popovich, and Strong 2013). Beyond balancing wages, hours, health and wellness benefits, and greater investments in training, firms could also consider customized benefits for low-income employees to enhance their economic stability in the short term. Maybe instead of offering a dependent care savings account, companies might directly subsidize and reimburse employees for child care expenses. Or perhaps instead of contributing to a 401(k) plan they might provide a matched saving account, a one-time signing bonus put into an escrow account, or a formalized workplace small-loan program to manage income and expense volatility that derail low-income workers, like unexpected car repairs or a health crisis.[3]

Businesses will likely need support in reporting and analyzing information on firm and employee impacts, even if they already have sophisticated analytics in place. There is a need for a common framework and consistent ways of measuring progress. The Workforce Strategies Initiative, through the Aspen Institute, has developed tools for assessing the monetary value of services provided by job training and placement organizations working with the private sector (Aspen Institute Workforce Strategies Initiative 2005). It aims to quantify the added value of engaging with workforce development organizations. Similarly, third parties could play a role in helping employers understand the costs and benefits of certain labor practices. Businesses also may want to engage a third party to gather reliable and confidential information on employee impacts. Local workforce development partners may be well-positioned to help with some of the technical aspects of the process. The groundwork for this type role may already be in place in many communities. For example, the SOURCE in Grand Rapids, Michigan, a workforce development intermediary, serves a valuable human resources function for local businesses by placing low-skilled workers in jobs and devising and evaluating strategies both employers and employees can use to improve retention and performance.

In addition to this kind of support, businesses need healthy competition and insight from their peers. Certainly, state and regional trade associations, along with chambers of commerce, can be a platform for education and pilot testing and play a large “influencer” role. The best ways of creating and sustaining good jobs may vary widely by sector. Cities may want to provide support to existing trade groups and business networks to enable them to compare their approaches to hours, wages, benefits, and training; share best practices; and effectively advocate for policies and regulations that support this work on the local, state, and federal level.

## Who Would It Help, and What Aspects of Exclusion Would It Address?

Creating greater transparency and new governance around good jobs could help working low-income people, who—with their current regime of wages, hours, training, and benefits—are unable to earn a decent living and improve their well-being over time. Research shows that excluded low-wage workers are disproportionately young and female, belong to minority racial and ethnic groups, and have lower overall levels of education than other workers (Loprest et al. 2009).

If effective, finding ways to reinvent social responsibility for the private sector in local communities could positively affect multiple aspects of economic exclusion. Besides directly addressing poor-quality jobs, labor force exclusion may be minimized over time as businesses develop a more sophisticated understanding of how investments in training, benefits, and opportunity can benefit both workers and the profitability of their companies. This learning process may help make the case for hiring and training certain populations that firms have been reticent to hire.

Further, if aggregated, data from the report cards on firm and employee impacts—coupled with basic information about the availability of jobs by level of education—would provide a city- or county-level snapshot of the challenges and opportunities that confront residents who are primarily full-time employees. Such data could alter the perception amongst many business leaders and policymakers that full-time employment alone can guarantee financial well-being. Having a better grasp of the economy's structural shortcomings could empower residents of local communities, along with policymakers and high-road firms, to pressure the private sector to support the public safety net as a public good. A strengthened public safety net, along with more proactive employer-based policies, could dramatically improve economic vulnerability for many of the excluded.

## Where Has It Been Tried, and What Have We Learned?

There is some evidence that mandatory public reporting can drive change and actually improve business practice more successfully than traditional, lowest-common-denominator regulation. In the environmental context, the Toxics Release Inventory reduced improper release of a series of dangerous pollutants 45 percent in less than 10 years through a mechanism called *populist maxi-mini regulation* (Fung and O'Rourke 2000). Under this regime, public agencies enforce reporting requirements and provide a platform for disseminating the information. Community stakeholders use this information to pressure the worst performers to improve their practice, and businesses are motivated to continuously improve their own operations to avoid unwanted attention for bad performance.

Even completely voluntary reporting can be transformational. Globalization has made it much more difficult to enforce standards across diverse countries with wide-ranging business practices and capacity to enforce existing laws. After exposés that damaged their reputation with consumers in the developed world, many leading companies began voluntarily monitoring and reporting on working

conditions throughout their international supply chains, even hiring independent firms to certify their environmental and labor conditions (Sabel, O'Rourke, and Fung 2000). This has spurred competition among firms at the global level, all the way down to individual contractors in the developing world. Over time, policymakers can use information from this competition to inform the design of international minimum standards.

