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Key Levers to Enable 'High Road' Adoption for Small and Medium Restaurants

One Fair Wage
The UC Berkeley Food Labor Research Center

INTRODUCTION

Even prior to the COVID-19 pandemic, millions of service workers could not afford a livelihood that provided them with economic stability, allowed them to save for the future or even feed their families. Prior to the pandemic, the restaurant industry employed more than 13 million people nationwide and was also the nation's lowest paying sector, claiming 7 out of the 10 lowest paying occupations according to the U.S. Department of Labor.[1,2] This industry's workforce was majority women and disproportionately employed mothers and people of color.[3] These workers' struggles to improve wages, working conditions, and opportunities for advancement in the restaurant industry had been an acute issue of race and gender justice even before the pandemic.

The COVID-19 health and economic crisis has only exacerbated the financial strain and inequities for millions of restaurant workers and their families. Few other industries have suffered more job losses, fallen sales and closures than the restaurant industry. Restaurant workers, particularly workers of color and women, are reporting skyrocketing rates of food and housing insecurity.[4] Even workers who are able to return to the dining floor face an impossible tradeoff between risking their health due to COVID-19 exposure and settling for drastically reduced wages at a time when tips are down at least 50%.[5] Small and independent businesses, which employ the majority of workers, are being hit the hardest as a majority report that federal aid won't do enough to prevent layoffs.[6] The COVID-19 crisis has only revealed the untenability of the industry's ubiquitous 'low road' employment practices.

These business practices include:

1. low wages, particularly paying tipped employees a subminimum wage, forcing many to live almost entirely from tips;
2. occupational segregation by race and gender, which has forced women and people of color into the lowest paying positions and industry segments; and
3. inadequate benefits such as paid sick days or health insurance.

The COVID-19 pandemic revealed these inequities to many, including hundreds of conscientious employers who were suddenly forced to reimagine everything about their business models. Many small and medium sized owners and operators are thus newly joining the growing movement for the 'High Road' to profitability. The High Road to profitability is an ethical, realistic and profitable approach that promotes sustainable business practices for employees and consumers while boosting their bottom line.

Two of the core components of the High Road model in the restaurant industry are:

1. **One Fair Wage compensation models**
2. **Race and gender equity operations and policies.**

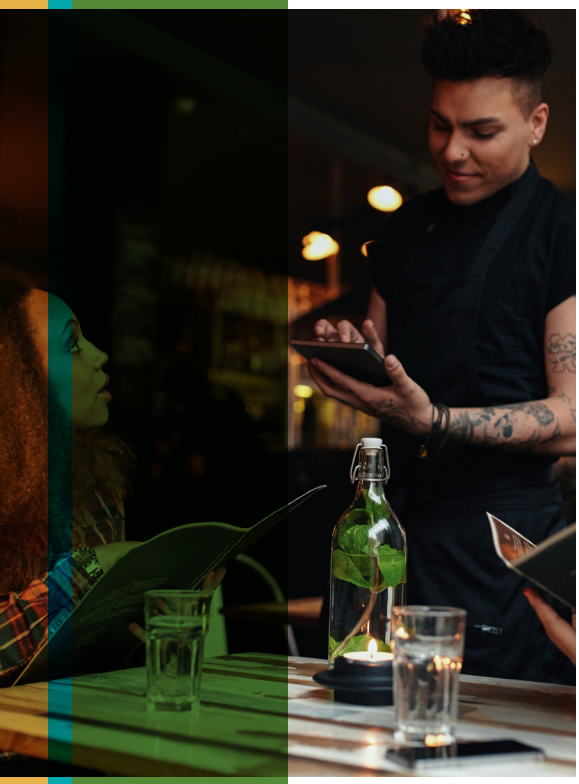
A One Fair Wage compensation model is one in which employers pay all of their employees their state's full minimum wage with tips on top, rather than paying any workers the subminimum wage for tipped workers, which federally hangs at only $2.13 an hour. The subminimum wage is a direct legacy of the devaluation of Black workers during the post-slavery era.[7] The second component, race and gender equity, includes systematic application of fair and unbiased policies/practices around recruitment, hiring, promotion, retention and culture-building. Although there are more than 850 restaurants in One Fair Wage's RAISE (Restaurants Advancing Industry Standards in Employment) High Road restaurant network, these practices have not yet been adopted at scale. This research aims to find out why.

