

## The Minneapolis Small Business High-Road Labor Standards Intervention Pilot Project: Year One Assessment Review

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### Executive Summary

The Minneapolis Small Business High-Road Labor Standards Intervention Pilot Project seeks to provide services that support immigrant, black, indigenous, and people of color (I/BIPOC) owned small businesses so that they can create healthy, just, and equitable jobs through meeting and or exceeding minimum city labor standards. The Project is a partnership between the workplace justice lab@Rutgers University and the Minneapolis Office of Labor Standards Enforcement Division (LSED), and is supported by the City of Minneapolis, the W.K. Kellogg Foundation, and WorkRise.

Minneapolis joined a movement of cities across the United States in forming the Minneapolis Office of Labor Standards Enforcement Division (LSED) to engage in innovative strategic enforcement of local labor standards. The creation of this office recognized the need to change how Minneapolis approaches the issue of labor standards enforcement to reflect the changes in the economy and the nature of modern firms. Minimum wage violations in the Minneapolis St Paul metro area **cost workers an estimated \$886 million over the past decade**, an average of nearly \$90 million a year.<sup>1</sup> While LSED seeks to address the root causes and primary actors of labor violations which drive down employment standards in the local economy, they have found their work dominated by complaints against small businesses, many I/BIPOC. LSED wanted to catch the big fish who were setting the overall terms of employment relations, but felt they were instead primarily reeling in the minnows. While some of these cases involve businesses operating in bad faith, LSED also found many of these businesses' failures stemmed from a lack of administrative capacity, know-how, and access to bureaucratic tools such as payroll

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<sup>1</sup> Barnes, Jake, Galvin, Daniel J., Round, Jenn, and Fine, Janice. 2023. "Minimum Wage Non-Compliance in Minneapolis." *Workplace Justice Lab-Rutgers University*. November. Accessed at [https://smlr.rutgers.edu/sites/default/files/Documents/Centers/WJL/Minneapolis\\_Wage\\_Theft\\_Report\\_Nov2023.pdf](https://smlr.rutgers.edu/sites/default/files/Documents/Centers/WJL/Minneapolis_Wage_Theft_Report_Nov2023.pdf)

software which make compliance easier. This systemic lack of capacity raised equity concerns from LSED driving a desire to work with the workplace justice lab to find a new approach that balanced enforcement with support in cases involving I/BIPOC small businesses.

We find that two fundamental problems undermine the ability of I/BIPOC small businesses to comply with local labor law:

- First, small businesses run by I/BIPOC owners face systemic challenges due to historically entrenched, systemic racism and xenophobia which result in a diminished financial and technical capacity to achieve compliance.
- Second, government offices that enforce labor standards are siloed from government business technical support functions meaning that support for achieving compliance without sanctions is structurally limited. Furthermore, Government support programs tend not to be designed with I/BIPOC micro businesses in mind. Government support and enforcement are not equipped to sufficiently support small I/BIPOC businesses.

To address this problem the pilot study aimed to provide on-going support and subsidized back-office Human Resources (HR) software. First, businesses were offered intensive education on local labor regulations and how to come into compliance along with technical assistance training on proper bookkeeping through Quickbooks Online. Second, the businesses were offered free ongoing one-on-one meetings with bookkeepers with experience in the city's I/BIPOC communities. Third, participants were given free access to Quickbooks Online, Gusto payroll, and Deputy scheduling software for a year. Fourth, members of the study team were assigned to each participant to provide on-going assistance with issues that came up during the program and to connect them to additional support services as needed.

### ***Findings about small business struggles and labor compliance***

- **Small Businesses Want and Need this Program.** We received 100 applications from small businesses. Participating businesses discussed the need for technical assistance programs which were designed with them in mind.
- **Lots of confusion about labor law.** Further indicating the need for programs to support small business owners, many in our program were quite candid about what they did not know about current labor law. They were quick to tell us that they are not in compliance and did not know how to get there.

- **Disparities are apparent by race and ethnicity.** Our pilot program highlights that I/BIPOC business owners encounter greater challenges in keeping their businesses successful, in accessing resources, and in seeking support related to labor compliance. The I/BIPOC businesses in our study, when compared to the white owned businesses in our study, reported greater hurdles in accessing capital, less support networks, and worse relationships with City government and local agencies.
- **Small Businesses think they are buying compliance with online products.** More businesses than we expected in our pilot program already had some form of payroll or bookkeeping software. But the businesses believed that these programs automatically provided compliance with local labor law; were surprised to learn that compliance was not built in; and lacked the technical and legal knowledge to properly set up these systems to ensure compliance.

### ***Findings about program implementation***

- **Current Small Business support programs are difficult to access for I/BIPOC businesses.** Many of the businesses in our program had accessed or attempted to access City or NGO support programs in the past and expressed difficult or negative experiences. A central complaint was that support was difficult to navigate, not on-going, and lacked administrative technical assistance.
- **Outreach and Uptake is difficult.** The I/BIPOC small businesses in our program are stretched very thin. As a result, we faced numerous implementation challenges as these businesses were very hard to engage in follow up and get to complete each step of the program. This highlights the need for future iterations of this program to have the lowest possible barriers to entry and maximal flexibility in terms of accessing training and support.
- **I/BIPOC businesses expressed persistent trust issues following the Minneapolis uprising.** This deep-rooted issue of distrust was made worse by experiences with support during the uprising. These negative experiences made program participation more difficult and yet again highlights the importance of better engaging trusted community intermediaries in program implementation.
- **The Importance of Community Intermediaries.** When Minneapolis enacts new local labor laws, large employers in the City turn to their HR departments to ensure compliance. Our pilot program has revealed that when faced with these new laws, small businesses turn to their communities for help and support. These community service providers are often informal or under-resourced themselves, necessitating

future iterations of this program to focus on building their capacity to promote compliance. Engagement with and program implementation through community intermediaries promises greater scalability of this support program.

