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Conversations with the Experts

Small Businesses and Work-Family

Bruce Phillips

Bio: Bruce D. Phillips was appointed senior fellow in Regulatory Studies at the NFIB Research Foundation in October 2000. He analyzes the impacts of regulations on small firms using a new proprietary model that measures both direct and indirect regulatory costs. In addition, Phillips works in various applied policy areas, using both NFIB surveys and other government data to study labor regulations, health-care costs and tax policies as they affect small firms. Other analyses involve working with NFIB state directors and handling media inquiries.

From 1979 to 2000, Phillips served in a variety of capacities with the Office of Advocacy of the U.S. Small Business Administration, directing contract research and building both private and census-based databases to study the structure of small firms. From 1993 to 2000, he was the director of Advocacy's Office of Economic Research, supervising a staff and budget that prepared the annual State of Small Business report for Congress. His efforts also helped federal agencies comply with the Small Business Regulatory Enforcement and Fairness Act of 1996.

Phillips has published over 40 articles about small-business owners in books and journals. Much of his scholarly work has concentrated on the role of small firms in job creation, business failure, business formation and more recently, e-commerce and the high technology and regulatory sectors. Phillips was also a senior professorial lecturer in the School of Business Administration at Georgetown University in Washington, D.C., from 1985 to 1994.

Phillips received a bachelor's degree in economics (magna cum laude, Phi Beta Kappa) from Queens College of the City University of New York. He completed his M.A. in economics, as well as his doctoral studies, at the University of Maryland.

An Interview with Bruce Phillips

By Karen Corday and Julie Schwartz Weber

Corday: In general, how do small businesses approach work-family balance issues? Has there been a shift in these approaches in the past generation?

Phillips: Small businesses tend to make decisions on a case-by-case, individual basis. They don't like generalized or mandated government rules, because they often can't afford to comply with them. If you are, for example, selling cruises on the Internet or writing life insurance policies as a small business owner or employee, you may be able to take advantage of telecommuting and working at home, flexibility in hours, flexibility in benefits, and other such arrangements. If the small business is a retail store, however, someone has to be there to open, run, and close the store, making these types of flexibility difficult or impossible for both the owner and the employees. It's hard to consider a one-size-fits-all approach for these important issues because types of small businesses vary so much. No single policy should be mandated by any government. It's a challenging, complicated issue.

Weber: What are some similarities shared by small businesses?

Phillips: They are the same in the sense that they are often competing in a market in which they can't set prices; most small firms are price takers. They often compete in a market in which larger sized firms are able to bargain in a way that is more efficient and allows them to get cheaper prices from suppliers because they buy more. This is called "scale economies"— the more you buy, the less it costs per unit. This is often true when it comes to complying with regulations as well. When you can spread paperwork costs, fixed costs, and compliance costs across a larger number of employees, it costs less money per employee. Any fixed cost of regulation will be much more expensive for a smaller firm than a larger one— on average, small firms pay about 30 to 40 percent more than big companies per employee to comply with regulations.

Small firms don't have lobbyists, for the most part; we are their lobbyist! Microsoft, for example, probably has a ten person lobbying office in Washington, D.C.; most large Fortune 50 if not Fortune 500 companies probably have lobbying offices in several major cities. One of the reasons we've recently become involved in the health care debate is to try and get more affordable health care available for small firms.

In most small businesses, employees report to a specific location on a fixed basis. Another similarity is that many people who own and work in small businesses say the competition is getting worse and it's more expensive to advertise. Most small firms can't even afford to advertise on a local cable network, so they use coupon services such as Val-Pak. I spoke with some people from the postal service, who told me there is a bill in Congress called "Do Not Mail;" it would effectively ban different kinds of junk mail. Most small firms are justifiably against this bill, as they rely on those mailings for advertising their products/ services. The bill has not gone anywhere in 2008.

Corday: How do small businesses differ from larger businesses in their approaches to work-family?