This report summarizes One Fair Wage research findings around both barriers and levers of change that help us understand how we can best shift small and medium restaurant businesses to adopt these two core components of the 'High Road' to profitability in the restaurant industry, and in general, more sustainable and ethical business practices.

For this work, our primary research questions included:

- What are the primary challenges faced by small and medium-sized businesses (SMBs) in adopting High Road practices?
- What specific levers of change, if available, would most boost SMB adoption of equity and economic mobility-enhancing employment practices?
- How must these offerings be rolled out to the employer community to achieve uptake, and as a result, achieve practice change?
- Can enhanced access to capital support, through a variety of loan options, incentivize SMBs to make a shift in practices that support workers? If so, what are the limitations to leveraging these tools and/or under what conditions are they most effective?
- What are the critical success and critical failure factors that must be considered in rolling out such an offer with the goal of shifting practices?

Through surveys and in-depth interviews with employers around the country, our team was able to narrow in on key findings to the questions above. We hope that employers, labor organizations, policymakers, and funders can utilize these findings to advance High Road incentives and implementation.



METHODOLOGY

Our research team conducted 22 surveys and 5 in-depth interviews with restaurant employers in 2018 and conducted an additional 69 surveys from September 2019 to June 2020, for a total of 91 surveys. Our sample focused on small and medium restaurant businesses throughout the United States, predominantly in large restaurant metropolises including New York, the San Francisco Bay Area, Detroit, Seattle and others. For a copy of the full survey instrument, please contact the One Fair Wage research team.

All research participants were asked key demographic questions to help inform the validity of our sample as a reflection of the larger SMB population. Not every respondent chose to provide this information. Below is a summary of demographic information collected from our sample.

GENDER	
47%	Men
53%	Women

RACE	
48%	White
19%	Black
15.5%	Hispanic/Latinx
17%	Asian
.01%	Other

AGES	
3%	20-29
34%	30-39
36.8%	40-49
21.1%	50-59
5%	60-69
0%	70+

GEOGRAPHIC REGION	
32.8%	West
1.5%	South
47.8%	Northeast
0%	Southwest
17.9%	Midwest

RESTAURANT TYPE	
70.7%	Full-service
29.3%	Limited service

NUMBER OF FULL TIME EMPLOYEES BEFORE COVID-19	
47.8%	0-10
43.5%	11-50
8.7%	51-100
0%	100+

KEY FINDINGS

Barriers to High Road Adoption

In order to determine what barriers previously existed that have prevented or dissuaded employers from adopting High Road practices, our research team asked participants the extent to which they already engaged in High Road practices and if not, what had been the key barriers that kept them from implementing such practices. This information allowed us to see what level of adoption was already in motion and also how owners conceptualized worker-supportive practices. Our team also asked about any barriers previously faced in transitioning to High Road practices. Following is a summary of key findings regarding barriers to adoption of High Road employment practices.

Key Themes on Current Worker-Supportive Practices

A majority of respondents said they do not utilize the High Road practices described above because of their belief that it would entail untenable financial constraints and high costs. Only five participants mentioned paying above the subminimum wage for tipped workers as part of their current practice. We did find that employers who already engaged in One Fair Wage compensation models reported less fear or concerns about the costs of this wage structure for their operating model, indicating that actual adoption of the model is not an unsustainable burden in terms of operating costs.

Since the onset of the COVID-19 crisis, many respondents reported that they viewed simply maintaining staff on payroll, offering employment hours or helping employees apply for unemployment benefits as worker-supportive acts. At the time of the study, the most common benefits offered by participating employers include: 1) paid time off, 2) paid sick leave and 3) health insurance. Employers did not report any active engagement with explicit practices or protocols to advance race and gender equity goals.

Key Themes on Barriers to High Road Adoption

In surveys and interviews with employers we posed a series of questions regarding perceived barriers to High Road adoption. Employers' responses can be categorized into five primary areas of concern, which are detailed below in order of frequency. Additional details are provided about more specific nuances within each category. Overall, the most common reported barrier included the perception of increased financial costs that the employer felt their business cannot sustain in its current state.

