



# JOBS IN EU MICRO FIRMS

This leaflet presents a summary of the most relevant findings to emerge from research and debate activities promoted by the European Foundation for the Improvement of Living and Working Conditions on employment and the quality of work in small and medium-sized enterprises (SMEs), with a particular focus on micro firms.

## Policy recommendations

- Micro firms need tailored strategies and policies in areas such as contracting, working time, exposure to physical risks, training provision, participation and consultation, in order for their employment and working conditions to be improved;
- Owners and managers of micro firms need access to more and better information about training, contracting, health and safety aspects and social protection schemes;
- The information supplied should be informal and adapted to the requirements of the company, taking into account availability of time and costs;
- The role of the agencies and other intermediaries commissioned with the task of supporting these companies has to be seriously evaluated. Support should cover both economic and social development aspects;
- Employment, social and enterprise policies should take the specific cultural and local contexts of micro firms into account;
- Complementary policies on education, health, transport, environment and culture are essential to create and maintain a favorable environment for workers and entrepreneurs in micro and small businesses;
- There is an urgent need for further and more specific quantitative and qualitative information on employment in micro firms and for more effective use of a combination of both types;
- Conflicting definitions and classifications of enterprises make comparative analysis extremely difficult: concepts need to be clear, operational and adapted to reality;
- Further research on employment in micro firms requires a typology of these enterprises: sector of economic activity, development phase, legal status and other factors all need to be considered;
- Further research should include the candidate countries to the EU, as this will provide useful information on working life in Europe;
- Policy makers should take into account the fact that many micro companies operate in the informal sector, which has important consequences for working conditions and social policy in general.



## Policy framework

The entitlement to a job is recognised as a basic social right in the European Union. It aims to ensure that everyone has access to the basic goods and services needed for their own life maintenance and development. However, having a job is no guarantee in itself of good employment and working conditions. What about the quality?

Public policy can address the basic needs of education, training and the socio-economic environment. Ensuring the quality of work, however, requires innovative approaches from policymaking. Legislation cannot easily deal with issues such as the modernisation of work, job autonomy, job satisfaction or worker cooperation.

The increasing number of micro firms in the EU (see Figure 1) is reflective of the potential of this sector for job creation and its contribution to developing new forms of work: small entrepreneurs now represent 18 million EU citizens. Such enterprises have a significant socio-economic role to play at national, regional and local levels and they are linked to the key elements of the European employment strategy: entrepreneurship, adaptability, lifelong learning, innovation, and local development. It is therefore a challenge and an opportunity for EU institutions, governments and social partners to find new paths to develop this important sector in the economy, while at the same time aiming for better working conditions for employees and working owners.

## Foundation research

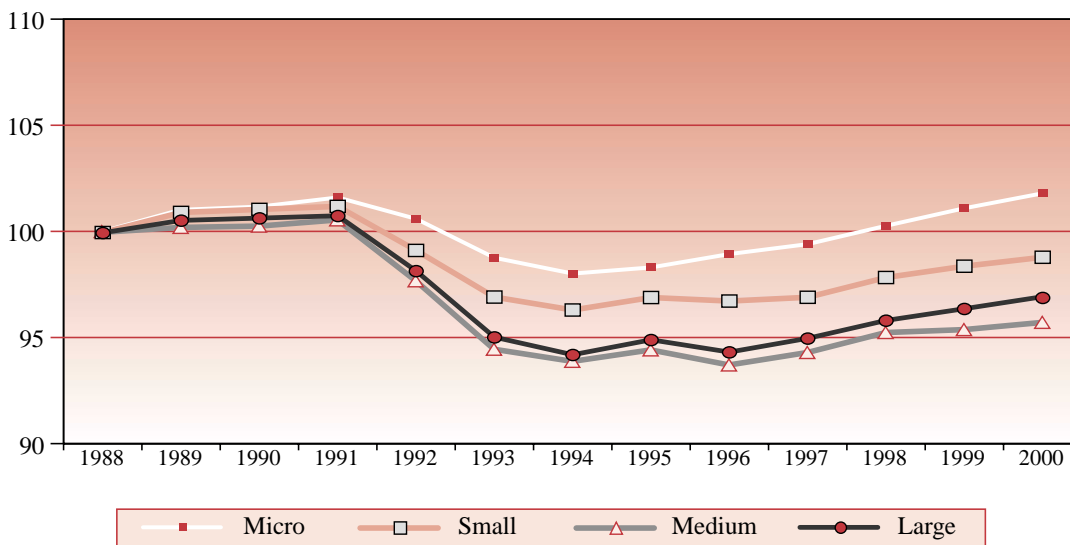
Recognising their potential for employment creation, the United States, Japan and some European countries have for a number of years been designing and implementing tailored policies, programmes and support strategies to promote the creation and development of small companies. By providing the necessary information, research has been contributing to their effectiveness.

