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# Hiring and Retaining Lower-Wage and Noncollege Workers During the Pandemic: Conversations with Employers

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COMMUNITY DEVELOPMENT AND REGIONAL OUTREACH\*

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# SUMMARY

Since recovering from dramatic employment losses in early 2020 brought on by the COVID-19 pandemic, the labor market has been historically tight, characterized by a low unemployment rate and a high volume of job openings. Motivated by the Federal Reserve's goal of maximum employment and the Philadelphia Fed's commitment to fostering inclusive regional growth, we conducted interviews with employers in the leisure and hospitality sector and manufacturing sector operating in Pennsylvania, New Jersey, or Delaware. Through this qualitative study, we sought to learn more about their challenges hiring and retaining lower-wage and noncollege workers during this period,<sup>1</sup> the ways in which these challenges impacted their operations, and the strategies they pursued to overcome these challenges.

Many of the employers we interviewed indicated that the pandemic only exacerbated preexisting hiring and retention challenges. Existing staff experienced increased levels of stress and burnout, while businesses had to make a variety of adjustments with negative implications for the bottom line. In response to their hiring and retention challenges, most interviewees discussed raising wages and considered it an effective tactic, albeit one that drove payroll costs higher. Many used employee referrals and attempted to recruit from new groups of workers, some adjusted human resources (HR) policies to lower barriers for potential candidates, but fewer took steps to improve job quality. Our analysis of additional data suggests that in their efforts to respond to workers' changing demands, smaller firms may face more acute capacity constraints than larger ones.

Although it contains no quick fixes or one-size-fits-all solutions, we hope this report serves as a resource for employers seeking more information on how their peers are attempting to address their staffing challenges, as well as which approaches they deem to be more successful or less effective. Our interviews with employers also complement what the Federal Reserve System is hearing from workers about their priorities, barriers, aspirations, and goals in the labor market.<sup>2</sup> Understanding the points of connection — and disconnection — between employers' practices and workers' preferences could highlight opportunities to improve the situation for both going forward.

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<sup>1</sup> Throughout this report, we use the term "noncollege workers" to refer to workers who do not have a four-year college degree.

<sup>2</sup> Drawing on 20 focus groups conducted with noncollege workers in 2022, findings from the Federal Reserve System's Worker Voices Project are expected to be published in 2023. For more information, see <https://fedcommunities.org/talking-with-workers-2022/>.

\* The views expressed here are those of the authors and not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

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# Introduction

The U.S. labor market has been characterized by a historically high number of job openings and an elevated rate of turnover in the roughly three years following the short but steep COVID-19 recession in early 2020. In absolute terms, the number of monthly job openings between February 2021 and November 2022 were the 22 highest monthly levels on record dating back to late 2000.<sup>3</sup> The ratio of unemployed persons per job opening hit a prepandemic low of 0.7 in September 2021 and kept falling, while the share of workers quitting their job reached 2.5 percent for the first time in March 2021 and remained above that level through at least November 2022 (Figure 1).

Surveys of firms located in the Third Federal Reserve District, which includes eastern and central Pennsylvania, southern New Jersey, and Delaware (collectively referred to hereafter in their entirety as Third District states), not only support the conclusion of a tight labor market drawn by these national statistics but also hint at their bottom-line impacts. Over the course of 2022, challenges with labor supply rivaled or exceeded snarls in the supply chain as the greatest constraint on capacity utilization (for manufacturers) and on business

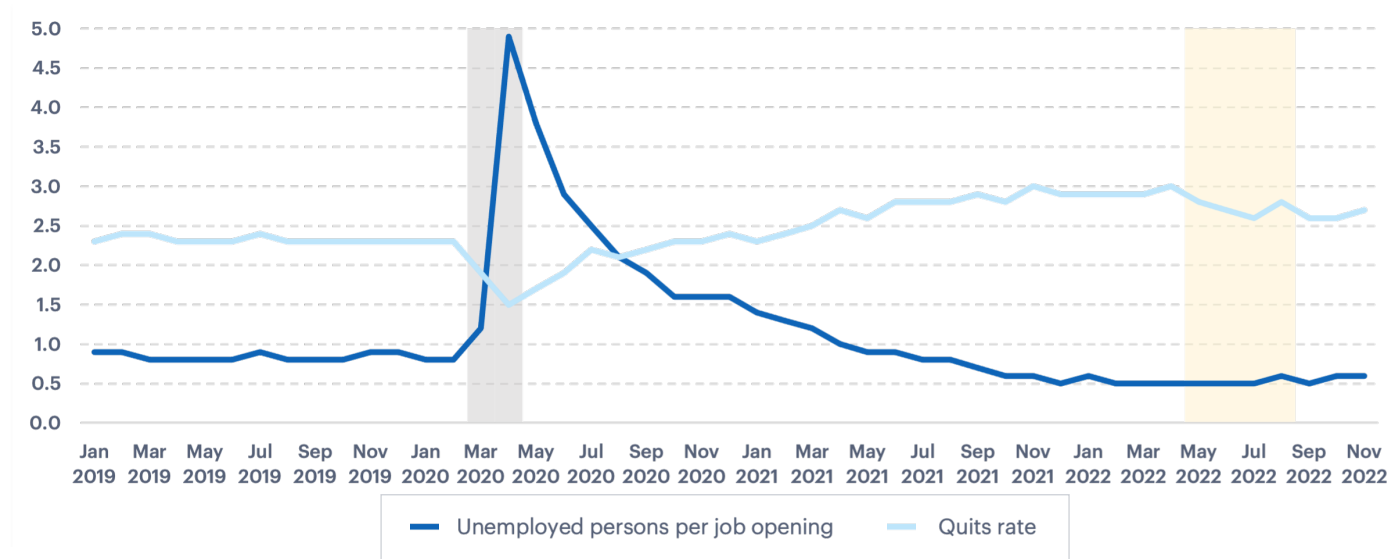
operations (for other types of firms). On the list of respondents' concerns, labor supply issues consistently topped access to capital, COVID-19 mitigation measures, and energy markets in these surveys.<sup>4</sup>

In light of these national statistics and motivated by the importance of the issue to firms in the region, we interviewed representatives of 29 businesses of various sizes to learn more about their specific hiring and employee retention challenges, the effects of those challenges on their operations, and the strategies they were pursuing to overcome them. After describing our research methods, we summarize what we learned from these conversations overall and conclude with a discussion of the implications for resource-constrained smaller businesses in particular.