### ***Findings about coordinating support and enforcement across government agencies***

- **Government agencies are siloed and not working together to address the scale of the problem.** In Minneapolis, and many other cities, government offices that enforce labor standards are siloed from government business technical support functions meaning that support for achieving compliance is structurally limited. Minimum wage violations in the Minneapolis St Paul metro area **cost workers an estimated \$886 million over the past decade**, an average of nearly \$90 million a year.<sup>2</sup> The scale of this problem suggests the need for a coordinated strategy that reaches across agencies. LSED and BTAP have already made strides in beginning this cross-agency dialogue. Additional areas to explore are below.
- **Coordinated outreach, education and technical assistance.** The City's Small Business and Business Technical Assistance Program (BTAP) program focuses on small businesses support through a network of trusted community partners. LSED has the mandate and deep technical knowledge to enforce the City's labor laws. We recommend that the agencies evaluate current points of contact with small business owners and identify opportunities for stronger coordination. An assessment of which small business owners are **not** currently being reached by either program is also needed, as well as an assessment of additional resources or policies needed for improved coordination and a pro-active outreach program to small businesses about labor law compliance. Coordinated messaging about the consequences of non-compliance and/or the community and business benefits of compliance should be pursued.

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<sup>2</sup> Barnes, Jake, Galvin, Daniel J., Round, Jenn, and Fine, Janice. 2023. "Minimum Wage Non-Compliance in Minneapolis." *Workplace Justice Lab-Rutgers University*. November. Accessed at [https://smlr.rutgers.edu/sites/default/files/Documents/Centers/WJL/Minneapolis\\_Wage\\_Theft\\_Report\\_No\\_v2023.pdf](https://smlr.rutgers.edu/sites/default/files/Documents/Centers/WJL/Minneapolis_Wage_Theft_Report_No_v2023.pdf)

## Introduction

The Minneapolis Small Business High-Road Labor Standards Intervention Pilot Project seeks to provide services that support immigrant, black, indigenous, people of color (I/BIPOC) owned small businesses so that they can create healthy, just, and equitable jobs through meeting and/or exceeding minimum city labor standards. The Project is a partnership between the Workplace Justice Lab@Rutgers University and the Minneapolis Office of Labor Standards Enforcement Division (LSED), and is supported by the City of Minneapolis, the W.K. Kellogg Foundation, and WorkRise.

Very small, I/BIPOC-owned small businesses face a variety of barriers to complying with fair labor law standards stemming from legacies of systemic marginalization. In this innovative pilot project, over 30 I/BIPOC small businesses in Minneapolis are receiving free payroll and scheduling software as well as bookkeeping services for a year. These services should facilitate local labor law standards compliance. We also believe that these services can eventually help these businesses improve their financial health, and their access to financial capital. Access to capital was the number one issue highlighted by I/BIPOC program participants facing their business. This program holds great promise to address both the issue of labor standards compliance while helping businesses overcome the core issue of capital access. Research on small I/BIPOC firms argues that the marginalization of owners often puts them in a liminal labor market status between low-wage worker and entrepreneur,<sup>3</sup> suggesting the need for support for both owners and workers.

While some small businesses intentionally adopt exploitative business models, for which a strong regulatory framework is needed to protect workers' rights, through years of conversations with local and state enforcement agencies, we know that many small businesses would choose a strategy that invests in their employees with the right support. Without that support, a solely punitive approach will fail to raise compliance.

This report presents the key findings from the first year of the pilot program and lays out the plans for the second year. We have found great need for the support provided by the program. Based on our interactions with the businesses we found that a lack of satisfaction with the existing small business support ecosystem; racial disparities in access to support; confusion about regulatory compliance; and distrust between government and I/BIPOC communities are widespread. The engagement of trusted community intermediaries –such as bookkeepers and the City's Business Technical Assistance

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<sup>3</sup> Aldrich, H.E. and Waldinger, R., 1990. Ethnicity and entrepreneurship. *Annual Review of Sociology*, 16(1), pp.111-135.

Program (B-TAP) providers— in I/BIPOC communities is essential for improving labor standards in these small businesses.

## The Problem

Creating high quality jobs in small businesses is a racial equity issue. Small businesses employ 52% of the working population<sup>4</sup> and 65% of workers in the bottom income quintile, who are more likely to be Black and Latinx.<sup>5</sup> Small business owners are often particularly interested in creating good jobs. Very small employers (<20 employees) are more likely to provide good jobs than any other size business besides very large firms (>500 employees).<sup>6</sup> One survey found that most small employers think providing benefits is important because “it is the right thing to do.”<sup>7</sup> Despite these good intentions, small businesses often find themselves out of compliance with employment standards and thus underpaying their employees or failing to provide paid sick leave.

As worker protection legislation has long been stalled at the federal level, cities and states—such as Minneapolis and Minnesota—have filled in this gap passing innovative employment law reforms targeting issues like living wages, wage theft, and sick and safe time leave to provide protections to workers. This has meant that these states and cities, like Minneapolis, also need to enforce these new protections.