Recent developments in European social and employment policies have led to a demand for information about the social dimension of work combined with the economic perspective. Up to now, research has mainly focused on the job creation potential of small businesses while overlooking the quality dimension of the jobs.

In order to address this gap, the Foundation initiated in 1997 a major research project into the quality of employment in SMEs, with a focus on micro firms. From the outset, the project has involved representatives of the European Commission (Employment and Enterprise DGs), the European Parliament, governments, social partners, NGOs, universities and research centres, as well as the OECD, the ILO and other European and international bodies.

The research was organised around three main activities: a pilot study, which identified the key areas to be examined; a comparative study of the situation in four EU Member States, which drew on data collected through the Foundation's European Survey on Working Conditions; and finally three annual workshops which identified areas to be developed in future research.

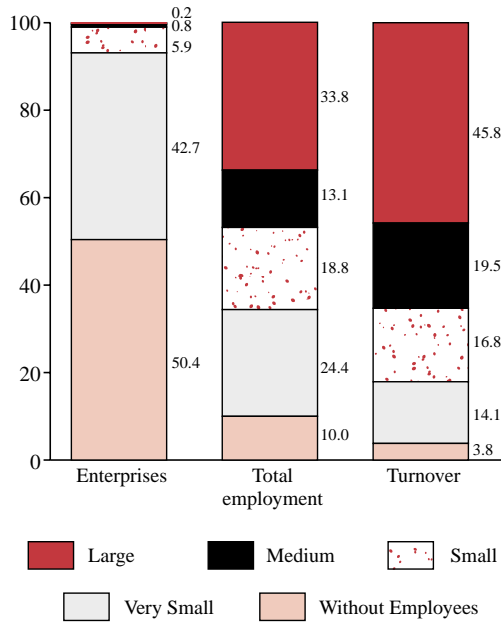
Figure 1 Evolution of employment in EU enterprises, 1988-2000 (index: 1988 = 100)



Source: European Commission (DG Enterprise), *The European Observatory for SMEs, Sixth Report, 2000*. Estimated by EIM Small Business Research and Consultancy.



Figure 2 *Enterprises in the European Union, 1996 – distribution by employment size class (%)*



Source: Eurostat, *Enterprises in Europe, Sixth Report: Key figures for 1996, 2001*.

The objectives of the Foundation research into micro firms were:

- To provide relevant and useful information for European policy makers on employment and working conditions in EU micro firms, taking into account their potential for job creation.
- To identify needs and pathways for future research in the field of employment and the quality of work in micro and small enterprises.

### Definition of micro firms

The classification of enterprises by company size varies from country to country and within countries, depending on the source of information and the

purpose of the collection or analysis. The reference for this research is the classification recommended by the European Commission in 1996 for EU statistics in accordance with the enterprise size-class based on the number of employees, as follows: without employees (0), micro or very small (1-9), small (10-49), medium-sized (50-249) and large (500 and over).

Micro firms, excluding enterprises without employees, represented 42.7% of all EU enterprises and 24.4% of total employment in 1996 (see figure 2). As figure 2 shows, employment trends since 1994 show an increasing number of people working in micro firms, even when the numeric negative effect on employment of micro enterprises that transformed into small enterprises (with 10 or more employees) is taken into account.

The research and debate carried out by the Foundation has led to the identification of the main characteristics of micro firms (detailed in the box below), which highlight simultaneously their importance in terms of job creation and the need to improve the working conditions.