The following barriers are listed in order of how frequently they were identified by respondents.

1. INCREASED FINANCIAL COSTS

Ongoing tight profit margins make the idea of higher wages or any other added worker benefits feel prohibitive. Specifically, market forces such as competition and consumer price expectations lead owners to feel that they cannot increase prices to pay for additional worker benefits.

Employers predict rising costs with the adoption of One Fair Wage compensation models. The most frequent enumerated expenses include payroll, marketing costs given the need to raise menu prices, training and operations, government required licenses, permits, unemployment insurance fees, health insurance and taxes.

In general employers feared the cost of changing their current operations including training or hiring staff to transition to One Fair Wage and/or enacting race and gender equity policies. For restaurants that currently have investor backing, employers cited reluctance on the part of investors to fund an operation that is committed to the High Road due to large operating costs.

2. STATE AND LOCAL REGULATIONS

The second most frequent barrier involved concerns with local and state regulations that limit moving to One Fair Wage compensation models. Owners specifically reported uncertainty around how to properly comply with state and local minimum wage laws for tipped workers as some localities have restrictions around how much flexibility a business has to redistribute tips in a way that both benefits the bottom line of the business and increases equity between typically higher paid front-of-house employees and lower paid back-of-house employees. Owners that cited this concern feared being outside legal compliance. This concern, however, was only relevant to employers that live outside One Fair wage states. In contrast, those in One Fair Wage States such as California, remarked about how easy the transition was, pointing to the importance of broader legislation.

3. INCREASED TURNOVER

When citing concerns about transitioning to a One Fair Wage model, employers reported the increased possibility of higher staff turnover in front-of-house positions, as well as an inability to compete for front-of-house staff if tips are redistributed, even if their overall wage rate remains the same. One version of the One Fair Wage model includes redistributing tipping across the front and back-of-house in order to increase pay equity across the business. This is especially important since people of color are more concentrated in lower paid tipped and non-tipped positions. Employers imagine, however, that there might be resistance on the part of the highest paid tipped employees if tipping is pooled and redistributed equitably.

4. NEED FOR TECHNICAL ASSISTANCE

Another common concern was a simple lack of understanding about how to implement either new wage models or racial equity practices. Many described not knowing where to start or not having enough of a background to implement these kinds of practices without greater mentorship or resources.

5. RACIAL BIAS BY CUSTOMERS

Finally, participants relayed that they felt unable to address the issues of occupational segregation, particularly for customer facing positions because of a perceived bias or preference for white servers over people of color servers. The employers who spoke to this concern relied upon a traditional notion of needing to please the customer or "the customer is always right", leading to a sense of disempowerment to take active steps toward decreasing racial segregation in their restaurant.

LEVERS TO INCENTIVIZE HIGH ROAD ADOPTION

The One Fair Wage research team took two approaches to determining the best levers of change toward improved worker policies and practices among SMBs. The first involved a more open-ended inquiry into possible incentives, policy shifts or supports needed to move employers to commit to High Road practices in the future. The second line of inquiry involved asking specific questions about the feasibility, effectiveness and interest of specific change levers specified by One Fair Wage, namely the High Road Loan Fund and the High Road Training Program. We have separated findings into these two areas of inquiry – general and prompted.

General Levers for Change

As with the findings above, responses to questions about what levers, supports or incentives would most effectively motivate employers to move the High Road were categorized and then analyzed for greatest frequency. The following list has been prioritized according to how frequently respondents identified specific change levers.

1. ACCESS TO CAPITAL

Access to capital was the number one desired support identified by employers. This included business loans or working capital with low interest rates and long repayment periods. Greater detail is provided in the 'High Road Loan Fund' section on specific criteria needed to actually improve uptake of available capital resources. The fact that greater access to capital was the most frequent response even when unprompted indicates the primacy of this change lever.

