RESEARCH REPORT

Small Employers, Big Stakes

Job Quality in America's Smallest Firms: Evidence from Employers and Workers

July 2026

Contents

Executive Summary 1

Introduction 3

- What job quality means 3

A Distinct Job-Quality Profile 5

- Relational strengths and material gaps 5
- Benefits and financial security are the clearest deficits 7
- Voice and culture are real strengths 8
- Overall satisfaction can mask offsetting dimensions 9

Why Formal Job-Quality Gaps Are Hard to Close 10

- Who very small employers are 10
- The owner is often the entire HR function 11
- Benefits are constrained by scale, administration, and price 12
- Commitment shapes practice, but capacity sets limits 14

Firm-Size Patterns Are Not Experienced Equally 15

- Worker experiences vary within very small firms 16
- Benefit constraints are concentrated among some employers 17

Where Firm-Level Practice Can Make a Difference 19

- Better scheduling and systems are linked to better worker experience 19
- Better tools require hands-on implementation 21

Implications for Policy and Practice 22

- Extend essential protections beyond the individual firm 22
- Build shared benefit infrastructure around workers' needs 23
- Pair right-sized systems with hands-on implementation support 24
- Preserve relational strengths while making support more reliable 25
- The path forward 26

Conclusion 27

Endnotes 28

Acknowledgments 30

EXECUTIVE SUMMARY

Very small firms are a major part of the U.S. labor market—but the systems that support good jobs are rarely designed for them.

Firms with fewer than ten employees account for about seven in ten U.S. employer firms and employ roughly one in ten private-sector workers. Their jobs often offer real relational strengths: workers report more voice, autonomy, and close day-to-day relationships than they do in larger workplaces. Yet these employers operate in benefits, compliance, and administrative systems built for organizations with far greater scale.

That mismatch shapes job quality. Workers in very small firms are less likely to have employer-sponsored benefits, financial security, and opportunities for advancement—not because small employers uniformly place less value on their workers, but because the cost and administrative burden of formal provision are harder to absorb at this scale.

This report brings employer and worker evidence together to show both sides of that equation, combining nationally representative worker data with original, nationally representative employer evidence from firms with one to nine W-2 employees, an AEO survey of employees in very small firms, and interviews with owners and advisors.

Relational strengths, weaker formal protections. Workers in firms with fewer than ten employees are more likely to meet job-quality standards for agency and voice and workplace culture, even after accounting for worker and job characteristics. At the same time, they are less likely to meet standards for financial well-being and growth. Most have health coverage, but coverage through their own employer is far less common, and the uninsured rate is higher.

7 in 10

U.S. **employer firms** have fewer than ten employees

1 in 4

very small employers **offer health insurance**

36%

offer **no** health insurance, retirement plan, or paid leave

+14 pts

adjusted **agency & voice** advantage vs. larger firms

THE EVIDENCE

Nationally representative worker (AJQS 2025) and employer (EPOP:2025) surveys, an AEO employee panel, and practitioner interviews.

Benefits are the clearest scale-dependent gap. Only one in four very small employers offers health insurance, and more than one-third offer no health insurance, retirement plan, or paid leave. Among firms that do not offer coverage, administrative burden is cited about as often as premium cost—and in roughly two-thirds of firms, the owner or co-owner is also the primary HR decision-maker. These patterns point to limited purchasing power, thin financial cushions, and little specialized administrative capacity, not a lack of concern for workers.

Management practice helps, but cannot replace scale. Employers that provide more than two weeks' schedule notice are far more likely to report engaged and motivated employees, and more developed payroll and scheduling systems track with higher worker satisfaction. These findings are observational, but they identify scheduling and operational systems as practical levers for how work is organized.

Tools take hold when owners get hands-on support. Payroll, compliance, and benefits navigation are often experienced as high-risk and hard to manage, not merely expensive. Software and benefit options are more likely to be used well when paired with assessment, setup, troubleshooting, and ongoing guidance.

The strengths and constraints are not shared equally. Workers with disabilities are less likely to experience the workplace-culture advantages otherwise associated with very small firms, and women-owned firms are less likely than men-owned firms to offer core benefits. These mark where structural constraints concentrate—not weaker employer commitment.

Very small firms already provide dimensions of job quality that larger organizations struggle to reproduce. What they lack is scale—and scale can be shared.

What this means for policy & practice

1. **Extend protections beyond the single firm.** Health coverage, paid family and medical leave, retirement, and HR support delivered through public programs, regulated pools, or trusted third parties—judged by affordability, adequacy, portability, and worker access, not just employer take-up.
2. **Invest in firms' operational capacity.** Right-sized payroll, scheduling, and HR systems paired with trusted, hands-on implementation support—tracking who is reached and whether workers actually see better outcomes.

> **The goal is not to make a five-person business operate like a fifty-person company.**

Introduction

America's smallest employers—firms with fewer than ten employees—employ one in ten private sector workers and account for more than two-thirds of U.S. employer businesses.[1] Yet they remain difficult to see in the evidence base. Much of the job-quality literature examines broad firm-size gradients, while major public datasets and benefits surveys often combine very small firms with businesses employing as many as 49 workers. Underlying employer microdata are also frequently restricted.[2] As a result, job quality in very small firms has received limited systematic empirical scrutiny.

Existing research suggests that scale shapes firms' financial and administrative capacity, but available evidence rarely shows how those constraints translate into workers' experiences. That distinction matters. In firms with fewer than ten employees, the owner often serves as the HR function, and even modest fixed costs or administrative requirements can operate differently than they do in a 20- or 50-person company.

This report addresses that gap by examining employers and workers together in the smallest firms. We analyze workers' experiences of pay, benefits, scheduling, growth opportunities, voice, and workplace culture alongside employer practices, administrative capacity, and reported constraints. Specifically, our analysis brings together nationally representative worker evidence from the 2025 American Job Quality Study[3] with original, nationally representative employer data from an AEO-developed employer module fielded as part of NORC at the University of Chicago's 2025 Entrepreneurship in the Population Survey (EPOP:2025).[4] An original AEO survey of employees in very small firms and qualitative interviews with business owners and advisors add context on lived experience and implementation.

What job quality means

A quality job does more than provide employment or a paycheck: it supports workers' financial security, provides a safe and respectful environment, creates opportunities to learn and advance, gives workers meaningful influence over decisions that affect them, and offers stability alongside reasonable control over how work is performed. Following the American Job Quality Study, this report examines five dimensions: financial well-being; workplace culture and safety; growth and development opportunities; agency and voice; and work structure and autonomy.[5] Examining these dimensions separately is important because jobs may be strong in some areas and weak in others.

Employers shape these dimensions through decisions about compensation, benefits, scheduling, leave, advancement, and the organization of work. Some practices can improve worker well-being, retention, productivity, and other business outcomes, but their effects depend on context, implementation, and how practices work together.[6] For very small employers, the relevant question is therefore not only which practices could improve job quality, but what financial, administrative, and operational support makes those practices feasible.

ABOUT THE EVIDENCE

How to Read the Evidence

This report draws on three complementary sources, each used for a different purpose:

Employer practices and constraints. AEO's 2025 EPOP Employer Module, fielded by NORC at the University of Chicago, is a probability-based, nationally representative survey of employers with one to nine W-2 employees. The analytic sample includes 131 employers and represents approximately 5.1 million businesses. Estimates account for the survey's complex sampling design and can be generalized to this population. Because some subgroup analyses are based on relatively small numbers of respondents, those estimates may have wide confidence intervals and should be interpreted with appropriate caution.

Worker experiences. Gallup's 2025 American Job Quality Study, fielded in 2024, includes 15,968 W-2 employees and provides the report's nationally representative estimates of worker experiences. Results are survey-weighted, and adjusted comparisons account for differences in worker demographics, industry, occupation, region, and employment arrangement. Because the survey is cross-sectional, these comparisons identify patterns associated with firm size, not causal effects.

Worker perspectives and implementation context. AEO's Employee Research Panel includes 750 workers in firms with fewer than ten employees. Because it is a nonprobability sample that overrepresents Black and Latino workers, it is used to examine within-sample patterns and possible mechanisms, not to estimate national prevalence. Interviews with a business advisor and an accountant provide illustrative context on how HR, benefits, and workforce practices operate in very small firms.