There are also new technologies that make it easier to ensure that information directly reaches stakeholders. Popular apps, like Yelp, demonstrate that consumers are hungry to provide their input and use the input of others to inform their purchases and consumer habits. For example, Restaurant Opportunity Centers United has an ethical-eating guide app that rates businesses on a few key elements of good jobs: availability of paid sick days, the share of workers who are promoted internally, and whether or not the minimum wages meet basic thresholds.[4]

## What Else Do We Need to Know or Do to Make This Idea Work?

There are numerous restrictions on public access to data that identify individuals. Federal regulations highly restrict public access to data with personal identification information of federal safety net receipts; and most of these data are under the jurisdiction of state agencies. Data on wages and earnings at the individual level are also collected by state agencies; and access to data with personal information varies, although these data can sometimes be accessed at the federal level for federally funded programs. It is unclear whether the state agencies that usually house these data would be willing and able to contribute to a report card that involved a summary that could be accessible to the leadership of individual firms and to local government like cities or counties.

Cities may also need to navigate issues around the confidential nature of information and define the right level of aggregation for sharing information on public and employee impacts. Employees could be subject to discrimination if employers are able to identify them as receiving public benefits. These risks are the reasons for federal and local restrictions on data access, but with the right approach, individual right to privacy could be protected and still provide the public and firms with important information.

Cities would also have to make sure that publicizing information about public safety costs does not give business perverse incentives to discriminate against low-skilled or entry-level workers or stigmatize businesses who hire them. To guard against this, cities might consider framing the hiring of these workers as a positive indicator and adapt measures to capture the extent to which these workers succeed over time.

Firm-level information is sensitive and can unfairly damage the reputation of businesses. Cities do, however, routinely regulate and provide this information directly to consumers; for example, local departments of health inspect and rate every licensed business where food is prepared. These ratings are generally shared publically and are increasingly available through apps. The issue may boil down to

the completeness and the reliability of the data that can be gathered. Cities may want to exclude businesses for which there is simply not enough reliable data to accurately grade.

There are also big-picture questions about where to start. Cities with robust data-sharing infrastructures in place could come together as a learning community to brainstorm how they might *implement* local private-sector report cards. Cities that have a National Neighborhood Indicators Partnership partner or are located in states with broad access to and use of public data are likely the best candidates for implementation. Particular types of cities might be good pilots as well. For example, civic leaders in cities with high growth and low unemployment that have persistent pockets of high poverty may be more likely to recognize that nearly full-time employment does not adequately protect low-income workers.

In parallel, there may be advantages to directly engaging national or regional business leaders in particular sectors to better document which firm impacts are most universally collected already. Cities could then work with them to decide on what data would be most effective to standardize, track, and analyze across firms.

Within cities, the public sector has the opportunity to encourage successful efforts by example, starting with its own employees, subcontractors, and partners, including anchor institutions like hospitals, universities, and social service nonprofits. It may be advantageous to pilot this work with a sector that includes many low-income workers, has a high profile among consumers, and has prominent local business allies who can encourage their peers to engage.

More experimentation on the city and firm level will also raise inevitable questions about how local, state, and federal policies and regulations either empower or discourage employers from investing in their human versus traditional capital. For publicly traded companies, there may also be industry standards and regulations that may need to be reexamined to create the right incentives at scale. For private equity, metrics used to communicate value to investors may also need to be aligned with job quality to unleash change at scale.

# Notes

1. Gallup tracks employee engagement as a key measure of the health of the economy. See “Gallup Daily: U.S. Employee Engagement,” Gallup, accessed April 22, 2016, http://www.gallup.com/poll/180404/gallup-daily-employee-engagement.aspx.
2. Historically, measurement of individual financial well-being has been unreliable, cumbersome, and misleading. In October 2015, the Consumer Financial Protection Bureau released a groundbreaking Financial Well-Being Scale, a 10-question survey to measure financial health that social service providers are integrating into their evaluation of programs and services. For more information on the Gallup-Healthways Well-Being Index, see, Healthways, “New Report Provides Insight into Americans’ Financial Well-Being,” October 13, 2015, http://www.well-beingindex.com/2014-financial-rankings.
3. The Community Loan Center of Dallas offers one such benefit in the form of an affordable small dollar loan program (http://www.clcofdallas.org/).
4. The app was featured recently in the *New York Times*. See Mark Bittman, “The 20 Million,” *New York Times*, June 12, 2012, http://opinionator.blogs.nytimes.com/2012/06/12/the-20-million/?_r=1.

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## Acknowledgments

This brief was funded by the Rockefeller Foundation. We are grateful to the Rockefeller Foundation and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at www.urban.org/support.

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