2. LEGISLATIVE CHANGE

Related to concerns about competitive market forces within an underregulated tipped wage market, employers noted that advancing state and city regulatory support and benefits would help level the playing field. Local and state governments could also help ease the burden of tight profit margins that force employers to feel they cannot extend greater benefits by reducing government costs such as payroll taxes and licensing fees. Instead, governments could provide needed financial incentives such as tax relief and credits. And, as in

the case of New York State, changing the law to allow tip sharing options and an ability to add service charges would make One Fair Wage a viable business model (please note: tip sharing is allowed in all other states outside of New York when employers pay One Fair Wage).

3. TECHNICAL ASSISTANCE

Directly related to the barriers listed above, employers cited the need for technical assistance with regards to wage restructuring models, overcoming regulatory hurdles, recruitment methods, and staff education. Employers described needing peer-to-peer advice from other restaurateurs who have actually implemented High Road practices. In the area of racial equity policies and practices, many employers expressed a high degree of interest, but felt that they would need training and coaching in order to be able to implement such changes in their business.

4. CONSUMER ENGAGEMENT

Maintaining and even enhancing their customer base was a critical factor in moving to the High Road. Employers do not want to risk jeopardizing revenue because customers do not understand that menu prices have increased to cover health care or that gratuity has been converted into a service charge so that employers have more flexibility to pursue wage equity across their employees. In order to counter these concerns, employers described needing assistance in marketing and public relations support in order to signal to customers an employer's participation in the High Road. This communications strategy would hopefully retain or attract customers who value ethical businesses practices. If restaurants shift away from a traditional tipping model, they described needing tools and strategies for consumer education on the benefits of gratuity-free restaurants.

5. STAFF TRAINING

In order to prevent losing front-of-house staff during transition to a gratuity-free or One Fair Wage model with tip sharing, employers requested staff training and education to explain the value of High Road practices for the business and the employees. Educational collateral or coaching would allow employers to more convincingly make the case for High Road adoption to reticent employees.

INTEREST AND PREFERRED LOAN SIZE
21.95% Would not accept a loan at this time
19.51% Yes, interested in loan but not sure of amount needed
58.53% Yes, interested in loan and is sure of needed loan amount
45.83% Would take out a loan of $90,000 or less
41.67% Would take out a loan of $100,000-$200,000
12.50% Would take out a loan of $500,000 or more
25% Preferred loan amount $35,000 or less
20.83% Preferred loan amount $50,000 to $90,000
25% Preferred loan amount $100,000 to $150,000 -
16.67% Preferred loan amount $150,000 to $200,000
12.50% Preferred loan amount $500,000 or more

Financial Levers for Change: High Road Loan Funds

One Fair Wage is in the process of launching a pilot 'High Road Loan Fund' to disburse funds to a small subset of target restaurant influencers annually who commit to implement High Road practices in exchange for access to increased capital. In our experience, it has been most effective to move industry influencers first around issues of equity and mobility, and then consequently to move a wider swath of employers as a result of these industry influencers. In order to launch the Loan Fund we have created a full online course and toolkit that provide guidance to employers around raising wages and increasing equity simultaneously, as the two issues are intimately interconnected in restaurants. There is a standard set of practices we are encouraging restaurants to adopt through this program – changing to a full wage plus tips for tipped workers, and sharing tips with 'back of house' employees, combined with creating equity and mobility for workers of color so that they work in both the Front and Back of the House. In order to better understand what criteria must be in place to increase uptake by our target restaurants, we analyzed responses about core criteria such as interest rate and loan size. Researchers also described two loan types that were designed in direct response to the current COVID-19 financial crisis – Rapid Relief loans and Rebuild loans. Participants were asked to respond to the descriptions of these loans, as provided below, and provide their feedback on the likelihood that they would take on this loan, what were its most attractive features and what were its greatest detractors.