# Methodology

We relied on intermediary organizations such as chambers of commerce, small business development centers, and other nonprofits with connections in the business community to identify potential candidates for this qualitative analysis. We sought interviewees working at firms<sup>5</sup> meeting all of the following criteria:

**FIGURE 1** U.S. Labor Market Conditions Before and After the COVID-19 Recession



Note: Gray shading indicates COVID-19 recession, as determined by National Bureau of Economic Research, Business Cycle Dating Committee; yellow shading indicates the timing of our interviews.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, seasonally adjusted (January 2019–November 2022)

<sup>3</sup> U.S. Department of Labor, Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, seasonally adjusted (December 2000–November 2022), available at [www.bls.gov/jlt/](http://www.bls.gov/jlt/).

<sup>4</sup> See the Federal Reserve Bank of Philadelphia's *Manufacturing Business Outlook Survey* and *Nonmanufacturing Business Outlook Survey* for March, June, September, and December 2022, available at [www.philadelphiafed.org/surveys-and-data/regional-economic-analysis/manufacturing-business-outlook-survey](http://www.philadelphiafed.org/surveys-and-data/regional-economic-analysis/manufacturing-business-outlook-survey) and [www.philadelphiafed.org/surveys-and-data/regional-economic-analysis/nonmanufacturing-business-outlook-survey](http://www.philadelphiafed.org/surveys-and-data/regional-economic-analysis/nonmanufacturing-business-outlook-survey), respectively.

<sup>5</sup> We use the terms business, firm, and employer interchangeably in this report. We asked interviewees representing businesses with locations (i.e., establishments) outside the region to focus on conditions in Third District states when responding to our questions.

the firm had recent difficulty hiring or retaining workers; the firm was located in Pennsylvania, New Jersey, or Delaware; the firm employed noncollege workers or workers who earned less than \$20 per hour or \$40,000 per year; and the interviewee had direct experience with the hiring process.

We also limited the pool of potential interview candidates by focusing the study on two sectors: manufacturing and leisure and hospitality.<sup>6</sup> We selected these sectors because they are important sources of employment for noncollege workers in the region. Together, they account for 19 percent of total private employment; average wages for manufacturing jobs are well above the overall average in each of the Third District states, while leisure and hospitality jobs outnumber manufacturing jobs in two (New Jersey and Delaware).<sup>7</sup> Furthermore, two nationwide small business surveys — the Federal Reserve Banks’ Small Business Credit Survey (SBCS) and the U.S. Census Bureau’s Small Business Pulse Survey (SBPS) — suggested that while manufacturing firms reported levels of difficulty hiring and retaining workers that were comparable with or slightly higher than overall levels, leisure and hospitality firms — particularly those in accommodation and food services — faced acute challenges.<sup>8</sup> As a practical matter, targeting specific sectors was also important because we expected interviewee experiences to vary across industries, and we wanted to ensure that we conducted a sufficient number of interviews to allow those sectoral differences to emerge.

The 29 interviews conducted to inform this study were fairly evenly split between manufacturing and leisure and hospitality firms and captured perspectives from a variety of business sizes (Table 1). Most of the firms had fewer than 500 employees, a threshold often used to distinguish small businesses from larger ones (discussed in more detail in a later section). Participating firms were located in 14 counties across Third District states. Owing to our networks and those of the organizations that assisted with recruiting, it is worth noting that five of the manufacturers are located in Berks County, Pennsylvania, while the same number of leisure and hospitality firms operate in Lancaster County, Pennsylvania.

The virtual interviews were guided by a set of open-ended questions designed to solicit an array of opinions and experiences and were conducted between May 24, 2022, and August 24, 2022 (see the interview guide in Appendix A). Employing a rapid qualitative analysis approach, we captured the key takeaways from each recorded interview using a spreadsheet template, which included sections corresponding to the interview questions (see the interview summary template in Appendix B).<sup>9</sup> To ensure that each member of the research team was using the template to summarize interviews in a consistent fashion, the first six interviews were coded collaboratively by all three team members. Five of the remaining 23 interview summaries were reviewed by a second team member, and differences in the assessment of key takeaways were discussed and reconciled.

After summarizing the interviews, we created worksheets for each interview topic and copied the key takeaways germane to the topic from each interview; this was done separately for manufacturing and for leisure and hospitality firms. For each interview topic, we organized interviewee responses into thematic categories and developed written summaries that captured our main findings. During both of these stages, team members reviewed each other’s drafts and resolved any areas of disagreement.

**TABLE 1**

### Size and Sector of Firms Represented by Interviewees

Number of employees	Leisure and hospitality	Manufacturing	Total
2 to 9	0	1	1
10 to 49	4	2	6
50 to 99	2	3	5
100 to 499	4	5	9
500 +	4	4	8
<b>Total</b>	<b>14</b>	<b>15</b>	<b>29</b>

<sup>6</sup> Whereas manufacturing represents a single sector (NAICS 31-33), the leisure and hospitality supersector includes two: arts, entertainment, and recreation (NAICS 71) and accommodation and food services (NAICS 72).

<sup>7</sup> U.S. Department of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages (2021), available at [www.bls.gov/cew/](http://www.bls.gov/cew/).