Recent studies show the urgency and magnitude of the problem of wage theft costing workers in the U.S. \$50 billion a year in lost wages.<sup>8</sup> **Minimum wage violations in the greater Minneapolis-St. Paul metropolitan statistical area (MSA) cost Minnesota workers an estimated \$886 million over the past decade, an average of nearly \$90 million a year. The study estimated that over 32,000 low-wage workers in the metro area are paid below the minimum wage each year, with an average annual underpayment of roughly \$2,700 per worker. Immigrants and workers of color are significantly more likely to experience minimum wage theft than white workers. There is notable overlap between the highest-violation industries in Minneapolis and the fastest-growing**

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<sup>4</sup> Reimagine Main Street. 2022. “Good Jobs & Small Employers: Opportunities and Constraints.” Washington, D.C. Accessed at [https://www.about.commonfuture.co/s/Good-Jobs-Small-Employers-Opportunities-and-Constraints\\_Aug32022.pdf](https://www.about.commonfuture.co/s/Good-Jobs-Small-Employers-Opportunities-and-Constraints_Aug32022.pdf) on July 2, 2023.

<sup>5</sup> Gallup. 2020. “The Characteristics of Good Jobs for Low-Income Workers.” Accessed at <https://www.gallup.com/education/309911/characteristics-good-jobs-low-income-workers.aspx> on Feb 12, 2024.

<sup>6</sup> Ibid.

<sup>7</sup> Reimagine Main Street, *supra* note 3.

<sup>8</sup> Meixell, Brady and Eisenbrey, Ross. 2014. “An Epidemic of Wage Theft Is Costing Workers Hundreds of Millions of Dollars a Year.” *Economic Policy Institute*, Sept 11. Accessed at <https://www.epi.org/publication/epidemic-wage-theft-costing-workers-hundreds/> on Feb 12, 2024.

**sectors within the greater Twin Cities region, suggesting an urgent need for proactive enforcement efforts.<sup>9</sup>**

Because of resource constraints, enforcement efforts need to be directed at employers who are most responsible for setting standards for labor practices. This means that it is more important to catch the “big fish” – employers who drive down labor standards in the economy– than the “minnows” – small businesses who largely have little influence on city-wide standards. It is not that it is unimportant for small business to comply with labor law, small business employees deserve the same rights as every other worker, it is simply that a different approach is needed.

Two fundamental problems undermine the ability of small businesses to comply with local labor law. First, small businesses run by I/BIPOC owners face systemic challenges due to racism and xenophobia which result in a diminished financial and technical capacity to achieve compliance. Second, government offices that enforce labor standards are siloed from government business technical support functions meaning that support for achieving compliance without sanctions is structurally limited and rare. Furthermore, Government support programs tend to not be designed with I/BIPOC micro businesses in mind. Government support and enforcement are not equipped to sufficiently help small I/BIPOC businesses.

But, these I/BIPOC small businesses are often those most likely to have employee complaints levied against them. The abundance of complaints against these businesses not only undermines enforcement agency efforts to enforce against employers with the most impact on labor standards, but they also raise equity concerns as the I/BIPOC businesses face disproportionate liability to their employees.

In the City of Minneapolis, we see this problem laid out in stark terms. In our analysis of LSED cases, 55% of documented labor standards violations occurred at establishments with fewer than 30 employees and 38% were from employees at establishments with fewer than 20 employees. Complaints are also concentrated in the same communities where immigrant and systemically marginalized businesses are concentrated and they largely overlap with the I/BIPOC cultural districts and parts of the city with the highest rates of poverty.<sup>10</sup>

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<sup>9</sup> Barnes et al., *supra note 1*.

<sup>10</sup> Workplace Justice Lab. 2022. “Minneapolis Specific Small Business Conditions.” *Workplace Justice Lab-Rutgers University*. Accessed at <https://smlr.rutgers.edu/sites/default/files/Documents/Centers/WJL/MinneapolisSpecificConditions.pdf>.

Similarly, complaints are more common in sectors such as food service and care industries, where immigrant and systemically marginalized entrepreneurs have had greater opportunity to start businesses. Complaints are most common when laws are newer and require greater technical and procedural hurdles for compliance. These laws could be more difficult for immigrant and systemically marginalized businesses to comply with given their relatively diminished resources. Lack of capacity and support play a prominent role in driving violations by these businesses.

The second barrier to addressing the needs of I/BIPOC businesses is that labor enforcement and small business technical assistance functions are siloed from each other. This means that an opportunity to collaborate to both support small businesses and help them come into compliance with labor standards is lost. Furthermore, most business support services are not designed with the needs and challenges of I/BIPOC businesses in mind.

Many government support programs fail I/BIPOC businesses because they are designed for small businesses generally not I/BIPOC businesses specifically. The U.S. Small Business Administration defines small businesses as having firm revenue up to \$40 million and as having less than 1,500 employees. Yet in our evaluation of I/BIPOC businesses in Minneapolis most earned less than \$500,000 in annual revenue and employed less than 10 employees with the largest category of businesses employing 4 or fewer workers. Often when the Government designs programs to help small businesses grow, particularly federal and state programs, the resources often get targeted to “small” businesses with a few hundred employees that hold the potential to grow into very large businesses. But most small businesses are micro and these micro businesses collectively employ a larger number of workers overall.<sup>11</sup>

Even in the cases of innovative programs like Minneapolis’ B-TAP program and Hennepin County’s Elevate program—which are designed with these micro businesses in mind—the technical assistance programs often do not provide the administrative support needed to ensure labor compliance. A central problem with current government and non-profit programs designed to support I/BIPOC businesses is that they are not designed to address the systemic problems that inhibit these businesses’ success. For example, government support programs are most often designed and funded on a service model where a business comes in to get help addressing an immediate problem, the government or non-profit provides support to address the problem, and the relationship ends. Instead, research shows I/BIPOC businesses require on-going support which helps overcome their

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<sup>11</sup> Reimagine Main Street, *supra note 3*; Gallup, *supra note 4*.



systemic lack of access to formal training, advantageous networks, and history of distrust of majority dominated institutions.<sup>12</sup> Ongoing support is needed to provide technical assistance with back office administrative functions like payroll and bookkeeping which I/BIPOC businesses struggle to formalize their often informal practices which make compliance more difficult.