### The pilot study

The aim of the pilot study was to identify the main issues to be addressed in the Foundation research into employment in SMEs. It consisted of the following parts: a literature review on the contribution made by SMEs to job creation; an analysis and proposal to study the job quality in this size of enterprise, based on a single country case study (Portugal) and using the data provided by the Foundation's European Survey on Working Conditions; a conceptual framework for the relationship between the quantity and quality of jobs in SMEs; and a proposal for a comparative study of employment and working conditions in micro firms and larger enterprises across the EU.

#### Micro firms (1-9 employees):

- Represent over 40% of EU enterprises;
- Employ a quarter of the workforce;
- Offer new employment opportunities;
- Account for the majority of start-ups;
- Are a source of and an opportunity for innovation;
- Facilitate the entry and re-entry into the labour market;
- Develop cultural identity;
- Boost entrepreneurship;
- Foster regional and local development.

#### *Their employment and working conditions need specific research and strategies since:*

- The workers generally have no representation;
- The employers/entrepreneurs have difficult access to information;
- The employer/working owner is often working closely with the employee(s);
- Social protection is not guaranteed;
- They often operate in the informal sector.

Table 1 *Employment in micro firms by sector of economic activity as a percentage of total employment \**

	<b>% of micro firms</b>	<b>% of total employment in micro firms</b>	<b>Sectors with employment above 20%</b>	<b>Sectors with employment between 10 and 20%</b>
France	42.5	22.9	Construction, trade and HoReCa, other services, business activities**	Industry and energy
Greece	43.8	30.0	Trade and HoReCa, business activities**, other services, construction, transport and communication	Industry and energy
Sweden	48.6	21.7	Business activities**, trade and HoReCa, Construction, other services	Transport and communication
United Kingdom	31.4	16.9	Construction, business activities**, Trade and HoReCa	Other services, transport and communication

Source: Eurostat, *Enterprises in Europe: Sixth Report. Key figures for 1996.*

HoReCa: Hotels, restaurants and catering.

\* with the exception of agriculture.

\*\* excluding financial intermediation.

The literature review showed on most criteria that small firms currently provide the bulk of employment in EU countries and that the average size of firms has been falling. It is evident that in most developed economies small firms have increased the overall number of jobs and hence the proportion of employment. What is less clear is whether these have been ‘good’ jobs. The nature or quality of those jobs has been much less frequently examined than the quantity, partly because of the absence of comprehensive data.

The research identified the main elements that might be important when examining job quality: the number of working hours, wages and other pecuniary benefits, type of payment, type of contract, job security, job duration, monotonous work, time to complete tasks, job satisfaction, worker autonomy, training provision, involvement in decision-making, and health and safety. With the exception of wages, information about all these elements by company size was already available from the results of the Foundation’s Second European Survey on Working Conditions (1995-96).

Based on the survey data, a total of 20 measures of job quality were selected and used for the country case study on Portugal. When compared to larger firms, job quality was found to be higher in micro firms concerning four aspects and lower concerning four. Workers in micro firms are less likely to be absent from work, are given more time to complete

tasks, have greater autonomy in their work and are subject to less direct control by the boss. On the other hand, workers in micro firms have fewer permanent contracts, are consulted less frequently over change, and are less likely to avail of either subsidised childcare or training.

### **The comparative study**

Based on the conclusions of the pilot study and using the Foundation survey data, a further analysis was carried out through a comparative study of employment and working conditions in micro firms compared to larger companies in four EU Member States: France, Greece, Sweden and the United Kingdom.

The focus on these four country cases aimed to highlight both the similarities and differences in working conditions between different sizes of enterprises within differentiated geographical, economic, social and cultural contexts. The choice was not based on easier access to information but rather on obtaining a representative group of countries where the smallest companies play a relevant socio-economic role or where there are indications that working and employment conditions need urgently to be improved.

For this comparative study, the researchers built a smaller set of 16 measures of job quality based, as for the case study on Portugal, on information



provided by the Foundation Second European Survey on Working Conditions (see Table 2 below).

One of the main obstacles encountered in this research was the use of different classifications of enterprises by size. The definition of micro firm, although recommended by the European Commission, is not systematically used across the EU. For example in Sweden, for this company size, data is collected on firms with between 1 and 4 employees and between 5 and 19 employees. In Greece and the UK there is little recognition of the micro firm classification and it is not used when disseminating information or designing policy.