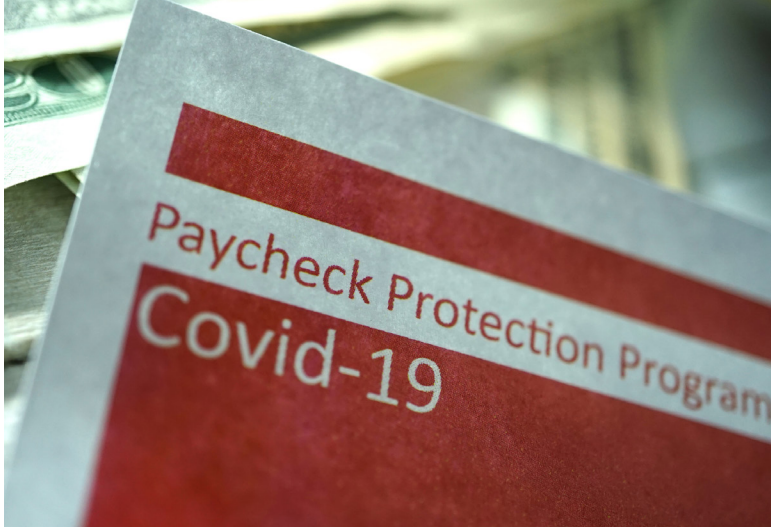
Respondent Feedback 'Rapid Relief' Loans

Rapid Relief Loans are intended to provide immediate support for job retention through friendly risk-tolerant lending, augmenting and to fill gaps left by government and other relief programs.

Terms include:

- 1% interest only
- 2-years loan duration
- Funding up to $150,000
- Use of funds include: Up to 2 months of payroll, benefits, lease payments, insurance, inventory, and other operating expenses

A significant number of respondents had positive reactions to



the loan terms. Employers cited that operators do not normally have access to such favorable terms. They stated that the 1% interest rate is very competitive. Given the impact of COVID-19, employers believed these loans would help them rehire staff and pay off overleveraged debt incurred since the shutdowns.

Respondents confirmed that given the COVID-19 fallout loans are still useful; however, competing with the terms of the Paycheck Protection Program (PPP) or other loans would lead to greater success. Participants suggested we consider streamlining the loan application process as that was a major deterrent with the PPP application. Employers noted that the flexibility over use of funds provided by the Rapid Relief loan could be an advantage over the PPP. However, one respondent suggested that focusing use of the loan to payroll, benefits and insurance might spur a more sustainable shift to High Road practices. Some respondents said they no longer feel comfortable to take on additional debt given the current state of the industry.

Extending the loan repayment period was the most common suggestion from respondents. Owners felt that 2 years would be too risky given the uncertain state of the economy. Some even said they would pay a higher interest rate in exchange for a longer repayment period (3-5 years). Additional concerns included questions about whether and how the interest rate changes after the 2-year payback mark. Operators also cited a need for a longer grace period before payments begin, specifically suggesting 18 months given the state of the pandemic.

Other useful suggestions included providing guidance for applicants through a project finance plan to ensure they do not overextend themselves with high loan repayment costs before having a solid sense of their revenue. This is particularly important for new operators.

Respondent Feedback on ‘Rebuild’ Loans

Rebuild Loans are designed to help the restaurant industry relaunch following the COVID-19 crisis. This fund will only support restaurants who will commit to fully transition to an equitable One Fair Wage model and implement racial equity practices.

Terms include:

- 1% interest only
- 2-years loan duration
- Funding up to $200,000
- Use of funds include: General working capital and expenses related to increasing staff capacity for program implementation

Employers provided similarly positive feedback on the terms for the 'Rebuild loan.' Many favored this loan over the Rapid Relief loan because of the likelihood of prolonged recession and the need to pivot after the start of the pandemic. This loan could be a great way to introduce operators to One Fair Wage policies for the first time; many said they would use the loan to redevelop their staffing and wage structure.

Again, the most common point of concern was the short repayment period. Employers suggested a 5-10-year loan period, and one participant recommended modeling the loan period off of the Economic Injury Disaster Loans. Given the financial uncertainty of the next few years, the Rebuild Loan should consider flexibility as restaurants face the ebbs and flows of the economy. Respondents suggested we introduce a provision to allow for a fixed time to suspend payment or a scaled payment plan.

Since there will be so many uncertainties for restaurants in the coming years, respondents were curious how One Fair Wage would enforce continued commitment to the High Road as new issues arise.

Questions from employers included:

1. if there would be changes in the interest rate after the time period expires; and
2. given the loss of sales and decrease in staff size, if there would be a requirement to hire a minimum number of staff to qualify.