## **Our Intervention**

To explore solutions to these problems our research team has partnered with the Minneapolis Labor Standards Enforcement Division on a pilot program to balance small business support and labor enforcement. LSED aims to operate strategically but is coming up against the challenges of the U.S.'s specialized system of enforcement where agencies are siloed.<sup>13</sup> Our pilot asks whether bureaucracies can be transformed and brought together to incorporate the benefits of a holistic enforcement regime where agencies work together. Cities in the U.S. have begun to understand this problem and taken baby steps to address it but too often design support programs which simply tell businesses what the laws are instead of helping them overcome the barriers to labor compliance. While some new programs hint at an understanding of the insufficient nature of the current approach to working with I/BIPOC small businesses, none of them include all the core principles identified in the literature: providing back-office support, ongoing mentoring, involving community intermediaries, and focusing on job quality through labor compliance. This is what we set out to do.

To accomplish this goal the pilot aimed to provide on-going support and subsidized back-office HR software. First, businesses were offered intensive education on local labor regulations and how to come into compliance along with technical assistance training on proper bookkeeping through Quickbooks. Second, the businesses were offered free ongoing one-on-one meetings with bookkeepers with experience in the city's I/BIPOC communities. Third, participants were given free access to Quickbooks, Gusto payroll and Deputy scheduling software for a year. Fourth, members of the study team were assigned to each participant to provide on-going assistance with issues that came up during the program and to connect them to additional support services as needed.

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<sup>12</sup> Alvarez S. and Klein, J. 2021. "San Francisco Entrepreneurs of Color Fund: Creating a Continuum of Capital and Consulting." The Aspen Institute: Washington D.C. Accessed at <https://www.aspeninstitute.org/wp-content/uploads/2020/10/San-Francisco-Entrepreneurs-of-Color-Fund.pdf> on April 23, 2024.

<sup>13</sup> Piore, M.J. and Schrank, A. 2018. *Root-cause regulation: Protecting work and workers in the twenty-first century*. Harvard University Press.

We received a total of 100 applications, with 62 businesses located in Minneapolis. Out of these applicants, 52 were I/BIPOC-owned businesses; 37 applicants operate within our key focus sectors—food service and retail—which exhibit high labor violations; and 39 were situated in underinvested areas of the City. We accepted 47 applicants, of which 31 attended the onboarding training and 18 participated in the bookkeeping training. The onboarding sessions encompassed labor law compliance as well as training on how to use Gusto payroll and Deputy scheduling software applications such that the businesses would be compliant with local employment law. Labor law compliance training included up-to-date details on state and city regulations. Additionally, participants were informed about the various support options available to achieve and maintain compliance, along with continuous troubleshooting support through B-TAP and tips on staying up to date with current rules and regulations.

We conducted, at a minimum, monthly follow-ups with participants to monitor and support the onboarding process, address any concerns, gather feedback on their experiences with the software, and connect them to relevant community resources. During the summer of 2023, the research team observed 29 one-on-one bookkeeping lessons during which community bookkeepers explained how to use Quickbooks Online software. Of the original cohort, 40 small business owners have remained in active contact with the program beyond the initial courses. Currently, 25 of these businesses are engaging in regular on-going support with program bookkeepers, including technical assistance with Quickbooks and other software. An on-going challenge has been getting participants to utilize program provided software, currently 10 have onboarded with Gusto payroll and 2 with Deputy scheduling software. Another 5 are in the process of enrolling in Gusto. A major finding is the amount of time required for small business owners to switch software was too great and discouraged some from making the transition. While we are continuing to support businesses to enroll, we have also expanded the pilot to support businesses to review and build compliance into their existing software. Future iterations of this program will focus on building compliance into businesses' existing systems instead of trying to have them switch to a new system given many businesses' negative experiences navigating this switch.

In addition to our research with our participant businesses, we conducted a comprehensive analysis and interviews with key stakeholders in Minneapolis' small business ecosystem. In the lead up to the pilot program, our community partner Main Street Alliance conducted outreach to 325 businesses and 27 community organizations while the Rutgers research team has been assembling academic and policy research to understand the initiatives governments and organizations across the world have implemented to support small businesses. During the pilot program we conducted 14

additional interviews with Minneapolis BTAP providers and 6 economic development organizations about the resources they offer and evaluated their capacity to serve our participants.

## **Findings**

As we approach the end of the first year of our program, we have learned a host of valuable lessons about the problems facing small businesses, the issues they experience with compliance, and important findings about implementing effective programing for small business support. These outcomes can be grouped into two categories: findings about businesses' struggles and labor compliance, and findings about program implementation:

### ***Findings about small business struggles and labor compliance***

***Small Businesses Wanted and Need this Program.*** We received 100 applications from small businesses. Participating businesses discussed the need for technical assistance programs which were designed with them in mind. In line with our expectations, the small businesses in our program struggled to afford and access the technical assistance needed to comply with local labor law and run a successful business. Many businesses only had informal systems of bookkeeping and records keeping. Failing to provide proper records not only can be a labor law violation itself, but also makes it difficult to respond to investigations or provide the documentation needed to apply for bank loans and secure capital. While many businesses in the program did have some system for bookkeeping and payroll, most felt their system was inadequate and most expressed a lack of knowledge in how to properly utilize their systems to ensure compliance. This is important with more complicated laws, such as Minneapolis' sick and safe leave which utilizes an accrual system. The businesses in this program were overwhelmed by what they needed to juggle with their business and the subsidized software was vital for their interest in the program.

