



Employment relations in micro and small enterprises in the EU - literature review

Main results

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Introduction

This chapter is interested in providing a general European Union level overview of the different results related to employment relations in the small and micro enterprises within the different EU surveyed countries¹. For this purpose, the chapter will be divided in to main parts. Thus, subchapter 3.2 will provide a brief insight into some of the characteristics associated to micro and small enterprises that, according to different collected literature, have a clear influence on the nature of the existing employment relations within micro and small enterprises.

Subsequently, subchapter 3.3 will try to provide a summary of the main results collected in the different pieces of literature and national reports (see Annexes A and B), related always to the issue of employment relations within micro and small enterprises. In this sense, this subchapter will try to obtain a comprehensive picture of the available information within the different surveyed EU Member States, stressing the existing similarities and differences amongst countries.

Distinctive characteristics of micro and small enterprises vis-à-vis larger enterprises

Generally speaking, the conventional wisdom often suggests that employment relations in micro and small enterprises are easier and happier, since they are based on 'ease communication, flexibility of work roles and identification of worker with company objectives'². Obviously, this is not always the case, but nevertheless it certainly can be argued that the small size associated to micro and small enterprises imply a certain set of characteristics that make this type of enterprises different from larger ones.

These characteristics, that are presented next, have a clear influence on the nature of the existing employment relations within micro and small enterprises:

The central role that the entrepreneur, ³ very often combining the position of owner, manager, plays in the development of a micro/small enterprise. Thus, the entrepreneur's character, his/her skills and talents, his/her previous professional experiences and educational levels, his/her attitudes and objectives, etc, are at the heart of the small enterprise's behaviour, development and performance. This fact is important, since it may explain why employers have a strongly 'unitarist' view of the enterprise and of the relations between themselves and employees. In addition to this, and as one American study suggests⁴, it is important to recognise that the typical small business owner has a relatively large share of his/her wealth tied up in the business, and so the small business owner's wealth is very vulnerable to downside risk for the business. Therefore, it is not strange this 'unitarist' approach.

In most micro and small businesses, the entrepreneur combines in the same hands ownership, management and even production, in the sense that he/she very often works side by side with his/her employees⁵. In some

¹ That is to say, Denmark, Finland, France, Germany, Italy, Spain and the United Kingdom.

² Rainnie A, *Industrial Relations in Small Firms: Small Isn't Beautiful*, Routledge, London, 1989.

³ EIM & ENSR, *Fourth Report of the European Observatory for SMEs*, Zoetermeer, 1996.

⁴ Brown C et al, *Employers Large and Small*, Harvard University Press, Cambridge Mass, 1990

⁵ Stanworth, J and C Gray (eds), *Bolton 20 Years On: The Small Firm in the 1990s*, Paul Chapman Publishing Ltd, London, 1991

cases, this close connection of employer and employees, has often been mistaken for harmonious workplace relations⁶.

Linked to the previous point, the relative smaller number of employees⁷ in micro and small enterprises implies that employees are more 'visible' to their employers and vice versa. This fact may have positive or negative consequences concerning employment relations between employers-employees. Thus, and on the one hand, it is possible to argue that access to the employer and/or to other employees is easier in small enterprises (i.e. consultation). However, and by way of contrast, in case of conflict or dispute expressions these enterprises are especially vulnerable. Thus, conflicts are more difficult to be channelled through traditional ways (strikes, slow working, persistent lateness, absenteeism, etc). This fact results, when disagreements are persisting, in one of the parties leaving the enterprise (in case the conflict is between employee and employer, inevitably is the employee who will leave).

Micro and small enterprises are particularly characterised by a considerable importance of family involvement within employment⁸, either in the form of family members (i.e. assisting spouses) or individuals with family connections. Linked to this point, the informality of employment relationships permeates the whole of the labour process, from recruitment to motivation through to dismissal⁹, so it is not therefore strange that such enterprises exhibit, and incur the cost of, higher rates of labour churning.

As shown in a previous section, the labour force in the small enterprise sector is relatively distinctive in terms of gender, level of education or employment contracts characteristics, vis-à-vis the labour forces employed by larger enterprises and public sector organisations. This evidence surely has got an influence on the characteristics of existing employment relations. Thus, Rainnie suggests that the labour force that tends to work in the smaller enterprises get a rough deal from the operation of a dual labour market and are, therefore, far more open to the vicissitudes of arbitrary managerial rule than their relatively privileged counterparts in the primary sector¹⁰.

Generally speaking, micro and small enterprises are more economically vulnerable than larger ones, which in turn may have implications for achieving and maintaining stable employer-employee relations¹¹.

Notwithstanding this, it is important to avoid over-generalisations when referring to micro and small enterprises. Thus, the 'micro and small enterprise sector' concept can be highly misleading if it is taken to

⁶ Scott M et al, Management and Industrial Relations in Small Firms, Research Paper No 70, Department of Employment, London, 1989.

⁷ Stanworth, J and C Gray (eds), Bolton 20 Years On: The Small Firm in the 1990s, Paul Chapman Publishing Ltd, London, 1991.

⁸ Scott M et al, Management and Industrial Relations in Small Firms, Research Paper No 70, Department of Employment, London, 1989.

⁹ Storey DJ, Understanding the Small Business sector, Routledge, London, 1994.

¹⁰ Rainnie A, Industrial Relations in Small Firms: Small Isn't Beautiful, Routledge, London, page 5, 1989.

¹¹ Henderson J and R. Johnson, Labour Relations in the Small Firm, Personnel Management, December, 28-34, 1974.

mean some population of enterprises with a set of characteristics that separates them clearly from other enterprises in the economy¹². Thus, it should be had in mind that there are many forms and types of micro and small enterprises, depending on factors such as size, age, sector in which SME operate, role of the enterprise in the production process, technological contents, geographical location, entrepreneur's future expectations, employees' skills and levels of education, etc. Therefore, and as Storey points out, 'the small business sector cannot be considered as an homogeneous group'¹³.

DISTINCTIVE CHARACTERISTICS OF MICRO & SMALL ENTERPRISES WITH REGARD TO EMPLOYMENT RELATIONS

CENTRAL ROLE OF THE ENTREPRENEUR (OWNER, MANAGER, WORKER,...)

CLOSE RELATION EMPLOYER-EMPLOYEE (NOT ALWAYS HARMONIOUS)

EMPLOYEES MORE VISIBLE TO EMPLOYER (AND VICE-VERSA)

FAMILY INVOLVEMENT WITHIN THE FIRM AND ITS EMPLOYMENT

INFORMALITY OF MANAGEMENT AND LACK OF PROCEDURES

DISTINCTIVE EMPLOYMENT CHARACTERISTICS (GENDER, EDUCATION, SKILLS, CONTRACTS,...)

M&S ENTERPRISES ARE MORE ECONOMICALLY VULNERABLE

AVOID OVER-GENERALISATION: M&S ENTERPRISES ARE HETEROGENEOUS

An interesting example of this is given by the theoretical work conducted by Curran¹⁴, who suggests that the distinctive features of employment in services in contrast to manufacturing activities have got a direct impact on employer-employee relations in the micro and small enterprise. Thus, and according to him, much service employment involves direct contact with the customer, with production and consumption occurring simultaneously, what makes more difficult for the employer to control output quality and employee performance. This situation is absent in manufacturing activities.

Interestingly also, the work developed by Goss¹⁵ has tried to systematise some of the existing complexities of small firm employer-employee relations, bringing both employer and employee attitudes, actions and strategies into the analysis. In this sense, and according to him, employer-employee relations are subject not only to the employers' ability to control over employees and the labour process, but also to the ability of employees to resist the exercise of proprietorial prerogatives.

Thus, Goss's taxonomy shows two dimensions along which different forms of employer control can be categorised (see Figure 1). The first is the ability of the employees to resist the exercise of proprietorial prerogative, whereas the other dimension is the extent to which employers depend on their employees.

¹² Burrows R. and J. Curran, Sociological research on Service Sector Small Enterprises: Some Conceptual Considerations, in *Work, Employment and Society* 3,4, 527-539, 1989.

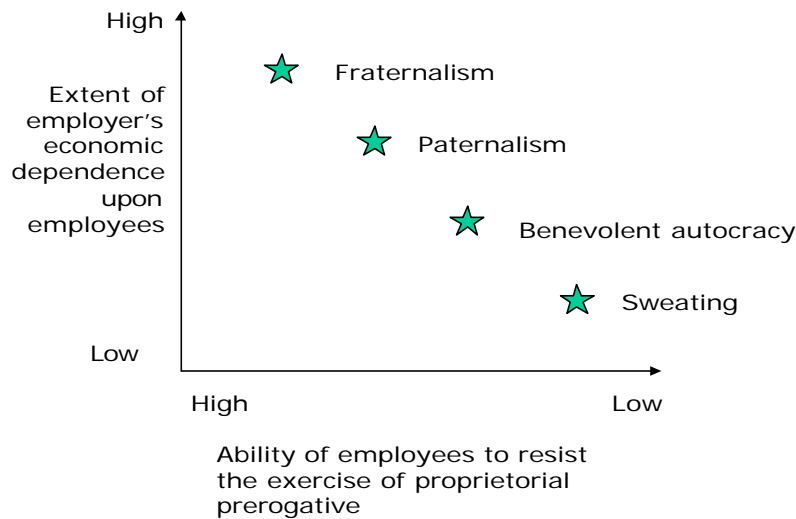
¹³ Storey, DJ, *Understanding the Small Business Sector*, Routledge, London, 1994.

¹⁴ Curran J, *Employment and Employment Relations*, in Stanworth, J and C Gray (eds), *Bolton 20 Years On: The Small Firm in the 1990s*, Paul Chapman Publishing Ltd, London, 1991.

¹⁵ Goss D, *Small Business and Society*, Routledge, London, 1991.

According to these two dimensions, Goss distinguishes four types of owner-manager control which depend on employee bargaining resources: fraternalism, paternalism, benevolent autocracy and sweating:

Figure 1: *Types of employer control in small firms*



Source: Goss (1991)

'Fraternalism': This control strategy is common where there is a high level of employer dependence on employees who provide skills and other inputs crucial to the success of the enterprise. This form of relation is typical in certain high-tech or advanced service enterprises, where differences between worker and boss are relatively modest. As it can be seen, this form of relation is not due to the personalities of those involved or good person-to-person relations, but rather an outcome of the particular productive circumstances.

'Paternalism': Goss derives this employment relation exclusively from the agricultural sector, where the employer is of higher social standing and the employees are dependant on employers for their livelihoods and even for housing, with little alternatives of employment in the area. Meanwhile, the employer is responsible for the well-being of the employee in a wide sense. Thus, paternalism as a control strategy tries to secure employee identification with the employer's aims by strong personal relations and mutual duties extending beyond work to life in general.

'Benevolent autocracy': Here, the employers' control is based on, actually, their role as employer. The closeness of the links between employers and employees is emphasised but only within the employment relationship, since the relation is not extended beyond the workplace. In this relation, people involved accept the imbalance of power between employer and employee as a fact of life rather than as a basis for struggle or negotiation where, at the same time, relations are relatively informal and friendly but always restricted to the enterprise's boundaries. According to Curran¹⁶, this type of employment relation is the most typical amongst micro and small enterprises.

¹⁶ Curran J, *Employment and Employment Relations*, in Stanworth, J and C Gray (eds), *Bolton 20 Years On: The Small Firm in the 1990s*, Paul Chapman Publishing Ltd, London, 1991.

'Sweating': This final form of employment relation is characterised by a dominant power by the employer and a weak position by the employee. Here, employers can replace employees easily and therefore have no incentive to develop narrow market relationships. Therefore, labour costs are more critical than labour stability or trustworthiness.

According to Curran¹⁷, 'benevolent autocracy' can be labelled as the most typical employment relation amongst micro and small enterprises where, according also to him, it is also possible to find more than one type of relation within the same firm and at the same time.

Collective representation

Employees' collective representation

Concerning employee collective representation issues within micro and small enterprises, in most surveyed countries very little precise data can be found on this topic, mainly due to the absence of such representation. From the limited evidence available, the following points can be observed to this respect:

In all the surveyed EU countries, the existing legislation establishes enterprise size limits under which employees' collective representative structures are not allowed or, at least, are not legally protected (see Chapter 2, point 2.3.2). In essence, it could be assumed that existing legislation increasingly supports the employers' power as enterprise size goes down, taking a step back and not wanting to interfere in the development of employment relations within the micro and very small enterprises. Thus, and just to give three examples, the German "Betriebsverfassungsgesetz" law excludes the possibility of a works council ("Betriebsräte) or a chief of works ("Betriebsobmann") protected by law for enterprises with less than five employees. Meanwhile, in Finland, the 'Co-operation within Undertakings Act' ("laki yhteistoiminnasta yrityksissä 725/85")¹⁸ is only applied in enterprises with at least 30 employees, although the law needs to be also followed by enterprises with at least 20 employees if the enterprise intends to dismiss at least 10 employees. Finally, the Spanish law states that there is no room for employee representation in enterprises with less than 6 employees, where a similar limitation exists for health and safety representatives. Having in mind the legal provisions on labour representation, it is not therefore strange that the percentage of Spanish enterprises with health and safety representatives increases with business size.