<sup>8</sup> See the *Small Business Credit Survey: 2022 Report on Hiring and Worker Retention* data appendix using 2021 SBCS data, published by the Federal Reserve Banks, available at [www.fedsmallbusiness.org/survey/2022/2022-report-on-hiring-and-worker-retention](http://www.fedsmallbusiness.org/survey/2022/2022-report-on-hiring-and-worker-retention), and U.S. Census Bureau Small Business Pulse Survey data collected from April 11, 2022, through April 17, 2022, available at [portal.census.gov/pulse/data/](http://portal.census.gov/pulse/data/). The Small Business Pulse Survey reported results separately for the arts, entertainment, and recreation sector and the accommodation and food services sector, and it found hiring difficulties were much greater in the latter than in the former.

<sup>9</sup> Our analytical approach was informed by the methods described in Nicola K. Gale et al., “Using the Framework Method for the Analysis of Qualitative Data in Multi-Disciplinary Health Research,” *BMC Medical Research Methodology* 13:117 (2013), available at [bmcmedresmethodol.biomedcentral.com/articles/10.1186/1471-2288-13-117](http://bmcmedresmethodol.biomedcentral.com/articles/10.1186/1471-2288-13-117); Randall C. Gale, et al., “Comparison of Rapid vs. In-Depth Qualitative Analytic Methods from a Process Evaluation of Academic Detailing in the Veterans Health Administration,” *Implementation Science* 14:11 (2019), available at [implementationscience.biomedcentral.com/counter/pdf/10.1186/s13012-019-0853-y.pdf](http://implementationscience.biomedcentral.com/counter/pdf/10.1186/s13012-019-0853-y.pdf).



# Findings

Table 2 summarizes our findings as they relate to the hiring and retention challenges described by interviewees and the impacts of these challenges on firm operations. In reading Table 2, we recommend beginning with the overarching themes that apply to both sectors (left-most column); themes that differentiated leisure and hospitality from manufacturing firms can be found in their respective columns. Direct quotes are italicized.

**TABLE 2**

## Hiring and Retention Challenges and Impacts on Firm

Overarching themes	Leisure and hospitality firms	Manufacturing firms
How difficult was it to hire and retain workers before the pandemic?		
<p>Although a handful of interviewees reported no difficulty finding or retaining workers before February 2020, the general sentiment was that hiring and retention challenges existed before the pandemic.</p>	<p>Highlighted front desk and housekeeping roles as being particularly difficult to fill.</p> <p>Raised contextual issues such as a lack of worker housing, a shrinking applicant pool, a lack of public transportation, and wage competition from warehouses.</p>	<p>Called out second- and third-shift positions, truck drivers, and “unskilled” occupations.</p> <p>Discussed challenges related to candidate qualifications such as issues with attendance, work ethic, and passing drug tests and criminal background checks.</p>
How did the COVID-19 pandemic and recession affect hiring and retention?		
<p>The pandemic made both hiring and retaining workers more difficult. This was partly attributable to the increased competition driven by the volume of job openings and partly because there were too few applicants for positions: <i>“For every person we hire, we lose a person, so we’re kind of spinning our wheels here.”</i></p> <p>Applicants lacked the necessary skills or experience or were unreliable.</p> <p>“Ghosting” by both interviewees and those who had accepted an offer was common: <i>“You talk to this person and they sound interested in coming and they don’t show up and you don’t know why.”</i></p>	<p>Hard-to-fill roles included housekeepers, cooks, dishwashers, and night and weekend shifts: <i>“We haven’t had a dishwasher employed on our property for probably about a year now.”</i></p> <p>Had to compete for workers who could find higher wages elsewhere: <i>“People will leave faster because they’ve been offered a better rate somewhere else.”</i></p> <p>Attributed dearth of applicants to an uptick in retirements and workers leaving the industry.</p> <p>Hard to find applicants who had customer service experience, who could pass a drug test, and who could uphold “brand standards.”</p> <p>Highlighted the absence of supports required to make the jobs accessible, such as childcare, transportation, workforce housing, and a stable home environment.</p>	<p>Indicated second- and third-shift roles and lower-wage positions were particularly hard to fill.</p> <p>Had to compete for workers who could be more selective in the search for better wages, first-shift schedules, and hybrid roles: <i>“They’ll chase the best dollar, they’ll chase the best benefits or the best schedule.”</i></p> <p>Hard to find applicants with general skills such as a mechanical mindset or attention to detail.</p>

Overarching themes	Leisure and hospitality firms	Manufacturing firms
<b>How did hiring and retention impact your business?</b>		
<p>Staffing challenges affected the day-to-day operations of firms and their staff in a number of ways. Prominent examples included elevated levels of mental stress and burnout for existing staff, workers being asked to perform tasks that fall outside of their typical responsibilities, and an increased need for training.</p> <p>Bottom-line impacts included a decrease in the quantity or quality of products and services offered and higher payroll costs: <i>“It’s important that we provide the service that our customers expect, so I had to make a decision that less is sometimes better.”</i></p>	<p>Burnout driven by working short-staffed.</p> <p>Reduced quantity and variety of services offered (e.g., shorter hours, limited menu); some turned down business for the sake of maintaining quality standards: <i>“I can probably count on one hand how many applicants we had.... We couldn’t get enough applicants to even think about”</i> reopening the full-service restaurant.</p> <p>Senior management incurred the opportunity cost of doing routine work at the expense of growing the business: <i>“I am stuck in a behind-the-scenes operation, not really driving my business but being reactive just to keep it afloat.”</i></p>	<p>Burnout driven by increased overtime: <i>“People are okay but not as okay as they usually are.”</i></p> <p>Supervisors and managers required to work on the production floor.</p> <p>Unable to meet growing customer demands and needed to adjust product lines; at times, products were inconsistent or of lower quality: <i>“We would love to have more people hired and be fully staffed and make the products at the pace our customers are demanding, but we just can’t do that right now.”</i></p> <p>Increased payroll costs often reflected higher overtime wages.</p>

Responses collected in 2021 to the aforementioned SBCS — a national survey of firms with fewer than 500 employees — indicated that 68 percent of businesses had attempted to hire in the prior 12 months and found the process very or somewhat difficult, an increase from 54 percent in 2018.<sup>10</sup> This aligns with the sentiment expressed by most interviewees that the pandemic exacerbated preexisting hiring challenges. In the 2021 survey, those reporting difficulty filling jobs were asked to identify the reasons for their staffing challenges. As Figure 2 illustrates, several of the most commonly cited reasons in that survey were echoed in our interviews, including a shortage of applicants, inadequate qualifications, and competition from other employers.