Phillips: I think most small firm owners try to treat their most valued employees like family. Small business owners rely heavily on their top employees; these employees often fill in for the owners on the rare occasions when they are able to take a vacation. Because of this close relationship, these workers are likely to receive individual consideration of their work-family needs on a case-by-case basis.

One of the reasons that many small firms don't want to give uniform benefits in the way that big businesses can afford to do so is because small firms tend to operate with one to three full-time people, while the rest of the employees work part-time schedules. If you do provide benefits, the law usually states that you must give a proportionate amount of benefits to the part-time workers as well as to the full-time workers. In some cases, the part-time workers need these benefits— a worker could be a woman supporting a small child, for example, and needs a part-time schedule to balance her child care needs. We're all sympathetic to that situation. On the other hand, a part-time worker could be a college student who is on his or her parents' insurance policy.

Small business owners do understand the life situations of their employees; this is often not the case in a large business. When you look at work-family needs within small businesses, you must understand what, exactly, would most benefit employees. It may be that within an individual firm, what has been mandated by the government is not helpful, for any variety of reasons. An employer might want to offer a benefit that is of more value to employees, such as a 401K plan, but skip mandated sick days, for instance.

Finally, the work-family benefits available to an employee are probably going to be determined by how long the employee has been with the firm and how long he or she intends to stay on. In many cases, turnover is influenced by life cycle events such as marriage, school, and children; this may not be the case in large companies. It is true that people do not stay on at larger companies for as long as they used to, but tenures still tend to be longer than they are at smaller companies. Small companies may offer workers entry points into the workforce, and small business owners understand that situation. There is often a mutual understanding that the employee will be leaving after a certain time, whether to return to college, to move away, to manage child care needs, and so forth.

Weber: Do you have any specific examples of small businesses providing work-family benefits for their employees?

Phillips: I once asked my daughter's pediatrician what he did if an employee had an extended period of illness that meant missing work— I wanted to know if the employee would get paid during the absence. The doctor was the managing partner of three or four pediatricians; he answered that they were paid at full salary for two weeks, after which they went to half-time pay, and eventually, they were not paid at all. However, every case was judged on an individual basis. There's no one-size-fits-all. The amount of sick leave available to an employee might depend on how long they've been with the firm or how valuable they are to the practice, as opposed to pages of rules and regulations. There are usually some generalized personnel manuals and rules regarding issues such as gender and race discrimination, but outside of the law, it depends on what the business can afford.

If you have a furniture store, for example, you are probably not doing very well right now; when people stop buying houses, they stop buying furniture as well! A furniture store salesperson working for a small chain, partly on commission, partly on salary, who needs three weeks off for surgery and recovery puts the chain's owner in a difficult position. Many owners will try to give as much paid leave as they can, but if they are barely holding on themselves, owing creditors and suppliers, it's very difficult to make guarantees for long periods of time. They may say, "I'll pay you half-time for two weeks, but for now, that's the best I can do." This might sound drastic to some people, but one possible answer is a state temporary disability program, such as the one recently signed into law in New Jersey.

This program is totally funded by employees, not employers, and pays about half of a worker's salary per week (subject to a cap) for up to six weeks. That might be a good answer for small firms. The economy is stumbling along, but there are still proposed and actual mandates for different kinds of benefits. This may not be wrong in and of itself, but the problem is pushing them through employers. Many employers simply cannot afford to offer them.

Corday: So you are not necessarily opposed to a legislative policy that is funded by employees instead of employers?

Phillips: Officially, the NFIB opposes the New Jersey initiative because of the large amount of paperwork it could entail and the burden this may place on small firms who often do not have a payroll office to handle that sort of work. In general, I think this sort of legislation is the "best worst" scenario. Another issue is the fact that you need to be employed for a certain amount of time before you can access the New Jersey benefit. The problem then becomes: what about the people who change jobs, are unemployed, or get laid off during a recession? This is always an issue with "non-portable benefits," or benefits that are attached to an employer where the employee can only access them while working for said employer. An article in Business Week called this approach "very twentieth century." Now that we're in the twenty-first century, we should be looking at the portability of benefits.

