



Employment relations in micro and small enterprises - literature review

Country profile: Denmark

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Introduction

SMEs constitute the dominant part of the Danish firm structure (Hoff, Jens, Demokrati på arbejdspladsen), especially in the manufacturing industries - dominated by craft-based producers. Many of the findings presented in this literature do not distinguish between SMEs and large firms. But at the same time it should also be remembered, as noted above, that a large part of the Danish firms fit the SME definition.

In some of the literature it is advocated that there is a need for further studies about the social actions dominant in Danish SMEs and larger firms - studies of how individuals and different social groups “think and act”, and a look into how this behaviour is translated into existing organisational practises, identities and economic roles (Karnøe, Peter; Hull Kristensen, Peer; Houmann Andersen, Poul (ed.): Mobilising resources and generating competencies).

This need for further studies is also reflected in the literature that has been available for this literature analysis. Concerning employment relations, there is a general lack of knowledge about the social actions that are dominant in the both SMEs and large firms in Denmark.

When we look at the Danish labour market, a general model of consensus has developed. This means that whenever relevant legislation concerning the labour market is proposed, the labour market parties are always involved at a national level. The general view of the literature reviewed in the analysis is however, that this model of agreements is changing direction towards a multi-level, regulated model. This development is caused by a change in international regulation (EU regulation) and a general decentralisation of labour market agreements from national to local levels.

The explanation for this new international and multi-level labour market has been very difficult to explain within existing theoretical approaches (Due, Jesper, Madsen et al., Mod multiniveau regulering af arbejdsmarkedsrelationerne), which is also reflected in the literature in this analysis, as none of the authors has come up with an in depth explanation.

Collective representation

Because of the Danish firm structure with a very high share of SMEs one would expect to find a high degree of workers' influence on the labour unions. The reason for this would be that the workers would have a more direct contact with their representatives. Especially because the Danish workers also express that they have a high degree of influence on their working conditions, more so than their Swedish counterparts who tend to work in larger firms. However, this is not the case.

This is thought to reflect a general problem of the Danish labour unions (Hoff, Jens, Demokrati på arbejdspladsen). The problem is that the labour unions in general have been unable to reorganise the traditional Danish system of national top-level controlled agreements to a more decentralised local level or company level system of agreements. This in turn makes the workers feel powerless in relation to the labour unions, which is especially true in SMEs with fewer than 50 workers.

This leaves a paradox concerning the collective representation in the Danish SMEs. At the same time you have workers that have a very high influence on their working conditions, but also workers who feel that they have a very low influence on the local labour unions. This often makes the workers feel a higher obligation or

responsibility towards the firm than the union. In turn, this might lead to a general undermining of the collective representation and collective agreements on the Danish labour market. This is supported by the fact that about 60% of Danish workers feel that they have little or no influence on their local labour union (Hoff, Jens, Demokrati på arbejdspladsen).

This development has a parallel in the fact that many firms in the past few years have been working to create closer ties between the firm and their employees. The firms have focused on Human Resource Management (HRM) and made individual contracts circumventing the union representatives. (Scheuer, Steen, Fælles aftaler eller egen kontrakt i arbejdslivet).

The reason for this development in the Danish SMEs from a management point of view can be twofold. First, there has been - and still is - an acute shortage of especially skilled labour in Denmark, and the individual contracts might therefore be seen as the firms way of trying to attract and keep key workers. Second, it cannot be ruled out that it might also be a way for the firms to consciously try to undermine the labour unions.

However, this does not mean that the individualisation is threatening the unions and the general collective bargaining culture, because it does not affect the blue-collar/the hourly paid workers (Scheuer, Steen, Fælles aftaler eller egen kontrakt i arbejdslivet). The reason for this might just be that the proper HRM tools have not been developed yet, but there is to day an increasing tendency in the direction of that more and more blue-collar/the hourly paid workers are offered contracts very similar to those of the salaried workers.

