



Features of micro and small enterprises

Japan and the USA

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General overview

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This paper analyses the situation of employment relations among the micro and small enterprises in Japan and the USA.

In this sense, the analysis will be based on the information collected by the participating research institutes, where this information will be analysed within the context of the information collected across Europe on this issue.

As it can be appreciated, the analysis is carried out on a comparative basis, since the existing differences amongst them are very wide in terms of legal frameworks, economic contexts, business ethics and culture, etc.

JAPAN

The role of micro and small enterprises in the Japanese economy

From a quantitative point of view, and looking into the available figures, it could be argued that Japanese SMEs have a smaller relative weight in the national economy vis-à-vis the EU situation (see Table 1). Thus, and whereas in the EU SMEs account for a total employment share of 66% non-primary private employment, this percentage goes down to 33% in the Japanese case ¹.

Table 1: *Employment shares by size class in non-primary private enterprise, EU-15 and Japan, 1996*

| | Employment shares by size classes | | | | | Total employment (1000s) | Occupied persons per enterprise |
|-------|-----------------------------------|-------|--------------|-----------|-----|-----------------------------|------------------------------------|
| | micro | small | medium-sized | Total SME | LSE | | |
| EU-15 | 33 | 19 | 14 | 66 | 34 | 111,800 | 6 |
| Japan | n/a | n/a | n/a | 33 | 67 | 57,345 | 10 |

Source: *Sixth Report of the European Observatory for SMEs*.

However, this lower incidence of employment should not hinder the fact that, perhaps even more than in most industrialised countries, SMEs play a crucial part in the Japanese economy. In this sense, they become the cornerstone of the so-called 'keiretsu' a typical Japanese relationship between companies ².

It is not therefore strange that different Japanese governmental and financial institutions provide a vast amount of support and assistance available to the national SMEs. In this sense, it is worth mentioning the role played by the Ministry of International Trade and Industry (MITI), who plays an important and influential role since it co-ordinates and steers the Japanese economy through what is known as administrative guidance or 'gyouseishidou' in Japanese.

¹ Unfortunately, no information is available for the Japanese micro and small enterprise size categories.

² 'Keiretsu' can be defined as industrial groups that are linked through an extensive network of cross-shareholding and exchange of personnel and knowledge among member firms. The keiretsus still dominate Japanese corporate structure, and SMEs play a relevant role in these 'keiretsus' as key suppliers of subcontracted parts.

Looking at the future, Japan is currently confronted with a serious economic recession. In order to overcome this situation, one of the Japanese Government's main policy directions is concerned with the promotion of the birth and development of dynamic, efficient and competitive small firms that can contribute to the economic recovery and the upgrading of the industrial structure of the country.

To this end, Japan has recently developed a complex system of instruments and policies aimed at supporting and promoting SMEs development. Examples include the Temporary Law for the Smooth Transition of SMEs Into New Business Areas (law approved in 1993 and revised in 1995), the strengthening of the Venture Enterprise Centre (an institution for the promotion of new enterprises set up by MITI), the new measures introduced in fiscal year 2000 to reduce the tax burden on SMEs and their investor or the setting up of several subsidies provided for R&D programs on original technologies.

In any case, it seems that there is a growing policy awareness for the need to de-regulate the currently highly regulated Japanese economy.

Employment relations in Japan: a general perspective

Employment relations in Japan are characterised by a number of traits that make them quite 'atypical' in comparison to the European standards. Briefly, these attributes are referred to :

- Japanese employment system is characterised by stability and security of the 'lifetime employment' in the same company. This fact explains why factory workers and office clerks are normally represented by enterprise or company unions (kigyou-kumiai or kaisha-kumiai), which with lifetime employment and seniority (in reality, seniority and merit related), wages and promotion schemes form the three mainstays of the Japanese management system (nihonteki keiei). However, this pattern is mainly prevailing in medium and large enterprises. Moreover, the emphasis on lifetime employment is experiencing a decreasing attention by Japanese enterprises, probably due to the effects of the current economic stagnation .
- In Japan it is possible to find a lack of 'workers' culture', at least from a Western perspective. Thus, workers show little interest or support for fellow workers in other enterprises. The strongly closed and hierarchical structure of Japanese enterprises leaves no room for solidarity with employees belonging to different firms, even if they belong to the same 'keiretsu'.

³ Information collected from:

- Holst L & Pozgaj R, 'Small and medium sized Enterprises in the Japanese Manufacturing Industry', Lund University, Sweden, 1999.
- JSBRI (Japan Small Business Research Institute): "White Paper on Small and Medium Enterprises in Japan", annual report, Tokyo, 1998, 1999,2000.
- Whittaker D.H.: "Small Firms in the Japanese Economy", book, Cambridge University Press, Cambridge, 1999 edition.
- Suzuki Atsuko: "Jinji, Roumu ga wakaru Jiten" (Dictionary for Understanding Human Resource Management), reference book, Nihonjitsugyou Shuppansha, Tokyo, 1996.

⁴ JSBRI (Japan Small Business Research Institute): "White Paper on Small and Medium Enterprises in Japan", annual report, Tokyo, 1998, 1999,2000.