Table 1: Percentage of Spanish enterprises firms with health and safety representatives, by business size

H&S representatives	Business size		
	6-9 employees	10-49 employees	50-249 employees
Percentage of enterprises	13.3	35.5	68.4

Source: *3rd National Survey on Working Conditions. Ministry of Labour and Social Issues, 1999.*

¹⁷ Curran J, Employment and Employment Relations, in Stanworth, J and C Gray (eds), Bolton 20 Years On: The Small Firm in the 1990s, Paul Chapman Publishing Ltd, London, 1991.

¹⁸ This Law intends to develop the activities and working conditions of an enterprise by increasing the opportunities of employees to influence their own work and working place and by reinforcing mutual interaction of employers and employees.

All forms of councils and committees are less present in smaller firms. Thus, evidence from the UK¹⁹ points out that very few micro and small employers recognise trade unions (around 7%), so these employers adopt industry norms of pay and conditions that are negotiated elsewhere. Meanwhile, only a minority of firms (12 per cent) have any form of formal, elected workplace representative, whereas the remainder feel that the 'open door' policy or the informal, family environment of the firm means that such formality is irrelevant. In fact, and although an employer may recognise trade unions, this does not automatically mean that an official representative is present within the workforce. In fact, less than a fifth of the UK small firms who recognise trade unions actually have a worker representative on site.

Meanwhile, evidence from Germany²⁰ indicates that less than 10 % of the German small enterprises (2 to 49 employees) had established in 1990 a works council, whereas this percentage increases to 75% for those enterprises between 50 and 499 employees. Moreover, recent estimations²¹ for year 2000 point out that less than 2 % of the companies with 0 - 9 employees do have a works council, whereas this percentage goes up to 14 % amongst small companies (10 - 49 employees), 58 % of medium enterprises (50 - 249 employees) and 90 % of large companies.

In Finland, a country where collective representation of employees is well extended, it is possible to distinguish the shop-steward²² figure, voluntary in both large and small companies. Based on information given by SAK (Central Organisation of Finnish Trade Unions) most companies with over 30 employees seem to have a shop steward, and this share significantly reduces within micro enterprises (See Table 2).

Table 2: *Presence of shop-stewards in companies, by size classes in Finland*

Business size	< 9 employees	10-29 employees	30-100 employees
% of companies with shop-steward	30-40%	50%	90%

Source: *Based on a survey conducted by the SAK; Central Organisation of Finnish Trade Unions*

The lack of representatives has an influence too, both on the information given to employees and on the consultation process by employers to their employees. Thus, empirical evidence from Spain suggests that consultation procedures are more frequently used as firm size grows, so there is a positive relationship between employees' participation and business size (see Table 3). In addition, Spanish micro and small

¹⁹ Marlow, S and Strange, A. (2001), 'Regulating labour management in smaller firms: the case of the Employment Relations Act', Government and Policy, forthcoming.

²⁰ Hilbert, J./Sperling, H.J., Die kleine Fabrik (The small factory)- Beschäftigung, Technik und Arbeitsbeziehungen, Schriftenreihe Industrielle Beziehungen Bd. 2, München, 1990

²¹ Backes-Gellner et al, Wettbewerbsfaktor Fachkräfte - Rekrutierungschancen und -probleme von kleineren und mittleren Unternehmen (Skilled employees as competitive factor), Gabler Edition Wissenschaft: Schriften zur Mittelschandsforschung, Institut für Mittelstandsforschung, Bonn, 2000.

²² A general term for different types of collective representatives. The shop-steward system is regulated by various laws and orders. The system is based on agreements between the labour market organisations. The system will ensure the adoption of labour market agreements, the resolution of possible disagreements between the employer and employee, and dealing with other issues.

enterprise employees report that less information is shared and that its quality is bad²³. Because of this, when the micro and small employer shares information with their employees on a voluntary basis, this info is positively valued by the Spanish employees.

Table 3: *Consultation and participation procedures by firm size (in % of firms)*

PROCEDURE	Firm size				
	Less than 10 employees	10 to 49 employees	50 to 249 employees	250 to 499 employees	500 or more employees
Work organisation and planning	30.4	35.5	41.0	43.3	51.5
Introduction of new technologies	17.9	23.7	23.3	30.5	31.6
Choice of equipment	17.0	25.0	27.7	40.0	36.5
Working conditions determination	23.0	31.6	39.7	47.8	55.1
Prevention activities	14.9	24.2	44.1	57.2	70.4
Workers appointment	7.8	24.5	46.4	58.8	56.9
Training organisation	10.8	21.1	31.3	46.9	51.9
Other	1.2	1.7	4.6	5.4	4.2
DA	2.3	2.2	2.3	2.2	2.1

Source: *3rd National Survey on Working Conditions. Ministry of Labour and Social Issues, 1999.*

Several reasons are pointed out by the literature in order to explain this low presence of employees' collective representation structures:

As it was already suggested, legal provisions in most EU Member States explicitly establish minimum enterprise size thresholds that exclude smaller enterprises from the possibility to set up formal employee representation structures. Notwithstanding this, it is important to have in mind that, irrespectively of existing regulations, most micro and small enterprises' employees never exercise these collective representation structures.

It is clear that modes of representation in small firms are critically²⁴ inter-related with informality and the proximity of owners, managers and labour. As the French literature²⁵ suggests, and within micro and small enterprises, 'very little is written down', where employment relations are unstable because they are linked to personalities rather than to tasks and functions as it is the case in larger enterprises. Additionally, the Spanish literature²⁵ argues that physical and daily closeness with the employer enables relationships with him/her to be friendly, although it is believed that the situation is mostly used in the employer's own benefit.

²³ Toña Güenaga, A., "Información a los trabajadores sobre la empresa" (Information about the company to workers). PhD Thesis, Bilbao, 1995.

²⁴ Bentabet, E.; Michun S & Trouve P, *Gestion des hommes et formation dans les très petites entreprises* (2- Book: Manpower management in micro-firms), Collection des Etudes de CEREQ (Centre de Recherche et d'Etude sur les Qualifications), 01/01/1999.

²⁵ Blanco, J. and Otaegui, A., "Los trabajadores de las PYMES y la acción sindical" (SME workers and union action), in *Sociología del Trabajo*, No. 11, pp. 93-115, 1991.

Linked to the previous point, some authors argue that the personal relationships between the employer and the employees supposedly result in more effective communication taking place in small business and a higher degree of action freedom that may foster the enterprises' dynamism²⁶. This feature of small business employment relations is said to result in a higher level of job satisfaction. As a consequence, it is argued that there will be a lower level of demand for a collective voice provided by employees' representatives.

Collective action is not undertaken by labour also because the hostile perceptions that small business owners/managers have of unions, preferring to deal directly with employees than with unions²⁷. In this sense, micro and small employers often dislike interference from third parties on managerial prerogative and flexibility. This situation is aggravated, as the German literature²⁸ suggests, by the fact that it is quite usual to find a lack of candidates for representative functions within these enterprises, specially if the entrepreneur puts some pressure on the employees and they fear²⁹ retaliation. In this sense, some employers perceive union membership as a reflection of employee disloyalty³⁰.

Workforce composition in micro and small firms, characterised by a strong presence of young, women and temporary workers, also affects negatively the possibilities of engaging in collective actions by employees³⁰. Linked to this point, the relatively higher presence of family members or individuals with family connections within micro and small enterprises may also have an influence on the lower presence of trade unions within these enterprises³¹.

Unionisation rates amongst micro and small business employees are lower the smaller the enterprise is. In this sense, amongst micro and small enterprises it is more appropriate to refer to sub-representation of employees rather than to representation (Table 4 provides the most recent data in this respect). In any case, important differences can be appreciated by surveyed countries, where the highest rates can be found in the Nordic countries (i.e. Finland and Denmark).

²⁶ Barrett, R. and Buttigieg, D. "Trade Unions and Small Firms: Is it Size that Counts?", *Journal of Industrial Relations*, 1999.

²⁷ CFDT (Confédération Française Du Travail, Délégation PME), *Etude de la délégation sur les relations sociales dans les PME* (Research of the CGT on social relations in SMEs), Janvier 98.

²⁸ Wassermann, W., *Arbeiten im Kleinbetrieb* (working in a small firm) - Interessensvertretung im deutschen Alltag, on behalf of the Hans-Böckler-Stiftung, Köln, 1992

²⁹ Abbot, B. "Small Firms and Trade Unions in Services in the 1990s", *Industrial Relations Journal*, 24(4), 1993, pp308-317.

³⁰ Fita Ortega, F., "La pequeña y mediana empresa en el ordenamiento jurídico-laboral" (Small and medium-sized enterprises in the labour legal ordinance), 1997.

³¹ Auer P & Fehr-Duda H, *Industrial relations in Small and Medium-Sized Enterprises*, report to the European Commission, Berlin, 1988, quoted in Biagi M, *El Derecho del Trabajo en Pequeñas y Medianas Empresas* (Labour Law in Small and Medium Enterprises), in *Revista Española de Derecho del Trabajo*, nº63, 1994, Madrid

Table 4: Trade Union membership levels in micro and small enterprises

Country	Unionisation
Austria	Data not available.
Belgium	Data not available.
Denmark	High (87% in firms with 1-10 employees, against average of 88%).
Finland	Data not available (but likely to be relatively high, as overall density is around 80%).
France	Data not available (but thought to be relatively low).
Germany	Relatively low (in 1989, density stood at 5% in establishments with 1-10 employees and 23% in those with 11-100 employees, rising to 58% in those with over 2,000).
Greece	Low (estimated at about 2%-3%).
Ireland	Data not available (but thought to be quite low).
Italy	Data not available, with unionisation varying between geographical areas and high in areas with high levels of SMEs.
Luxembourg	Data not available (but thought to be relatively low).
Netherlands	15% in firms with less than 10 employees and 25% in those with 10-99 employees (compared with over 30% in larger firms).
Norway	In the private sector, 25% in companies with under 20 employees, 47% in those with 20-99 and 66% in those with 100 or more.
Portugal	Data not available (but thought to be relatively low).
Spain	Data not available (but thought to be relatively low).
Sweden	Data not available (but thought to be high).
UK	16% in firms up to 25 employees (38% in larger firms).

Source: *Eirobserver* 3'99.

The French literature³² argues that within small and very small enterprises, trade unions can even be badly seen by employees, as they are perceived as a disruptive element that introduces political conflict, create a hierarchy and becomes a source of rigidity. In addition, Spanish micro and small business employees prefer to have trade unions away from the workplace so that direct confrontation with the close and ever-present boss is avoided³³. However, this result is confronted with the low existing knowledge on the trade union's role amongst employees, as it is the case in France³⁴. By way of contrast, UK research³⁵ finds that a notable minority of micro and small employees would be interested in union representation, throwing some doubt upon owner perceptions of the efficacy of workplace communication.

³² Lepley B, Régulations sociales, relations professionnelles et petites entreprises - Etudes des facteurs constitutifs de la norme sociale dans le PE/TPE du secteur tertiaire (Social regulations, professional relations and SMEs - constitutive factors of the social norm in SMEs and very small firms of the third sector), GIP MIS (Groupement d'Intérêt Public sur les Mutations Industrielles), May 2000.

³³ Blanco, J. and Otaegui, A., "Los trabajadores de las PYMES y la acción sindical" (SME workers and union action), in *Sociología del Trabajo*, No. 11, pp. 93-115, 1991.

³⁴ CFDT (Confédération Française Du Travail, Délégation PME), Etude de la délégation sur les relations sociales dans les PME (Research of the CGT on social relations in SMEs), Janvier 98.

³⁵ Marlow, S and Strange, A. (2001), 'Regulating labour management in smaller firms: the case of the Employment Relations Act', Government and Policy, forthcoming.

In some countries with a high presence of trade unions (i.e. Finland, Denmark), it is possible to notice that, according to employees, the influencing possibilities of trade unions³⁶ on the working sites is clearly declining in all enterprise sizes, whereas employers' influence is increasing³⁷. Meanwhile, and as far as Denmark is concerned³⁸, the current trend to closer ties between the workers and the firm goes hand in hand with the workers' more and more distant relationship with their unions³⁸. In fact, many firms in the past few years have been working to create closer ties between the enterprise and their employees. The firms have focused on Human Resource Management (HRM) and made individual contracts circumventing the union representatives³⁹.

However, and despite this increasing importance of individual agreements amongst the Danish employees, high levels of collective organisation prevail within the Danish micro and small employees. Several explanations are provided to explain this result by the literature⁴⁰, such as the fact that the workers might feel more insecure working in a SME, the tradition for being a member and a general notion of solidarity among Danish workers and the particular Danish work ethics. Finally, the unions' role as craft organisations, creating a craft identity for the members, might be an important factor in keeping the unionisation level high.

In some countries (i.e. France), trade unions do not have any specific branch for small and very small firms (except the CFDT -French Confederation of Work-). Thus the very structure of the trade union is not adapted to SMEs and even less to micro-firms. This argument is also supported by the Spanish literature⁴¹, which suggests that Spanish Trade Unions have traditionally focused their attention on large enterprises, mainly because it is an easier and more rewarding job for them. This lack of interest could be related to the belief that small business employees do not have an interest in the "traditional representational services" offered by unions⁴² and to the difficulties and additional expenses involved in recruiting small business employees⁴³.