A Distinct Job-Quality Profile

Relational strengths and material gaps

To get a systematic understanding of job quality in very small businesses, we rely on public microdata from the 2025 American Job Quality Study (AJQS), the first large nationally representative survey to measure five dimensions of job quality at once, allowing us to ask what jobs in very small firms actually look like—dimension by dimension, and for whom.[7]

DEFINING THE TERMS

How this report defines job quality

Following the 2025 American Job Quality Study, this report examines five dimensions of job quality:

Financial well-being
Pay, benefits, and employment stability that support workers' basic needs and reduce financial insecurity.

Workplace culture and safety
A safe, respectful, and supportive workplace free from discrimination, harassment, and bullying.

Growth and development
Opportunities to learn new skills, gain experience, and advance within a job or career.

Agency and voice
Meaningful influence over decisions affecting pay, working conditions, and the use of technology.

Work structure and autonomy
Predictable hours, manageable workloads, and reasonable control over when and how work is performed.

The clearest way to see the trade-off is to watch the five dimensions as firms grow (Figure 1 below). The formal dimensions—financial well-being, growth, and work structure—climb steadily with firm size. The relational dimensions—agency and voice, and workplace culture—fall. Very small firms sit at the extremes: lowest on pay and formal opportunity, highest on voice and culture. The steepest single step for the formal dimensions comes early, between firms under ten and firms of 10 to 99—which is why the right benchmark for a microbusiness is another small firm, not a large business.[8]

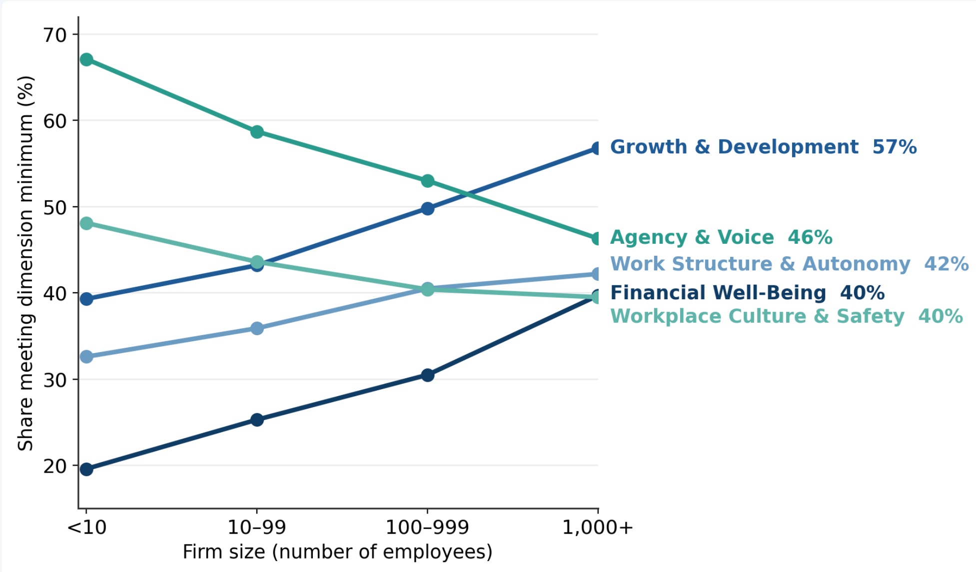

Figure 1. Share of workers meeting each job-quality dimension minimum, by firm size.

Source: Authors' calculations using the 2025 American Job Quality Study public-use microdata (AJQS 2025).

Netting out composition leaves the same picture (Figure 2 below). After adjusting for worker demographics, industry, occupation, and job characteristics, very small firm workers remain well behind on financial well-being and growth, are statistically indistinguishable on work structure, and remain well ahead on culture and voice.

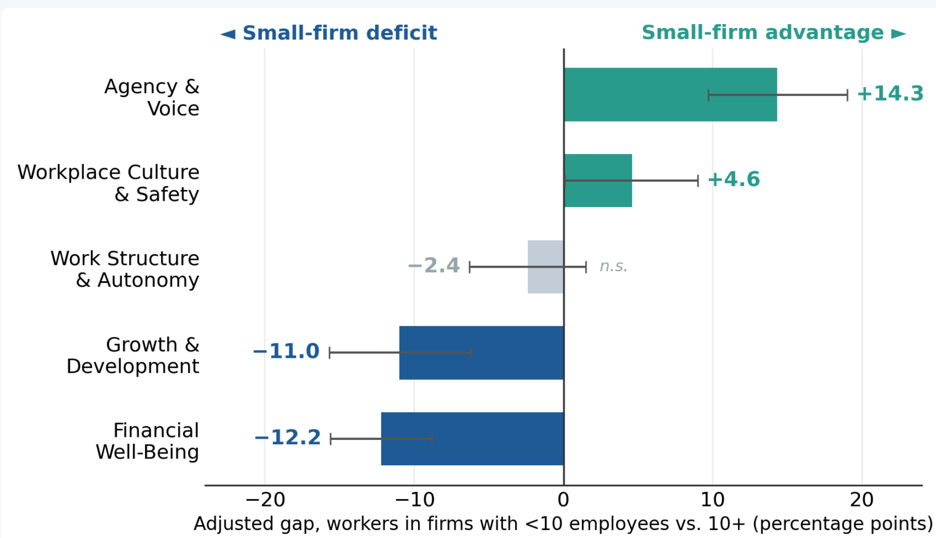

Figure 2. Adjusted firm-size gaps by dimension (<10 vs. 10+ employees).

Source: Authors' calculations using AJQS 2025. Notes: Linear probability models with controls for worker demographics, industry, occupation, region, and employment arrangement; error bars show 95 percent confidence intervals.

Benefits and financial security are the clearest deficits

The largest gaps concern material security and what employers formally provide. Compared with workers in larger firms, workers in very small firms are far less likely to receive health insurance through their employer, participate in a retirement plan, or have paid time off. They are also less likely to live in households above a modest earnings threshold. These are precisely the dimensions that are most difficult for a very small firm to address without access to larger risk pools, administrative systems, or more stable margins.

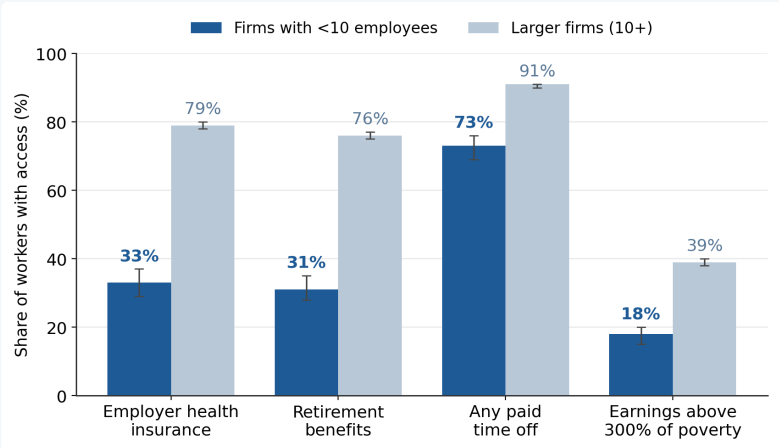

Figure 3. Access to employer-provided benefits and adequate earnings, by firm size.

Source: Authors' calculations using AJQS 2025. Notes: Weighted estimates; error bars show 95 percent confidence intervals. Adequate earnings are defined as household income at or above 300 percent of the federal poverty line.

Health insurance illustrates both the size and the structure of the gap. Eighty-six percent of workers in very small firms have some form of coverage, compared with 96 percent of workers in larger firms. The largest difference is the source: employer-sponsored coverage through the worker's own job falls from 79 percent to 33 percent. Public coverage absorbs part of the shortfall, but not all of it; the uninsured rate is 14 percent in very small firms, compared with 4 percent in larger firms. The policy question is therefore not only whether workers are covered, but how coverage is financed and maintained.