- The Japanese labour market is also characterised by a shortage of personnel, and especially new school graduates. Thus, one of the basic components of the Japanese employment system is the practice of hiring new school graduates, where enterprises usually employ new recruits every year in April. Generally speaking, large companies vacuum high schools and universities for new graduates to hire. Since Japanese large enterprises are able to pay higher wages and give fringe benefits, many SMEs have a relatively difficult time in attracting young employees because of these reasons. However, the current unemployment situation is changing somehow this situation.
- Public involvement in the Japanese economy is very high when related to administrative guidance (protection from foreign competition, R&D activities, etc). However, and related to working and employment conditions, and despite some existing regulation on the topic, much room is left to the individual enterprises to regulate on these social issues. Moreover, and according to the available literature, very little co-ordination seems to exist between employers themselves when wages and rates are to be negotiated, resulting therefore in a rather individualistic approach.
- Work disputes, strikes and conflicts are extremely rare in Japan, notwithstanding the size of enterprises. This fact reflects a cultural attribute, in the sense that Japan is a society that tries to avoid conflicts at all levels. The strong sense of community within enterprises is perhaps the main explanatory factor.

Evidence from literature and comparisons with the EU

Collective representation

Equally to what happens in some of the EU surveyed countries, collective representation in Japanese small firms is the exception rather than the rule. Thus, the scattered evidence available shows whereas in 1991 almost 60 per cent of workers in firms with more than 1,000 employees belonged to a labour union, this share was less than 2 per cent in small firms with less than 100 workers .

The literature suggests several reasons to explain this low incidence of collective representation structures amongst small business employees:

- The most frequent type of Japanese employee representation structure are the enterprise or company unions (kigyō-kumiai or kaisha-kumiai). This arrangement is quite different to the European experience. However, these structures are mostly prevailing in large and medium-sized firms and not in the smaller ones.

In small firms, there is no tradition of collective representation by the labour union.

Interestingly, and differently to the European experience, Japan is characterised by a sharp division between employees of the large firms and their colleagues in small firms, in the sense that the strongly closed and hierarchical structure of Japanese enterprises leaves no room for solidarity with employees belonging to different firms. In this sense, labour unions of large companies do not provide resources or support for the organisation of workers in small firms.

⁵ Whittaker D.H.: “Small Firms in the Japanese Economy”, book, Cambridge University Press, Cambridge, 1999 edition

Collective bargaining

To start with, it is important to have in mind that in Japan, bargaining coverage is more limited than in most of the EU surveyed countries. Thus, and taking into account OECD's data in this respect, around 21% of the total Japanese employees are covered by collective bargaining, where this figure is lower than in EU countries with the lowest bargaining coverage (UK, with 47%).

Having in mind this result, it is not therefore strange to suggest that for most Japanese small firms and employees, wages and conditions are not bargained collectively, either by a union, or by employee associations⁶. Rather, employer-employee relations in the Japanese small enterprises are of an individual nature, in the sense that the employees associations are rarely involved in collective bargaining on behalf of the members. Interestingly also, this individual attitude is also present amongst employers, in the sense that rates are seldom determined collectively. Moreover, information about wages is not officially disclosed by the firms or their owners, but are only made available to close associates and friends. This situation can be labelled as quite unique, even though a certain trend to this respect can be identified in some countries of the European Union.

Working and employment conditions

Equally to the European experience, available empirical evidence on working conditions in the Japanese small businesses can be labelled as wide and complete, at least in comparison with other employment relation issues.

In this sense, the available information suggests the following:

- Japanese SMEs, equally to their EU⁷ counterparts, make an extensive use of part-time employees. Thus, and according to statistical information⁸, in 1997 up to 81.9 per cent of the employees in firms with more than 1,000 employees were so-called regular employees (assumed with a lifetime employment "agreement"). In small firms with 10 to 29 employees this percentage declines to 61.4 per cent, and in the case of firms with 1 to 9 employees to less than 50 per cent. Conversely, the percentage of part-timers increases the smaller the firm is.
- The same statistical source shows that small firms employ also a fairly large number of non-regular employees (14.2 per cent), including family aid, seasonal workers, daily temporary staff and workers hired from manpower agencies.
- Similarly to the EU experience, wage differentials between large and small firms are very clearly marked. Thus, and according to the Ministry of Labour⁹, in 1999 the average total monthly cash payments to workers in the manufacturing sector amounted to 509,134 yen in firms with more than 500 employees, 389,692 yen for firms with 100 to 499 employees, 305,817 yen for firms with 30 to 99 employees and 276,269 yen in small firms with 5 to 29 employees. In addition, and during the nineties⁹, this ratio has further deteriorated, from 57.1 in 1992, 55.8 in 1995 and just 54.3 in 1999.

⁶ Information obtained from the national contribution (see Annex b)

⁷ Ministry of Labour: "Roudou Hakusho" (White Paper on Labour), annual report, Tokyo, 1998,1999, 2000.

⁸ Ministry of Labour: "Roudou Hakusho" (White Paper on Labour), annual report, Tokyo, 1998,1999, 2000.

⁹ JSBRI (Japan Small Business Research Institute): "White Paper on Small and Medium Enterprises in Japan", annual report, Tokyo, 1998, 1999,2000.

As already mentioned, a quite Japanese distinctive fact is given by the higher difficulties experienced by small businesses for recruiting skilled young employees. Thus, the 1997 Survey of Employment of Young People by the Ministry of Labour showed that about 20 per cent of firms with less than 100 employees were unable to recruit young full-time employees. This fact puts a burden on these enterprises in order to improve working conditions, particularly increase wages, fringe benefits and holiday levels.

Interestingly enough, SMEs seems to be more inclined to set pay in accordance with worker performance than large firms¹⁰. Thus, Japanese small businesses do assess individual performance more carefully, so policies concerning promotion are less influenced by seniority than in the larger enterprises. This result is not confirmed in any European study.

Finally, and related to working time, Japanese small business employees suffer from longer working hours, where this is truer the smaller the enterprise is¹¹ (see Table 2).