Of the four countries, the lack of specific data on micro firms was particularly severe in Greece and least problematic in France. However, it was decided to maintain the country choice, since Greece is the EU country with the highest proportion of micro firms. Moreover, emphasising the need for more and better collection and access to information could be one important outcome of the study.

Employment and working conditions in micro firms were compared to those in other sizes of enterprises in the group of SMEs, as the socio-economic similarities between micro firms and SMEs could thus be highlighted. The reality is that when the micro firm grows and progresses economically, it then moves up to the next category. Socially, the aim

Table 2 *Measures of job quality*

Survey category	Measure	Main components
Conditions of Employment	1 Job security	Permanence of employment, perception of security
	Family-friendly measures	Provision of maternity leave, parental care leave, child day care, sick child leave
	3 Training provision	
Job characteristics	4 Unsocial working hours	Weekend, night and shift working
	5 Payment for working unsocial hours	Pay for additional hours, shift payments, payments for poor working conditions
	6 Task variety	Repetitive tasks, repetitive movements, monotonous tasks
	7 Work pressure	Speed of work, tightness of deadlines, stress
	8 Appropriate use of skills	Skills match
	9 Control over physical working environment	Control over temperature, light, ventilation, furniture position, equipment
	10 Job autonomy	Ability to take a break, to choose holiday times, having control over tasks, methods, machine speeds
	11 Job satisfaction	
Health and safety issues	12 Degree of physical comfort	Vibration, noise, high/low temperatures, fumes, heavy loads
	13 Mental health problems	Affected by stress, tiredness, lack of sleep, anxiety, irritability, personal problems
	14 Risks to physical health	Painful/tiring positions, heavy loads, backache, aching limbs
Social environment	15 Participation and consultation	Discussions with boss on performance, consultations at work, discussion of work-related problems with boss, colleagues, employee representatives
	16 Discrimination and intimidation	Violence, intimidation, discrimination by sex, age, race, unwanted sexual attention

Table 3 *Employment and working conditions in micro firms - results per country*

	<b>Job quality measure found to be significantly higher in micro firms</b>	<b>Job quality measure found to be significantly lower in micro firms</b>
France	unsocial working hours* risks to physical health* mental health problems* job autonomy	payment for working unsocial hours* training provision* participation and consultation* family-friendly measures job security
Greece	unsocial working hours* risks to physical health* job autonomy* mental health problems.	payment for working unsocial hours* training provision* job security* participation and consultation discrimination and intimidation job satisfaction.
Sweden	skills matching job job autonomy	payment for working unsocial hours * training provision* mental health problems* participation and consultation risks to physical health work pressure job security
United Kingdom	unsocial working hours skills matching job risks to physical health job autonomy.	training provision* participation and consultation* payment for working unsocial hours discrimination and intimidation work pressure monotonous/repetitive work job security

\*this was found to be very significantly higher.

as a first step would be to bring the working and employment conditions of workers in micro firms closer to those prevailing in other SMEs, which tend in general to be better.

The comparative study found that six of the sixteen measures of job quality do not seem to vary significantly with company size, as outlined below.

1. Family-friendly measures – the exception is France where these are less prevalent in micro firms.
2. Control over physical work environment.
3. Degree of physical discomfort.
4. Work pressure – with the exception of the UK where this is reported to be lower in micro firms.
5. Task variety – again the exception is the UK where it was found to be lower in micro firms.
6. Job satisfaction – the exception is Greece where a lesser degree is reported in micro firms.

From these results we can conclude that those six measures are probably related more to factors

arising from the nature of the economic activity where the firms operate. In contrast, the other ten measures of job quality do vary significantly when conditions in micro firms are compared to those prevailing in larger companies.

In all four countries, we can conclude that job quality is consistently higher in micro firms with regard to job autonomy but is definitively lower regarding working time, payment for working unsocial hours, physical health, job security, participation and consultation and training provision.

Other conclusions drawn from the comparison of working conditions within the four countries are:

- in Greece and the UK, discrimination and intimidation are reported to be lower in micro firms;
- in the UK and in Sweden, skills matching the demands of the job is reported to be higher in micro firms;
- in France and Greece, mental health problems are higher in micro firms, whereas in Sweden they are lower;



- in Sweden, workers report that risks to physical health and pressure from work are lower in micro firms.