33% vs 79%

get employer-sponsored health coverage: very small firms vs. larger firms

14% vs 4%

uninsured rate, very small vs. larger firms

11% vs 3%

get coverage through the individual (self-purchased) market: very small vs. larger firms

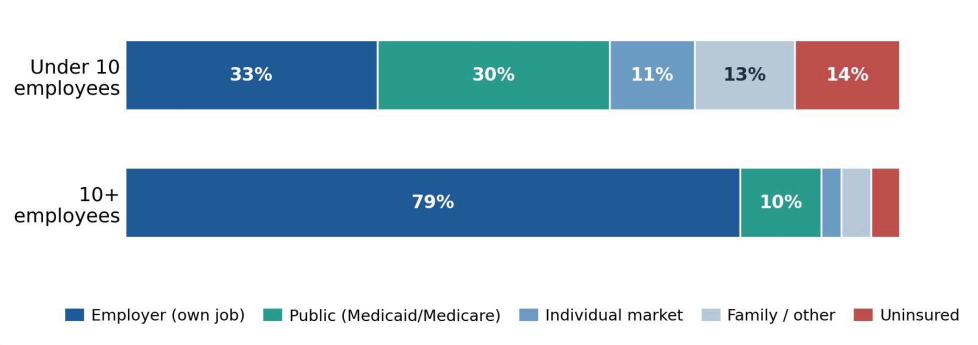

Figure 4. Source of health-insurance coverage, by firm size.
Source: Authors' calculations using AJQS 2025.

Formal training shows a similar pattern. Sixty percent of workers in very small firms received formal training in the past year, compared with 72 percent in larger firms. Yet workers in very small firms see similar potential for advancement and rate their learning environments nearly as strongly. The evidence suggests a gap in structured resources rather than a lack of interest or perceived potential—an area where shared or sector-based training could expand capacity.

> **60% vs 72%**
>
> received formal training in the past year, very small vs. larger firms. Yet very small–firm workers report similar advancement potential—**the gap is in structured resources, not ambition.**

Voice and culture are real strengths

The same analysis that identifies material gaps also identifies distinctive strengths.

Agency and voice are the clearest small-firm advantage. After adjustment, workers in firms with fewer than ten employees are 14.3 percentage points more likely to meet the agency-and-voice minimum—the largest adjusted difference across the five dimensions. They report more influence over compensation, working conditions, and technology decisions and a smaller gap between the influence they have and the influence they want.

> **Agency and voice are the clearest small-firm advantage—the largest adjusted difference across the five dimensions.**

Workplace culture is a smaller but still meaningful advantage. Very small firm workers report more supervisor support and belonging and less discrimination and bullying, producing an adjusted advantage of 4.6 percentage points.[9]

Work structure is more nuanced. Raw data show less stable hours and less advance notice in very small firms, but much of that difference reflects their concentration in hourly and nonsalaried work. Once salaried and full-time status are included, the firm-size gap in stable hours becomes small and statistically insignificant. Day-to-day autonomy and scheduling input, meanwhile, tend to favor very small firms. The evidence does not support a general claim that very small firms are structurally worse on scheduling; it points instead to meaningful variation in management practice within the sector.[10]

Overall satisfaction can mask offsetting dimensions

Workplace culture is the strongest driver of job satisfaction for very small firm workers — and it's a dimension where those firms lead. That one fact explains the satisfaction paradox: workers in very small firms report satisfaction on par with larger-firm workers despite weaker pay and benefits, because the thing that most shapes satisfaction is exactly where small firms are strong.[11] The material deficits lower the quality of these jobs, while relational strengths help sustain workers' overall assessments.

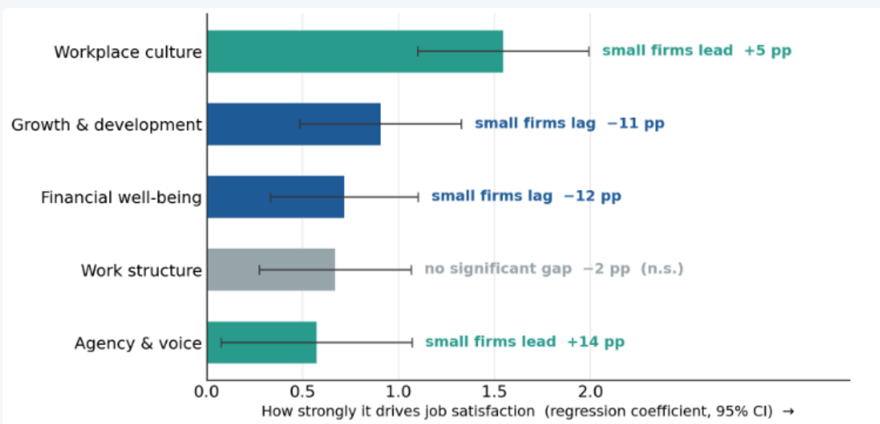

Figure 5. What drives satisfaction in very small firms.

Source: Authors' calculations using AJQS 2025.

Why Formal Job-Quality Gaps Are Hard to Close

AEO's EPOP:2025 Employer Module provides a nationally representative view of employers with one to nine W-2 employees.[12] It places the formal job-quality gaps reported by workers in their operating context. Firms at this scale often have thin financial cushions, little specialized HR capacity, and limited ability to navigate benefit markets designed for larger employers. These conditions do not explain every difference in job quality by firm size, but they help show why benefits and other formal workforce systems can be difficult to provide consistently.

Who very small employers are

The employer sample represents approximately 5.1 million businesses with 1-9 W-2 workers. Most are very small even within the under-ten category: 57 percent have only one or two employees, 30 percent have three to five, and 14 percent have six to nine. For 62 percent of owners, the business is the household's primary source of income.[13]

Ownership is also distributed across gender and racial and ethnic groups. Women own approximately half of these firms. An estimated 29 percent are Black-owned, 17 percent are Latino-owned, and 7 percent are owned by Asian or Pacific Islander entrepreneurs.[14] More than one-third of owners live in households earning less than $50,000 annually. These patterns mean that the design and delivery of policies affecting very small employers have important implications for gender and racial equity.

75%
report business stability and opportunities to grow skills

31%
have less than two weeks of operating cash

62%
rely on the business as the household's primary income

Financial capacity is limited. Approximately two in five firms report operating at a profit, one-third break even, and one in five operate at a loss. Nearly one-third have less than two weeks of operating cash, while fewer than one-quarter have three months or more. That limited cushion constrains the ability to absorb a temporary revenue decline, guarantee hours, add recurring benefit costs, or invest in new systems.[15]

Owners value the flexibility and purpose associated with running a business, but their own economic security is uneven. Eighty-seven percent report schedule flexibility, while 75 percent report business stability and opportunities to develop skills. Only 65 percent agree that their income meets their needs, and 59 percent feel supported by a network or community. Owner well-being and firm capacity are therefore closely connected to the conditions under which employees work.

The owner is often the entire HR function

In roughly two-thirds of very small firms, the owner or co-owner is the primary HR decision-maker. The same person may be responsible for production, sales, payroll, compliance, hiring, scheduling, and benefits. This concentration of responsibility is not evidence of poor management; it is the operating structure of a firm without specialized staff. It shapes what employers can implement and how much administrative burden a policy or program can realistically place on them.[16]

2 in 3

In two of every three very small firms, the owner or co-owner is the **entire HR function**—hiring, payroll, scheduling, benefits, and compliance all handled by one person.

Technology fills some gaps, but adoption is uneven across functions. Four in five businesses use at least one form of business software. Bookkeeping is most common at 46 percent, followed by payroll at 42 percent. Scheduling or time-tracking software is used by 25 percent, and benefits-administration software by 20 percent. In other words, many firms have digitized parts of their finances without developing comparable people-management infrastructure.[17]

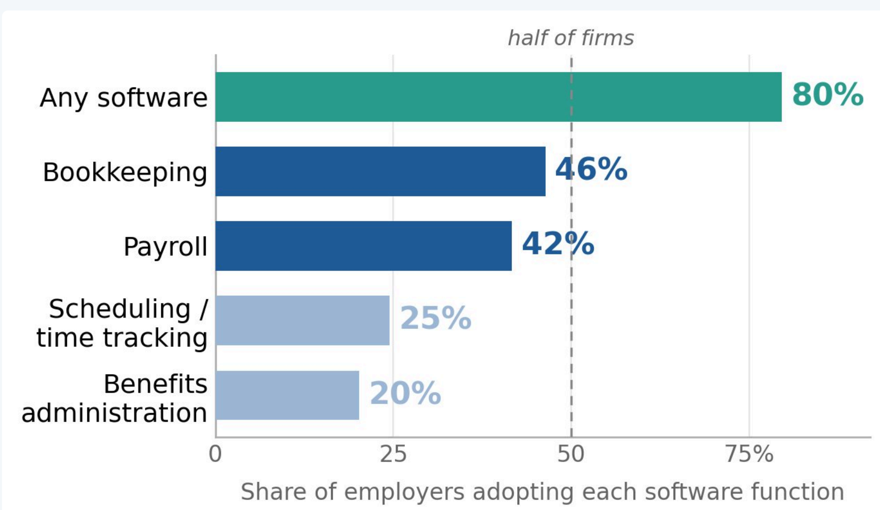

Figure 6. Share of very small employers adopting each software function.
Source: Authors' calculations using EPOP:2025 RUF.