For certain Denmark is a far cry from having a through and through organised collective bargaining and organised labour market. This might be especially true in relation to the SMEs, where the tendency to closer ties between the workers and the firm goes hand in hand with the workers' more and more distant relationship with their unions. In Denmark, with a relative high share of SMEs, this development will have a heavier and earlier impact on the labour market and the unions, than in countries with fewer SMEs. It might be to early to predict substantial changes, but the development on Danish labour market will certainly be interesting to follow in the next years.

Collective Bargaining

It has long been the general opinion, among Danish and international observers and collective actors, that the level of collective bargaining coverage in Denmark was very high (Scheuer, Steen, Collective Bargaining Coverage under Trade Unionism: A Sociological Investigation). The Danish Ministry of Labour estimated the coverage to be around 90% (Scheuer, Steen, Collective Bargaining Coverage and the Status Divide: Denmark, Norway and the United Kingdom Compared).

However, studies have shown that only 52% of the private sector employees was covered by a collective bargaining agreement. Even with a collective bargaining in the public sector of 100%, the aggregate coverage would only be 69%; a far cry from the estimates of about 90% by The Danish Ministry of Labour (Scheuer, Steen, Collective Bargaining Coverage and the Status Divide: Denmark, Norway and the United Kingdom Compared).

In relation to the SMEs the collective bargaining coverage is estimated to be even lower than the 52%. In firms with less than 25 employees only about 1/3 of the employees were covered by a collective agreement (Scheuer, Steen, Fælles aftaler eller egen kontrakt i arbejdslivet).

The low level of collective bargaining coverage could be explained by the weak organisational coverage of the employers (Scheuer, Steen, Collective Bargaining Coverage and the Status Divide: Denmark, Norway and the United Kingdom Compared). But also more individual firm reasons could be in play - e.g. general resistance to unions, wanting to keep an informal tone in the workplace and, related to this, not wanting to create a general notion of opposition between the employer and the employees (Scheuer, Steen, Fælles aftaler eller egen kontrakt i arbejdslivet).

For the employees there might also be individual considerations in play that work against collective bargaining agreements. The employee might feel that he/she might be able to negotiate better conditions individually than collectively and/or the collective bargaining might hinder his/her career ambitions (Scheuer, Steen, Fælles aftaler eller egen kontrakt i arbejdslivet).

But also more structural labour market forces could have worked for a greater individualisation. Since the early 90's there has been a general demand for labour, and this might have "pushed" individual contracts and bargaining. Especially the salaried employees, who constitute the growing share of the labour force, have a more individual orientation (Scheuer, Steen, Collective Bargaining Coverage and the Status Divide: Denmark, Norway and the United Kingdom Compared).

However, it is important to note that when a collective bargaining agreement has been agreed, it is very probable that that it will become an integrated part of the firm organisation (Scheuer, Steen, Fælles aftaler eller egen kontrakt i arbejdslivet). This is why collective bargaining agreements are a lot more common the older the firm, and very seldom in new firms.

However, the organisational level or the unionisation of the workers in the Danish firms is generally high¹, with a slight tendency to a lower level of unionisation in the SMEs. The duality of a low level of collective bargaining coverage and high degree of unionisation in the SMEs suggests that the unions have been very unsuccessful in getting influence in the Danish firms and especially the SMEs. (Scheuer, Steen, Fælles aftaler eller egen kontrakt i arbejdslivet).

The reasons for the unions' very weak impact might lie in the fact the while the tie between the employers and the employed in the SMEs is growing, through individual contracts and greater employee influence on the work organisation, the unions are losing their grip because the workers do not feel that they have any influence on the local labour unions. This is supported by the fact that non-organised workers in general do not have worse conditions than the ones within the unions.