Additional Financial Products to Consider

Respondents identified additional financial products that would also support their transition to higher wages and more equitable operations:

- Grants for capacity building to train staff and management as the restaurant transitions to higher wages
- A line of credit that restaurant owners can draw from as needed
- Small loans for professional development and training staff

High Road Training Program

In addition to the High Road Loan Fund, One Fair Wage has launched the High Road Training Program. This program was created to provide restaurants support in transitioning to One Fair Wage models, as well as race and gender equity practices to eliminate occupational segregation. The High Road program in-

cludes racial equity training, technical assistance, coaching, and peer-to-peer mentorship, as well as numerous implementation templates. Although this program would be mandatory for any restaurant that received a capital loan, it will also be available to a broader set of interested restaurant partners. Our research team asked participants about their level of interest in participating in the High Road Training program, what components they would be most interested in and what hesitations would keep them from joining the program.

Overall, respondents showed overwhelming interest in this program. The majority of respondents said they would be interested in participating. Many believed in the importance of this program regardless of whether they would be provided access to capital loan.

Some respondents showed a preference for direct coaching in order to hold operators and leadership accountable, as well as answer questions, throughout the training process. There was strong interest in training that provides a clear and functional business model. Participants felt that the training, although focused on the goals of racial equity, must be financially feasible. The training audience should focus primarily on management and owners, although all staff would benefit.

Some respondents pointed out that chains, as opposed to independent restaurants, are the biggest culprits in perpetuating inequities in the restaurant industry. There was also concern that this training program would not have tailored recommendations for fast casual restaurants, instead focusing too heavily on full service. Finally, there was some reticence to participate in a training program at this time considering the challenge in conducting all virtual trainings during COVID-19.

RECOMMENDATIONS

This survey of employers helped us understand specific needs of employers that we will implement in our strategy in the restaurant industry, and could be useful to consider for levers for SMB's in other industries as well:

1. Access to capital is the highest priority.

Access to capital, especially since the COVID-19 crisis, is critical for restaurants not only to survive, but also as a means to transition to High Road practices. Both the High Road Loan Funds and the High Road Racial Equity Program received extremely positive feedback.

2. Adjust loan terms to meet COVID-19 needs.

In order to increase uptake of the loans, terms must be competitive with other forms of capital available to the restaurant industry. The most important feature of the loan must be extending the loan repayment period and adding a grace period before payments begin.

3. Fund additional services.

Building off a model popularized by Zingerman's restaurant group, it may be useful to consider setting aside 5% of the loan fund, or holding onto 5% of loan repayments, to fund the creation of shared services such as marketing and advertising, financial management, and regulation implementation to benefit borrowers.

4. Offer grants to SMB's.

Include grants or forgivable loans for pre-development activities and or capacity building for restaurants interested in transitioning to higher wages. Once their One Fair Wage model is finalized, then they could use their working capital, facility loan or equipment loan to fully implement the transition.

5. Set selection criteria for borrowers.

Structure the fund to limit the portfolio of borrowers to restaurants that fit the agreed upon risk profiles (High-risk, Moderate-risk, Low-risk, etc.). This will be challenging given the unpredictability of the current economy and the restaurant industry in particular, but more planning will likely reduce investor risk.

6. Continuing with One Fair Wage state legislative advocacy is a continued imperative.

Nothing will allow One Fair Wage adoption in small and medium businesses at scale like state and city regulatory support.

END NOTES

1 Bureau of Labor Statistics, February 2019. Employment Projections, 2016-2026.

2 National Restaurant Association, (2019). Restaurant Industry Facts at a Glance. https://restaurant.org/ research/restaurant-statistics/ restaurant-industry-facts-at-a-glance.

3 Restaurant Opportunities Centers United. "The Glass Floor: Sexual Harassment in the Restaurant Industry." New York, NY. October 2014.

4 One Fair Wage, (2020). "A Persistant Legacy of Slavery: Ending the Subminimum Wage for Tipped Workers as a Racial Equity Measure." August 2020. https://onefairwage.com/wp-content/uploads/2020/08/OFW_LegacyOfSlavery_USA-1.pdf

5 Ibid.

6 National Restaurant Association. "Industry Research." Accessed August 25, 2020. https://restaurant.org/Manage-MyRestaurant/Business-Operations/Covid19/Research/IndustryResearch.

7 Ibid.

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