Benefits are constrained by scale, administration, and price

Benefit provision is limited in both reach and depth. One in four very small employers offers health insurance, 18 percent offers a retirement plan, and 44 percent offers some form of paid leave. More than one-third—36 percent, or roughly 1.9 million businesses—offers none of these three core benefits. In those firms, workers bear more of the responsibility for securing health coverage and retirement savings and may have to take time away from work without pay.

25%
of very small employers offer employee health insurance

44%
offer some form of paid leave

17% vs. 59%
health-insurance provision rates in firms with 1–2 vs. 6–9 employees

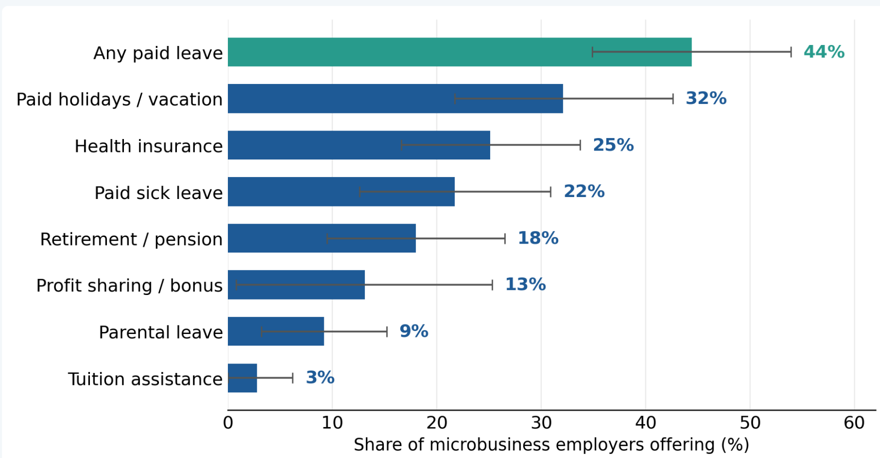

Figure 7. Weighted share of microbusiness employers offering each benefit.

Source: Authors' calculations using EPOP:2025 RUF. Notes: Weighted estimates; error bars show 95 percent confidence intervals. Core benefits are health insurance, retirement, and paid leave (holidays/vacation, sick, or parental).

Even when benefits are offered, they may provide limited financial protection. Among the employers in the sample that offer health insurance, none reported covering the full employee premium, and 84 percent cover less than half. Because the number of providing employers is small, these estimates should be treated as directional. Even so, they show why an offer rate alone does not fully capture the adequacy of the benefit available to workers.[18]

Firm size shows a clearer relationship with benefit provision than workforce composition does. The share offering no core benefit is similar for business owners with full-time, part-time, and mixed workforces. By contrast, health-insurance provision rises from 17 percent among businesses with one or two employees to 59 percent among firms with six to nine, while the share offering no core benefit falls sharply. The pattern suggests that even modest increases in scale are associated with substantially greater benefit provision within the under-ten category.

> **Even modest increases in scale are associated with substantially greater benefit provision within the under-ten category.**

Employers identify implementation as well as affordability as a barrier. Among firms that do not offer health insurance, 64.3 percent cite administrative burden and 59.7 percent cite premium cost. Approximately half also cite insufficient employee demand and plan complexity. These estimates do not establish that paperwork matters more than price in every case. They do show that lowering premiums alone would leave a substantial part of the problem unresolved; employers also need simpler plan selection, enrollment, and ongoing administration.

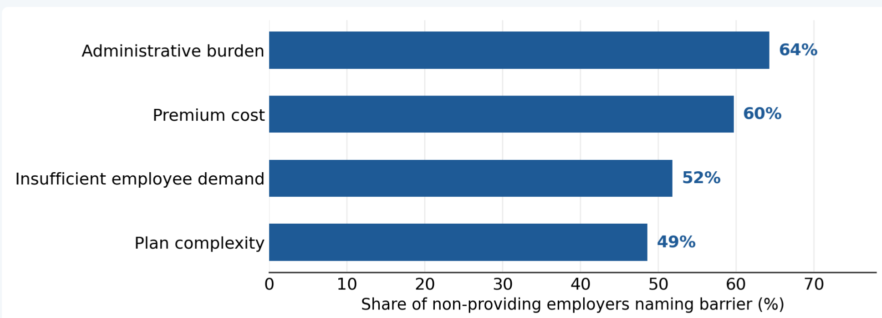

Figure 8. Barriers to offering health insurance among non-providing employers.

Source: Authors' calculations using EPOP:2025 RUF. Notes: Weighted point estimates; respondents could name multiple barriers. Standard errors are unavailable for this subpopulation because some strata contribute a single sampling unit, so confidence intervals are not shown.

Owners' own coverage reinforces this distinction between personal access and employer provision. Approximately 76 percent of owners have health insurance, compared with 25 percent whose firms offer it to employees; 58 percent have retirement coverage, compared with 18 percent whose firms provide a plan. The comparison does not reveal where owners obtain their coverage. It does show that protections owners secure personally or through other sources do not readily translate into benefits their businesses can finance and administer for employees. A smaller group faces insecurity on both sides: one in six has no employee health plan, cites premium affordability as a barrier, and lacks personal health coverage.

1 in 6

owners have no employee health plan, cite affordability as a barrier, and lack personal health coverage

Commitment shapes practice, but capacity sets limits

Low rates of formal benefit provision do not appear to reflect indifference toward employees. Owners place especially high value on helping workers through personal emergencies: 91 percent describe this as important, compared with 85 percent for offering competitive wages and 65 percent for providing formal benefits. Employers that rate emergency support as very important are more than twice as likely to offer paid leave, suggesting that informal support and formal benefits can reinforce one another.

Commitment, however, does not eliminate the constraints of operating at very small scale. Fifty-five percent of employers say they struggle to match the wages offered by larger firms, 48 percent struggle to match benefits, and approximately one-third face both pressures. These responses are consistent with the worker evidence: the largest gaps appear in the dimensions of job quality that depend most heavily on financial resources and formal infrastructure.[19]

BY THE NUMBERS

91%
rate helping workers through personal emergencies as important to motivating employees—vs. 65% for formal benefits

2×
more likely to offer paid leave when they value emergency support

41%
provide more than two weeks' notice and keep schedules consistent from week to week

55%
struggle to match larger firms' wages (48% on benefits)

Scheduling is a domain in which employers have more direct control, and practices vary meaningfully. Fifty-seven percent report providing more than two weeks' notice, 61 percent keep schedules consistent from week to week, and 41 percent report both practices. These estimates do not describe the experience of every worker in each firm, but they show that predictable scheduling is feasible for a substantial share of very small employers.[20]

Taken together, the evidence points to a distinction between **willingness and capacity**. Many owners place a high value on supporting employees, and some adopt practices that improve predictability and paid leave. But thin cash reserves, limited specialized staff, and administratively demanding benefit systems restrict what individual firms can provide consistently. This distinction frames the next question: where can changes in employer practice improve job quality, and where are pooled benefits, shared infrastructure, or public policy needed to extend protections beyond what a very small firm can provide on its own?

Firm-size patterns are not experienced equally

Average differences between very small and larger firms do not describe every worker or employer equally. The overall firm-size disadvantage appears across most worker groups, but its estimated size varies and is imprecise for several smaller subgroups. These results should not be used to rank groups; they show that average firm-size patterns can obscure meaningful heterogeneity and important gaps in the available evidence.