Besides formal representation structures, micro and small enterprises in some countries are also characterised by a relative importance of informal worker representation structures. Thus, in the German case⁴⁴, two

³⁶ Ylöstalo, Pekka Työolobarometri - Working Life Barometer. Työpoliittinen tutkimus - Studies in Labour Policy, Työministeriö - Ministry of Labour, Number 217. 8th Annual barometer report, Helsinki, 1999.

³⁷ Scheuer, Steen, Fælles aftale eller egen kontrakt i arbejdslivet, book, "Nyt fra Samfundsvidenskaberne", Institute of Organization and Industrial Sociology, Copenhagen Business School, Copenhagen, 1996.

³⁸ Hoff, Jens, Demokrati på arbejdspladsen - nogle empiriske pejlinger på medarbejderindflydelse i Skandinavien, (Democracy in the Workplace - some Empirical Measure of Employee Influence in Scandinavia), Project Paper no. 4, Institute for Political Science, University of Copenhagen, Copenhagen, 1994.

³⁹ Scheuer, Steen, Fælles aftale eller egen kontrakt i arbejdslivet, "Nyt fra amfundsvideenskaberne", Institute of Organization and Industrial Sociology, Copenhagen Business School, Copenhagen, 1996.

⁴⁰ Karnøe, Peter; Hull Kristensen, Peer & Houman Andersen, Poul (eds.), Mobilizing Resources and Generating Competencies, book, Copenhagen Business School and Kolding Business School, Copenhagen, 1999.

⁴¹ Fita Ortega, F., "La pequeña y mediana empresa en el ordenamiento jurídico-laboral" (Small and medium-sized enterprises in the labour legal ordinance), 1997.

⁴² Costa, M. and Duffy, M. "Trade Union Strategy in the 1990s", The Economic and Labour Relations Review, 1(1), 1990.

⁴³ Stanworth, J. and Grey, C. Bolton 20 Years On: The Small Firm in the 1990s, Paul Chapman, London, 1991.

⁴⁴ Hilbert, J./Sperling, H.J., Die kleine Fabrik (The small factory)- Beschäftigung, Technik und Arbeitsbeziehungen, Schriftenreihe Industrielle Beziehungen Bd. 2, München, 1990.

informal forms can be identified, that is to say, the “internal works councils” and the so-called ‘shadow participation’ structures. In both cases, the introduction of such informal structures is intended to disrupt the influence of trade unions while allowing the employees a certain degree of influence on the management. Examples include the “Monday roundtable” (Montagsrunde), a regular briefing/meeting at the beginning of the week for both entrepreneur and staff in order to discuss problems and circumstances related to the enterprise.

However, this type of informal participation structures in Germany is subject to several social and factual limitations. Thus, social limitations arise from the fact that mainly qualified personnel can take part. On a factual level, it is observed that issues relating to production and innovation are more likely to be discussed than, for example, issues relating to working conditions. In any case, it is perceived that informal participation erodes the basis for the creation of formalised worker participation and representation in SMEs, directly affecting therefore trade unions.

COLLECTIVE REPRESENTATION OF EMPLOYEES IN M&S ENTERPRISES
LEGAL PROVISIONS ON MINIMUM FIRM SIZE THRESHOLDS FOR COLLECTIVE REPRESENTATION IN ALL COUNTRIES
ALL FORMS OF COUNCILS AND COMMITTEES ARE LESS PRESENT IN SMALLER FIRMS
LACK OF REPRESENTATIVES LIMITS INFORMATION FLOW AND CONSULTATION PROCESSES TO EMPLOYEES
RATIONALE
MODES OF REPRESENTATION ARE LINKED TO INFORMALITY (APPARENTLY NO NEED FOR OFFICIAL STRUCTURES)
PROXIMITY AND VISIBILITY EMPLOYERS-EMPLOYEES IS SUPPOSED TO RESULT IN BETTER COMMUNICATION
FORMAL REPRESENTATION IS OFTEN PERCEIVED BY EMPLOYERS AS A SOURCE OF CONFLICT AND RIGIDITY
WORKFORCE COMPOSITION AND TEMPORARY JOBS MAKE DIFFICULT COLLECTIVE APPROACHES
UNIONISATION RATES ARE LOWER THE SMALLER THE ENTERPRISE IS
TRADE UNIONS ARE SOMETIMES BADLY SEEN EVEN BY EMPLOYEES (DISRUPTIVE ELEMENT, LACK OF KNOWLEDGE)
STRUCTURE OF T.U. IS NOT ADAPTED TO S&M FIRM CHARACTERISTICS
IN SOME COUNTRIES, INFLUENCING POSSIBILITIES OF T.U. ARE DECLINING IN ALL ENTERPRISE SIZES

Employers’ collective representation

Meanwhile, and from the employers’ point of view, it is also clear that the scarce available evidence on the topic suggests that micro and small employers show a lower propensity to engage themselves in business and employers’ associations (see Table 5). This factor, together with the lower degree of employees’ unionisation,⁴⁵ does not favour for instance the fulfilment of collective bargaining agreements negotiated at higher levels .

⁴⁵ Biagi M, El Derecho del Trabajo en Pequeñas y Medianas Empresas (Labour Law in Small and Medium Enterprises), in Revista Española de Derecho del Trabajo, n°63, 1994, Madrid.

Table 5: *Membership of employers' associations*

Country	Employers' associations and membership
Austria	Almost all firms are members of WKÖ, which also acts for SMEs.
Belgium	Data not available on membership.
Denmark	Membership among SMEs high (eg, DI industry employers' association represents 80% of companies in sector, and 95% of members are SMEs).
Finland	Data not available on membership
France	Up to two-thirds of SMEs belong to sectoral organisations.
Germany	Survey indicates smaller firms are less likely to join associations (45.8% membership in firms with five to 19 employees, 58.2% in those with 20-49, and 59.9% in those with 50-99).
Greece	Data not available on membership.
Ireland	SME membership of associations is low.
Italy	Data not available on membership.
Luxembourg	Data not available on membership.
Netherlands	Data not available on membership.
Norway	Data not available on membership.
Portugal	Data not available on membership.
Spain	Data not available on membership.
Sweden	Data not available on SME membership.
UK	SME membership of associations generally low.

Source: *Eirobserver 3'99*.

Thus, in the Finnish case, the micro and small companies are underrepresented in the traditional labour market organisations (i.e. the Confederation of Finnish Industry and Employers and the Employers' Confederation of Service Industry in Finland) in comparison to their share of the business population⁴⁶. In the Spanish case, micro and small business entrepreneurs are actually associated around CEPYME, an organisation independent from CEOE and that intervenes in labour policy determination. Unfortunately, no info is available on associates' figures. By way of contrast, Italian microenterprises (specially in some regions/sectors, i.e. craft industries in the Lombardy region) have a stronger trend towards becoming associated in comparison to their larger counterparts, where some of these⁴⁷ associations (i.e. API-Federation of Small Manufacturers) are involved in negotiations with trade unions.

⁴⁶ See annex 2, Finnish contribution.

⁴⁷ Bianchi Giuseppe (eds), *Secondo rapporto sulle relazioni industriali: anni 1995-1996* (Second Report on the Industrial Relationships: 1995-1996), Franco Angeli, Milano, 1997.

In addition, the available evidence from different EU members suggest the following:

- Sector is influential in determining whether UK firms⁴⁸ use business associations and organisations (i.e. textile manufacturers and engineering firms as very intensive users).
- The same sector differences can be appreciated in France, where collective action activities in certain economic activities (craft, transportation, fishing activities) is conducted through strong employers' associations and co-operatives⁴⁹. Meanwhile, employers in the remaining sectors are less unionised. In fact, the French public sector is trying to foster the development of employers' associations as an instrument for job creation.
- UK micro and small business employers do often resort to a wider network of institutions to seek for advice on legal and regulatory matters pertaining to labour management (i.e. professional consultants, the Advisory and Conciliation Service (ACAS), the Citizens Advice Bureau (CAB), etc)⁵⁰.
- German literature⁵¹ argues that enterprises not being members of sector associations (available for every sector in the economy) also have more conflicts with trade unions and possess to a lesser extent regular works councils. However, this evidence is not desegregated by enterprise size.

COLLECTIVE REPRESENTATION OF S&M EMPLOYERS

LOW PROPENSITY TO ENGAGE IN BUSINESS AND EMPLOYER ASSOCIATIONS

SECTOR CAN BE VERY INFLUENTIAL TO THIS RESPECT

M&S EMPLOYERS RESORT FOR ADVICE ON LEGAL MATTERS ABOUT LABOUR MANAGEMENT

Collective bargaining

Firstly, it is important to have in mind that the available specific data on collective bargaining in micro and small enterprises is very scarce in all the surveyed EU countries. In any case, it is possible to suggest that collective bargaining in micro and small enterprises is the exception rather than the rule in those EU countries characterised by decentralised collective bargaining systems, basically due to the fact that the existing rules are not usually applied within the smallest enterprises⁵² (see Table 6). This result may explain why, in practice, working and employment conditions are less regulated in these enterprises.

⁴⁸ Marlow, S and Strange, A. (2001), 'Regulating labour management in smaller firms: the case of the Employment Relations Act', Government and Policy, forthcoming.

⁴⁹ Lepley B, Régulations sociales, relations professionnelles et petites entreprises - Etudes des facteurs constitutifs de la norme sociale dans le PE/TPE du secteur tertiaire (Social regulations, professional relations and SMEs - constitutive factors of the social norm in SMEs and very small firms of the third sector), GIP MIS (Groupement d'Intérêt Public sur les Mutations Industrielles), May 2000.

⁵⁰ Abbott, B. (1998), 'The new shop stewards, the Citizens Advice Bureaux', Employee Relations, Vol.20, 6, 610 - 625.

⁵¹ Wassermann, W., Arbeiten im Kleinbetrieb (working in a small firm) - Interessensvertretung im deutschen Alltag, on behalf of the Hans-Böckler-Stiftung, Köln, 1992

⁵² Auer P & Fehr-Duda H, Industrial relations in Small and Medium-Sized Enterprises, report to the European Commission, Berlin, 1988, quoted in Biagi M, El Derecho del Trabajo en Pequeñas y Medianas Empresas (Labour Law in Small and Medium Enterprises), in Revista Española de Derecho del Trabajo, n°63, 1994, Madrid.

Table 6: *Collective bargaining coverage and characteristics*

Country	Collective bargaining coverage and characteristics
Austria	Data not available on coverage. Indirect/unofficial differentiation between SMEs and larger firms in sectoral bargaining in some industries.
Belgium	Data not available on coverage. Regional bargaining structures for SMEs set up in some sectors.
Denmark	Bargaining covers: 35% of enterprises with under 10 employees; 38% - 11-25 employees, 46% - 26-50 employees, 56% - 51-100 employees and 51% - 101-250 employees.
Finland	Data not available on coverage, but sectoral agreements can be extended to cover all firms in industry, including non-members of signatory organisations, which may often include SMEs (applies to 65% of private sector agreements).
France	Data not available on coverage, but: sectoral agreements may be extended to non-members of signatory organisations and total sectoral bargaining coverage is around 92%; and one in five company agreements are signed in firms with under 50 employees. Recently introduced procedure allows employees to be mandated to sign agreements in SMEs without union delegates.
Germany	Branch-level agreements cover 35.7% of western German private sector establishments with one to four employees, 56.5% of those with five to nine, 57.5% of those with 10-19, 59.9% of those with 20-49, and 70.3% of those with 50-99. Agreements may be extended to cover non-members of signatory organisations. A number of sectoral agreements have recently allowed some deviations from their provisions (eg on pay) for smaller companies.
Greece	Data not available on coverage, but higher-level agreements may be extended to non-members of signatory organisations, while company-level bargaining is very rare.
Ireland	Data not available on coverage, but thought to be low, with pay and conditions predominantly decided unilaterally by employers or through direct relations with individual employees.
Italy	Firms with fewer than 20 employees tend either not to be covered by bargaining or to be covered by national/sectoral bargaining. Those with 20-100 employees are mainly covered by sectoral bargaining, and those with more than 100 employees mainly by company bargaining. Over 1990-4, company agreements were signed in only 8.7% of small enterprises (20-99 employees), compared with 19.9% of medium-sized enterprises (100-499 employees) and 32.9% of large ones (more than 500 employees). Some development of local bipartite structures for SMEs.
Luxembourg	Data not available, but bargaining either absent or defines only minimal provisions in some key SME sectors (eg hotels and catering, retail and crafts).
Netherlands	Data not available, but SME coverage enhanced by extension of sectoral agreements to non-members of signatory organisations.
Norway	Bargaining covers 50% of employees in small enterprises (under 20 employees) and 68% in medium-sized enterprises (20-99 employees).
Portugal	Data not available on coverage, but agreements may be extended to non-members of signatory organisations and total bargaining coverage is around 94% of workforce (83% for sectoral agreements and government orders, specifically aimed at SMEs).
Spain	SMEs covered by bargaining in the same way as other companies, since sectoral agreements apply to whole industry and not only members of signatory organisations (though doubts whether agreements are actually implemented in many small companies). 40% of company agreements (covering 3.4% of workers) signed in firms with 50 or fewer employees.
Sweden	Agreements cover 70% of enterprises with up to 20 workers (95% for larger companies).
UK	Data not available (but thought to be low, with union recognition in only 12% of independent private firms with 10-100 employees).