Table 2: *Annual regular working hours in 1999, by enterprise size.*

| Annual regular working hours | Number of employees | | |
|------------------------------|---------------------|-------|-------|
| | 1-9 | 10-29 | 30-99 |
| Less than 1800 | 5.7 | 3.8 | 3.0 |
| 1800-1900 | 9.5 | 8.8 | 8.5 |
| 1900-2000 | 18.0 | 21.4 | 24.1 |
| 2000-2100 | 30.3 | 49.0 | 56.7 |
| 2100-2200 | 16.0 | 10.2 | 5.5 |
| 2200-2300 | 9.3 | 4.1 | 1.7 |
| 2300-2400 | 6.4 | 2.0 | 0.4 |
| 2400 and more | 4.7 | 0.7 | 0.2 |

Source: *Zenkoku Chuushoukigyoudantai Chuuoukai*.

To end with this section, employment and working conditions in Japanese small businesses are far from ideal. Informal and flexible employment relations conduct to discretionary treatment of workers. On the other hand, the less bureaucratic organisation of small firms allows for more individual recognition of each worker's merit and performance.

Conflicts

Generally speaking, conflicts within enterprises are very rare in Japan, irrespectively of the enterprise size¹². This situation, quite unique by European standards, is explained by a number of factors such as the cultural and religious tradition of the Japanese society, which tries to avoid conflicts at all levels and, secondly, the strong sense of community and the weakness of organised labour specially in SMEs, which obviously reduce the scope and the possibility of serious conflicts.

¹⁰ JSBRI (Japan Small Business Research Institute): "White Paper on Small and Medium Enterprises in Japan", annual report, Tokyo, 1998, 1999,2000

¹¹ Zenkoku Chuushoukigyoudantai Chuuoukai (Central Association for Small and Medium Sized Firms related Groups in Japan): "Chuushoukigyou Roudou Jijou Jittai Chousa" (Report on Actual Labour Conditions in Small and Medium Firms), annual report, Tokyo, 1998 and 1999 edition.

¹² Information obtained from the national contribution .

Similarly to the European evidence, conflicts in smaller enterprises are preferably discussed directly between the concerned worker or group of workers and the manager/owner. However, if this conflict cannot be solved, there are arbitration panels and procedures at the local and regional levels that can be used to arrange a settlement agreed by both parties.

Interestingly enough, and contrarily to the experience in some EU countries, disputes are rarely brought to a court. Several obstacles hamper the initiation of formal legal procedures, such as the high cost of legal procedures in Japan or the length of the court procedures that might take several years before it is settled.

In any case, it is worth stressing again the quite unique Japanese cultural tradition of avoiding conflicts.

Size and sector considerations

In Japan, and equally to what happens in other EU Member States, differences in employment relations and conditions are influenced both by size and sector considerations. Thus, and referring to size issues, differentials in wages, working conditions, employment status and industrial relations are strong and persistent. Moreover, these differences seem to have even increased after the economic downturn of the nineties.

Meanwhile, and referring to sector considerations, the available information on working conditions shows that manufacturing small businesses stipulate shorter working hours but pay higher wages than their tertiary counterparts¹³.

In addition, small enterprises in dynamic, innovative sectors of the economy can offer better terms and conditions than many SMEs in traditional sector.

¹³ Zenkoku Chuushoukigyoudantai Chuuoukai (Central Association for Small and Medium Sized Firms related Groups in Japan): “Chuushoukigyou Roudou Jijou Jittai Chousa” (Report on Actual Labour Conditions in Small and Medium Firms), annual report, Tokyo, 1998 and 1999 edition.

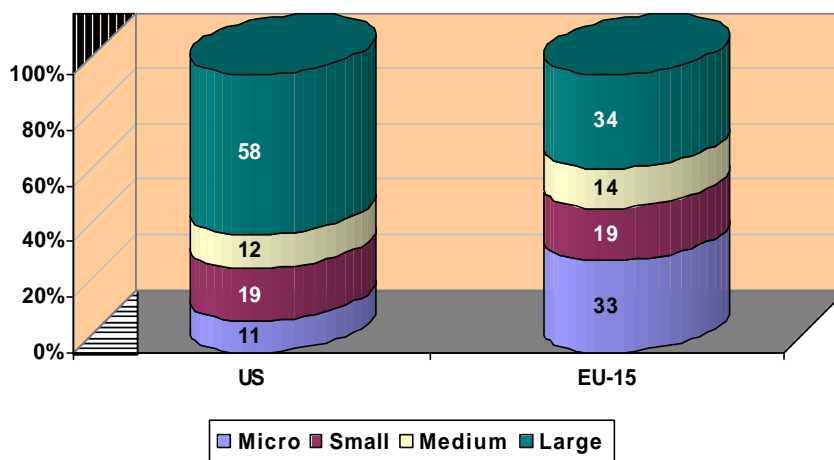
| EMPLOYMENT RELATIONS IN JAPANESE M&S ENTERPRISES | |
|---|--|
| ROLE OF M&S ENTERPRISES | <p>SMEs HAVE SMALLER WEIGHT THAN IN EU, BUT PLAY A CRUCIAL ROLE IN INDUSTRIAL GROUPS (<i>KEIRETSU</i>)</p> <p>COMPLEX SUPPORT SYSTEM FOR SMEs: FOSTERING DYNAMIC AND INNOVATIVE SMALL BUSINESS IS A PRIORITY</p> <p>TENDENCY TO DEREGULATE JAPANESE ECONOMY</p> |
| GENERAL PERSPECTIVE OF EMPLOYMENT RELATIONS | <p>STABILITY AND SECURITY OF EMPLOYMENT SYSTEM</p> <p>LIFETIME EMPLOYMENT AND SENIORITY</p> <p>COMPANY SPECIFIC UNIONS</p> <p>HIERARCHICAL STRUCTURE OF ENTERPRISES</p> <p>LACK OF WORKERS' CULTURE AND SOLIDARITY NOTIONS</p> <p>INDIVIDUAL ENTERPRISES REGULATE OWN SOCIAL ISSUES</p> <p>WORK CONFLICTS AND STRIKES ARE EXTREMELY RARE</p> |
| MICRO & SMALL COMPANIES PERSPECTIVE | <p>COLLECTIVE REPRESENTATION IS EXCEPTIONAL</p> <p>COMPANY UNIONS DO NOT EXIST IN M&S FIRMS AND THOSE FROM LARGE ENTERPRISES DO NOT OFFER SUPPORT</p> <p>BARGAINING COVERAGE MORE LIMITED THAN IN EU</p> <p>INDIVIDUAL EMPLOYMENT NEGOTIATION</p> <p>OPAQUENESS ON AGREED WAGES & WORKING COND.</p> <p>WIDE PRESENCE OF PART-TIME AND NON-REGULAR JOBS</p> <p>WAGE DIFFERENTIALS IN DETRIMENT OF M&S COMPANIES</p> <p>QUALIFIED PERSONNEL SHORTAGE, RECRUITED BY LARGE COMPANIES FROM HIGH SCHOOL → SMALL FIRMS FORCED TO OFFER BETTER CONDITIONS</p> <p>WAGES SET INDIVIDUALLY ACCORDING TO WORKER PERFORMANCE</p> <p>LONGER WORKING HOURS AND DISCRETIONARY TREATMENT BY EMPLOYER</p> <p>CONFLICTS ARE VERY RARE, IRRESPECTIVELY OF SIZE</p> <p>ARBITRATION PROCEDURES AT LOCAL AND REGIONAL LEVEL</p> <p>DISPUTES RARELY BROUGHT TO COURT</p> <p>MANUFACTURING WORKERS IN BETTER CONDITIONS THAN SERVICES'</p> <p>SAME FOR INNOVATIVE SECTORS</p> |