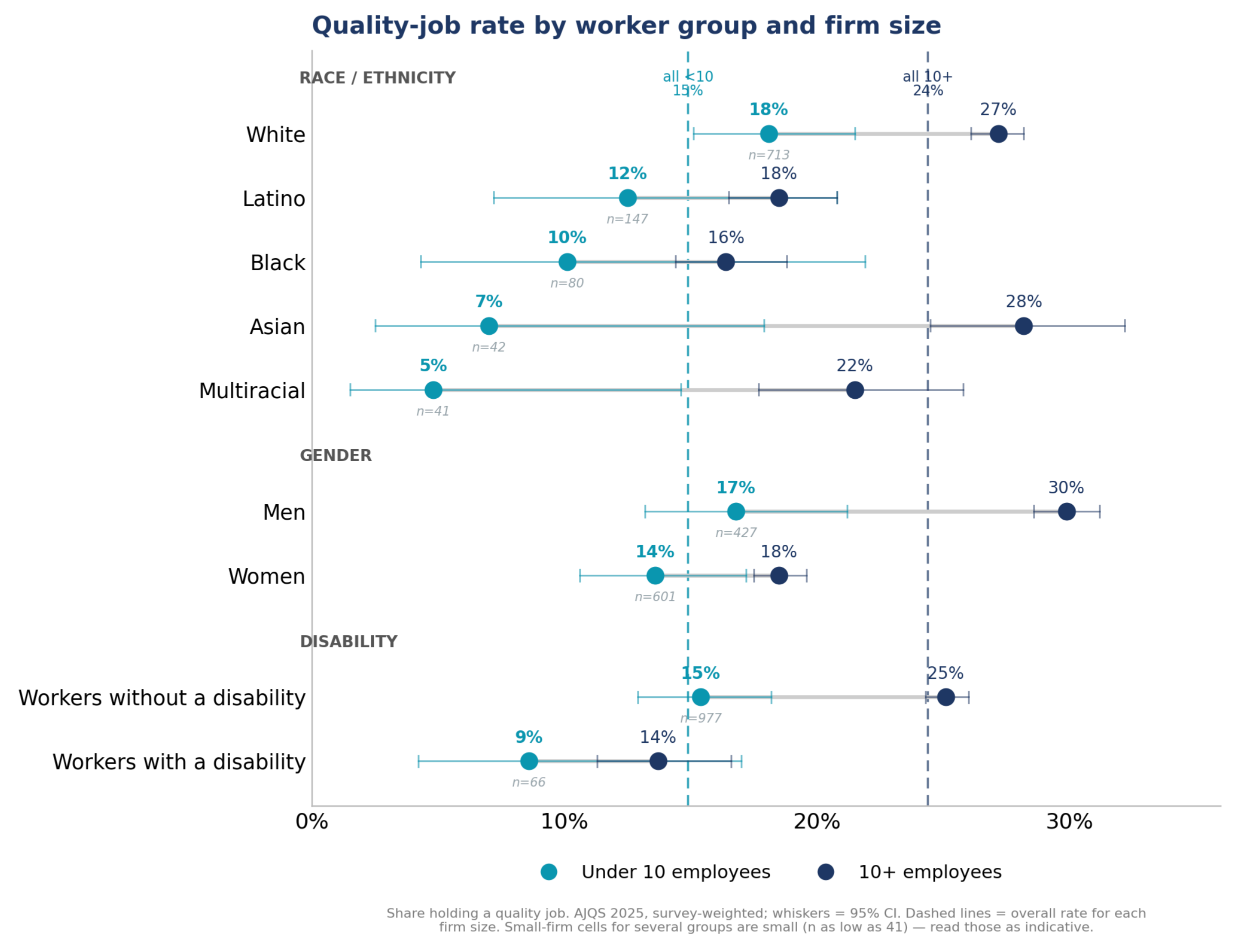

Figure 9. Estimated quality-job rates by worker characteristics and firm size

Source: Authors' calculations using AJQS 2025. Notes: Survey-weighted, 95% CIs. Dashed lines show the overall rate for each firm size. Cells in small firms are small for several groups and should be read as indicative. Categories reflect the demographic measures available in AJQS and should not be interpreted as homogeneous populations.

The subgroup analysis below identifies several places where the firm-size pattern differs or where constraints are especially concentrated. These results should be interpreted as evidence about access, conditions, and operating context—not as evidence about the preferences or commitment of particular groups.

Worker experiences vary within very small firms

Workers with disabilities appear less likely to share in the relational strengths associated with very small workplaces. Within firms with fewer than ten employees, workers with disabilities are 16 percentage points less likely than other workers to meet the minimum standard for workplace culture, with a possible additional gap in work structure. These findings raise an important concern: informal, relationship-based workplaces may not consistently provide equally supportive environments for workers with disabilities.

> **The workplace-culture advantage associated with very small firms does not extend equally to workers with disabilities.**

Gender differences follow a different pattern. Women in very small firms are more likely than men to meet the work-structure standard. This may partly reflect access to flexible or part-time arrangements, including for workers managing caregiving responsibilities. The advantage is narrow, however, and should not be interpreted as resolving broader gender disparities in pay, benefits, or advancement.

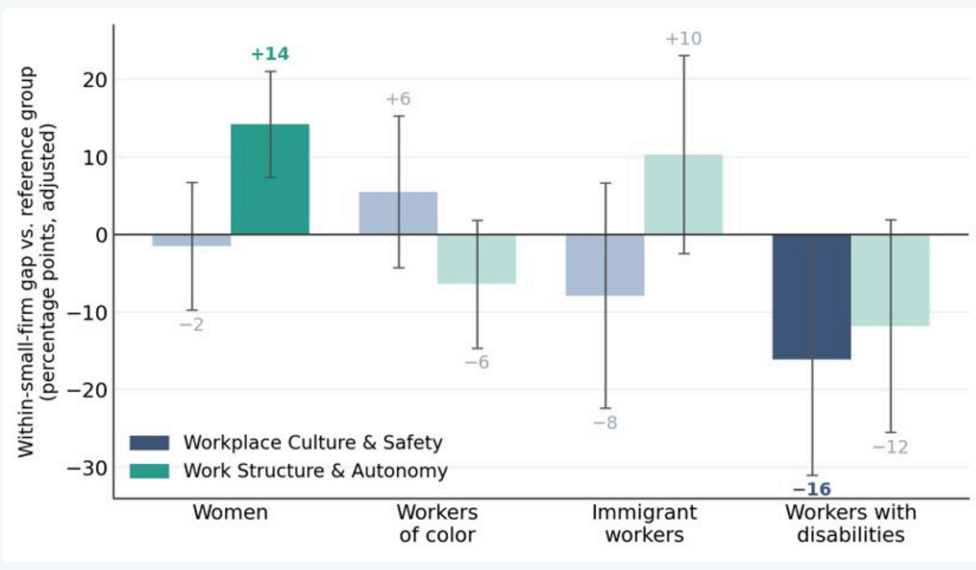

Figure 10. Gaps in workplace culture and structure by firm size.
Source: Authors' calculations using AJQS 2025.

The data do not show statistically distinguishable firm-size differences for workers of color or immigrant workers.[21] This does not imply that these groups experience equitable outcomes. Rather, the available sample does not allow the analysis to separate a distinctive firm-size pattern from broader inequalities.

Benefit constraints are concentrated among some employers

Employer subgroup findings identify where benefit gaps are concentrated; they should not be interpreted as evidence that some groups of owners are less committed to job quality.

The clearest pattern concerns women-owned firms. Women own approximately half of very small employer firms, yet women-owned firms are significantly less likely than men-owned firms to offer health insurance or any core benefit. Forty-nine percent offer no health insurance, retirement plan, or paid leave, compared with 23 percent of men-owned firms.

These comparisons are unadjusted and do not show that owner gender itself produces the difference. The pattern may reflect industry, firm age, margins, revenue volatility, access to capital, or other structural conditions. It nevertheless identifies where a substantial share of the benefit-access gap is concentrated and where policy solutions, pooled-benefit strategies, and administrative support could reach many firms.