During each interview, we also asked participants to describe the strategies their firms had used to address their staffing challenges and to weigh in on what they found to be more successful or less effective. In Table 3, we group the specific tactics captured in the interviews into four broad strategies: bolstered the supply of potential workers; modified HR policies and practices; increased compensation packages; and improved job quality. The bulleted list of specific tactics corresponding to each broad strategy are listed in

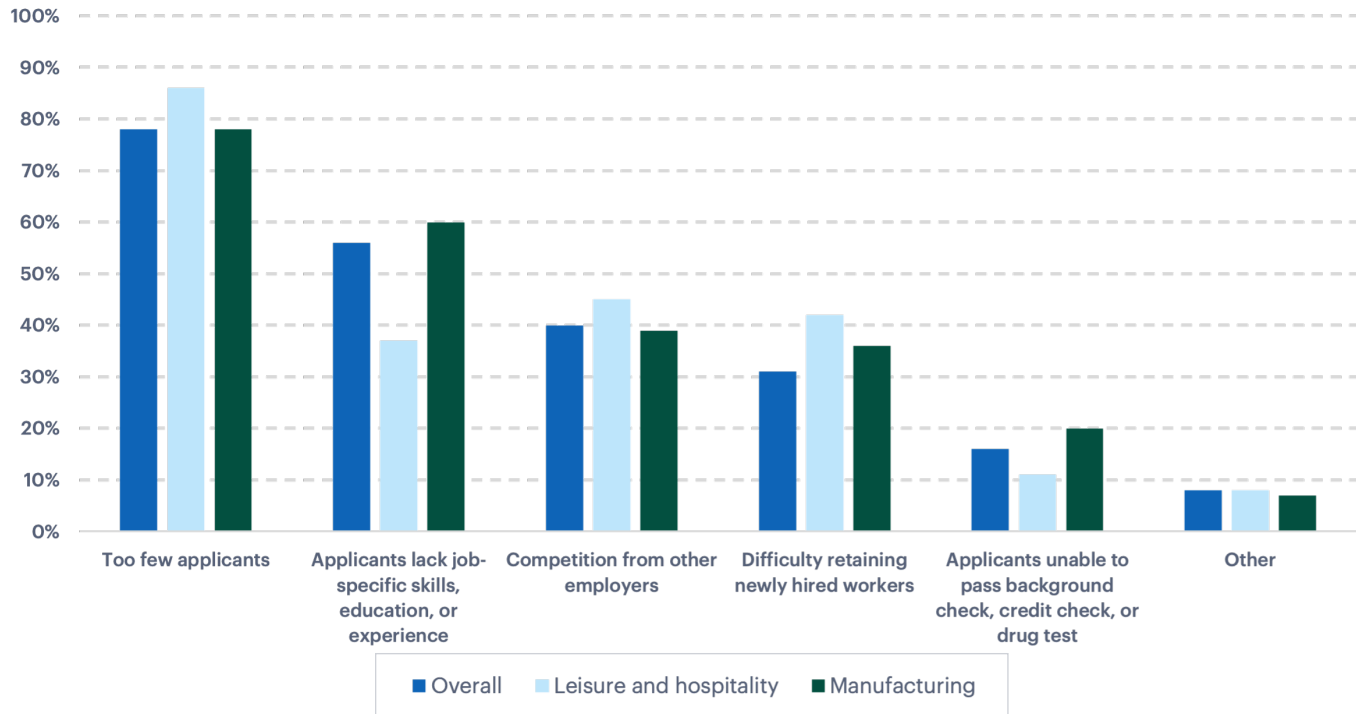
order of how prevalent they were across the 29 interviews; the order of the broad categories, in turn, reflects how common its tactics were overall. (For example, raising wages was the most commonly mentioned tactic, but it is one of several illustrative of “increased compensation packages,” which was the third-most common broad strategy.) Tactics mentioned by at least 20 interviewees are flagged with two asterisks (\*\*), those raised by at least 10 are flagged with a single asterisk (\*), and direct quotes are italicized.



<sup>10</sup> See the *Small Business Credit Survey: 2022 Report on Hiring and Worker Retention*.

FIGURE 2

## Reasons for Hiring Difficulties



Note: Asked of respondents who said jobs were very or somewhat difficult to fill.

Source: Small Business Credit Survey: 2022 Report on Hiring and Worker Retention data appendix using 2021 SBCS data, published by the Federal Reserve Banks

TABLE 3

## Strategies and Tactics Used to Address Hiring and Retention Challenges

### Bolstered the Supply of Potential Workers

- Relied on employee referrals, often via a formal program\*\*
- Reached out to high schools, community colleges, or trade schools\*
- Recruited from new groups of workers (e.g., Spanish-speaking workers, returning citizens)\*
- Used temporary staffing agencies
- Engaged with the community (e.g., via nonprofits with access to workers, workforce alliances, county job fairs)
- Increased staff capacity in other ways (e.g., college internships, part-time workers)

Informal word-of-mouth advertising and formal employee referral programs were widely used by interviewees' firms but were considered more successful by manufacturers: *"The greatest form of advertising is...word of mouth."*

Outreach to secondary and postsecondary schools was also common across sectors. For manufacturers, this appeared to be a long-term strategy to raise awareness and build a talent pipeline rather than a short-term solution.