It seems therefore that the only thing that can explain the high level of organisation in the SMEs is the fact that the workers might feel more insecure working in a SME. Or else there must be other reasons that somehow affect the workers loyalty to the unions. Perhaps tradition for being a member and a general notion of solidarity among Danish workers play an important part. But also the unions role as craft organisations, creating a craft identity for the members, might be an important factor in keeping the unionisation level high.

¹ The level of organisation is independent of firm variables such as industry, size and age.

When we look at the unions' problems of tying closer ties with the workers, we find that there are a lot of individual reasons for the workers not to be part of the collective bargaining agreements. If the local unions are to gain more influence in the firms, they have to be able to encompass the workers as individuals with different needs and wishes for their working lives. The following two examples describe such situations (Karnøe, Peter; Hull Kristensen, Peer & Houman Andersen, Poul (eds.), *Mobilising Resources and Generating Competencies*).

The first example is that of an apprentice looking for personal advancement, i.e. getting challenging and prestigious jobs or getting a management position. To him group solidarity, collective actions against management and fair allocations between good and bad jobs all work against his ambitions. Therefore he will be in opposition to the unions, and if he becomes a manager, this opposition might be even more explicit.

The second example is the skilled worker who - via his deep interests in technology and his excellent skills - is a key worker for the firm. He sets the standard for his co-workers but he sees himself as part of the workers collective, even when he becomes a manager. To him the craft union is a protector of his rights and the craft principles. As a manager he will look to the factory floor for approval of the changes and the projects that he initiates.

In the literature collected some examples are given of how the labour unions are trying to enable or maintain collective bargaining.

In Denmark the collective bargaining agreements stipulate a normal working week of 37 hours. Because of seasonal or other fluctuations the employers, in cooperation with the unions, have introduced the principle that the 37 hours must be seen as an average over a period of 6-8 weeks or even up to six months (Scheuer, Steen, *Union Presence and Hours Worked*). This is especially important for the SMEs as they do not have the numerical flexibility to make up for fluctuations; as subcontractors they often have to be able to react extremely quickly to customer demands, which make human resource planning very difficult.

The labour unions do not police the rules very strictly and it is often up to the employees to enforce the rules. The role of the shop steward is to oversee that the workers are given due notice about overtime and that the employers do not change the hours from day to day (Scheuer, Steen, *Union Presence and Hours Worked*). However, the rule is often difficult to enforce - and especially in the SMEs where the ties are stronger between employer and employees, there will often be a great loyalty towards the firm or understanding of the firm's situation. There has been a growing trend in this direction, as many Danish SMEs are becoming part of subcontractor networks throughout Europe. In these networks the interdependency between the firms is so strong that no one can afford a firm to "drop out" because of labour union problems - and there is a general recognition of this by the employees.

Another interesting example of enabling collective bargaining agreements has been "training agreements". The core of the training agreements is tight cooperation between the firms, the employees, the local unions, and the local vocational training schools. For the firm the training agreements are a way of tying key/highly skilled workers to the firm. Through the training agreements the workers gain more bargaining power and they also increase their opportunities in the firm and outside the firm. For the local unions it means that they have to develop new ways of working in this individualised system, but they gain a strong incentive for formalised agreements as workers with less formal agreements will be last in line for seats at the courses. The schools are developing a new cooperative behaviour, as the firms, employees, and local unions demand tailor-made courses and curricula. (Karnøe, Peter; Hull Kristensen, Peer; Houmann Andersen, Poul (ed.): *Mobilising resources and generating competencies*.)

In general, there is a trend towards a growing focus on internal training, learning and education in the firms. Especially in the SMEs this has been informal on and in the job training and is a result of SMEs lacking both financial and human resources to send people away to external courses. Today, there is a growing institutionalisation in this area, as described above, and because the tailor-made internal courses more rapidly diffuse into the organisation and thus increase the internal learning and knowledge sharing.