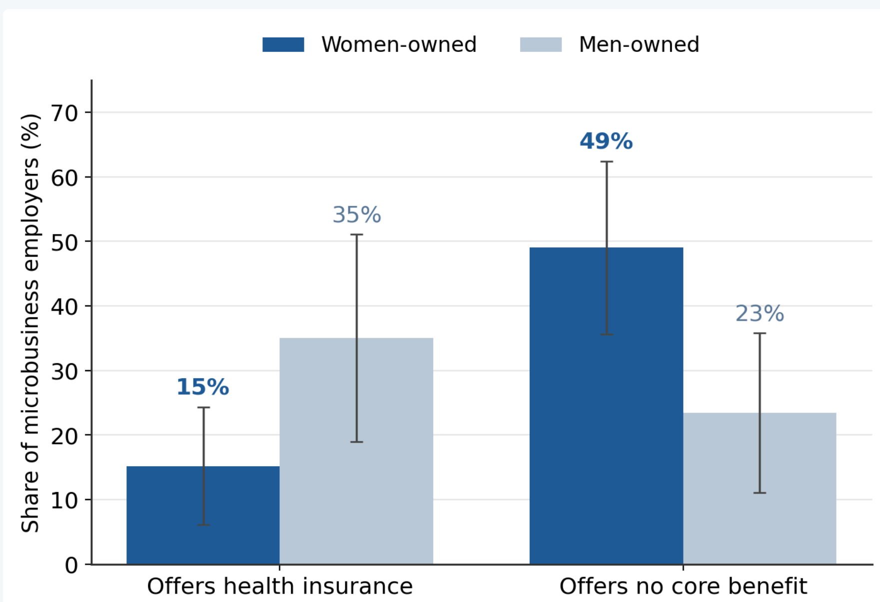

Figure 11. Benefit provision by owner gender.

Source: Authors' calculations using EPOP:2025 RUF. Notes: Differences are unadjusted; design-based F tests: health insurance p = 0.045, no core benefit p = 0.009.

Benefit estimates also vary by owner race and ethnicity, but the subgroup samples are not large enough to support reliable comparisons or a ranking of groups. Rather than infer differences in owners' practices or priorities from these estimates, the results identify a limitation of the current evidence. Future employer research should oversample groups that cannot be examined precisely and, where possible, avoid combining populations whose business conditions and experiences may differ substantially.

Taken together, the findings point to an equity challenge rooted in both worker protection and employer capacity. Workers should not have weaker access to benefits, accommodation, or stability because they work for a very small firm. At the same time, firms facing the greatest constraints may need support designed and delivered with the owners and communities it is intended to serve. An equitable strategy therefore combines portable protections for workers with accessible, hands-on support for employers—without treating either workers or owners as the source of the structural gaps the evidence documents.

> **Workers need portable protections. Employers need accessible, hands-on support. An equitable strategy provides both—and treats the gaps as structural, not individual.**

Where Firm-Level Practice Can Make a Difference—and What Makes It Feasible

The findings above establish an important boundary. Pay and benefits depend heavily on financial resources, purchasing scale, and specialized administration that many very small firms do not possess. Scheduling and operational systems are also constrained, but they vary meaningfully among firms of similar size and are more directly shaped by employer practice.

Better scheduling and systems are linked to better worker experience

Very small firm size does not, by itself, appear to produce less predictable scheduling. In the nationally representative worker data, the scheduling difference between very small and larger firms disappears once employment arrangement is taken into account. The more consequential variation appears within the very-small-firm sector, where employers differ in how far in advance they communicate schedules and how consistently they organize hours.

57%

of very small employers give more than two weeks' schedule notice

The clearest scheduling differences are not between very small and larger firms, but among very small employers themselves.

Employer responses reinforce this conclusion. Among firms providing more than two weeks' schedule notice, 81 percent report engaged and motivated employees, compared with 31 percent of firms providing less notice. This is the strongest association observed in the employer survey. The cross-sectional evidence does not establish that advance notice causes engagement—firms with stronger management capacity may differ in other ways—but it identifies schedule notice as a promising operational practice.

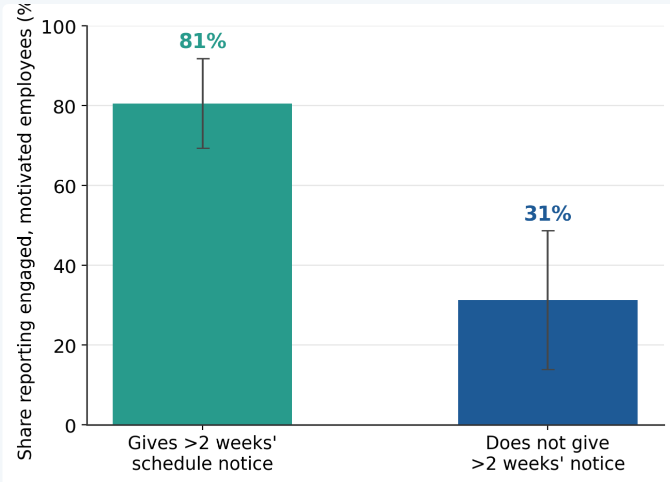

Figure 12. Employer-reported employee engagement by schedule advance notice.

Source: Authors' calculations using EPOP:2025 RUF. Notes: Weighted estimates; error bars show 95 percent confidence intervals; $p < 0.001$.

AEO's employee panel points to a broader relationship between operational capacity and worker experience. Within the sample, more developed payroll, pay-delivery, scheduling, and benefits-administration systems are associated with higher overall satisfaction, particularly with hour stability and schedule control. Moving from fully manual to fully online systems corresponds to an estimated increase of approximately 0.45 points on a five-point satisfaction scale.[22] Workers in more digitized workplaces are also less likely to rate their small-firm job as worse overall than employment at a larger firm.

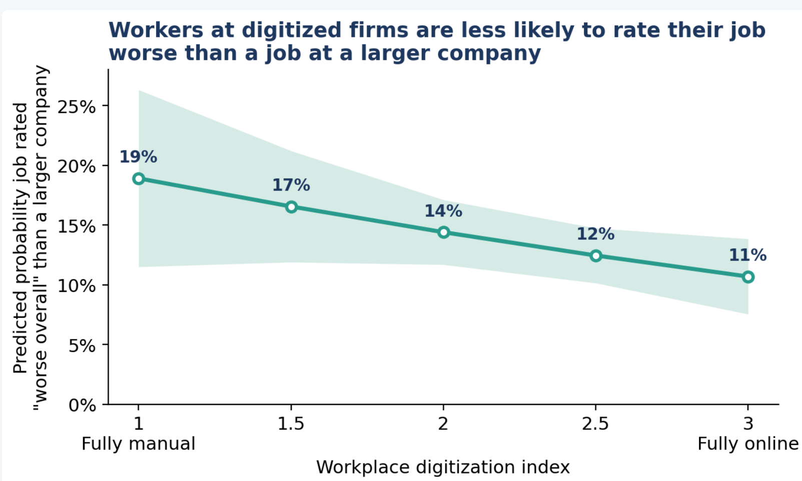

Figure 13. Predicted probability of rating the small-firm job "worse overall" than a larger-firm job, by workplace digitization.

Source: AEO Employee Research Panel. Notes: Predicted probabilities from a logit model holding benefits count, firm size, and demographics at observed values; shaded band shows the 95 percent confidence interval; N = 735.

Better tools require hands-on implementation

> **"Hire yourself first"**
>
> One practitioner's approach to establishing payroll routines before adding employees.

Practitioner interviews help explain why useful systems are not always adopted. Advisors described owners who begin with spreadsheets, bank statements, or informal routines and must first establish reliable bookkeeping, payroll, and recordkeeping before they can plan labor costs or expand formal employment. One practitioner described "hiring yourself first"—placing the owner on a regular pay cycle before adding employees—as one way to build that operational foundation. The example is not a universal prescription, but it illustrates why sequencing matters.

Software access alone is rarely enough. One business-support organization combines an accounting assessment and software training with individualized setup assistance, helping owners move from spreadsheets to a functioning system. An accountant similarly described bundling payroll, tax deadlines, permits, and insurance renewals into ongoing support so that owners do not have to track and coordinate each obligation separately.

> **Software access alone is not enough. Very small employers need trusted, hands-on support to turn tools into working systems.**

Trust and navigation are especially important for benefits. Practitioners described owners who struggle to compare plans, understand what coverage will provide in practice, and identify reliable intermediaries. A difficult experience can discourage further benefit provision even after an owner has decided to offer coverage.

Ultimately, better systems can expand employer capacity only when owners can select, configure, trust, and sustain them.

Taken together, the evidence points to two complementary needs. Very small firms require shared or publicly supported infrastructure for protections they cannot efficiently provide alone. They also need right-sized payroll, scheduling, recordkeeping, and HR systems paired with trusted, hands-on implementation support. Better tools can improve the daily experience of work, but availability alone is not enough.

Implications for Policy and Practice

The evidence supports a clear design principle: add formal protection and operational capacity without eroding the voice, flexibility, and close relationships that distinguish many very small workplaces. Employer size should shape how job-quality protections are delivered—not lower the standard of protection available to workers.