Source: *Eirobserver 3'99*.

The previous information can be complemented with the following facts, reflecting the different national situations and, at the same time, some common features:

- In the UK, just 1 per cent of small business employees are covered by collective bargaining at any level, so collective bargaining taking place in small businesses is practically non-existent⁵³.
- In Denmark, and in relation to SMEs, the collective bargaining coverage is estimated to be lower than the average for the private sector (around 52% of employees)⁵⁴. Thus, in firms with less than 25 employees, only about 1/3 of the employees were covered by a collective agreement⁵⁵.
- In Germany, general agreements are quite commonly followed in micro enterprises, whereas house collective agreements can be found more often in larger enterprises (see Table 7). In addition, German literature⁵⁶ supports the view that individual wage settlements and agreements signed within the smallest enterprises are usually of lower quality (for the employees) if compared to the general collective agreement.

Table 7: *Types of collective agreements in Germany according to size classes*

	0-9 employees	10-49 employees	50-249 employees	250 and more
Sector agreement	68.6 %	77.4 %	74.3 %	62.8 %
House collective agreement	2.3 %	6.6 %	21.4 %	25.6 %
General agreement	30.2 %	16.8 %	8.6 %	11.6 %

Source: *Institut für Mittelstandsforschung Bonn (IfM), 2000*

In France, negotiations amongst SMEs are mainly related to working conditions (64% of cases)⁵⁷ and the enterprise's future projects (61%), whereas wages are negotiated only in 41% of cases⁵⁷. Meanwhile, in Finland⁵⁸ the most common issue is the flexible hours, i.e. the maximum duration of working day. Other common issues are also the local arrangements for bonus salaries, application of new payment systems and changes in job descriptions.

⁵³ Cully, M., Woodland, S., O'Reilly, A and Dix, G. (1999), 'Small Business Employment Relations' in Workplace Employee Relations Survey, Routledge London.

⁵⁴ Scheuer, Steen, Collective Bargaining Coverage and the Status Divide: Denmark, Norway and the United Kingdom Compared, Article published in *Industrial & Labor Relations Review*, vol. 50 no.3, April 1997.

⁵⁵ Scheuer, Steen, Fælles aftale eller egen kontrakt i arbejdslivet, book, "Nyt fra Samfundsvidenskaberne", Institute of Organization and Industrial Sociology, Copenhagen Business School, Copenhagen, 1996.

⁵⁶ Hilbert, J./Sperling, H.J., Die kleine Fabrik (The small factory)- Beschäftigung, Technik und Arbeitsbeziehungen, Schriftenreihe Industrielle Beziehungen Bd. 2, München, 1990.

⁵⁷ CJD (Centre des Jeunes Dirigeants), Dialogue Social - L'entreprise de tous (Social Dialog - the company belongs to all, 2000).

⁵⁸ Timonen, Sakari (1998) Paikallinen sopiminen pienissä ja suurissa yrityksissä. Esitutkimusraportti. - Local Bargaining in small and large companies. A pre-study report. Työhallinnon julkaisu - Publication of Employment administration, Työministeriö - Ministry of Labour, Number 207, Helsinki, 1998.

In Finland, and following the view of the SAK (Central Organisation of Finnish Trade Unions), most micro and small companies do seem to follow the collective bargaining acts, although a small group of the smallest companies is openly against all kind of collective bargaining acts, specially in certain sectors such restaurants, retail companies, construction and transportation companies. It is the SAK's view that this may be a result of the lack of⁵⁹ understanding and knowledge of the collective bargaining acts and their regulations in small enterprises .

Also in Finland, some authors have suggested that it is possible to notice a trend from a centrally organised system towards sectoral and firm-level bargaining systems, where increasing emphasis is being placed on team or individually negotiated bargaining and 'market-oriented forced agreements', that is to say, agreements regulated by the market conditions⁶⁰ . In the Finnish smaller companies, this trend is also aggravated by the fact that it is becoming increasingly difficult to find persons willing to act as shop-stewards (see previous subsection). Several reasons are suggested to explain this⁶¹ : First, the difficult dismissal negotiations where the shop steward is expected to participate (that were rather common during the recession in the early 1990's); second, the demanding task for a shop steward to be aware of the different labour regulations as well as opportunities; third, and perhaps more significant, there is a growing trend amongst Finnish employees to agree on matters individually without a shop steward. However, it is worth mentioning that this development is not altogether welcomed by the employers, as they fear that this trend may decrease the effectiveness of local bargaining during the long run.

In Italy, data from ISTAT on the craft sector bargaining at national level during the period 1995/1999 suggest that bargaining is strongly correlated with firm size. Thus, and whereas 3.3% of the Italian firms between 10-19 employees have bargained, this percentage increases up to 61.1% for firms with 500 and more employees. Differences on geographical localisation exist too: only the 4.3% of firms have been involved on business bargaining in the South regions, while this percentage is greater in the North ones. In particular, the percentage of small firms (size classes 29-49) in the North-East involved in the business bargaining is equal to 32.1%, greater than the national average.

Additional evidence from Italy⁶² for the metal sector shows that, in the Lombardy region, bargaining at enterprise level within micro and small enterprises (less than 50 employees) is practically irrelevant, since it only affects 4.4% of the employees, whereas this share increases with firm size. Moreover, and interestingly also, around 15% of employees had to resort to strikes and other forms of disputes to reach an agreement, although this 'pressure' modality is more present the larger the firms are.

In Spain, information related to enterprise agreements by firm size shows that agreements tend to be detrimental for micro and small business employees in terms of working hours or wage increases (see Table 8).

⁵⁹ Info reported in the Finnish report, see annex B

⁶⁰ Holm, Pasi (2000) Työehtosopimusten kattavuus, palkat ja työllisyys. - Covering of collective agreements, salaries and employment. SY-keskustelualoitteita - FFE Discussion, Suomen Yrittäjät - Federation of Finnish Enterprises, Internet-publication.

⁶¹ Timonen, Sakari (1998) Paikallinen sopiminen pienissä ja suurissa yrityksissä. Esitutkimusraportti. - Local Bargaining in small and large companies. A pre-study report. Työhallinnon julkaisu Number 207, Helsinki, 1998.

⁶² CISL-FIM-LOMBARDIA, La contrattazione articolata in Lombardia (The bargaining articulation in Lombardy), Quaderni dell'Osservatorio Sindacale (Sessione Speciale), Ottobre, 2000.

Table 8: *Number of enterprises' agreements, workers, wage increase and agreed average working hours in enterprise agreements, by enterprise size (*)*

Firm size	Agreements	Workers affected	Wage increase (agreed)	Wage increase (reviewed)	Average working hours
1 to 5 workers	34	137	1.89	1.99	1,768.5
6 to 25 workers	717	11,290	2.45	2.66	1,756.6
26 to 50 workers	689	25,681	2.40	2.63	1,743.0
51 to 100 workers	671	49,777	2.30	2.57	1,739.3
101 to 250 workers	731	118,170	2.33	2.65	1,736.2
251 to 500 workers	315	109,193	2.27	2.65	1,728.4
More than 500 workers	263	638,358	1.98	2.44	1,709.5
TOTAL	3,420	952,786	2.09	2.51	1,718

(*)Data by enterprise size are referred to the average number of employees affected by the enterprises' agreements, and not by the size of enterprises themselves.

Source: *Yearbook of Labour and Social Issues Statistics. Ministry of Labour and Social Issues, 1999.*

Notwithstanding this general negative relation between enterprise size and collective bargaining coverage, the available evidence on the topic points out that important sector/national differences can be appreciated on the extent of collective bargaining coverage amongst the smallest enterprises:

- German micro and small enterprises that apply general collective agreements voluntarily are usually part of sectors with high demand for qualified personnel⁶³.
- This situation is also observed in the UK case. Thus, empirical research⁶⁴ has found that textile and engineering businesses had some propensity to observe and even surpass industrial federation rates. The rationale for this is because enterprises in these sectors face a dilemma in attracting and retaining appropriately skilled staff so they are anxious to meet or exceed industry norms. Therefore, the impetus to move away from the prevalent forms of informality to observation of bargained or federation norms appears to arise from a complex interplay of individual owner preference, sectoral pressures and skill retention problems.
- In some sectors that have a long tradition of union presence, it is possible to suggest that collective bargaining agreements are expected to be followed by enterprises⁶⁵.

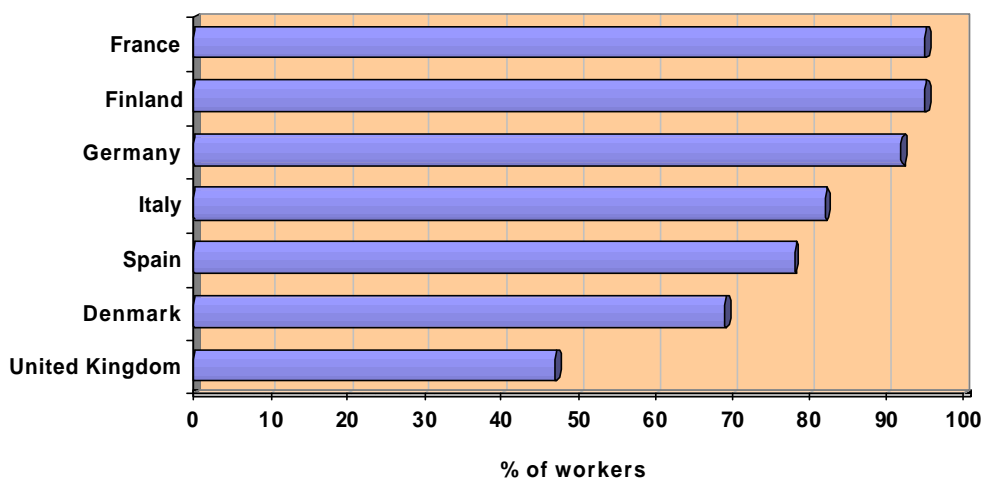
⁶³ Hilbert, J./Sperling, H.J., *Die kleine Fabrik (The small factory)- Beschäftigung, Technik und Arbeitsbeziehungen*, Schriftenreihe Industrielle Beziehungen Bd. 2, München, 1990

⁶⁴ Marlow, S and Strange, A. (2001), 'Regulating labour management in smaller firms: the case of the Employment Relations Act', *Government and Policy*, forthcoming.

⁶⁵ Scott, M, Roberts, I., Holdroyd, G. and Sawbridge, D. (1990), 'Industrial Relations in Small Firms', Department of Employment Research Paper, 70.

- Also the age of the firm can be influential. In Denmark, collective bargaining agreements are a lot more common the older the firm, and very seldom in new firms since, according to some research, when a collective bargaining agreement⁶⁶ has been agreed, it is very probable that that it will become an integrated part of the firm organisation .
- Additionally, it is important to have in mind that the existing national bargaining structures differ from country to country, as it was already explained in chapter 2. In this sense, the low bargaining coverage amongst micro and small enterprises is aggravated in those countries characterised by decentralised collective bargaining systems. Thus, in centralised systems, collective agreements are more widely applied because they are negotiated at high levels and then spread through all the inferior layers, that is, all the firms. By way of contrast, in decentralised systems exactly the opposite happens because collective bargaining takes place at enterprise level. But as it has just been mentioned, since workers are not properly organised and collectively represented in micro and small firms, a decentralised system would practically mean the lack of collective bargaining in these firms (see Figure 2).

Figure 2: *Collective bargaining coverage in several OECD selected countries, 1994*



Source: *OECD, Employment Outlook, Chapter 3 on Economic Performance and the Structure of Collective Bargaining, Paris, 1999.*

However, the question remains open whether a centralised collective bargaining system is more beneficial for micro and small firms than a decentralised one. Generally speaking, it can be argued that centralised systems are not necessarily better, since large enterprises are predominant in collective bargaining at centralised level, so these agreements do not take into account small firms' special and heterogeneous features. As a result of this, the special features of small firms when collective bargaining are ignored and the problems affecting these businesses are misunderstood.

⁶⁶ Scheuer, Steen, Fælles aftale eller egen kontrakt i arbejdslivet, book, "Nyt fra Samfundsvidenskaberne", Institute of Organization and Industrial Sociology, Copenhagen Business School, Copenhagen, 1996

Notwithstanding these considerations, Spanish micro and small enterprise employees do positively value collective bargaining at national level⁶⁷, since it helps to set the benchmark to individually negotiate their own conditions with the employer and at the same time, assess their position with respect to others.

From a rationale point of view, several reasons⁶⁸ related to the specific characteristics of employment relations in the smaller business sector can be suggested to explain why micro and small enterprise employers do not enter into formal enterprise bargaining processes. These include:

- The desire of employers to avoid negotiating enterprise agreements with the employees as a collective; the employers' belief that negotiating an enterprise agreement carries the risk of having to negotiate with a trade union/employee representative; and
- The employers' belief that the costly legal expenses involved in negotiating an agreement are not offset by the benefits gained through the process.