But having said this, it is important to be aware that within the firms, workers on the factory floor are often divided between several unions - competing for their members' rights against each other (Karnøe, Peter; Hull Kristensen, Peer; Houmann Andersen, Poul (ed.): Mobilising resources and generating competencies.) Especially in SMEs this can create problems in terms of production flexibility. In turn it can push the workers away from the unions and collective agreements and towards individualised firm level agreements. One of the signs of this in Danish firms is the growing trend towards profit sharing and employee shares also found in SME craft-based industries.

Working and employment relations

In the Danish firms there seems to be less formal planning than in other countries. Systems of managerial power and authority are difficult to find in the Danish system; instead the work discipline is governed through strong codes of work ethics. These codes of work ethics are built up during vocational training and in the apprenticeships and later the shop stewards police these professional standards, which is also why, in the example mentioned earlier, the skilled worker sees the union as a protector of his rights and craft principles. This also means that if the Danish system of planning is to survive, the most important thing for the individual worker becomes his ability to cooperate with his co-workers and live up to the standards of the group, otherwise his co-workers will have to do his job (Karnøe, Peter; Hull Kristensen, Peer; Houmann Andersen, Poul (ed.): Mobilising resources and generating competencies).

In SMEs this problem is particularly evident because everyone is more dependant on each other and of the craft based firms the SMEs make up the major part and therefore this culture of organising and planning is especially important to them.

This informal "Danish" way of planning and organising work, places special demands on managerial skills and roles. The Danish workers in general want meaningful and challenging jobs. The traditional way of giving them this was by making them work in small groups with a high degree of influence on their own work organisation (Due, Jesper; Madsen, Jørgen Steen; Jensen, Strøby Carsten; Navrbjer, Steen E. Den danske aftalemodel - decentralisering og nye arbejdsorganiseringer. (The Danish model of collective bargaining. - decentralisation and new ways of work organisation). The SMEs have in their outset an optimal background for providing this and most Danish workers are employed by SMEs (Hoff, Jens, Demokrati på arbejdspladsen - nogle empiriske pejlinger på medarbejderindflydelse i Skandinavien.)

When management and employees agree to the terms of work organisation, strong ties of solidarity often develop between management and the employees, which leaves the unions to supply the overall framework, i.e. minimum standards (Due, Jesper; Madsen, Jørgen Steen; Jensen, Strøby Carsten; Navrbjer, Steen E. Den danske aftalemodel - decentralisering og nye arbejdsorganiseringer. (The Danish model of collective bargaining - decentralisation and new ways of work organisation). But this also calls for a management that understands the craft codes and work ethics and how they work (Karnøe, Peter; Hull Kristensen, Peer; Houmann Andersen, Poul (ed.): Mobilising resources and generating competencies).

Because a lot of these codes and standards are craft-based and not firm-based, they also help the development of business communities or networks of firms to conduct complex coordination processes because information flows easier (Karnøe, Peter; Hull Kristensen, Peer; Houmann Andersen, Poul (ed.): Mobilising resources and generating competencies). In fact the authors referred to finds that this way of planning and organising work is at the core of the business systems that have developed in Denmark. In a business system the common purpose of the employer and the employees is to establish and improve the skills of the workers and the firm, because this strengthens the position of the workers internally and externally and thereby also the reputation of the firm in the business system.

For the labour unions this means the responsibility for negotiations and agreements are decentralised to the firm level, where the management and employees govern local development. This tendency to worker participation is an import factor in what the authors describe as centralised decentralisation (Due, Jesper; Madsen, Jørgen Steen; Jensen, Strøby Carsten; Navrbjer, Steen E. Den danske aftalemodel - decentralisering og nye arbejdsorganiseringer. (The Danish model of collective bargaining - decentralisation and new ways of work organisation.)) This in turn could lead to mergers in the Danish labour unions, of which we have already seen the first steps in the smaller unions, but there are signs that even the larger unions might follow.

Conflicts

We have been unable to find literature that describes this area of the SMEs.