- "You don't know what you need, so you don't know what to ask"
- "You are trying to move so many pieces at the same time"
- "I really would like to be solid on payroll and QuickBooks so I don't have to just keep throwing good money after bad."

***Lots of confusion about labor law.*** Further indicating the need for programs to support small business owners, many in our program were quite candid about what they did not know

about current labor law. They were quick to tell us that they are not in compliance and did not know how to get there. Many participants were unaware of the City's labor standards. Despite this, many businesses expressed a great desire to come into compliance. Many hoped the program would help them avoid fines by coming into compliance and others noted that they believed that coming into compliance would help formalize their business, making it easier to apply for capital in the future. Capital access was the number one issue facing this business and many recognized the connection between coming into compliance by formalizing their business practices as a means to accomplish this goal. Even participants who thought they were in compliance with labor law found out they were not, as we provided group and hands on training. Many small business owners who desire to comply are not getting the right combination of information and support to properly comply with labor laws.

- "I pay my workers as contractors, and I know that's wrong but I don't know how to do it right. I want to fix it so I don't get hit with a fine that I can't afford."
- "I want to know if I'm doing things correctly, because I want to be compliant. I could read [the rules] online. But it's just not the same as having that one-on-one with someone to make sure that we're set up for success."

***Disparities are apparent by race.*** Our pilot program highlights that I/BIPOC business owners encounter greater challenges in keeping their businesses successful, in accessing resources, and in seeking support related to labor compliance. The I/BIPOC businesses in our study, when compared to the white owned businesses in our study, reported greater hurdles in accessing capital, less support networks, and worse relationships with City government and local agencies. Importantly, the white owned businesses often similarly expressed issues in these areas but there was an even greater disparity for the I/BIPOC businesses. These findings are in line with past research which finds that I/BIPOC businesses encounter racism and face greater challenges in accessing capital, government support programs, and successfully securing public and private sector contracts.<sup>14</sup> Additionally, the white owned small business owners in our study often indicated greater technical knowledge of local labor laws or networks, which could help them solve these problems. The white business owners in our study were often more vocal about getting their needs met and were quicker to assert themselves in program training and bookkeeping sessions.

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<sup>14</sup> For a review of this research see Workplace Justice Lab. 2022. "Common Challenges For Immigrant and Systemically Marginalized Small Business Owners." Accessed at [https://smlr.rutgers.edu/sites/default/files/Documents/Centers/WJL/MN\\_SBChallenges.pdf](https://smlr.rutgers.edu/sites/default/files/Documents/Centers/WJL/MN_SBChallenges.pdf) on Feb 12, 2024.

- “City of Minneapolis has a history of selective enforcement of rules and regulations [in a way that disadvantages Black and Brown businesses].”
- “My wife is white, and we run the business together. One day, she did all the paperwork and went in to get a business loan from a smaller bank. Everything was fine. Until they said they needed to meet her business partner. Then all of a sudden, there were problems. They couldn't do the loan. That happened to us three times.”
- “We know that with white businesses, they often get funding just with a concept. And without even a business plan. As a black business owner, I have never been able to receive funding directly from banks. Until I would say six months ago now, we finally got a line of credit after 10 years of banking with the same bank depositing millions of dollars in that bank every single year.”

***Small Businesses think they are buying compliance with online products.*** More businesses than we expected in our pilot program had some form of payroll or bookkeeping software. These businesses believed that these programs automatically provided compliance with local labor law; were surprised to learn that compliance was not built in; and lacked the technical and legal knowledge to properly set up these systems to ensure compliance. Payroll and bookkeeping software programs often guarantee tax compliance but not labor law compliance. In fact, the software companies have successfully fought in court to not be held liable for customers’ failures to properly comply with labor laws.<sup>15</sup> The businesses, however, were not aware of this fact. Even the software companies which offered some assistance with labor compliance often provided incomplete, outdated, or inaccurate advice, which was hard to find in the first place. The software has no automatic safeguards or warnings when a business makes a mistake in setting up their payroll in a way that puts them out of compliance. Similarly, when the laws change the businesses are not automatically alerted to this fact. These findings highlight that providing software alone, absent on-going support and technical assistance, is unlikely to bring I/BIPOC small businesses into compliance with local labor laws.

- “Because QuickBooks likes to try to automate as much as it can. And being really careful about catching it does make a lot of mistakes, especially if you want it to do things automatically. So catching that stuff was pretty difficult, but I'm just learning the order of operations...”

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<sup>15</sup> Nagele-Piazza, Lisa. 2019. “ADP Isn’t Liable for Employer’s Alleged Wage Violations.” SHRM, Feb 11. Accessed at <https://www.shrm.org/topics-tools/employment-law-compliance/adp-isnt-liable-employers-alleged-wage-violations> on Feb 12, 2024.

## ***Findings about program implementation***

***Current Small Business support programs are difficult to access for I/BIPOC businesses.*** Many of the businesses in our program had accessed or attempted to access City or NGO support programs in the past and expressed difficult or negative experiences. Their complaints were in line with the research on I/BIPOC businesses' issues with current support models. First, current support models are one-and-done where businesses go to receive support for a problem, receive the support, and then the relationship ends. Research shows that I/BIPOC businesses lack the networks of support white businesses benefit from and for support programs to be successful they need to fill this gap by providing ongoing support and mentorship through a continued relationship.