Manufacturers more frequently discussed recruiting from new groups of workers, using temporary staffing agencies, and getting involved in the community, whereas leisure and hospitality firms more commonly relied on college interns and part-time workers to add capacity. *"Whoever is truly invested in the community is going to come out on top."* None of these strategies were commonly highlighted as being successful.

## Modified HR Policies and Practices

- Lowered requirements or standards (e.g., experience, work history, minimum age)\*
- Improved online presence and recruiting efforts via job boards and social media\*
- Used traditional media (e.g., newspapers, radio, billboards)
- Dropped or weakened drug screening or criminal background check
- Expanded HR capacity by adding permanent staff or outsourcing
- Changed job titles, descriptions, or responsibilities to make openings more attractive

More than half of the interviewees in each sector described lowering requirements. Some manufacturers suggested they compromised their standards in a few cases rather than across the board, and some leisure and hospitality firms indicated that hiring standards for many positions were already low: *“We couldn’t wait for that better candidate. We had to make them a better candidate.”* The few interviewees who referred to impact tended to suggest this strategy was successful, but some noted it was not a long-term solution.

Enhancing online presence and recruiting efforts using job boards and social media was a common strategy but had mixed results: *“The rule is, you don’t get good people from those sites. You just get bodies.”* Using traditional media to recruit candidates did not appear to be effective.

## Increased Compensation Packages

- Raised wages\*\*
- Offered sign-on bonuses
- Rewarded employees with other bonuses (e.g., incentive, performance, attendance)
- Distributed gift or gas cards

Nearly all interviewees mentioned raising wages for their lower-wage jobs — generally by a few dollars per hour to the mid-to-high teens — making it the most common tactic to emerge and one that was commonly considered successful: *“If we never raised the rates, we’d have no employees right now.”* That said, not everyone felt the higher wage rate was justified by the workers’ output or experience or that increasing compensation would resolve the perceived worker shortage.

Sign-on bonuses were also common in both sectors, but those who commented on their efficacy did not view them as being successful. Manufacturers were more likely than leisure and hospitality interviewees to mention offering other types of monetary compensation, and only manufacturers discussed giving workers gift or gas cards.

## Improved Job Quality

- Used events, outings, gifts, perks, and increased communication to show appreciation and build culture\*
- Improved benefits (e.g., paid time off, health insurance, financial education, childcare, housing assistance)
- Increased emphasis on onboarding and training
- Focused on advancement opportunities
- Increased flexibility on hours or shifts

Interviewees frequently mentioned the importance of culture and showing employee appreciation, building trust, and engaging with staff, but there was no consensus that this was a successful tactic: *“The real secret sauce for our business in recruiting and retaining employees is the culture that we have.”*

Interviewees from both sectors — particularly those representing leisure and hospitality firms — made improvements to a variety of benefits. Other improvements to job quality were infrequently mentioned.

Note: \*\*mentioned by at least 20 interviewees, \*mentioned by at least 10 interviewees.



In the 2021 SBCS, respondents were asked about the actions they had taken to address hiring and retention difficulties. Consistent with our interviews, the most common response was to increase wages, and both manufacturers and leisure and hospitality firms were more likely than firms overall to do so (Figure 3). Increasing workload and reducing capacity — cataloged by us in Table 2 among the impacts of hiring difficulties rather than as a response to them — were also very common, particularly for leisure and hospitality firms. Another point of alignment between our interviews and the survey was the relatively lower likelihood of enhancing benefits and schedule flexibility to improve job quality. Lowering applicant requirements represents the primary point of departure between our interviews and the SBCS, in that it appears to have been more common in the former than the latter.

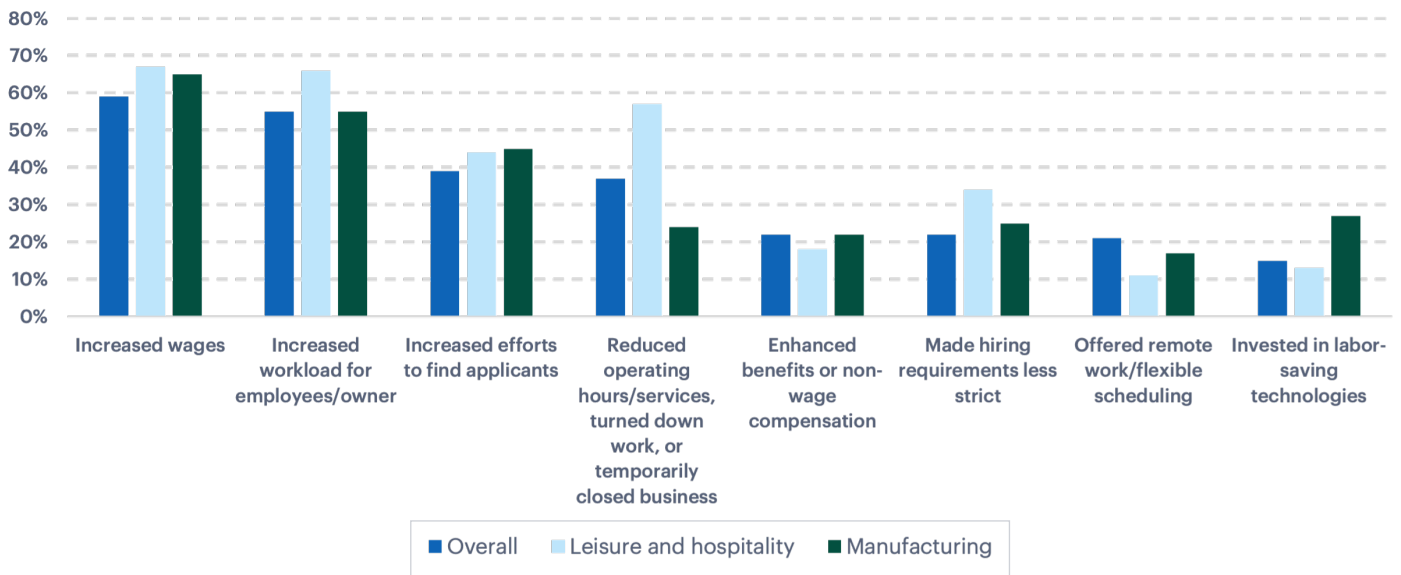
To conclude our conversations, we asked interviewees to discuss any strategies their firms had not yet tried but that they thought might have potential to alleviate their staffing challenges. Many of the ideas mentioned by manufacturers would have fallen in the category of bolstering the supply of potential workers in Table 3, while interviewees representing leisure and hospitality firms were