According to French evidence⁶⁹, a large majority of micro and small business owners/managers are expecting more flexibility in the social bargaining practices, which redounds in a negative attitude towards traditional bargaining practices in France.

It is suggested⁷⁰ that the higher presence amongst micro and small enterprises of atypical forms of employment, together with the low propensity of employers/employees to take part in collective representative associations, result in added difficulties for these employers/employees to engage themselves in bargaining actions.

Micro and small business managers as well as employees know generally badly the social and work legislation⁷¹, where this problem is aggravated by its lack of external contacts with peer colleagues and unions/business associations.

Bargaining in small and large companies seems to be of different nature⁷². Thus, bargaining in smaller companies is less official and often verbal. Secondly, in small companies there are not so many hierarchical

⁶⁷ J. Blanco and A. Otaegui "Los trabajadores de las PYMES y la acción sindical" (SME workers and union action), in *Sociología del Trabajo*, No. 11, 1991.

⁶⁸ Taken from Buultjens J & Howard D, *Employment Relations in Small Business: A Case Study of Registered Clubs in NSW*, paper presented to the 2000 International Council on Small Business, 2000.

⁶⁹ CJD (Centre des Jeunes Dirigeants) and Institute Euro-SMEs, *Dialogue social dans les PME - Représentation des salariés (Social Dialog in SMEs - representing the employees)*, interventions in the seminar 'Dans une société du contrat - négocier la flexibilité sans la précarité' (In a contract society - negotiating flexibility without precarity), 12th May 1997

⁷⁰ Biagi M, *El Derecho del Trabajo en Pequeñas y Medianas Empresas (Labour Law in Small and Medium Enterprises)*, in *Revista Española de Derecho del Trabajo*, nº63, 1994, Madrid

⁷¹ Marlow, S and Strange, A. (2001), 'Regulating labour management in smaller firms: the case of the Employment Relations Act', *Government and Policy*, forthcoming.

⁷² Timonen, Sakari (1998) *Paikallinen sopiminen pienissä ja suurissa yrityksissä. Esitutkimusraportti. - Local Bargaining in small and large companies. A pre-study report. Työhallinnon julkaisu Number 207, Helsinki, 1998.*

levels - in fact, the level of supervision of work was abolished from most small companies during the past few years. Thus, the information is exchanged directly between the workers and management.

In addition to this, the French literature⁷³ argues that these inter-individuals relations result in extra difficulties to build up collective actions or negotiations. Thus, an employee in a small enterprise will indeed have more difficulties than in a larger enterprise to strongly negotiate and then go back to his/her job, especially if there is any confrontation during the negotiation.

The Danish literature⁷⁴ even argues that, for the highly skilled employees, there might also be individual considerations in play that work against collective bargaining agreements, since the employee may feel that he/she might be able to negotiate better conditions individually than collectively. In addition, he/she may fear that collective bargaining might hinder his/her career ambitions. However, other Danish authors⁷⁵ suggest that this trend is common to all salaried employees, since they have a more individual orientation and push therefore for individual contracts and bargaining.

To end with this section, it is important to stress that any decision to observe collective agreements is subject to a complex and wide range of variables from owner attitudes to labour characteristics. In any case, it is also possible to argue that the available evidence suggests that collective bargaining is probably the exception and not the general rule in the EU micro and small enterprises.

⁷³ CFDT (Confédération Française Du Travail, Délégation PME), Etude de la délégation sur les relations sociales dans les PME (Research of the CGT on social relations in SMEs), Janvier 98.

⁷⁴ Scheuer, Steen, Fælles aftale eller egen kontrakt i arbejdslivet, book, "Nyt fra Samfundsvidenskaberne", Institute of Organization and Industrial Sociology, Copenhagen Business School, Copenhagen, 1996.

⁷⁵ Scheuer, Steen, Collective Bargaining Coverage and the Status Divide: Denmark, Norway and the United Kingdom Compared, Article published in Industrial & Labor Relations Review, vol. 50 no.3, April 1997.

COLLECTIVE BARGAINING IN S&M ENTERPRISES
COLLECTIVE BARGAINING IS THE EXCEPTION IN M&S ENTERPRISES, SINCE RULES ARE NOT APPLIED AGREEMENTS ARE USUALLY OF LOWER QUALITY COMPARED TO GENERAL C.A. CONTENTS OF AGREEMENTS IN M&S ENTERPRISES REFER MORE TO WORKING CONDITIONS AND TIME THAN TO WAGES IN SOME COUNTRIES, TREND FROM CENTRAL TO SECTORAL AND FIRM-LEVEL BARGAINING → IN M&S ENTERPRISES THIS IMPLIES INDIVIDUAL NEGOTIATION
RATIONALE
EMPLOYERS AFRAID OF NEGOTIATING WITH COLLECTIVES AND TRADE UNIONS BELIEF THAT COSTLY LEGAL EXPENSES ARE INVOLVED CONSIDERATION OF RIGIDITY OF TRADITIONAL SOCIAL BARGAINING PRACTICES LACK OF KNOWLEDGE ON SOCIAL AND WORK LEGISLATION HIGHER PRESENCE OF SPECIFIC FORMS OF EMPLOYMENT (TEMPORARY JOBS, GENDER CONSIDERATIONS) INDIVIDUAL RELATIONS → DIFFICULTIES FOR COLLECTIVE NEGOTIATIONS
SECTOR AND NATIONAL DIFFERENCES
C.A. MORE COMMON IN SECTORS WITH HIGH DEMAND OF QUALIFIED PERSONNEL COMPLEX INTERPLAY OF INDIVIDUAL OWNER PREFERENCE, SECTORAL PRESSURES AND SKILL RETENTION PROBLEMS SOME SECTORS HAVE A LONG TRADITION OF UNION PRESENCE THE AGE OF THE FIRM CAN ALSO BE IMPORTANT NATIONAL BARGAINING STRUCTURES DIFFER: DECENTRALISED SYSTEMS OFTEN IMPLY LACK OF C.A. IN M&S ENTERPRISES SINCE WORKERS ARE NOT ORGANISED ON THE CONTRARY, CENTRALISED SYSTEMS LARGE ENTERPRISE DOMINATED: → DO NOT TAKE INTO ACCOUNT M&S FIRMS' SPECIAL FEATURES → BUT CAN PLAY A BENCHMARK ROLE

Working and employment conditions

The issue of working conditions in SMEs in general and micro and small enterprises in particular is perhaps one of the topics that has received more attention from the research point of view⁷⁶. Thus, the existing empirical evidence on the topic can be labelled as wide and extensive, although differences by surveyed countries can also be appreciated.

Generally speaking, it is possible to argue that working conditions improve as firms grow in size⁷⁷. Thus, the available evidence on this can be summarised as follows in a number of topics (wages/salaries, fringe benefits, working time, labour turnover, health/safety and training):

⁷⁶ Atkinson, J. B. and Storey, D. (1994), *Employment, The small firm and the labour market*, Routledge.

⁷⁷ Wassermann, W., *Arbeiten im Kleinbetrieb (working in a small firm) - Interessensvertretung im deutschen Alltag*, on behalf of the Hans-Böckler-Stiftung, Köln, 1992.

Wages and salaries

Wages increase with company size in Germany. This wage differential is not resulting from different levels of minimum wages in collective agreements, but rather the result of poor control and application of these agreements within the smallest firms. Furthermore, entrepreneurs of micro enterprises with less than five employees are excluded from tariff-binding agreements, where this fact allows them to pay less than the minimum wages established in wage settlements⁷⁸.

In the Finnish case, the available evidence suggests that salaries are higher the larger the enterprise is (see Table 9). However, and according to an expert's opinion⁷⁹, this wage dispersion in Finland is better explained by education and experience of the employees rather than by firm size solely, due mainly to the uniformity effects of binding Collective Bargaining Acts.

Table 9: *Sum of salaries paid in different size classes, and average salary per employee by different size classes*

Year	Data	Size class					Grand Total
		< 1 employee	1 employee	2-9 employees	10-49 employees	50-249 employees	
1994	Sum of salaries paid	1,232,611	2,395,182	15,294,040	18,846,999	18,395,956	56,164,788
	Sum of employees	31,531	38,353	158,987	153,059	145,451	527,381
	Salary/employee	39,092	62,451	96,197	123,136	126,476	106,498
1995	Sum of salaries paid	1,130,553	2,472,068	16,512,011	20,664,153	20,309,566	61,088,351
	Sum of employees	30,842	42,998	169,961	163,796	153,229	560,826
	Salary/employee	36,657	57,493	97,152	126,158	132,544	108,926
1996	Sum of salaries paid	983,063	2,653,432	17,664,946	22,485,081	21,382,660	65,169,182
	Sum of employees	35,280	46,868	182,024	170,428	153,995	588,595
	Salary/employee	27,864	56,615	97,047	131,933	138,853	110,720
1997	Sum of salaries paid	1,268,066	2,914,130	18,750,888	24,212,560	22,478,034	69,623,678
	Sum of employees	36,058	47,304	188,836	183,829	159,473	615,500
	Salary/employee	35,167	61,605	99,297	131,712	140,952	113,117

Source: *Small Business Institute Database and Statistics Finland*

⁷⁸ Wassermann, W., *Arbeiten im Kleinbetrieb (working in a small firm) - Interessensvertretung im deutschen Alltag*, on behalf of the Hans-Böckler-Stiftung, Köln, 1992.

⁷⁹ Dr. Juhana Vartiainen, Labour Institute for Economic Research, 10.1.2001.

French evidence suggests that wages tend to increase with enterprise size⁸⁰. Moreover, data on beneficiaries of the French authorised minimal wage show that around 26%⁸¹ of the micro enterprise French employees receive this wage in comparison to 12.4% in large companies⁸¹.

Spanish literature⁸² argues that the positive correlation between enterprise size and wages is solidly confirmed in the Spanish case (see Table 10). Regardless of other issues, large enterprises pay more than small ones⁸³ for doing the same job, where this situation has been proved for Spain in several additional studies⁸³.

In any case, some Spanish authors⁸⁴ warn against considering enterprise size as the only relevant explanatory variable for these differences since, according to them, there are other factors apart from size itself that explain the reported wage differential. Examples include enterprise profits, employees' productivity, market competition or workforce composition (more skilled and senior employees in large firms vs. more women, youngsters and temporary workers in small firms).

Table 10: *Annual labour costs per worker, by firm size in manufacturing.*

(in PTA. 000's)	Business size				Total
	Less than 50 employees	50 to 200 employees	201 to 500 employees	More than 500 employees	
Labour cost per worker	2,510	3,306	3,843	4,336	3,121

Source: I. Iriondo Mujika, "Wage structure and industrial market organisation", 1996. Page 127.

⁸⁰ Premières Informations, "Les rémunérations et l'emploi dans les TPE" - First information, remunerations and employment in micro-firms, Employment Ministry, DARES, December 2000.

⁸¹ CFDT (Confédération Française Du Travail, Délégation PME), Etude de la délégation sur les relations sociales dans les PME (Research of the CGT on social relations in SMEs), Janvier 98.

⁸² I. Iriondo Mujika, "Estructura salarial y organización de los mercados industriales" (Wage structure and industrial market organisation), in *Economía Industrial*, No. 311, pp. 119-136, 1996.

⁸³ Examples include:

- Palacio, J.I. and Iriondo, I., "Determinantes salariales dentro de una rama de actividad" (Wage determinants within an activity branch), in *Revista de Economía y Sociología del Trabajo*, No. 25-26, September-December 1994. Quoted in I. Iriondo Mujika, op. cit.
- Jaumandreu, J. and Martínez, E., "Diferencias de coste salarial en la industria: un modelo empírico y su aplicación a las manufacturas españolas" (Wage differences in industry: an empirical model and its application to Spanish manufactures), Documento de Trabajo número 9.403, Programa de Investigaciones Económicas de la FEP, 1994. Quoted in I. Iriondo Mujika, op. cit.
- López-Sintas, J. and Martínez-Ros, E. (1999): "The Innovative Behaviour of Spanish Enterprises and Its Impact on Salaries", in *Small Business Economics*, No. 13, pp. 287-302. The Netherlands, 1999.

⁸⁴ Fita Ortega, F., "La pequeña y mediana empresa en el ordenamiento jurídico-laboral" (Small and medium-sized enterprises in the labour legal ordinance), Tirant lo Blanch, Valencia, 1997

Fringe benefits

Voluntary corporate pensions and fringe benefits⁸⁵ are lower and less common in the German small firms^{86&87}.

In France, only 31% and 61% of the micro and small enterprises do have individual and/or collective productivity bonuses, against 88% in large companies⁸⁸.

Interestingly, and from a managerial labour market perspective, UK evidence⁸⁹ finds that the smallest enterprises also offer the fewest fringe benefits⁹⁰ to their managers.

Working time and flexibility

Information from Germany argues that in the German smaller enterprises actual holiday consumption is below collective agreements standards, whereas part-time job seems to be the dominant form of employment in small enterprises, especially in the case of women (60 % of all German women work in companies with less than 50 employees, 70 % of which have part time jobs with a work load of 1 to 14 hours a week). In addition to this, deviations from the regular 5-day working week are common in the German smaller enterprises, specially in the food and in the mechanical engineering sectors⁹¹.