Different constraints require different responses. Some protections are best provided publicly or made portable across jobs. Others require pooled purchasing and shared administration. Still others can improve through better firm-level practices, systems, and implementation support.

Extend essential protections beyond the individual firm

Very small employers cannot efficiently provide every protection on their own. Public coverage and social-insurance programs can spread costs and risk across a much larger base while protecting workers whose employers lack the scale to administer formal benefits.

The affordability and stability of Medicaid and individual-market coverage are central to small-business job quality because workers in the smallest firms are much less likely to receive health coverage through their own jobs. Nearly half of adult individual-market enrollees are small-business owners or employees or are self-employed,[23] and in our data, uninsured rates were lower among workers in Medicaid expansion states. Policy should protect continuity as workers' income, hours, and employment change and provide enrollment and renewal assistance that does not depend on either the worker or the employer becoming an insurance expert.

DELIVER BEYOND THE FIRM

- Health coverage, paid family & medical leave, retirement, and HR support through public programs, regulated pools, or trusted third parties
- Reduce administrative burden, not just cost
- Judge by affordability, adequacy, portability, continuity & worker access

> **Nearly half of adult individual-market enrollees are small-business owners or employees or are self-employed.**

Publicly administered paid family and medical leave follows the same principle. A five-person business may be unable to finance an extended absence or operate its own insurance program, while a state or other pooled fund can spread risk and provide workers with more reliable income continuity. For workers in the smallest firms, public coverage and leave are not separate from job-quality policy. They are part of the infrastructure that makes basic protection possible.

Where employment rights or benefits depend on employer headcount, policymakers should also consider portable or publicly administered alternatives. Relational closeness and employer goodwill are valuable, but they are not substitutes for reliable access to leave, accommodation, or recourse.

Build shared benefit infrastructure around workers' needs

Benefits that require risk pooling, plan selection, fiduciary responsibility, and recurring compliance should be designed so that very small employers can participate without becoming benefits administrators. Potential approaches include pooled retirement arrangements, reimbursement-based health options, standardized purchasing platforms, and reforms to small-employer subsidies and tax credits. These approaches carry different advantages and risks and require separate assessment; the evidence supports the underlying objective of shared scale, predictable costs, and reduced administrative responsibility rather than any single product. Assessment of pooled and association-based arrangements should include comprehensive coverage standards, nondiscrimination protections, financial solvency, transparent pricing and broker compensation, provider access, and effective regulatory oversight.

SHARED-SCALE APPROACHES

- Pooled retirement arrangements
- Reimbursement-based health options
- Standardized purchasing platforms
- Reformed small-employer subsidies & tax credits

Reimbursement arrangements can make employer contributions more predictable, but they do not by themselves pool risk or guarantee adequate coverage. Their value depends on the affordability and quality of plans available in the individual market, and they can shift plan selection and enrollment responsibilities to workers. Supported pathways should therefore include independent plan comparison, assistance assessing subsidy eligibility, provider-network and prescription-drug checks, enrollment and reimbursement administration, and help with renewals, claims, and appeals.

Administration should be treated as part of the benefit itself. Lowering premiums while leaving comparison, enrollment, compliance, renewal, and troubleshooting with the owner addresses only part of the constraint documented in the employer survey.

These arrangements should also be assessed from the worker's perspective. High employer take-up does not necessarily produce adequate protection if coverage is unaffordable, difficult to use, or tied too closely to one job. Measures of success should therefore include worker enrollment, the worker share of premiums, deductibles and other out-of-pocket costs, covered services, provider and prescription-drug access, claims experience, portability, and continuity—not simply the number of participating businesses. Coverage should be judged by whether workers can afford and use it, not only by whether a plan has been offered.

DESIGN PRINCIPLE

Shared scale should raise—not lower—the protection floor

A health benefit is meaningful only when workers can afford to enroll and use it. Public, pooled, association-based, and reimbursement-supported arrangements should be assessed against a common set of worker-centered standards:

Affordability premiums, employer contributions, deductibles, and maximum out-of-pocket exposure

Coverage included services, exclusions, prescription formularies, and treatment limits

Access adequate provider networks, accurate directories, and reasonable access to needed care

Reliability solvency, claims payment, appeals assistance, and protection against unexpected coverage gaps

Continuity coverage that can be maintained through changes in income, hours, employer, or employment status

Usability clear comparisons and trusted enrollment, renewal, and troubleshooting support

Pair right-sized systems with hands-on implementation support

Very small firms also need practical infrastructure for the aspects of job quality they can shape more directly. Rather than presenting owners with an extensive menu of software products, business-support organizations can help them establish a basic operational foundation: accurate payroll, timekeeping, schedule communication, recordkeeping, and benefits navigation. Tools should be paired with individualized setup, practical templates, troubleshooting, and follow-up during the first months of use.

MAKE TOOLS STICK

- Right-sized payroll, scheduling, recordkeeping & HR systems
- Paired with trusted, hands-on setup and follow-up
- Fund the intermediaries that deliver it
- Track who is reached and whether workers benefit

Delivering this level of assistance requires greater investment in the small business support infrastructure itself. Public agencies, philanthropy, lenders, and technology providers should fund trusted intermediaries to offer hands-on assessment, implementation, troubleshooting, and follow-up. Funding models should recognize that this work is more intensive than providing a workshop or software referral and should cover shared HR expertise, staff training, technology costs, and sustained support during adoption.

Recent practice-based work offers concrete models for this approach. The Aspen Institute's Shared Success guide embeds job quality in ongoing business advising, while a Rutgers pilot supported by WorkRise integrates employment-law guidance with payroll, bookkeeping, and hands-on support delivered through community-based intermediaries.[24]

Shared HR professionals, cooperative service models, and technical assistance can provide specialized capacity without requiring every firm to hire it internally. Compliance assistance can be a useful entry point, but the goal should extend beyond avoiding penalties to building systems that improve reliability for workers.

Scheduling support should follow the same approach. Expectations for advance notice, core hours, and transparent shift management can be paired with simple forecasting tools, implementation assistance, and—where cash flow is a barrier—appropriate working-capital support. Standards should recognize the operating realities of very small firms without exempting their workers from the goal of predictability.[25]

Investments should prioritize intermediaries with established relationships in business communities that have historically had less access to capital, specialized advice, and business-support services. Programs should track who is reached, who successfully implements new systems, and whether workers experience greater stability and protection. Evaluation should also examine whether new technologies create unintended costs, increase surveillance, shift administrative work onto employees, or otherwise reproduce existing inequities.

Preserve relational strengths while making support more reliable

Direct communication, flexibility, and willingness to help workers through emergencies are meaningful strengths of many very small workplaces. Policy and practice should help firms preserve those qualities while making access to support more consistent and less dependent on individual discretion.

Simple written policies, payroll-linked emergency savings, and pooled hardship funds may help formalize emergency support. Any model should supplement rather than replace wages, paid leave, or insurance. It should also protect worker privacy and provide clear, equitable eligibility rules so that access does not depend on personal closeness to the owner.

PRESERVE WHAT WORKS

- Payroll-linked emergency savings & pooled hardship funds
- Clear, equitable eligibility—not personal discretion
- Design delivery with, not just for, the businesses served
- Partner with women's business centers, minority business orgs, CDFIs & chambers

Delivery should be designed with—not simply directed toward—the businesses and workers it is intended to serve. Our findings point to the need for broader partnership and careful monitoring of who gains access to new programs.

Women’s business centers, minority businessdevelopment organizations, CDFIs, chambers, and sector-based organizations can serve as trusted delivery partners. Their role should extend beyond outreach to helping shape program design, support implementation, and identify barriers encountered by participating firms and workers.

The path forward

A credible job-quality strategy for very small firms requires both **protection beyond the firm and capacity within it**. Public and pooled systems can provide benefits and rights that individual businesses cannot efficiently deliver alone. Right-sized tools, trusted guidance, and hands-on implementation support can help owners improve scheduling, payroll, communication, and other daily practices. The goal is not to make a five-person firm operate like a fifty-person company. It is to ensure that workers receive meaningful protection while helping very small employers build systems appropriate to their scale.

Conclusion

Very small firms are a major part of the labor market. The question is not whether they matter, but whether our policy and market infrastructure makes it possible for them to provide stable and secure jobs.