more likely to propose solutions that would have addressed job quality and compensation. Many of the specific tactics offered by interviewees were already being implemented by other firms and thus would be duplicative to list here. Among the more innovative approaches raised by manufacturers were apprenticeship programs<sup>11</sup> and plans to expand access to daycare for workers with children.<sup>12</sup> Ideas raised by representatives of leisure and hospitality firms included creating ownership or equity positions in the business to retain managers, converting part-time roles to full-time positions with benefits, a service to help screen and hire applicants for smaller businesses without an HR staff, and a regional employee-sharing program to help workers get full-time hours across multiple employers.

## Unique Challenges for Smaller Businesses

The SBCS and the SBPS — the two surveys referenced previously — define small businesses as those with fewer than 500

**FIGURE 3** Responses to Hiring and Retention Difficulties



Note: Asked of respondents who said it was very or somewhat difficult to retain workers or fill jobs. Figure omits “no change” and “other” response categories, which accounted for 7 percent or less in each category.

Source: *Small Business Credit Survey: 2022 Report on Hiring and Worker Retention* data appendix using 2021 SBCS data, published by the Federal Reserve Banks

<sup>11</sup> For more information on apprenticeship programs, see Keith Rolland, *Apprenticeship Guide*, Philadelphia: Federal Reserve Bank of Philadelphia, 2017, available at <https://www.philadelphiafed.org/-/media/frbp/assets/community-development/reports/0617-apprentice-guide-full.pdf>; and Keith Rolland, *Apprenticeship Guide Update*, Philadelphia: Federal Reserve Bank of Philadelphia, 2020, available at [www.philadelphiafed.org/-/media/frbp/assets/community-development/reports/apprenticeship-guide-update.pdf](http://www.philadelphiafed.org/-/media/frbp/assets/community-development/reports/apprenticeship-guide-update.pdf).

<sup>12</sup> For a report highlighting the role the private sector can play in early childhood education, see Sloane Kaiser, *The Role of Early Childhood Education in Delaware's Business Sector Pandemic Recovery and Beyond*, Philadelphia: Federal Reserve Bank of Philadelphia, 2021, available at [www.philadelphiafed.org/community-development/inclusive-growth/the-role-of-early-childhood-education-in-delawares-business-sector-pandemic-recovery-and-beyond](http://www.philadelphiafed.org/community-development/inclusive-growth/the-role-of-early-childhood-education-in-delawares-business-sector-pandemic-recovery-and-beyond).

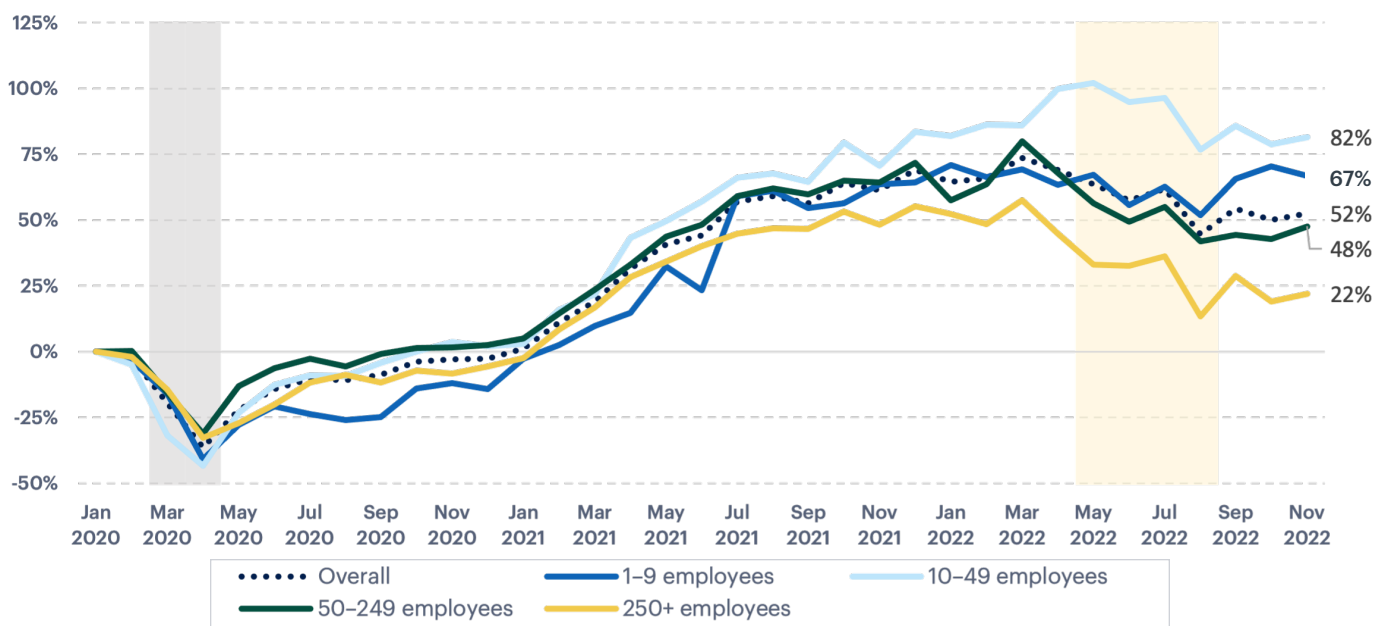
employees, which is also the threshold most commonly used by the Small Business Administration.<sup>13</sup> By this definition, 21 of the 29 interviewees in our sample represented small businesses. However, the vast majority of American firms fit comfortably under the 500-employee cutoff; in 2020, more than three-quarters of firms in the U.S. had fewer than 10 employees, and more than 97 percent had fewer than 100.<sup>14</sup> With more than half of the firms in our sample employing 100 or more workers, our sample was skewed toward the larger end and does not allow us to assess whether the staffing challenges and subsequent strategies explored in this study differ for larger and truly smaller businesses. Even so, we observed that some interviewees from larger businesses described the important roles played by HR teams as they engaged with management and discussed responses to staffing challenges, the hiring committees that met biweekly to evaluate needs, the importance of coordination across departments to limit production shortfalls, and the criticality of resources. Conversely, the interviewee representing the smallest