USA

The role of micro and small enterprises in the US economy

According to available data, micro and small enterprises from 1 to 49 employees account for around 30% of the total US employment, where this share is lower than the EU average (52%). In this sense, from a mere quantitative point of view, micro and small enterprises seem to play a less relevant role in the US economy vis-à-vis the European ones.

Figure 1: *Employment shares by size class in non-primary private enterprise, EU-15 and USA, 1996*



Source: *Sixth Report of the European Observatory for SMEs*

Interestingly enough, and from a dynamic perspective, the evolution of employment in Europe-19 and the USA shows important differences by enterprise size during the time period 1990-1996. Thus, and to start with, the development of employment has been most favourable in the USA. Additionally, the size-class pattern of employment development has been much less consistent in the USA vis-à-vis the European experience, where a negative correlation between enterprise size and employment growth can be appreciated. By way of contrast, and in the USA, no clear relation between enterprise size and employment growth has occurred during 1990/1993, whereas in the time period 1993/1996 a positive relation can be appreciated between enterprise size and employment creation. In this sense, and contrarily to the European experience, US employment growth was by far greatest in LSEs.

Table 3: *Employment growth by size-class, Europe-19, 1990 -1996*

| | 1990/1993 | | 1993/1996 | |
|----------------------------|-------------|------------|-------------|------------|
| | Europe-19 | USA | Europe-19 | USA |
| average annual change in % | | | | |
| SMEs: | | | | |
| micro | -0.8 | 0.6 | 0.0 | 1.3 |
| small | -1.4 | -0.4 | -0.1 | 1.9 |
| medium-sized | -2.0 | -0.1 | -0.2 | 2.2 |
| total | -1.2 | 0.0 | 0.0 | 1.8 |
| LSEs | -2.0 | 0.9 | -0.2 | 3.1 |
| Total | -1.5 | 0.5 | -0.1 | 2.5 |

Source: *Sixth Report of the European Observatory for SMEs*

From a qualitative point of view, micro and small enterprises are currently viewed in the USA as a key role player in the new American economy. In essence, and according also to an US official opinion¹⁴, US micro and small enterprises are an integral part of the renewal process that pervades and defines the US economy. Thus, new and small firms play a crucial role in experimentation and innovation that leads to technological change and productivity growth.

One of the main indicators of the current US dynamic economy, specially in comparison to the European one is the continued high level of creation of new and small firms in all sectors of the economy by all segments of society, introducing therefore variety in the economy. In this sense, and according to the US Small Business Administration¹⁵, US small businesses will be the engine of job generation. Therefore, new job generation will be the result of 'churning', that is, small firm birth and death rates will continue to be high, with gains expressed in net new births. In addition to this, small businesses are expected to continue playing a unique role not only in developing technologies, but also in developing and exploiting unrealised market opportunities for new technologies and laying the ground for new industries.

Employment relations in the USA: a general perspective

From a legal perspective¹⁶, employment relations in the USA are regulated by three main pieces of legislation, that is to say, the National Labour Relations Act (Wagner Act), the Labour Management Relations Act (Taft-Hartley Act), and the Labour-Management Reporting and Disclosure Act (the Landrum-Griffin Act). Federal government authorities throughout the country enforce these laws.

A summary of the main characteristics of US employment relations can be found in Table 4. Generally speaking, and quite distinctively from the European experience, the USA maintains the "at-will" employment

¹⁴ US Small Business Administration, *The New American Evolution: The Role and Impact of Small Firms*, SBA Publication, Washington, DC, 1998.

¹⁵ U.S. Small Business Administration, *The Third Millennium: Small Business and Entrepreneurship in the 21st Century*, SBA Publication, Washington, DC, U.S. Government Printing Office, 2000.