Second, program participants reported frustration with the City small business support system which often felt like an endless stream of referrals resulting in people falling between the cracks. Our program has revealed the importance of meeting people where they are—in their communities and offering support in their preferred language. Specifically, we found that many businesses relied on community bookkeepers as central figures in their support system. This suggests the need to work with the existing structures of informal and bookkeeping support which operate in Minneapolis' I/BIPOC communities. These community intermediaries —such as bookkeepers, informal community “experts,” and the City’s Business Technical Assistance Program (B-TAP) providers— are central to creating a cost-effective route to provide both labor compliance and needed information to access capital.

- “[The City] is hard to navigate through, the departments within the city don't work together. So you get shipped around to a lot of different departments, there's no uniformity. And we're dealing with different departments in city for business related issues, whether it be employment, whether it be coding compliance with your building is all different departments, and nobody communicates.”
- “They bury you with paperwork. So it's very hard. That's my experience. It's been really hard. Even with the [B-tap provider we used], it was like, two three months process. And then they wanted everything [financial documents]. I'm like, okay, here, take it. But yeah, it's been hard.”
- “It’s been gate kept...How is it that the City has those relationships with all those [non-profits] but it is hard to reach me...There needs to be a better way to reach us.”
- “Most of the nonprofits that are here to supposedly help businesses, they're not doing a good job...That city and county they don't have any programs that does

well, they have the ability, but they don't prioritize small micro minority businesses.”

- “I was unable to obtain COVID-19 SBA and PPL loans because I was not able to produce financial statements. I don’t know how.”

**Outreach is difficult.** The I/BIPOC small businesses in our program are stretched very thin. As a result, we face numerous implementation challenges as these businesses were very hard to engage in follow up and get to complete each step of the program. Even when there was interest and an understanding that the program would provide an important benefit it was hard for them to find the time needed to complete important program steps, like attending trainings and setting up the free software systems provided. This highlights three important points for program implementation and design. First, the barriers to entry must be low, meaning that the information and steps required of participants are only those that are absolutely necessary. Two, engaging community intermediaries like I/BIPOC community bookkeepers and trusted B-TAP providers is essential for ensuring program uptake. Three, the program’s schedule should be flexible to accommodate businesses' busy schedules. The businesses needed far more time and handholding than anticipated to adopt program elements. Being attuned to seasonal workload and tax season added additional complications.

- “I was scared to do the switch [to program software] because if I missed some steps and the info is all messed up it would take more time.”
- Referring to the program’s ongoing support, “Thank you for keeping us on top of things [with onboarding]. I have fallen back on getting everything set up. This is a great reminder to get back on top of things!”

**I/BIPOC businesses expressed persistent trust issues following the uprising.** Making matters more difficult, I/BIPOC communities' continued struggles following the Minneapolis uprising have generated persistent trust issues. These businesses often struggled to access support programs following the uprising and led to feelings of racial discrimination and that the City failed to protect their businesses or reinvest in their neighborhoods. This deep-rooted issue of mistrust made program participation more difficult and yet again highlights the importance of better engaging trusted community intermediaries in program implementation.

- “The people that I know who are also either in the food business or any other small business have had not great relationships with the city in general, I think, I think most there's a natural distrust for the intentions when the city gets involved in a lot of things. And small businesses often suffer because of what the true intentions are.”
- “My business partner, his restaurant was robbed last year and I think his cash register was stolen. He called the police. But the police just to him, ‘they were being sued.’ So they didn't show up. And then his next door business got robbed recently, but nobody shows up. So I'm a little bit scared. Where am I gonna get help from? 'm afraid.”
- “During the George Floyd uprising, I had \$10,000 worth of equipment that postal services refused to deliver because they said they didn't feel safe going to N. Minneapolis during the uprising, where my business is located. However, there were no interruptions in services in South Minneapolis, where one of the postal offices was burned to the ground...That hurt my business. Don't think many businesses [in other parts of Minneapolis] experience that type of inequitable access to public services.”

***The Importance of Community Intermediaries.*** When Minneapolis enacts new local labor laws, large employers in the City turn to their HR departments to ensure compliance. Our pilot program has revealed that when faced with these new laws, small businesses turn to their communities for help and support. Unlike professional HR departments supported by legal counsel, the support small businesses find in their communities are often very informal and frequently simply inaccurate. At the same time there are trusted bookkeepers, B-Tap providers, and other business support functions in these I/BIPOC communities doing heroic work attempting to navigate these systems. These community service providers are often informal or under-resourced themselves.

We found that it is important that these service providers be hands-on with the I/BIPOC small businesses. The businesses in our program needed regular meetings, to be given assignments to work on, and be provided one-on-one in-person support to overcome hurdles they faced with program uptake. Adopting HR software and changing their HR system—even if their systems were informal and ineffective—was often scary for these businesses. Even simple tasks like transferring records to the new software could be fraught for already thinly stretched employers.

This level of support is beyond the scope and abilities of many existing small business support systems, which the City relies on. Creating a successful and scalable program that combines support with labor compliance will require engaging those in the community



who are already doing this work. During our pilot program we uncovered the importance of these community service providers as the participating businesses would often check with them first before implementing or engaging with each step of our program, and would often request to bring these service providers along to our training sessions. Through deeper engagement with these service providers, we realized, and now believe, that they are the key to making this program scalable and ensuring quick programmatic uptake. It is a “train-the-trainers” model where we work with and subsidize the community service providers to provide the necessary technical assistance in a culturally competent manner to get the businesses utilizing the payroll and bookkeeping software, which make labor law compliance attainable.

- “We get support a lot of support from nonprofits, because the reality is being a Black immigrant restaurant, we are a triple a risk in the eyes of lenders. So what we've had to do is use nonprofits to access government and private funding to take on a risk and to de-risk us. And that's what we've had to do over 10 years.”
- “We had a lot of support from our community whether it's family or friends for internal financial support a lot supporters to Kickstarter allowed to support us by showing up to events alleged supporting us by offering by hiring us for catering events. A lot of supported us by volunteering their time to sell for us on the streets literally wash pots and pans on the streets.”
- “This is what's difficult for small business owners, finding the right help. You may find help but it does not mean it may be the best. Having this program, guiding us toward true professional help, as well as having people that understand us and our position as small business owner has been priceless.”