firm in our sample simply said, “We didn’t hire all that frequently, so we didn’t have a great system.” In this section, we briefly explore what is known about the nature of labor shortages for small businesses and their capacity to respond to these shortages by addressing workers’ needs.

As Figure 4 illustrates, even after declining slightly since the summer of 2022, job openings remained 52 percent above prepandemic levels in November 2022. The growth in openings outpaced overall growth for establishments with one to nine employees (67 percent) and for those with 10–49 workers (82 percent).

The most recent information available from the Federal Reserve Banks’ SBCS and the U.S. Census Bureau’s SBPS intuitively indicate that smaller businesses were less likely to attempt to hire workers during the period preceding the surveys; since they employ fewer workers, it follows that they would be less likely than larger

**FIGURE 4** U.S. Private Sector Job Openings Relative to January 2020



Note: Gray shading indicates COVID-19 recession, as determined by National Bureau of Economic Research, Business Cycle Dating Committee; yellow shading indicates the timing of our interviews.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, seasonally adjusted (January 2020–November 2022)

<sup>13</sup> The SBCS applies this threshold to firms, which may have more than one location (i.e., an “establishment”), whereas the SBPS targeted single-location businesses (i.e., those with only one establishment). The Small Business Administration definition varies by industry and is based on a firm’s average annual receipts or average annual number of employees. For industries with an employment cutoff, the mode of the distribution is 500 in the most recent U.S. Small Business Administration Table of Small Business Size Standards, effective December 19, 2022, downloaded in January 2023 from [www.sba.gov/document/support-table-size-standards](http://www.sba.gov/document/support-table-size-standards).

<sup>14</sup> See U.S. Census Bureau, Business Dynamics Statistics, Firm Size: 1978–2020 data table, available at [www.census.gov/data/tables/time-series/econ/bds/bds-tables.html](http://www.census.gov/data/tables/time-series/econ/bds/bds-tables.html).

ones to recently attempt to fill positions. Somewhat surprising is that among those that had attempted to hire workers during the preceding period, smaller businesses reported less difficulty than larger ones. Even so, according to 2021 SBCS data, more than half in every size category that had attempted to hire in the prior 12 months considered it very difficult to do so.<sup>15</sup> In the last data available from the SBPS when it concluded in April 2022, more than half the businesses with five or more employees that had tried to hire in the prior week reported difficulty doing so compared with roughly one-third for businesses with fewer than five employees.<sup>16</sup>

Small businesses clearly had a demand for workers at the close of 2022, and even though hiring difficulties were not as severe for smaller firms, they remained common. Responses to these challenges were clearly associated with the size of the firm, as 2021 SBCS data illustrate, which suggests the largest of these small businesses (with 50–499 employees) had more tools in their toolbox to address their staffing challenges (Figure 5). They were much

more likely to increase wages and improve benefits than their smaller counterparts, possibly owing to the fact that they were in better financial condition and more likely to be operating at a profit at the time of the survey;<sup>17</sup> these larger small businesses also reported offering remote work or flexible scheduling at a greater clip. Smaller firms were more likely to reduce capacity or close temporarily, potentially exacerbating any preexisting financial constraints and negatively impacting the take-home pay of their employees. One of the most dramatic differences illustrated in Figure 5 was the divergence in the likelihood of increasing efforts to find applicants; this, alongside the greater likelihood of smaller firms to report no change to their hiring process, may speak to HR-related constraints.

Given these responses to staffing challenges, one could conclude that the experience of working at smaller businesses diminished relative to working at more resource-rich larger (but still small) businesses during the tight pandemic-era labor market. In light of

**FIGURE 5** Responses to Hiring and Retention Difficulties by Size



Note: Asked of respondents who said it was very or somewhat difficult to retain workers or fill jobs. Figure omits “other” response category, which accounted for 5 percent or less in each category.

Source: *Small Business Credit Survey: 2022 Report on Hiring and Worker Retention* data appendix using 2021 SBCS data, published by the Federal Reserve Banks

<sup>15</sup> See the *Small Business Credit Survey: 2022 Report on Hiring and Worker Retention* data appendix.

<sup>16</sup> See the U.S. Census Bureau *Small Business Pulse Survey*, April 11, 2022–April 17, 2022.

<sup>17</sup> See the *Small Business Credit Survey: 2022 Report on Employer Firms* data appendix, published by the Federal Reserve Banks, available at [www.fedsmallbusiness.org/survey/2022/report-on-employer-firms](http://www.fedsmallbusiness.org/survey/2022/report-on-employer-firms).



a Pew Research Center survey of those who quit a job in 2021, one might also conclude that these divergent responses to staffing challenges could hamper the ability of smaller firms to satisfy workers' demands. Several of the reasons for quitting cited by at least 40 percent of respondents — the pay was too low, there was not enough flexibility in the schedule, benefits weren't good — overlap with responses for which smaller firms lagged larger ones. The second-most common reason given was a lack of opportunities for advancement, which might also put smaller firms at a disadvantage.<sup>18</sup> In spite of these apparent constraints, however, recent data show no linear association between establishment size and the quits rate.<sup>19</sup>

## Conclusions

Our conversations with 29 manufacturing and leisure and hospitality firms in Pennsylvania, New Jersey, and Delaware painted a picture of historic staffing challenges exacerbated by the tight pandemic-era labor market. Staff burnout, reductions in hours, services, and products, and higher payroll costs affected both worker well-being and firm profitability. Naturally, business owners and HR teams attempted to ameliorate their staffing challenges

using a wide array of tactics, with increasing wages chief among them. Rather than by improving other forms of nonwage compensation or job quality, however, interviewees more commonly discussed efforts to expand the supply of workers and rethink their HR and recruitment strategies.