In France, the smaller the enterprise, the longer the working time is⁹². Thus, in 1999, the working time was on average 39.4 hours a week in micro enterprises in comparison to 38.8 hours a week in large companies. In 1997, 11.5% of the micro enterprise employees did work less than 39 hours against 60% in large firms whereas, on the opposite, 23% did work more than 41h per week against 2% within the larger enterprises.

Spanish evidence⁹³ suggests that working hours are longer in the Spanish micro and small firms than in larger ones (see Table 11), mainly due to the large amount of overtime (hardly paid as such) and weekend work in order to respond to activity peaks. Subsequently, the weekly resting time is reduced and holidays too, which are usually below the length agreed on collective agreements.

⁸⁵ Fringe benefits are defined as monetary and non-monetary services such as canteen services, apartments and free time activities sponsored by the firm.

⁸⁶ Wassermann, W., *Arbeiten im Kleinbetrieb (working in a small firm) - Interessensvertretung im deutschen Alltag*, on behalf of the Hans-Böckler-Stiftung, Köln, 1992.

⁸⁷ Backes-Gellner et al, *Wettbewerbsfaktor Fachkräfte -- Rekrutierungschancen und -probleme von kleineren und mittleren Unternehmen (Skilled employees as competitive factor)*, Gabler Edition Wissenschaft: Schriften zur Mittelschandsforschung, Institut für Mittelstandsforschung, Bonn, 2000.

⁸⁸ DARES, First Synthesis, 08/1999, n°34-2.

⁸⁹ Wynarczk, P, Watson, D., Storey, D and Keasey, K. *Managerial Labour Markets in Small Firms*, Routledge, London.

⁹⁰ Examples include company cars, private health care, share option schemes, but such benefits could extend to profit/productivity related pay bonuses, flexible working, child care provision and other family friendly policies.

⁹¹ Wassermann, W., *Arbeiten im Kleinbetrieb (working in a small firm) - Interessensvertretung im deutschen Alltag*, on behalf of the Hans-Böckler-Stiftung, Köln, 1992.

⁹² Official data, ACEMO 1998, data collected exclusively from the employers' official declarations.

⁹³ Fita Ortega, F., "La pequeña y mediana empresa en el ordenamiento jurídico-laboral" (Small and medium-sized enterprises in the labour legal ordinance), Tirant lo Blanch, Valencia, 1997 and Ministry of Labour and Social Issues, Survey on Labour Situation, 1999.

Table 11: *Permanent workers' annual working hours by firm size.*

Business size	1998	1999
1 to 10 employees	1,807.4	1,812.2
11 to 50 employees	1,784.5	1,789.9
51 to 250 employees	1,763.7	1,764.4
More than 250 employees	1,716.8	1,714.8
Total	1,770.1	1,772.5

Source: *Survey on Labour Situation. Ministry of Labour and Social Issues, 1999.*

Labour turnover

As an average, the risk for unemployment in the Finnish small enterprises is higher than in the larger enterprises⁹⁴. Linked to this, Finnish smallest enterprises have ignored the amendments and policy improvements aimed at facilitating employment of the special groups of unemployed (such as long-term unemployed and young adults⁹⁵). The rationale for this is explained by the fact that these enterprises are not aware of these possibilities⁹⁶.

Spanish evidence⁹⁶ shows that a large part of the small firm workers have temporary contracts as opposed to the situation in large companies (see Table 12). The reason for this is that this type of hiring provides the small businesses with flexibility to tackle with activity peaks without having to enrol in costly dismissal procedures when lows come (see Table 13). Thus, and in the face of an activity peak, Spanish micro and small firms are more likely to hire new people and to do it by temporary contracting than medium and large firms are. The latter, despite turning to hiring new people too as a first option, resort more frequently to a more efficient use of the production capacity. It is suggested that if such contracting flexibility did not exist, the Spanish smallest enterprises would be somehow pushed towards hidden employment.

⁹⁴ Romppanen, Antti (2000) Ikääntymisen vaikutuksista työmarkkinoilla - On the labour market effects of ageing. Sosiaali- ja terveysministeriön julkaisuja - Publications of Ministry of Social Affairs and Health. Number 12, Helsinki 2000, 41 pages. (In Finnish).

⁹⁵ Saari, Erkki (1996) Joustoilla työtä? Työsopimuslain poikkeus ja sopimus nuorten työllistymisedellytysten parantamiseksi - helpottuiko pitkäaikaistyöttömien ja nuorten työhön pääsy? Work with flexibility? Exception to the Contracts of Employment Act and the Contract to Improve Employment Preconditions for Young Adults - Did they help long-term unemployed and young adults to get a job? Työpoliittinen tutkimus - Studies in Labour Policy, Number 139, Työministeriö - Ministry of Labour, Helsinki, 1999, 59 pages. (In Finnish).

⁹⁶ Fita Ortega, F., "La pequeña y mediana empresa en el ordenamiento jurídico-laboral" (Small and medium-sized enterprises in the labour legal ordinance), Tirant lo Blanch, Valencia, 1997 and Ministry of Labour and Social Issues, Survey on Labour Situation, 1999.

Table 12: *Percentage of permanent workers in the workforce, by firm size*

Business size	1998	1999
1 to 10 employees	59.6	62.8
11 to 50 employees	57.4	57.9
51 to 250 employees	61.8	61.8
More than 250 employees	73.4	71.4
Total	62.6	63.2

Source: *Survey on Labour Situation. Ministry of Labour and Social Issues, 1999*

Table 13: *Measures in the face of an activity peak by firm size. In % of workforce.*

Business size	Hiring new people			More efficient use of production capacity	Investing in equipment	Outsourcing	Doing overtime
	Total	Temporary contract	Permanent contract				
1 to 10 employees	72.3	52.7	19.6	11.4	11.3	3.2	1.9
11 to 50 employees	69.4	50.9	18.5	11.4	12.8	5.3	1.1
51 to 250 employees	67.6	49.4	18.2	13.3	12.2	5.5	1.5
More than 250 employees	64.5	42.9	21.6	17.8	9.8	5.9	2.0
TOTAL	68.8	49.4	19.4	13.2	11.6	4.9	1.6

Source: *Survey on Labour Situation. Ministry of Labour and Social Issues, 1999.*

Health and safety issues

In France, the probability of suffering an accident is twice higher in small enterprises than in large ones⁹⁷.

Employees in the Spanish micro and small enterprise are characterised by a higher propensity to suffering from a labour accident⁹⁸. Several explanations are provided to explain this situation, such as the higher probability to lack any formal internal institutions to watch for health and safety regulations⁹⁹ (see Table 14), faster working patterns, longer working hours and higher presence of temporary workers and others without proper training.

⁹⁷ Enquête annuelle 1999 du Conseil Supérieur des Risques Professionnels - 1999 annual survey of the Council of Professional Risks.

⁹⁸ Fita Ortega, F., "La pequeña y mediana empresa en el ordenamiento jurídico-laboral" (Small and medium-sized enterprises in the labour legal ordinance), Tirant lo Blanch, Valencia, 1997.

⁹⁹ This situation is aggravated by the existing legislation, since risk preventing representatives are not compulsory in enterprises with less than 6 employees.

Table 14: Number of prevention representatives

Data in %	Business size (No. of legally required prevention representatives)				
	31-49 employees (1)	50 to 100 employees (2)	101 to 500 employees (3)	501 to 1000 employees (4)	Total
% of firms with at least the legally required no. of prevention representatives	49.4	46.5	59.2	61.6	56.4
% of firms with a smaller no. than the legally required one	-	16.7	14.6	22.8	14.5
% of firms without prevention representatives	50.0	33.4	24.4	13.9	26.5
% that does not answer	0.6	3.4	1.8	1.7	2.6
Total	100.0	100.0	100.0	100.0	100.0

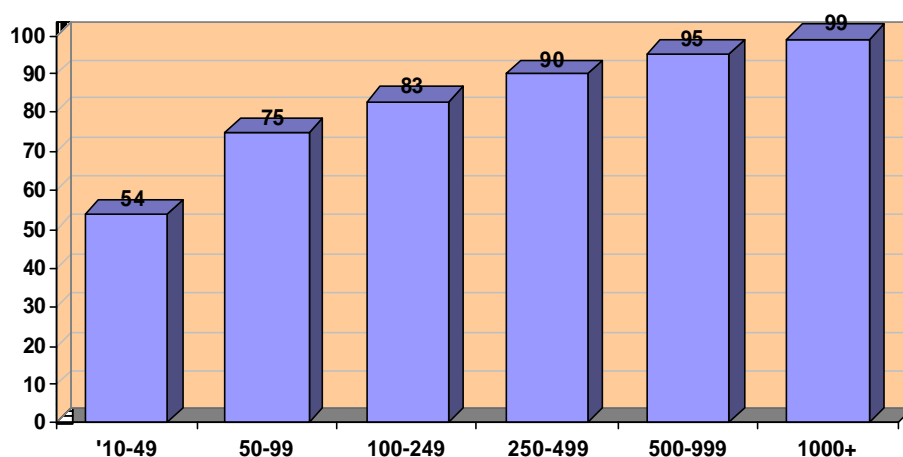
Source: 3rd National Survey on Working Conditions. Ministry of Labour and Social Issues, 1999.

Training

Despite the existence of several national sources dealing with this issue, the reporters suggest to have a look into two pieces of research that provide valuable information on the training issue from an enterprise size perspective.

Thus, and to start with, the information collected by Eurostat in its Continuing Vocational Training Survey¹⁰⁰ shows that the percentage of enterprises offering Continuing Vocational Training to their employees is higher the larger the firm is (see Figure 3).

Figure 3: Percentage of European enterprises offering Continuing Vocational Training, 1993

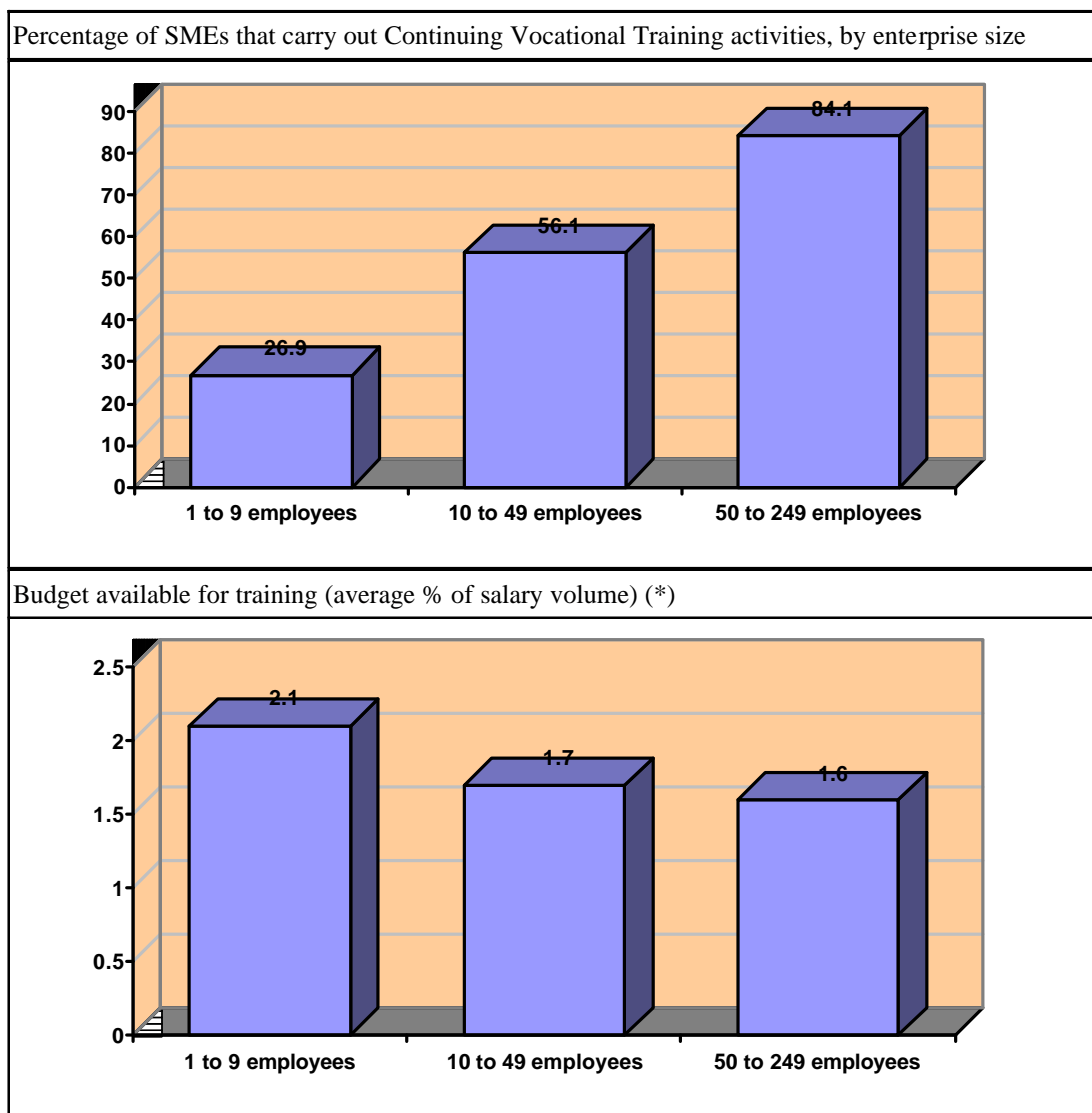


Source: Eurostat, Continuing Vocational Training Survey

¹⁰⁰ Unfortunately, the information provided by this source does not include the microenterprises, this is, enterprises with less than 9 employees.