¹⁶ Information obtained from NAALC, *Preliminary Report to the Ministerial Council on Labor and Industrial Relations Laws in Canada, the United States, and Mexico*, Washington, 2000.

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principle, which assumes a voluntary contractual relationship that can be terminated at the will of either party. In its classical formulation, the at-will rule allows employers to dismiss a worker for “a good reason, a bad reason, or no reason at all,” with no requirement for advance notice or severance pay.

Table 4: *Summary of main characteristics of US employment relationships*

| | United States |
|---|--|
| Constitutional Foundations | Constitution is silent on labour rights and standards First Amendment protects freedom of assembly, free speech, and the right to petition the government for redress of grievances; Courts have applied this to some labour activity |
| Labour Law Jurisdiction | National system of labour laws: Wagner Act, Taft-Hartley Act and Landrum-Griffin Act apply throughout the national territory Single national administrative labour board (NLRB) for enforcement; 33 regional offices throughout the country |
| Protection of Right to Organise | Federal Wagner Act defines anti-union discrimination as unfair labour practice Key protection is ULP charge made by employees or union before NLRB |
| Union registration and certification | Certification normally requires a majority vote in a secret ballot election; elections held within weeks of filing Aggressive campaigns occur in period between petition and vote Secret ballot vote conducted by NLRB officials |
| Union security (Dues payments by represented employees) | The majority of states leaves union security for agreement between labour and management 21 states have “right-to-work” laws, prohibiting labour-management agreement for dues deduction by non-union members |
| Duty to Bargain | Affirmative duty to bargain with a certified union; a refusal to bargain is an ULP |
| Mediation, Conciliation and Arbitration | Government mediation/ conciliation is voluntary Compulsory arbitration of contract terms does not occur in the private sector |
| Mandatory Extension of Contract Coverage | No extension of CAs to cover other firms or workers The outcome of bargaining is primarily left to market forces Some “pattern bargaining” occurs in certain sectors |
| No-Strike Rules | Strikes are not legally prohibited during CA In practice, most parties incorporate a no-strike clause in their CA Arbitration is generally practised as a quid pro quo for a no-strike clause |
| Strike Votes | A union strike vote is not required by law (issue left to union constitution) In practice, most unions conduct a vote to strike or to authorise a strike; vote conducted under union by-laws |
| Striker Replacement | “Economic strikers” may be permanently replaced Workers who strike over ULPs may not be permanently replaced Temporary replacements are allowed |

“CA”: collective agreement

“NLRB”: National Labour Relations Board (U.S.A.)

“ULP”: unfair labour practice

Source: NAALC, *Preliminary Report to the Ministerial Council on Labor and Industrial Relations Laws in Canada, the United States, and Mexico, Washington, 2000.*

The at-will doctrine still prevails as the basic employment relationship for most private sector workers in the United States. Collective bargaining agreements providing a “just cause” standard for discharge cover just 12 per cent of workers in the private sector. These workers have recourse to arbitration on a claim of unjustified discharge. However, in addition to collective bargaining agreements, the at-will rule is constrained by statutes that prohibit discrimination in employment, and by certain exceptions to the at-will rule established by court decisions in individual cases. Many labour analysts predict continuing erosion of the at-will doctrine as new legislation is adopted and new court decisions are announced.

In this sense, the US legislation establishes a number of employers’ actions that are prohibited by law (‘Unfair Labour Practices’, in the US terminology):

- Interfering with, restraining, or coercing employees engaged in concerted activity, including union activity
- Dominating, interfering with the formation or administration of, or contributing financial support to a labour organisation
- Discriminating in regard to hire or tenure of employment or any term or condition of employment to encourage or discourage membership in any labour organisation
- Retaliating against workers for giving testimony or otherwise availing themselves of the Act’s protection
- Refusing to bargain with a certified collective bargaining representative of employees

To finalise with this legal introduction, it is worth underlining that, equally to what happens in other EU countries, several Federal and State laws and regulations covering compensation and other labour practices do often not apply to small businesses, or are modified for small businesses (i.e. the Employee Retirement Security Act of 1974, and the Family and Medical Leave Act of 1993).

General overview

Empirical information obtained in the USA shows that employment relations in the US small enterprises are characterised by a high degree of flexibility. This flexibility is well reflected in a number of employment practices such as informal communication, direct supervision, more broadly-defined jobs, the ability to capitalise on strengths of individual employees to meet customer needs or the critical importance of individual employees to the organisation’s success¹⁷.

This flexibility, protected by existing regulations, seems to be higher than those already existing in most of the European surveyed countries. In fact, chapter 3 has shown that one of the main criticisms of European small business employers is related to the existing lack of flexibility for managing human resources.

However, this positive side has got also a negative one, in the sense that US smaller enterprises are criticised for their lack of sophistication and attention to their human resource management practices¹⁸. Empirical

¹⁷ Briscoe & Soukup, HRM in small companies. Proceedings, Association of Management Conference in Orlando, 1990, quoted in Kaman et al, 2000.

¹⁸ Huselid, MA, The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal*, 38, 635-672, 1995, quoted in Kaman et al, 2000.

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research carried out by Kaman et al in 2000 shows that, in the United States, human resource management systems evolve as a business grows in a number of fields.

Thus, some practices that formalise management expectations are significantly correlated with firm size, indicating that larger US firms are more likely to have a handbook, formal performance evaluation systems, written guidelines for task performance, and a formal orientation process (see Table 5).