### ***Where we are going***

We are entering year two aiming to build on our initial successes and implement changes informed by the challenges and insights gleaned from our first year. Core goals in year two are making the program more flexible with greater emphasis on meeting I/BIPOC businesses where they are within the community and working to reduce the lack of government coordination around small business support and labor standards compliance.

Aiming to retool the program to better service I/BIPOC communities we are working to make the program more flexible and focusing on utilizing existing community intermediaries and training them to provide guidance in labor standards compliance. Given the difficulty we experienced recruiting businesses and moving them through the program (receiving training, onboarding with software, ensuring the software aids in labor standards compliance) on a common timeline, a program that requires a standardized

timeline is unlikely to prove scalable. Phase two will increase flexibility and attempt to work with businesses' existing software instead of moving to one approved by the program.

The software companies we engaged proved unable to provide the compliance focused one-on-one culturally competent support this program required. We attempted to work with multiple vendors about providing this level of engaged customer service and it proved beyond their capacity and the quality of what they currently provide is inadequate for what I/BIPOC businesses need. Instead, we will attempt to work with community intermediaries—such as ethnic bookkeepers and B-TAP providers—to recruit, onboard, and provide ongoing administrative support to these businesses. We aim to incentivize this program for these community intermediaries through subsidizing the provision of this support and by creating a formal LSED/Rutgers Labor Standards Certificate Program for these community bookkeepers which these firms can use to advertise that they are City certified to help bring businesses into compliance with local labor standards. This certification and program participation could also be used as additional points for their application to be a BTAP provider or City contractor. The hope is to create a “train-the-trainers” model with these bookkeepers. This model holds great potential for scalability by reforming the practices of trusted voices in these communities who work with many businesses instead of a business-by-business approach.

In the first year of our pilot program, we endeavored to uncover what worked and what did not in the government's approach to I/BIPOC small businesses. We seek to address two central problems in year two of the pilot study. First, the silos between government agencies persist, undermining a holistic approach to labor standards enforcement mixed with small business support. To take on the issue of breaking down silos LSED is recommitting itself to engaging more intensively with the small business offices at the City and exploring potential collaboration with the County. Redesigning our program to better involve the City's B-TAP providers should help break down these silos. Second, our challenges onboarding these businesses to the freely provided software program we offered also hints that support alone will not be enough to combat the challenge of persistent labor standards violations in I/BIPOC communities. Support must be balanced with enforcement. LSED needs to make it more clear to these small businesses that compliance with local labor standards is not optional. LSED and the research team are exploring options for how to engage in strategic enforcement and a publicity blitz strategy in these communities<sup>16</sup> that is then combined with programmatic support and encourages greater demand for these services. Ensuring a sound strategy from City agencies towards

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<sup>16</sup> Johnson, M.S., 2020. Regulation by shaming: Deterrence effects of publicizing violations of workplace safety and health laws. *American economic review*, 110(6), pp.1866-1904.

I/BIPOC businesses will be essential for program success and scalability, year one shows this problem cannot be outsourced.

## **Conclusion and Recommendations**

The first year of the Minneapolis small business support and labor compliance program has been successful in generating business and community interest and learning critical lessons about the nature of the problem and the best approaches to building solutions. Our pilot program and research with I/BIPOC small businesses confirmed LSED's assumptions that the source of the large number of labor standards violations in these communities was not purely willful but also a lack of administrative capacity resulting from these I/BIPOC business owners' systemic marginalization.

The challenge of addressing labor standards violations in small businesses owned by marginalized community members requires a balanced approach which includes both strategic enforcement actions mixed with technical assistance and culturally competent mentorship. Furthermore, the lessons from this pilot program—that implementation requires the involvement of community intermediaries—highlights important broad lessons for Minneapolis in designing outreach and service programs in I/BIPOC communities who lack trust in the City—a problem only amplified by their experiences with the uprising and its aftermath.

Further, the magnitude of the issue of wage theft and other labor law violations, and impact on our cities most vulnerable workers, suggests the need for broader engagement across city agencies.

Considering our experience with analyzing labor standards enforcement programs around the county, the first year of the program and our goals for the program's second year, Workplace Justice Lab at Rutgers offers the following recommendations on how Minneapolis can address the twin problems of labor standards violations and I/BIPOC small business support.

### ***Recommendations for Breaking Down Silos and Government Agencies:***

- **Government agencies need to adopt a coordinated and balanced approach to addressing labor standards violations that uses both community education, preventative support and penalties for non-compliance.** While our pilot program was born out of a desire to add proactive business support to the repertoire of increasing compliance with labor standards in Minneapolis broadly, our struggles with participant onboarding indicates that support alone is insufficient to address the problem. A bigger public spotlight needs to be focused on the economic and community impact of labor law violations to elevate this as an issue of community

health and racial equity. Small business programs need to balance education and technical support with enforcement, making it clear that failure to comply is not an option and could result in audits, fines, and serious consequences. But also make clear that the City understands the underlying structural forces which make compliance difficult for I/BIPOC communities and therefore offers the administrative support to achieve compliance. This means engaging in targeted enforcement as well as greater efforts to publicize the need for compliance and past enforcement actions with small businesses in Minneapolis.