Given the size of the sample and the study's geographic and sectoral focuses, our findings are far from generalizable. Likewise, comments from a handful of interviewees hinting at the importance of size and resources in tackling their staffing challenges can be considered no more than suggestive. However, results from the Small Business Credit Survey appear to support the notion that smaller firms are less able to respond to the demands of today's workers than are their larger counterparts. In a tight labor market, how do smaller businesses compete for workers when it comes to pay, benefits, flexibility, and opportunities for advancement that job seekers demand — and might be more likely to find at a larger employer? In light of their capacity constraints, how do owners of smaller businesses think about job quality as it relates to hiring and retention? We believe these questions represent fertile ground for additional qualitative research.

<sup>18</sup> Other reasons cited by at least 40 percent of respondents include feeling disrespected at work and childcare issues. See Kim Parker and Juliana Menasce Horowitz, "Majority of Workers Who Quit a Job in 2021 Cite Low Pay, No Opportunities for Advancement, Feeling Disrespected," Fact Tank, Pew Research Center, March 9, 2022, available at [www.pewresearch.org/fact-tank/2022/03/09/majority-of-workers-who-quit-a-job-in-2021-cite-low-pay-no-opportunities-for-advancement-feeling-disrespected/](http://www.pewresearch.org/fact-tank/2022/03/09/majority-of-workers-who-quit-a-job-in-2021-cite-low-pay-no-opportunities-for-advancement-feeling-disrespected/).

<sup>19</sup> U.S. Department of Labor, Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, seasonally adjusted (January–November 2022), available at [www.bls.gov/jlt/](http://www.bls.gov/jlt/).

# Appendix A: Interview Guide

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You volunteered to participate in this interview because you're having – or have recently had – difficulty with the retention or filling of jobs that don't require a four-year college degree, which I'll refer to as noncollege jobs, or lower-wage job openings, which I'll define as those that generally pay around or below \$20 per hour or \$40,000 per year.

1. **Thinking about the last six months in particular, can you tell me about those difficulties?**
  - a. When did this challenge begin? Did it exist back in February 2020, before the pandemic and the first stay-at-home orders, or did it emerge during the pandemic?
  - b. If it existed before the pandemic, did the severity change during the pandemic?
  - c. For hiring challenges in particular, can you tell me where in the process they're occurring? Is it the volume of applications, the quality of applicants, scheduling interviews, the acceptance of offers, or something else?
2. **Can you walk me through how the hiring and retention challenges we've been discussing have affected your business?**
  - a. What adjustments have you had to make to your operations, if any?
  - b. Have these challenges had any effects on your longer-term or midlevel staff?
3. **Again, thinking about the last six months and noncollege or lower-wage jobs in particular, I'd like to talk about ways you've tried to address these hiring and retention challenges. What strategies have you've tried to overcome them? Any changes in terms of:**
  - a. how you recruit candidates?
  - b. your requirements for open positions?
  - c. how you assess applicants' qualifications?
  - d. the compensation and benefits you offer?
  - e. the technology you use in any of these processes?
4. **Thinking about the strategies we've just discussed, are there any you'd point to that you think have been particularly successful?**
  - a. Can you share any insights you might have as to why this strategy worked?
5. **Is there anything you've tried that hasn't worked as well?**
  - a. Why do you think this approach wasn't effective?
6. **Are there any additional short- or long-term solutions that you haven't tried but you think might work?**
  - a. Things you'd like to try but can't because of barriers in your company?
  - b. Things that might require additional resources or partnerships with others in the community?
7. **Is there anyone else in your industry that you think we should speak with? Anyone you believe to be having challenges hiring and retaining noncollege or lower-wage workers? Or anyone you think is having success tackling this challenge?**
  - a. Could you introduce us by email?



# Appendix B: Interview Summary Template

<b>Interviewer:</b>	
<b>Interviewee ID number:</b>	
<b>Date of interview:</b>	
<b>Template completed by:</b>	
<b>Date template completed:</b>	
<p><b>Long-standing challenges</b> List any hiring/retention challenges that have been noteworthy over the last six months but that predated the onset of the pandemic</p>	
<p><b>Pandemic-era challenges</b> List any hiring/retention challenges that have been noteworthy over the last six months that have emerged since the onset of the pandemic or have been exacerbated by it</p>	
<p><b>Effects of these challenges</b> Capture any effects of these hiring/retention challenges on business operations or longer-term/midlevel staff</p>	
<p><b>Comprehensive list of strategies</b> Laundry list of strategies pursued by the interviewee and their business, without regard to each strategy's outcome</p>	
<p><b>Successful strategies</b> Strategies lifted up as particularly successful; also capture any insights into why they are thought to have been effective</p>	
<p><b>Less successful strategies</b> Strategies highlighted as not working well, along with insights regarding their ineffectiveness</p>	
<p><b>Potential, untested solutions</b> List short- or long-term solutions that have not been tried but that could work if there were: no internal barriers; additional resources; or the right community partners</p>	
<p><b>Other noteworthy comments</b> Include any other noteworthy comments that appear to be meaningful but that do not fit into a domain above</p>	
<p><b>General notes</b> Any reflections on the interview overall, the tone of the call, or high-level impressions</p>	



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