> **The question is not whether they matter, but whether our policy and market infrastructure makes it possible for them to provide stable and secure jobs.**

Across employer and worker data, the pattern is consistent. Very small firms often deliver higher voice, closer relationships, and more day-to-day autonomy. Business owners see their talent as critical, as the face of their business. But they fall behind on benefits, financial well-being, predictable work structure, and formal growth opportunities. Employers' own accounts point to the same constraints workers experience: benefits markets and compliance systems built for scale, limited administrative capacity, and cash-flow volatility that makes predictability hard to sustain.

The policy takeaway is straightforward. Improving job quality in very small firms should not require transforming them into large firms. It requires shared infrastructure that makes good jobs feasible at small scale—pooled benefits and compliance supports, predictable pay practices paired with liquidity tools, and technology adoption coupled with hands-on coaching. The evidence also suggests a promising design insight: noticeable gains appear even around ten employees, implying that "scale can be shared" rather than built only through firm growth.

This report provides an integrated foundation for next steps: deeper qualitative work, pilot design, and field-tested supports that can measurably improve benefits access and predictability while protecting the relational strengths that make small-firm jobs meaningful.

Endnotes

1 Authors' calculations from U.S. Census Bureau, 2023 Annual Business Survey: Company Summary, Employment Size of Firm (reference year 2022). Employer businesses account for 67% of employer businesses when considering businesses with 1-9 employees as percentage of all employer businesses with at least one employee.

2 The Bureau of Labor Statistics' National Compensation Survey publishes extensive information on leave, insurance, retirement, and other benefits, but its smallest detailed public establishment-size category is 1–49 workers. Firm-level Annual Business Survey microdata are available only as restricted-use data through approved research projects.

3 Jobs for the Future, The Families & Workers Fund, W.E. Upjohn Institute for Employment Research, and Gallup. (2025). American Job Quality Study: 2025 State of the U.S. Labor Force [public-use microdata]. Gallup.

4 NORC at the University of Chicago, Entrepreneurship in the Population (EPOP) Survey Project Restricted Use Data File: 2025 (October 2025).

5 Gallup. (2025). The American Job Quality Study: 2025 State of the U.S. Labor Force.

6 Erin L. Kelly, Hazhir Rahmandad, Nathan Wilmers, and Aishwarya Yadama. Employer Practices and Worker Outcomes: A Landscape Report. WorkRise, Urban Institute, 2022.

7 American Job Quality Study (Gallup, 2025; fielded 2024), N = 15,968 W-2 employees, survey-weighted; gap of 9.5 percentage points, $p < 0.001$. The quality-job measure is the conjunctive primary specification: passing at least three of five dimension minimums, with a Financial Well-Being veto. A caution carried throughout this report: the level of the quality-job rate is sensitive to index construction, ranging from roughly 6 percent to over 70 percent across reasonable specifications. The dimensional patterns and firm-size gaps reported here are stable across those specifications; the level is not. We therefore lean on dimensional gaps rather than the headline rate.

8 Dimension pass rates, <10 to 1,000+ firms: Financial 20%→40%; Growth 39%→57%; Work Structure 33%→42%; Culture 48%→40%; Agency & Voice 67%→46%.

9 In a model of job satisfaction on the five dimensions, Workplace Culture carries the largest coefficient for very small firm workers.

10 Hour stability (stable hours week to week): −9.0 percentage points raw; −4.5 with demographic, industry, occupation, and region controls; −2.7 and not statistically significant once salaried and full-time status are added. Advance notice of at least two weeks: −7.7 raw; −1.8 and not significant with the same controls. Salaried workers are 38% of very small firm workers versus 47% of larger-firm workers. The residual work-structure gap is driven by very small firms' concentration in retail and leisure/hospitality.

11 Mean job satisfaction is approximately 6.6 on a 10-point scale in both groups; difference not statistically significant. The association between financial well-being and satisfaction is stronger for very small firm workers than for larger-firm workers.

12 AEO funded and developed an employer survey module that was fielded as part of EPOP:2025. EPOP:2025 is a nationally representative, probability-based survey of entrepreneurship and business ownership in the United States. The AEO analytic sample includes 131 employers with one to nine W-2 employees, representing approximately 5.1 million businesses. All estimates are survey-weighted. See NORC at the University of Chicago, Entrepreneurship in the Population Survey Project Restricted Use Data File: 2025.

13 Sample composition (weighted): 1–2 workers 56.8% (95% CI 41.0–71.4); 3–5 workers 29.7%; 6–9 workers 13.5%. Business is primary household income: 61.9% (49.3–74.4). Women-owned: 49.9%. Owner race/ethnicity: 44.6% White, 28.5% Black, 16.8% Latino, 7.4% Asian/Pacific Islander, 2.8% another race or multiracial (non-Hispanic categories except Latino). Household income under $50,000: 36.5%.

14 Owner demographic estimates reflect the categories available in EPOP and the coding used for this analysis. Race and ethnicity are reported as mutually exclusive categories: Latino owners of any race and non-Latino White, Black, Asian or Pacific Islander, and another race or multiracial owners. The combined Asian or Pacific Islander category encompasses populations with distinct identities and experiences; sample size does not permit further disaggregation. Estimates are survey-weighted, and subgroup comparisons should be treated as descriptive unless accompanied by a design-based statistical test.

15 Financial status: 39.7% profitable, 34.6% break even, 21.7% operate at a loss. Operating cash: 31.3% hold less than two weeks (11.6% hold 1–7 days; 19.7% hold 1–2 weeks); only 22.7% hold three months or more.

16 Owner or co-owner is primary HR decision-maker: 67.7% (95% CI 54.9–80.4); in-house employee or manager 24.4%; external consultant 7.4%.

17 Any HR/payroll/scheduling software: 79.6% (95% CI 71.4–87.8). Specific functions: bookkeeping 46.4%; payroll 41.7%; scheduling/time tracking 24.5%; benefits administration 20.2%. Among non-users, the leading barriers are perceived adequacy of manual processes and lack of knowledge; cost ranks last.

18 Premium contribution among providers (unweighted n = 35; treat as directional): 45.3% cover less than a quarter of the employee's cost; 38.9% cover 25–49%; 15.8% cover half or more; none cover 100%.

19 Share agreeing (challenge battery): struggle to match larger employers' wages 54.6%; struggle to match benefits 48.1%; both at once 32.1%.

20 Scheduling practice (positively framed items; agreement indicates better worker experience): schedule notice of more than two weeks 56.5% (95% CI 43.9–69.0); consistent week-to-week schedules 61.2% (48.4–74.0); both 41.2% (27.5–54.8).

21 Workers of color were combined in one subgroup because the available samples did not support separate estimates. These combined categories include people with distinct identities and experiences and should not be interpreted as homogeneous groups.

22 These estimates describe associations within a nonprobability sample, and digitization may also capture broader differences in management quality.

23 KFF, About Half of Adults with ACA Marketplace Coverage Are Small-Business Owners, Employees, or Self-Employed.

24 Bryn Morgan and Maureen Conway, with Rossana Espinoza, Building Shared Success: A Guide to Small Business Job Quality Advising for CDFIs (Washington, DC: Aspen Institute Economic Opportunities Program, 2026); Hana Shepherd, Cynthia Ward, Andrew Wolf, and Zuhur Ahmed, Integrating Labor Standards Compliance with Small Business Technical Assistance: A Resource for Small Business Technical Assistance Offices (New Brunswick, NJ: Workplace Justice Lab, Rutgers School of Management and Labor Relations, 2026).

25 Morgan and Conway, Building Shared Success.

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The findings and conclusions are those of the authors and do not necessarily reflect the views of WorkRise, the Urban Institute, members of the Advisory Council, or their current or former organizations. Any remaining errors or omissions are the authors' own.

AEO Association for Enterprise Opportunity

About AEO Research

As the leading voice of innovation in microbusiness, the Association for Enterprise Opportunity (AEO) has an extensive history of conducting research that aims to understand, support, and promote the interests of underserved nonemployer, small, and microbusinesses. For more than 30 years, AEO and its member and partner organizations have helped millions of underserved entrepreneurs in starting, sustaining, and growing their businesses. Together, AEO is working to change the way that capital and services flow to underserved entrepreneurs so that they can create jobs and opportunities for all.

WorkRise

About WorkRise

This study was funded by WorkRise, which aims to rebuild a more equitable and resilient labor market that expands opportunity and economic mobility for workers