- **Design small businesses support and enforcement programs with I/BIPOC micro businesses in mind.** Past research and our pilot program confirm that providing support to I/BIPOC business requires ongoing mentoring which offers administrative technical assistance in a culturally competent manner. This contrasts with most existing programs which utilize a one-and-done case model of service and do not focus on business administrative skill coaching. Minneapolis' BTAP program is structured such that providing this support would be possible (they allow 50 hours of support each year per provider) but our interviews indicate few businesses or providers are currently taking advantage of this structure. Highlighting the benefits of ongoing mentorship and utilizing BTAP's existing program and getting more trusted community intermediaries who can provide ongoing administrative assistance registered as BTAP providers could go a long way to making this a reality.
- **Break down silos between government agencies.** Achieving the goal of addressing the challenge of labor standards violations in I/BIPOC communities in a holistic manner will require greater coordination across City agencies. Minneapolis' agencies have already made . strides in beginning this cross-agency dialogue. Additional areas to explore include:
  - **Coordinated outreach, education and technical assistance.** The city's small business and BTAP program reaches a broad swath of small businesses most in need of labor law education through a network of trusted community partners. LSED has the mandate and deep technical knowledge to support and enforce compliance. Evaluate current points of contact and identify opportunities for stronger coordination and the additional resources or policies needed to implement.
  - **Referrals.** Create a joint business outreach/service provider referral program between LSED and the small business office. LSED receives emails from multiple businesses each week with questions about current labor law.

In addition to sharing information on what the law is, a referral to a BTAP provider to review and confirm successful implementation strategies would significantly help ensure compliance. Likewise, ensuring BTAP providers know who at LSED can address more detailed technical issues would also strengthen coordination and compliance.

- **Training.** Strengthen and deepen labor standards support into B-TAP community agency services. Formalize roles and practices to educate and train B-TAP providers and staff who work directly with small businesses about basic labor standards compliance. This would help B-TAP providers to integrate compliance into their services, give out basic labor law information to all clients and know where to turn for additional questions and technical assistance. This networked outreach could be especially important to activate when new labor laws go into effect.
- **Monitor and expand bookkeeper business technical assistance program.** In an exciting development, the Small Business office is planning to add community bookkeepers as technical assistance providers. LSED and the project are helping with recruitment. These two agencies should continue and expand their existing collaboration on getting community intermediaries and those with labor standards and business service administration expertise certified at B-TAP providers. Work over the next year could include regular labor law training, confidential consultations with LSED and surveys to identify emerging business back office needs.
- **Labor Standards Certification Program.** Develop a formal certification program where participating service providers could then market themselves as completing a formal labor compliance support training.
- **Tiered Enforcement Across Agencies.** Explore creating policies and data sharing processes across agencies to broaden city labor law enforcement mechanisms. For example, conditioning receipt of a business license on completion of a short labor law compliance program. Possible tiered responses for violators, that starts with TA support of a B-TAP provider which is made available to assist with rectifying their violations. And ratchets up for employers with repeated and/or outstanding LSED cases or violations prohibited from receiving city subsidies, contracts, and/or renewing city food or operating license until compliance is initiated and/or achieved.

- **Diversion program.** When complaints are filed against a small business, LSED's current tools are limited to education, fines and penalties. These do not address underlying issues of technical capacity and online tools that help with compliance. Build systems for formal coordination on LSED cases involving I/BIPOC micro businesses. Set up procedures and inter-agency agreements for LSED to refer businesses to B-TAP providers when they appear to need basic business support to be able to comply with labor regulations to work. This diversion program stands to have a great impact on encouraging compliance and creating greater inter-agency coordination in this process should be supported.
- **Structure to aid ongoing collaboration.** Experience shows that formal structures and policies are needed to maintain effective collaboration across changes in relationships and administrations. Initial relationship building, planning and programs should build towards this end. The City could take proactive steps to encourage and support this cross-agency collaboration and structures. A central means of support for this initial dialogue could be to formalize it as an interagency task force with dedicated staff to facilitate coordination between LSED, the small business office. The task force could also include similar agencies at the County, including ELEVATE, the County's small business TA program, to expand resources and impact.

***Recommendations for improving and expanding the small business labor standards pilot program:***

- **Engage community intermediaries in program recruitment and implementation on their own timeline.** To ensure program success and scalability it is essential that trusted community intermediaries be involved from the beginning. Focusing on community recruitment will encourage programmatic uptake and encourage scalability by relying on trusted familiar figures in the community who already have existing relationships with the businesses we seek to target. This program should focus on "training-the-trainers" where community intermediaries and BTAP providers are incentivized to participate in our program and taught how to help small businesses comply with local labor standards. This will help ensure that these core community intermediaries are onboard and leading the charge for increased compliance.
- **Maximize flexibility and minimize barriers to entry.** The year one pilot program requirements proved too great a barrier to entry for many I/BIPOC businesses.

Instead adopting a community intermediary approach that focuses on bringing existing systems into compliance should prove more effective. As part of maximizing flexibility we recommend both continuing to offer a pool of funds to subsidize software and data transfer support for those who need/want it but also subsidize community bookkeepers to help those who wish to use existing systems to bring those systems into compliance.

We are excited to put forward these recommendations based on our first-year experience, research, and consultation with Minneapolis agencies and community partners working to address labor standards violations and build viable small businesses in the City's I/BIPOC communities. Given the implementation of the Minnesota's earned sick and safe time law in January and Minneapolis minimum wage increase in July this a pivotal time to provide I/BIPOC small businesses with the administrative support needed to ensure these laws have the intended effect. We look forward to continuing this program into the second year and our continued collaboration with the City of Minneapolis in addressing this problem. We believe these recommendations are just the beginning of the critical conversation around creating good family sustaining jobs and small businesses in the City of Minneapolis.