A Pan-European research conducted in 1997¹⁰¹ shows that there is a clear positive relationship between enterprise size and involvement in training activities for employees (see Figure 4). Thus, whereas 26.9% of the surveyed European microenterprises did carry out training activities in 1996, this percentage goes up to 56.1% and 84.1% in the case of small and medium enterprises. Meanwhile, and referring to the resources devoted to these training activities, the data shows that the very scarce population of the microenterprises active in training are, in relative terms, very active in this domain (see also Figure 4).

Graph 4: *Continuing vocational training activities among European SMEs, 1996.*



(*) Only enterprises with training activities

Source: *Ikei & ENSR partners, Training Processes in SMEs, Practices, problems and requirements, project research funded by the Leonardo Programme, 1997.*

¹⁰¹ Ikei & ENSR partners, Training Processes in SMEs, Practices, problems and requirements, project research funded by the Leonardo Programme, 1997. This research was conducted amongst a total of 840 SMEs located in Austria, Belgium, Finland, France, Greece, Iceland, Italy, The Netherlands, Norway, Portugal and Spain.

Interestingly enough, the existing literature has identified a number of reasons explaining the poorer working conditions amongst the smallest enterprises:

- UK¹⁰² and Spanish¹⁰³ literature argues that smaller enterprises are more likely to rely on other forms of labour such as family members (see Table 15), where this use of family labour is critical to the manner in which the labour process is organised and how employees are rewarded¹⁰⁴. Thus, there is evidence on indulgence of family members regarding their contribution to production or the existence of informal hierarchies and expectations of how family workers would labour during periods of high demand. These family relations¹⁰⁵ lead to very specific forms of social negotiation regarding working patterns. Even more, some authors¹⁰⁵ suggest that family aid in the form of informal, flexible labour is critical.

Table 15: *Spanish ways to recruit new workers by firm size. In % of workforce.*

Business size	Personal relation	Workers' request	Job centre	Job ads	Promotion	Recruitment companies	Temporary work agencies	Share for foreign workers
1 to 10 employees	38.8	24.4	18.7	8.0	4.4	3.4	1.8	0.5
11 to 50 employees	28.9	25.7	16.5	11.1	7.3	5.1	5.0	0.4
51 to 250 employees	20.1	27.0	13.6	12.7	12.2	6.5	7.5	0.2
More than 250 employees	8.3	23.3	14.8	19.2	21.2	7.9	4.9	0.4
TOTAL	25.6	25.1	16.1	12.3	10.4	5.5	4.6	0.4

Source: *Survey on Labour Situation. Ministry of Labour and Social Issues, 1999*

The small firm environment blurs the relationship between labour and capital¹⁰⁶. This offers a number of advantages to each in that the owner of the firm can create a team ethos where labour identifies with the interests of capital to the extent of accepting poorer terms and conditions of employment and rejecting collective organisation or opposition to owner prerogative. For employees, such a labour process does offer them scope for flexibility and negotiation in their working lives but also leads to isolation and few opportunities to formally or appropriately articulate discontent.

Smaller firms look for greater flexibility from labour. This is unlikely to involve formal multi-skilling but an expectation that employees will help out where needed (multi-task jobs)¹⁰⁷.

¹⁰² Cully, M., Woodland, S., O'Reilly, A and Dix, G. (1999), 'Small Business Employment Relations' in Workplace Employee Relations Survey, Routledge London.

¹⁰³ Fita Ortega, F., "La pequeña y mediana empresa en el ordenamiento jurídico-laboral" (Small and medium-sized enterprises in the labour legal ordinance), Tirant lo Blanch, Valencia, 1997.

¹⁰⁴ Ram, M. (1994), *Managing to Survive*, Blackwell, Oxford.

¹⁰⁵ Holiday, R. (1995), *Investigating small firms: Nice work?'*, Routledge, London.

¹⁰⁶ Marlow, S and Strange, A. (2000), 'Managing employment in small firms: new challenges for labour process tradition?' Paper to the 18th Labour Process Conference, University of Strathclyde, April.

¹⁰⁷ Atkinson, J. B. and Storey, D. (1994), *Employment, The small firm and the labour market*, Routledge.

The lack of professional labour management and the absence of personnel professionals within the smallest enterprises are more likely to result in informal recruitment and selection processes, a poor appreciation of training and development, fewer procedures for monitoring workforce productivity, simplistic payment schemes, poor employee representation and an overall lack of strategic intent¹⁰⁸.

In some countries (i.e. Spain), the bad situation of the labour market (characterised by high unemployment rates) fosters small business employees to accept higher levels of insecurity in their employment contracts, as well as worse working conditions. This situation is further aggravated by the fact that the line between precarious contracting practices and no contracting at all (black economy, hidden employment) seems to be much blurrier in micro and small firms¹⁰⁹. Thus, job tenure becomes the fundamental issue above other considerations.

Employees of smaller firms are less likely to request formal contracts of employment or formal offer letters constituting such a contract, whereas small business owners are unlikely to be aware of the statutory implications of neglecting to offer formal contracts. Therefore, small firms (and specially micro firms) are least likely to observe the statutory requirements of employment¹¹⁰. Just to give an example, only a ¼ of the Italian small craft enterprises have a well defined business relationship with their employees (i.e. work vs salary), whereas in the rest of enterprises the classical attitude of “workshop-master” was prevailing, teaching a job to his collaborators and establishing a trust relationship¹¹¹.

In any case, the research evidence suggests that within the smaller enterprises, considerable levels of individual negotiation concerning the labour process are tolerated by the employer¹¹². Thus, there is evidence of labour negotiating working hours, having task discretion, being allowed ad hoc absences and given discretion for unexpected caring responsibilities. However, it is important to underline that such discretion lay within the prerogative of the owner so an individual’s ability to negotiate such flexibility is totally dependent upon a range of issues including their skill value, their personal relationship with owner, etc.

Despite all the negative factors discussed above concerning the worse quality of jobs within micro and small companies, it is also possible to argue that working for a small enterprise can be attractive to a person for a number of reasons, such as easier communication environments, more accessible managerial staff or higher

¹⁰⁸ Cully, M., Woodland, S., O'Reilly, A and Dix, G. (1999), 'Small Business Employment Relations' in Workplace Employee Relations Survey, Routledge London.

¹⁰⁹ Fita Ortega, F., "La pequeña y mediana empresa en el ordenamiento jurídico-laboral" (Small and medium-sized enterprises in the labour legal ordinance), Tirant lo Blanch, Valencia, 1997.

¹¹⁰ Marlow, S and Strange, A. (2001), 'Regulating labour management in smaller firms: the case of the Employment Relations Act', Government and Policy, forthcoming.

¹¹¹ Cesareo Vincenzo and Muarizio Ambrosini (eds), Gli Artigiani del Futuro: da un Progetto di Ricerca ad un Percorso Formativo (The coming handicraftsmen: from a research project to a training way), Vita e Pensiero-Università Cattolica del Sacro Cuore, Milano, 1999.

¹¹² Moule, C. (1998), 'Regulation of work in small firms: A view from the inside', Work, Employment and Society, Vol. 12, 4, 635 - 653.

flexibility to organise work according to the individual requirements. In fact, some UK authors¹¹³ have demonstrated that many micro and small firm employees express high job satisfaction as the flexible nature of their employment served their specific labour market needs.

WORKING AND EMPLOYMENT CONDITIONS IN S&M ENTERPRISES	
IN GENERAL TERMS, WORKING CONDITIONS DETERIORATE AS FIRM SIZE DECREASES	
WAGES AND SALARIES	WAGE DIFFERENTIAL IN DETRIMENT OF SMALLEST COMPANIES WORKERS POOR CONTROL AND APPLICATION OF C.A. IN M&S ENTERPRISES SOME FACTORS MAY BE MORE INFLUENTIAL THAN SIZE PER-SE: →DIFFERENT EMPLOYEES' CHARACTERISTICS (EDUCATION, EXPERIENCE,...) →ENTERPRISE PERFORMANCE AND VULNERABILITY →LEVELS OF PRODUCTIVITY
FRINGE BENEFITS	LESS COMMON AND LOWER
WORKING TIME AND FLEXIBILITY	LONGER HOURS AND WEEK-END WORK
LABOUR TURNOVER	MORE TEMPORARY JOBS HIGHER UNEMPLOYMENT RISK
HEALTH AND SAFETY ISSUES	HIGHER PROPENSITY TO ACCIDENTS
TRAINING	LESS CONTINUOUS VOCATIONAL TRAINING
RATIONALE	
HIGHER PRESENCE OF FAMILY MEMBERS	
BLURRED BOUNDARIES AND RELATIONSHIP BETWEEN LABOUR AND CAPITAL	
INFORMAL MULTI-TASK APPROACH TO WORK	
LACK OF PROFESSIONAL LABOUR MANAGEMENT (HUMAN RESOURCES)	
MORE PRESENCE OF JOBS WITHOUT A PROPER CONTRACT	
GREATER JOB INSECURITY →WORKERS ACCEPT WORSE CONDITIONS	

Conflicts

Conflict articulation and resolution is a key feature of the employment relationship. The UK literature¹¹⁴ distinguishes two different forms or signs of conflict:

- Organised collective actions, such as strikes, open disputes, working to rule, over time bans, go slows, etc.

¹¹³ Curran, J., Kitching, J., Abbott, B. and Mills, V. (1993), 'Employment and Employment Relations in the Small Service Sector Enterprise - A Report', Kingston upon Thames, ESRC Centre for Research on the Small Service Sector Enterprise: Kingston University, February.

¹¹⁴ i.e. Rainnie, A. (1989), 'Small isn't beautiful', Routledge, London.

- Individualised resistance, articulated through absenteeism, working without enthusiasm, sabotage and ultimately leaving the firm.

In general, there is very scarce data available on conflicts in micro and small enterprises in nearly all the surveyed EU countries¹¹⁵, both for organised collective actions and individualised resistance forms.

Available data and experts' opinions suggest that the incidence of organised collective actions (specially strikes) in micro and small enterprises can be labelled as very low, which obviously contributes to perceiving employment relations in the sector as being non-problematic¹¹⁶. Notwithstanding this, the German literature¹¹⁷ argues that when open fighting in small companies takes place, it is more fierce and lasts longer. In addition, the Finnish literature¹¹⁸ suggests important differences between sectors, where the most conflictive ones are restaurants, retailing, construction and transportation.

Several inter-related reasons are provided to explain this lower incidence of organised collective actions:

- Due to the informal, individualised nature of most labour management in smaller firms, and the absence of representative structures/trade union representation, individualised articulations of discontent dominate over organised ones¹¹⁹.
- In some countries (i.e. Spain), the uncertainty linked to the bad situation of the labour market and the high incidence of the hidden economy result in uncertainty for employees, specially for the smallest business employees. This uncertainty results in defensive and individualistic behaviours by the employees whereby collective action is unlikely to be followed¹²⁰.
- The close daily interaction in micro and small enterprises between the employer and employees, as well as the employer's direct power within the enterprise, impede employees to either organise fellow workers or to personally articulate problem issues (you become a 'trouble maker' for the employer)¹²¹.

¹¹⁵ Exceptions in Finland and the UK

¹¹⁶ In fact, the UK Bolton report, an overview of the small firm sector in late 60's and considered as a starting point for much contemporary research, suggested that harmony from the lack of collective, overt industrial disputes was explained by the harmonious industrial relations within SMEs.

¹¹⁷ Hilbert, J./Sperling, H.J., *Die kleine Fabrik (The small factory)- Beschäftigung, Technik und Arbeitsbeziehungen*, Schriftenreihe Industrielle Beziehungen Bd. 2, München, 1990

¹¹⁸ Laukkanen, Erkki (1998) *Tulevaisuus työpaikoilla. SAK:n ennakointihanke - The future at workplaces. Forecast project of SAK; Central Organisation of Finnish Trade Unions. ESF Publications: Forecasts, Assessments and Surveys, 38/98, 68 pages. The publication has been produced by the ESF, Ministry of Labour and SAK (Central Organisation of Finnish Trade Unions).*

¹¹⁹ Atkinson, J. B. and Storey, D. (1994), *Employment, The small firm and the labour market*, Routledge.

¹²⁰ Fita Ortega, F., "La pequeña y mediana empresa en el ordenamiento jurídico-laboral" (Small and medium-sized enterprises in the labour legal ordinance), Tirant lo Blanch, Valencia, 1997.

¹²¹ Cully, M., Woodland, S., O'Reilly, A and Dix, G. (1999), 'Small Business Employment Relations' in *Workplace Employee Relations Survey*, Routledge London.

- Very small and small enterprises do not have formal policies to address conflicts and disputes within the firm. However, and when these policies exist, employers are reluctant to use them as they indicate a failure of personalised management styles to resolve problems in an informal manner¹²².
- Social laws provide exceptions in some countries for very small enterprises (i.e. the German 'Betriebsverfassungsgesetz'), so employees in such enterprises enjoy less protection by law.
- In some countries (i.e. Finland), micro and small enterprises' employers and employees are not aware of the existing labour regulations intended to minimise/solve conflicts¹²³.