### The international workshops

Another important contribution to the research on micro firms came from the annual international workshops organised by the Foundation on the subject between 1997 and 2000. The following questions for future debate emerged from these workshops:

1. Research and policy emphasis up to now has focussed on the quantitative (employment creation) rather than the qualitative aspects of work: is this due to an absence of comprehensive data and also because of a reluctance to make effective use of a combination of qualitative and quantitative data?
2. Research on working life in micro firms and SMEs needs to be related to the life-cycle of the company. To which phase should research focus on: the start-up phase? the developmental phase? The mature phase? The previous three years? The previous five years? What data is available on the different phases of the enterprise?
3. When studying working life in micro and small enterprises should all sectors of economic activity be covered or is it better to concentrate on specific sectors? Services? Manufacturing? Agriculture? Those sectors where micro firms are mostly represented?
4. What is the social and economic role of micro firms in the new economy? Is the emergence of the new economy, the threat of recession and possible new trends redefining the role of micro firms as a significant source of employment? Do the demographical and cultural changes in Europe tend to favour self-employment and the creation of new micro firms and small enterprises?

### Main conclusions from the research

- Analysis of the information by company size provided by the Foundation's Survey on Working Conditions shows clearly that workers in micro firms from the four selected countries report having more unsocial working hours, lower payment for those hours, less training, less consultation and participation, more risks for physical health and less job security.

- The debate provided evidence that there is a commonality on working and employment conditions such as pay, training provision, job security and job autonomy in European, Japanese and American micro firms.

- 'Micro employers'/working owners play an important role in the economy and their own working conditions cannot be underestimated.
- Micro business reflects very often the interests and needs of the local communities and can therefore contribute to the preservation of cultural identity.
- The new information and communication technology has not only increased the number of the smallest enterprises but also contributes to the development of networking.
- These firms can better perform their strategic role in the economy and in the society, in an environment of cross-sectoral and inter-organisational cooperation (with larger companies, professional associations, schools, universities, technological centers, financial institutions and other organisations).
- Competition, lack of expertise and overlapping of agencies and other intermediaries that support the smallest enterprises create confusion and lack of effectiveness of these services.
- Remarkably little information is available about micro firms, partly due to the difficulty of assembling authoritative quantitative data.
- Research on employment creation, working conditions and employment relations in micro and small firms can only be done from a multi-cultural (different regions, different countries) and from a multi-disciplinary approach (social, economic, legal, psychological, environmental, etc).
- Further research on the socio-economic development of micro and small firms will require a typology of these enterprises.
- It is difficult to study employment creation and quality of work in micro and small firms without considering the informal sector where most of these enterprises operate in part or for all of their life cycle, and which undoubtedly has repercussions for working conditions.

## The European Working Conditions Survey

The Foundation Survey on Working Conditions covers the total active resident population of the EU countries, aged 15 years and over, and the data is drawn from responses to a questionnaire administered face to face to a representative sample of that population. The fact that the Foundation survey includes company size as a context and structural variable and data from the 15 EU countries makes it unique for studies in the field of SMEs.

It uses the following six categories by company size: 0 employees, 1-9, 10-49, 50-99, 100-499, 500 and over. An advantage of applying the survey data to the research is that the survey isolates the micro firm (1 to 9 employees) as a distinct group and also differentiates it clearly from the enterprise with no employees, which has different social and economic characteristics.

### Information provided by:

- country
- sector of economic activity
- occupation
- form of employment
- gender
- age
- company size

### On the following:

- working time
- commuting time
- type of remuneration
- work organisation
- job satisfaction
- occupational risks
- information about risks
- health and absenteeism
- career development
- participation and consultation
- intimidation and discrimination
- work and family life

This leaflet was written by Filomena Oliveira, Research Manager at the European Foundation for the Improvement of Living and Working Conditions. The pilot study was carried out by David Storey and Mark Cowling at the SME Centre of the University of Warwick (UK), and the comparative study was undertaken by Technopolis, in conjunction with the University of Athens. A further study on employment relations in micro and small firms, carried out by IKEI in Spain, completed this Foundation research project.

### FURTHER INFORMATION

Information about Foundation publications is available on the Foundation website at [www.eurofound.ie](http://www.eurofound.ie). For further details on the research mentioned in this leaflet, you may contact:

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