Table 5: *Practices that formalise management expectations*

| Practices | Smallest enterprises (1-15 employees) | Medium enterprises (16-48 employees) | Largest enterprises (49-100 employees) |
|---|--|---|---|
| Making written job descriptions available to employees for each job | 3.5 | 3.4 | 4.0 |
| Following a step-by-step formal procedure to orient new employees into the company | 3.4 | 3.9 | 4.2 |
| Using formal performance evaluations/appraisals at least once a year for each employee | 3.5 | 4.8 | 5.0 |
| Using progressive discipline procedures | 3.5 | 3.6 | 4.0 |
| Using a formal selection process (tests or structural interviews or point system) to make hiring decision | 3.4 | 3.4 | 3.2 |
| Providing a handbook or other written guidelines on company expectations for appropriate workplace behaviours | 3.0 | 4.6 | 5.3 |
| Providing standard written policies, procedures, and guidelines for how tasks are to be performed | 2.8 | 3.4 | 3.9 |

Mean results on a 6-point scale. Enterprises were requested to answer to the extent (from 0 to 6) that human resource practices were practised in small service firms

Source: Kaman V et al, *Human Resource Practices that Establish Expectations and Support Employee Responsibility in Small Service Firms*, paper available at Internet (www.sbaer.uca.edu/DOCS/2000asbe/00asbe146.htm), 2000

By way of contrast, practices enabling employees to take more responsibility are in place in all firms in this study, regardless of size category. In fact, the smallest firms, on average, are quite strong in implementing these practices (see Table 6).

Table 6: *Practices enabling employees to take more responsibility*

| Practices | Smallest enterprises (1-15 employees) | Medium enterprises (16-48 employees) | Largest enterprises (49-100 employees) |
|---|--|---|---|
| Realistically describing the job to prospective employees | 5.0 | 4.9 | 4.9 |
| Making training classes or seminars available to employees | 4.0 | 4.1 | 4.0 |
| Keeping all employees informed of company progress with periodic meetings or other communications | 4.4 | 4.5 | 4.2 |
| Providing rewards or incentives for good performance | 4.2 | 4.2 | 4.1 |
| Providing flexibility in scheduling for work hours to accommodate employee needs | 4.7 | 4.7 | 4.1 |
| Providing opportunities for employee suggestions and feedback | 4.5 | 4.1 | 4.0 |

Mean results on a 6-point scale. Enterprises were requested to answer to the extent (from 0 to 6) that human resource practices were practised in small service firms

Source: Kaman V et al, *Human Resource Practices that Establish Expectations and Support Employee Responsibility in Small Service Firms*, paper available at Internet (www.sbaer.uca.edu/DOCS/2000asbe/00asbe146.htm), 2000.

Collective representation

Equally to what happens in most of the surveyed European States (with the exception of the Nordic countries), US large business employees are more likely to be unionised than those working for small ones, which results in a higher individualisation of employer-employee relationships: unionisation rates amongst US small business employees do not cover more than 4%¹⁹ amongst the employees working in the smallest enterprises (1-24 employees) (see Table 7).

Table 7: *Percentage of employees at different-sized companies and establishments who are unionised, 1983*

| Number of employees | Percent unionised |
|---------------------|-------------------|
| Enterprise | |
| 1-24 | 4 |
| 25-99 | 14 |
| 100-499 | 19 |
| 500+ | 30 |
| Establishment | |
| 1-24 | 7 |
| 25-99 | 20 |
| 100-499 | 29 |
| 500+ | 32 |

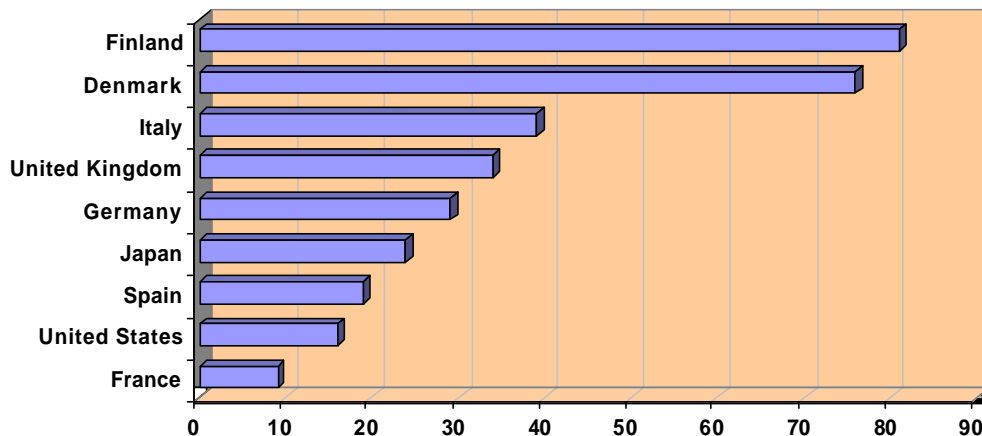
Source: Bureau of Labor Statistics, may 1983 Current Population Survey, taken from Brown C et al, 1990

¹⁹

Data is referred to early nineties, so it might be argued that these rates are even lower now.

This result has to be understood within the general US situation, characterised by a low incidence of trade unions amongst all employees. Thus, and just to give some comparative data, information for 1994 shows that the US unionisation rate was 16%, the lowest one amongst the OECD countries (except for France) and even below the Japanese one (see Figure 2).²⁰ More over, US estimations suggest that this rate has been constantly declining in time .

Figure 2: Trade union density in several OECD selected countries, 1994



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

Interestingly also, and equally to the UK experience, small business employees show a higher interest than their larger enterprise colleagues in becoming unionised²¹, a result that suggests dissatisfaction amongst employees concerning their lack of voice and representative capacity within the enterprise. A possible explanation to this is given by US research that shows that benefit incidence varies between union and non-union workers in small establishments²².