Typically, three possible solutions to conflicts in micro and small enterprises can be foreseen in micro and small enterprises:

- An arrangement is found between the employer and the employee, where in most cases, this is the result of an individual negotiation rather than a collective one. Therefore, the employee is alone bargaining with his/her manager. In this particular case, the UK literature¹²⁴ notes the ability of individuals to arrange their own individual working conditions through social dialogue and negotiation with firm directors, which to some extent, mitigates some discontent in that it offers employees a sense of discretion over work and acceptable niches for themselves. Moreover, and in the case of key staff, it is even argued that employers recognise and tolerate certain degrees of worker autonomy and dishonesty¹²⁵ to assure the retention of this staff and the existence of a team working environment.
- When an arrangement is not found, solutions depend on the nature and importance of the conflict for both parts. If the conflict is not perceived as important by the employee and/or the employee has no possibility to move to another enterprise, then the employee remains at the enterprise (most probably with a reluctant attitude).
- Finally, if disagreements persist and becomes unsolvable, one of the involved parties leaves the enterprise¹²⁶. Of course, and in case the conflict is between employee and employer, inevitably it is the employee who will leave: He/she has no possibility neither to change departments nor the recourse to collective bargaining¹²⁷. In fact, this situation may explain why the ratio of personnel dismissals to employees is higher the smallest the enterprise is in Germany (1:9,1 for enterprises with 1 to 100 employees in comparison to 1:38,2 for enterprises with more than 1000 employees¹²⁸).

¹²² Cully, M., Woodland, S., O'Reilly, A and Dix, G. (1999), 'Small Business Employment Relations' in Workplace Employee Relations Survey, Routledge London.

¹²³ See Finnish country contribution in annex B.

¹²⁴ Moule, C. (1998), 'Regulation of work in small firms: A view from the inside', Work, Employment and Society, Vol. 12, 4, 635 - 653.

¹²⁵ i.e. individuals practising a range of 'fiddles' and deceptions to gain free time during the working day

¹²⁶ Atkinson, J. B. and Storey, D. (1994), Employment, The small firm and the labour market, Routledge.

¹²⁷ According to some UK studies, high rates of labour turnover can be identified as conflict resolution tactics.

¹²⁸ Data for year 1978 taken from Wassermann, W., Arbeiten im Kleinbetrieb (working in a small firm) - Interessensvertretung im deutschen Alltag, on behalf of the Hans-Böckler-Stiftung, Köln, 1992

In addition to this, a number of variables influence the way conflicts are solved, such as the quality of the social relation between employer and worker, the style of leadership of the employer and his/her management strategies, the market position of the enterprise and the bargaining power of employees (in terms of skills, professional contacts, etc). Thus, higher degrees of worker participation/autonomy prevail in enterprises where there are “high-trust” relations where, according to the German literature, these enterprises enjoy less potential for conflicts in comparison to authoritarian-style relations ¹²⁹ .

Overall, there appear to be a range of tactics, stances and individualised solutions to managing conflict in smaller enterprises. Therefore, conflicts in micro and small enterprises are difficult to be categorised, since they are mainly characterised by ‘individuality’, ‘informality’ and ‘negotiated solutions’. However, it is also possible to firmly state that disputes and strikes are less frequent in micro and small enterprises than in larger organisations ¹³⁰ .

CONFLICTS IN M&S ENTERPRISES	
FORMS OF CONFLICT	INDIVIDUALISED CONFRONTATIONS AND RESISTANCE VERY LOW INCIDENCE OF ORGANISED COLLECTIVE ACTIONS
RATIONALE	ABSENCE OF REPRESENTATIVE STRUCTURES JOB INSECURITY → DEFENSIVE AND INDIVIDUALISTIC APPROACHES BY EMPLOYEES CLOSE INTERACTION EMPLOYER-EMPLOYEE LACK OF ENTERPRISE POLICY TO ADDRESS CONFLICTS UNAWARENESS OF LABOUR REGULATIONS LESS PROTECTION BY LAW OF EMPLOYEES

Size and sector considerations

So far, enterprise size has been regarded as a primary factor determining different employment relations styles. Thus, micro and small enterprises in nearly all the EU surveyed countries show worse working conditions in terms of lower wages, less fringe benefits, less internal training, higher risk of unemployment or less formal participation and representation possibilities than their counterparts in large enterprises.

However, this report has identified a wide array of literature pieces in the different European surveyed countries that stress the importance of sector and type of company considerations for explaining different employment relations styles and practices. Thus, the available research suggests that:

- Generally speaking, there are substantial and profound differences between employment relation practices in the service and manufacturing sector. Thus, and following the UK literature ¹³¹ , much service employment

¹²⁹ Domeyer, V./Funder, M., Kooperation als Strategie (co-operation as strategy)- Eine empirische Studie zu Gründungsprozessen, Organisationsformen, Bestandsbedingungen von Kleinbetrieben, study on behalf of the Department of Labour, Health and Social Affairs of the state of Nordrhein-Westfalen, 1991.

¹³⁰ This last paragraph has been taken from the UK national contribution (see Annex B).

¹³¹ Curran, J., Kitching, J., Abbott, B. and Mills, V. (1993), 'Employment and Employment Relations in the Small Service Sector Enterprise - A Report', Kingston upon Thames, ESRC Centre for Research on the Small Service Sector Enterprise: Kingston University, February.

involves direct contact with the customer, with production and consumption occurring simultaneously, what makes more difficult for the employer to control output quality and employee performance. This situation, absent in manufacturing activities, clearly has got a direct impact on employer-employee relations in the micro and small enterprise, since the employer should be interested in having good relations with his/her employees.

- Sometimes the subdivisions within the services sectors may be relevant. Thus, a distinction amongst services shows that personal and retail services, compared to professional services, are more likely to depend on flexible, feminised labour whose specific needs and characteristics will lead to a particular form of labour management.
- Sector considerations also explain the increasingly lower presence of trade union representation and collective mobilisation in the different national economies, due to the growing importance of the service sector for instance in the UK case¹³². However, information from Denmark suggests the opposite, in the sense that it is possible to find equal levels of collective bargaining amongst industry and services¹³³, where some services (i.e. finance) even show higher levels of collective bargaining than manufacturing¹³³. The institutionalisation of collective bargaining in this concrete sector explains this result.
- In some countries (i.e. Italy¹³⁴ and Germany¹³⁵), craft enterprises play a very important role in the national economy. In this case, craft enterprises show important differences in the employment relations issue in comparison to other national economic branches, where some of these differences are partially due to the existence of different regulations and institutional frameworks applying to these enterprises (i.e. the Italian case).
- Different employment relation practices can be also appreciated according to the technological content of the enterprise. In this sense, the way in which high-tech labour negotiates terms and conditions of employment¹³⁶ is not likely to reflect the existing ones amongst low skilled labour. In the German experience¹³⁶, micro and small enterprises who require qualified personnel usually apply collective agreements and wage settlements developed for the whole branch of industry on a voluntary basis.
- The Spanish¹³⁷ and Italian¹³⁸ literature shows that employees' salary conditions in micro and small enterprises are highly affected by the enterprise's competitive strength and the competition encountered in

¹³² Machin, S. (2000) 'Union Decline in Britain', *British Journal of Industrial Relations*, Vol.38, no.4. 631-647.

¹³³ Scheuer, Steen, *Collective Bargaining Coverage under Trade Unionism: A Sociological Investigation*, (pp.-65-86), article published in the *British Journal of Industrial Relations*, vol. 35 no.1, March 1997.

¹³⁴ Lagala Canio, *L'artigianato (The Artisans)* in L.Ballardi (ed) *Relazioni industriali e contrattazione collettiva in Italia 1945-1992 (Industrial relationships and collective bargaining in Italy 1945-1992)*, Bari University, Bari, Cacucci, 1992.

¹³⁵ Wassermann, W., *Arbeiten im Kleinbetrieb (working in a small firm) - Interessensvertretung im deutschen Alltag*, on behalf of the Hans-Böckler-Stiftung, Köln, 1992.

¹³⁶ Hilbert, J./Sperling, H.J., *Die kleine Fabrik (The small factory)- Beschäftigung, Technik und Arbeitsbeziehungen*, Schriftenreihe Industrielle Beziehungen Bd. 2, München, 1990.

¹³⁷ López-Sintas, J. and Martínez-Ros, E. (1999): "The Innovative Behaviour of Spanish Enterprises and Its Impact on Salaries", in *Small Business Economics*, No. 13, pp. 287-302. The Netherlands, 1999

¹³⁸ Lucifora Claudio and Origo Federica, *Wage differences 1990-1994: an analysis on National Institute of Security micro-data in CNEL "Wages and labour cost report"* edited by Social Research Institute, Giuffrè, 1997, Milano

the market: the higher the market position, the higher the salaries; the less competition in the product market, the higher the wages. The Spanish literature also proves that innovating firms, both large and small ones, pay higher salaries than non-innovating ones, the wage gap being greater among large firms.

The Spanish literature¹³⁹ makes an interesting argument about the connection between business size and competitive strategies adopted by enterprises and how in turn this determines employment relations within the enterprises. Thus, enterprises adopting a cost reduction strategy will follow a different employment relation system in comparison to innovative expanding enterprises. In this sense, enterprises following a cost reduction strategy show, in comparison to innovative expanding enterprises, clear and concise task definition, reduced influence of workers in enterprise-level decisions, lack of formal mechanisms to fill complaints, little information about the firm, intensive control, low qualification requirements, low internal formation effort and low relative wages.

The UK literature¹⁴⁰ argues that the relationship between large and small capitals is a critical variable determining the manner in which a small firm, and subsequently employment relations, are managed. Thus, and as subcontractors, smaller firms are being pressed into raising social and quality standards in order to secure returns from large firms' bids. However, the costs of these activities can be disproportionately expensive for smaller firms, so this mitigates against micro firm engaging with such benchmarking.

Also in the UK literature¹⁴¹, evidence is found that fast growing enterprises are able to offer more fringe benefits to their managers irrespectively of size considerations, partly as a strategy of attracting higher calibre management to support rapid growth paths.

The legal status of the enterprise may also affect the way employment relations are managed. Thus, co-operatives are expected to be run in a different way to, i.e, an incorporated society. On the other hand, employment relations policy in establishments or subsidiary enterprises will probably be run accordingly to the Group's general human resources policy.

The French literature¹⁴² suggests that geographical location of the micro/small enterprise, in the sense that small enterprises are generally strongly anchored to their territory and in local networks. These local networks can facilitate people to share common interests and carry out joint activities to obtain minimum local standards or employment practices in the area.

¹³⁹ Iriondo Mujika, I., "Estructura salarial y organización de los mercados industriales" (Wage structure and industrial market organisation), in *Economía Industrial*, No. 311, pp. 119-136, 1996.

¹⁴⁰ Rainnie, A. (1989), *Small isn't beautiful*, Routledge, London.

¹⁴¹ Wynarczyk, P, Watson, D., Storey, D and Keasey, K. *Managerial Labour Markets in Small Firms*, Routledge, London

¹⁴² Lepley B, *Régulations sociales, relations professionnelles et petites entreprises - Etudes des facteurs constitutifs de la norme sociale dans le PE/TPE du secteur tertiaire* (Social regulations, professional relations and SMEs - constitutive factors of the social norm in SMEs and very small firms of the third sector), GIP MIS (Groupement d'Intérêt Public sur les Mutations Industrielles), May 2000.

Linked to the previous point, the social and cultural tissue of employees may affect employment relations, where traditions of collective mobilisation, professional identity and culture are essential to determinate the social relationships. Thus, and specially in the industrial sector, some employees have a working class culture, obtained from their social and family network.

The social, cultural, economic and professional profile of the manager, as well as his/her management style (benevolent, fraternal, paternal, etc). These factors also influence the type of social relations he/she has with his/her employees.

INFLUENCE OF SIZE AND SECTOR IN EMPLOYMENT RELATIONS
PROFOUND DIFFERENCES IN ACTIVITIES AND EMPLOYEE PERFORMANCE BETWEEN SERVICES AND MANUFACTURING
ALSO GREAT DISPARITIES WITHIN SERVICE SECTORS (CONSUMER VS. PROFESSIONAL)
GROWING IMPORTANCE OF SERVICES → LOWER LEVEL OF UNIONISATION
DIFFERENT REGULATIONS AND INSTITUTIONAL FRAMEWORKS FOR CRAFT ENTERPRISES
TECHNOLOGICAL LEVEL OF ENTERPRISE AND ITS EMPLOYMENT (SKILLED VS UNSKILLED)
COMPANIES' COMPETITIVE STRENGTH AND MARKET POSITION, AS WELL AS COMPETITIVE STRATEGY (COST REDUCTION VS. INNOVATIVE-FAST GROWING)
LEGAL STATUS: PLC VS. CO-OPERATIVES
GEOGRAPHICAL LOCATION AND INTEGRATION IN LOCAL NETWORKS
SOCIAL AND CULTURAL PROFILE OF COMPANY, EMPLOYER AND EMPLOYEES