This approach/transition cannot occur overnight. Republicans tend to favor taking action through individual markets, while Democrats tend to favor using a more inclusive government plan. Unfortunately, neither approach is ideal for this complicated situation. For true portability, employees must bargain for themselves. There have been some bills in Congress that position health insurance as an individual mandate, much like the way that Massachusetts governs health care. What has been happening in Massachusetts, though, is that many people purchase the cheapest subsidized government plan, forgoing the less bloated but perhaps cheaper private plan that is priced closer to cost. This means the Massachusetts health care mandate has ended up costing taxpayers more than was expected. However, it may be the best system we have at this time, and it's not clear how to move forward.

Weber: How do you clarify the small business approach to work-family legislative initiatives such as paid sick and family leave?

Phillips: We had a piece of customized software developed that allows us to enter health cost data by firm size, take it through a modified input-output model, and measure actual change in employment by industry and firm size, income by industry and firm size, some demographics, gross output, and so forth. It's a macro model, but it can produce individual micro results on a per firm or per area basis. We found that mandates tend to cause job losses, even in Ohio where firms with under 25 employees were exempt from the proposed paid sick leave mandate. We found if you keep banging large employers over the head, so to speak, they will start to cut back jobs, because these are costs they can afford to cut. Mandates cost firms money, and particularly if profits are falling, they will shift jobs, out of the state or out of the country. When large firms contract, suppliers lose business, and suppliers are often small firms.

When small firms lose business, they have to fire people or cut back on overtime in order to recoup the costs. Large firms do lose jobs, but when this happens, small firms disproportionately lose jobs and sales. We like to think that the NFIB projection that 75,000 jobs would be lost in Ohio within the first five years of the proposed paid sick days mandate had something to do with the governor coming out against the proposal and, eventually, unions agreeing to withdraw it from the ballot this November.

I have testified in front of state House and Senate committees in Pennsylvania, California, and Ohio on this issue. It's interesting to try and get fairly complex information down to a few PowerPoint slides. You definitely don't get your fifteen minutes of fame; you're lucky to get five! This is the challenge. People don't want to sift through 35 pages of equations and tables. It's my job to cut through all of that and explain the results. Ohio has a very high rate of unemployment; it was our job to explain how this mandate might make this rate even higher.

Corday: What are the three most common misperceptions about small businesses and legislative initiatives?

Phillips: The "one-size-fits-all" perception of costs is number one; many people think that small business owners can afford more than they can. There's an interesting web site, http://econ4u.org, that recently ran a campaign that was splashed all over the D.C. Metro system. The sign asked "on a $100 bill at a restaurant, how much money do you think the owner makes?" A waitperson may get a $15 or $20 tip on this bill, but the owner only makes about five dollars. People don't realize that; they think there's a lot more profit in businesses than there really is.

There's also a belief that small firms are hiding millions of dollars under the table; not true, especially if they have employees! The IRS keeps a close eye on most business owners, and the business owners pay CPA's hundreds of dollars an hour in order to stay honest. If your income is sufficiently high, you can or should be able to provide your employees with paid sick days, paid family leave, vacation days, and so forth. This is not the case with most business owners; they are simply doing all they can to stay in business. Mandates do not help their efforts; they hurt them.

Finally, there's the belief that small firms and large firms have equal regulatory costs and can equally afford compliance costs and regulations. A small toy store suffers much more than a large toy firm when, for example, they must pull a bunch of stock because it was made in China and contains lead. This shouldn't be an issue for the small firm owner; it's an issue for the federal government. Maybe we shouldn't be importing toys from China; sadly, some of those factories were owned by American companies employing Chinese workers.

Weber: Is the American small business approach different compared to other industrialized countries?