Meanwhile, and from the US small business employers' perspective, and contrarily to the experience in several EU Member States, there is no specific representative institution defending their interests. In any case, they value the activities²³ carried out by the US local Chambers of Commerce, which acts as a sort of pseudo representative institution .

²⁰ Wiatrowski WJ, 105th Congress Addresses Working Conditions, in *Compensation and Working Conditions*, Vol. 2, No. 4, published by the US Bureau of Labor Statistics, Winter 1994.

²¹ Brown, C., Hamilton, J., and Medoff, J. *Employers Large and Small*. Harvard University Press, Cambridge, Ma, U.S.A., 1990.

²² Wiatrowski WJ, Small businesses and their employees, in *Monthly Labor Review* Vol. 117, No. 10, published by the US Bureau of Labor Statistics, October 1994.

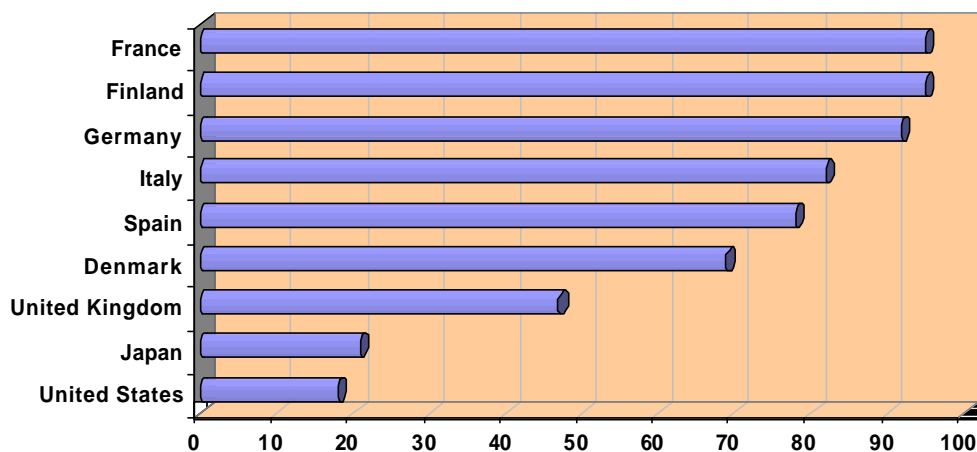
²³ Toña Güenaga A, *Información sobre la Empresa a los Trabajadores*, Tesis Doctoral de la Universidad de Deusto, 1995.

Collective bargaining

One of the main indicators of the US employment relation system, characterised by a high degree of individualism and 'liberal' approach, is given by the way collective bargaining is approached. Thus, and contrarily to the experience in the EU surveyed countries, the most usual scope for collective bargaining is the enterprise itself (complemented by particular agreements at establishment level), where the valid negotiators are the employer and the employers' representative. Meanwhile, collective bargaining agreements at sector level are practically non-existent, and in this case this sector agreement has to be accepted within each enterprise by the employer and the employees' representative.

Having in mind this, it is not therefore strange that the bargaining coverage amongst US employees (irrespectively of size considerations) is the lowest one amongst OECD countries (see Figure 3).

Figure 3: *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.*

Interestingly, and from an enterprise size perspective, and taking into account data for 1988, only a 5.2% of employees in small establishments²⁴ are covered by collective agreements. This means that within 95% of the US smallest enterprises, working and employment conditions are negotiated on an individual basis between the employer and the employee. This percentage can be argued to be higher than the EU standard, with the UK exception.

However, the same author shows that small business employees have an incentive to become covered since, according to the US experience, workers covered by a collective bargaining agreement, on average, receive higher wages and are more likely to receive certain benefits than workers not covered by such an agreement.

²⁴ Wiatrowski WJ, Small businesses and their employees, in *Monthly Labor Review* Vol. 117, No. 10, published by the US Bureau of Labor Statistics, October 1994.

Working and employment conditions

Equally to the European case, the US research on working and employment conditions amongst US small business can be characterised as extensive and complete.

Similarly also to the EU case study, the existing working and employment conditions within the US small enterprises can be labelled as worse than within large ones²⁵. Examples of these working conditions refer to²⁶:

- There is a greater proportion of US employees in large establishments working full-year/full-time than in small establishments.
- Large employers offer much higher wages than small employers, even when differences in employees' education and experience and the nature of industry are taken into account.
- US Large establishments provide benefits on a larger extent than small establishments do.
- US small enterprises appear to provide general workplace training, whereas large ones specialise in providing firm-specific training. Additionally, formal training varies with firm size. Total hours of training increase also with enterprise size, although informal training seems to be more present in smaller enterprises in comparison to larger ones.
- The composition of labour force in small versus large establishments differs, in the sense that young and old workers, as well as less skilled workers, are more present in the US smaller businesses in comparison to the larger ones.
- The jobs generated by large employers provide greater, not less, security than those generated by small employers. Layoff rates, which reflect all kinds of layoffs, are much lower in large businesses than in comparable small ones.

²⁵ For an in-depth discussion on this and a presentation of concrete results, please refer to the US national contribution, annex B.

²⁶ The information included in this section has been obtained from the following sources:

- Black DA et al, Job Training Approaches and Costs in Small and Large Firms, report commissioned by the US Small Business Administration, Washington DC, 1993.
- Brown, C., Hamilton, J., and Medoff, J. Employers Large and Small. Harvard University Press, Cambridge, Ma, U.S.A, 1990.
- Miller MA, Time-off benefits in small establishments, in Monthly Labor Review Vol. 115, No. 3, published by the US Bureau of Labor Statistics, March 1992.
- US Department of Labor, Survey on Employee Benefits in Small private Establishments 1996, Washington DC, April 1999.
- US Small Business Administration, Characteristics of Small Business Employees and Owners, 1997, Washington DC 1998a.
- Wiatrowski WJ, Small businesses and their employees, in Monthly Labor Review Vol. 117, No. 10, published by the US Bureau of Labor Statistics, October 1994.

Conflicts

Equally to the EU experience, there is very few information on conflicts amongst US smaller businesses. However, the scarce available evidence²⁷ shows that US employees are increasingly turning to the courts and government agencies such as the Equal Employment Opportunity Commission (EEOC) in record numbers during the last years, due always to conflicts with their employers. This employment litigation explosion has sparked new interest in alternative dispute resolution procedures, less onerous to the US employers, such as arbitration procedures.

However, and equally to the information found in the EU, small business employees do use less these resolution procedures. This result might be explained by the fact that small business employees are more reluctant than their larger counterparts to engage themselves in open conflicts with their superiors. Thus, a 1994 survey by the Society for Human Resources Management (SHRM) found that arbitration was available to non-union workers at 7 percent of firms with fewer than 50²⁸ employees; 13 percent in those with 50-99 employees; and, 21.1 percent in those with 100-499 employees²⁹.

Size and sector considerations

Equally to the EU experience, US²⁹ researchers stress the fact that US small firms vary widely in their practice of human resources management³⁰ and that size of firm is not necessarily the best predictor of human resource management practice or its outcomes³¹. Thus, other characteristics have to be taken into account such as sectoral influence, labour characteristics or market constraints.

However, the only supplied empirical evidence focuses on the involvement of firm owners in HRM as well as the establishment of a separate HRM function and the increase in formalisation of HRM policies and procedures as firms increase in size³¹.

²⁷ Nye DL, Employment ADR: a Realistic Option for the Smaller Firm?, paper available at Internet (www.sbaer.uca.edu/docs/proceedingsII/97asb023.txt), 1997.

²⁸ BNA, Inc., Nonunion grievance procedures. *Personnel Management*, No. 864: 203, 614-615, 1995, quoted in Nye, 1997.

²⁹ Baron, JA & Kreps, DM, Strategic human resources: Frameworks for general managers. New York: John Wiley & Sons, Inc, 1999, quoted in Kaman V et al, Human Resource Practices that Establish Expectations and Support Employee Responsibility in Small Service Firms, paper available at Internet (www.sbaer.uca.edu/DOCS/2000asbe/00asbe146.htm), 2000.

³⁰ Jackson, SE et al, Organisational characteristics as predictors of personnel policies. *Personnel Psychology*, 42(4), 727-786, 1989, quoted in Kaman V et al, Human Resource Practices that Establish Expectations and Support Employee Responsibility in Small Service Firms, paper available at Internet (www.sbaer.uca.edu/DOCS/2000asbe/00asbe146.htm), 2000.

³¹ Baron, JA & Kreps, DM, Strategic human resources: Frameworks for general managers. New York: John Wiley & Sons, Inc, 1999, quoted in Kaman V et al, Human Resource Practices that Establish Expectations and Support Employee Responsibility in Small Service Firms, paper available at Internet (www.sbaer.uca.edu/DOCS/2000asbe/00asbe146.htm), 2000.

Features of micro and small enterprises

Smaller firms are described as experiencing the benefits of informal communication, direct supervision, more broadly-defined jobs, the ability to capitalise on strengths of individual employees to meet customer needs, and the critical importance of individual employees to the organisation's success³² (see Table 6).

Meanwhile, the smaller enterprises are also criticised for their lack of use of 'best practices', lack of sophistication, and lack of attention to the documented relationships that have been demonstrated between HRM practices and organisational outcomes in larger firms³³ (see Table 5).

| EMPLOYMENT RELATIONS IN UNITED STATES' M&S ENTERPRISES | |
|---|---|
| ROLE OF M&S ENTERPRISES | 30% total employment (< EU average) Positive evolution during last decade (but M&LSE better) Key role player in new American economy |
| GENERAL PERSPECTIVE OF EMPLOYMENT RELATIONS | Liberal approach ("At-will" employment principle) Protection of right to organise (Unfair Labour Practices) employers' Duty to bargain with certified Unions No extension of Collective Agreement to other firms or workers (but "pattern bargaining") Right to strike regulations Some legal adaptations to Small Business |
| MICRO & SMALL COMPANIES PERSPECTIVE | Wide array of situations (sector, age, location, business culture) Informal communication, flexibility vs. Need to implement more formal HR management Good level of practices enabling employees responsibility (Information/communication) Unions cover less than 15% of labour force (declining) higher unionisation in large companies; Lack of employers associations for collective representation collective bargaining at company level (sectoral c.b. non-existent) lowest CA coverage in oecd (about 15% of labour force: from 20% in LSE to 5% in small business) Workers under CA have better wages As an average, worse working conditions in small business Employment litigation general increase MSF personnel less access to arbitration procedures |

³² Briscoe & Soukup, HRM in small companies. Proceedings, Association of Management Conference in Orlando, 1989, quoted in Kaman V et al, Human Resource Practices that Establish Expectations and Support Employee Responsibility in Small Service Firms, paper available at Internet (www.sbaer.uca.edu/DOCS/2000asbe/00asbe146.htm), 2000.

³³ Huselid, MA, The impact of human resource management practices on turnover, productivity, and corporate financial performance, Academy of Management Journal, 38, 635-672, 1995, quoted in Kaman V et al, Human Resource Practices that Establish Expectations and Support Employee Responsibility in Small Service Firms, paper available at Internet (www.sbaer.uca.edu/DOCS/2000asbe/00asbe146.htm), 2000.