Phillips: Babson University administers the Global Entrepreneurship Monitor, a detailed questionnaire that asks about the effectiveness for entrepreneurship, business formation, and risk taking in each country. The United States always comes out in the top twenty, but it used to come out in the top three. We kept our high rating for years because one thing our society does better than most is tolerate failure. We don't throw people in jail when they fail at business; we generally do not take most of their assets. This is not true in many countries. There's also the social stigma of business failure, which is not all that prominent in the United States. We tolerate risk and failure quite well. I participated in a survey many years ago for the Office of Economic Research of the U.S. Small Business Administration that resulted in a fascinating finding. We asked business owners that had failed why they had applied for bankruptcy, which offers a certain amount of protection. Generally, the answer was "fear of the IRS." If they couldn't pay their back taxes, they were afraid they would lose their assets. It had nothing to do with social stigma.

In Western Europe, for years and years, that was a much bigger issue. If you failed at a business, you would lose prestige in your community and have the failure published in the newspaper. As many Asian companies and developing countries grow and come closer to having a middle class, they produce more risk-takers. The new top countries on Babson's list include Korea, Israel, Singapore, Malaysia, and Vietnam. The United States still comes out ahead for providing capital, loan programs, and free advice for women and minorities. Some money is now disappearing for start-up companies, unfortunately, and many venture capitalists now want instant returns in the current business climate.

Weber: What are other countries' perspectives on work-family benefits?

Phillips: Many other countries mandate social benefits such as health insurance and paid leave. There isn't proof that they have better outcomes. The United States government pays, in one form or another, for about 74 percent of health care, via Medicare, Medicaid, and people directly and indirectly working for the government. The current political discussion focuses on the privatized 26 percent, sometimes ignoring the major cost share of 74 percent.

Corday: What kind of academic research would be helpful in terms of understanding small businesses and work-family?

Phillips: Most people do not understand what small firms can afford. I'd like to see a few papers that compare what a wealthy small firm, a median small firm, and a struggling small firm can and do provide for their employees. Ask the median firms what they would like to provide versus what they can afford. There is very little historic information available by firm size, and most think tanks do not adequately collect information by firm size. When there are discussions about what businesses can do to help their employees, it's usually about what companies such as IBM can do; there's little discussion about what Joe's Pizza can do. You can't put the same kind of burden on Joe's Pizza as you do on IBM and expect to make social progress.

The National Federation of Independent Business: http://www.nfib.com/page/home

Self-Employment Demographics, 1995-2005

	Self-Employment Rate, 2005	Percent Change, 1995-2005
Total	10.1	13.1
Female	7.2	13.3
Male	12.7	12.9
Asian/American Indian	10.6	60.6
Black	4.5	26.6
White	10.9	8.7
Multiple Race	9.3	N/A
Hispanic Origin	6.7	95.7
Veteran Status	15.1	-22.3

Source: Small Business Administration Office of Advocacy. (2007). *The small business economy for data year 2006: A report to the President*. Retrieved from http://www.sba.gov/advo/research/sb_econ2007.pdf

Additional Resources Related to Small Businesses and Work Family

401(k) Plans for Small Businesses: This page from the U.S. Department of Labor offers information for small business that are considering adopting a 401(k) plan, including options and responsibilities as an employer operating a 401(k) and the differences among the types of plans.

- http://www.dol.gov/ebsa/publications/401kplans.html

Family Firm Institute: "The Family Firm Institute (FFI) is an international professional membership organization dedicated to providing interdisciplinary education and networking opportunities for family business and family wealth advisors, consultants, educators and researchers and to increasing public awareness about trends and developments in the family business and family wealth fields."

- http://www.ffi.org/

Small Business Choices: "Washington State Child Care Resource & Referral Network offers three brief guides to help small business better support their employees with low-cost family friendly innovations: Small Steps You Can Take Today, 12 Steps for Doing More with Less, and Ideas from Smaller Businesses.

- http://www.childcarenet.org/employers/Family%20Friendly%20Ideas/small%20business

Winning Workplaces: "Winning Workplaces is a not-for-profit providing consulting, training and information to help small and midsize organizations create great workplaces. The organization was founded by one of the families who owned auto parts manufacturer, Fel-Pro, Inc., which was nationally recognized for its innovative people practices and outstanding financial performance."

- http://www.winningworkplaces.org/index.php

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