Size and sector considerations

In the literature reviewed significant facts and arguments of the fact that size matters have been found. There is a difference between the Danish SMEs and the larger Danish firms. There is a higher probability of collective bargaining agreements in larger firms, which is why the general level of collective bargaining agreements in Denmark is low because of the general high part of SMEs in Denmark (Scheuer, Steen, Collective Bargaining Coverage under Trade Unionism: A Sociological Investigation). This again is supported by the fact that e.g. Sweden, who has a larger share of non-SME firms, has a higher degree of collective bargaining agreements.

Some of the research that we refer to in this paper does not focus on SMEs, but we will still use it in relation to SMEs because SMEs are such a significant part of the Danish firm structure.

Compared to e.g. Swedish workers, Danish workers find that they have a higher degree of influence in their working condition. The reason for this is partly that the Danish workers compared to their Swedish counterparts predominantly work in SMEs (Hoff, Jens, Demokrati på arbejdspladsen - nogle empiriske pejlinger på medarbejderindflydelse i Skandinavien, (Democracy in the Workplace - some Empirical Measure of Employee Influence in Scandinavia)). This is very much in compliance with the findings presented earlier.

Within Denmark research show a significant difference in collective bargaining in relation to firm size. Workers employed in firms with less than 25 employees have a probability of less than 1/3 of that of a worker in a larger workplace or smaller non-autonomous workplace (Scheuer, Steen, Collective Bargaining Coverage under Trade Unionism: A Sociological Investigation).

Earlier we noted that in general the workers in the Danish SMEs, especially those with less than 50 employees, think that they have very little, if any, influence on their local labour union. This is very much in

contrast with what could be expected. In a smaller firm we would expect there to be closer contact with the local union representative. However, this problem is thought to reflect a more general problem of the Danish labour unions, namely the union's inability to adapt to a more decentralised system of agreements. (Hoff, Jens, *Demokrati på arbejdspladsen - nogle empiriske pejlinger på medarbejderindflydelse i Skandinavien*, (Democracy in the Workplace - some Empirical Measure of Employee Influence in Scandinavia))

When we look at collective bargaining differences between firms, the research does not show significant differences between industries. Manufacturing is not significantly above services; trade has a lower value - but not significantly. Only in finance and other services (labour unions and organisations) do we find a much higher level of collective bargaining - more than double that of manufacturing. (Scheuer, Steen, *Collective Bargaining Coverage under Trade Unionism: A Sociological Investigation*)

The fact that "other services" (the labour unions and organisations) have a higher degree of collective bargaining is to be expected. The high level of collective bargaining in finance is an example of the institutionalisation of collective bargaining agreements and of the fact that when the collective bargaining has been introduced, it is very likely to stay. In this respect it will be very interesting to follow the development of the financial labour market in Denmark. The reason for this is that the Danish finance sector is in the middle of a major restructuring process with ongoing mergers, acquisitions and introduction of new financial players, this in turn might undermine the collective bargaining agreements with in the financial sector.

In a future perspective, moving from an industrial to a service society, one would expect changes in the direction of a lower number of collective bargaining agreements. This is due to a general expectation of employees in the service sector being more individualistic (Scheuer, Steen, *Collective Bargaining Coverage under Trade Unionism: A Sociological Investigation*).

The research presented here does not seem to be conclusive in that area. Several of the researchers have presented the many different forces at play regarding collective or individualistic behaviour, especially in the SMEs. What does seem to have a big influence in the future development of collective bargaining agreements is the role of the labour unions and their ability to play an active and progressive role in the local labour market.

In this respect it also is interesting to follow the development of new firms, because newer firms have less coverage than older firms, especially if they are more bureaucratic (Scheuer, Steen, *Collective Bargaining Coverage under Trade Unionism: A Sociological Investigation*).

When firm size is considered a factor of future development, it is also important to look at the SMEs' ability to develop and implement new ways of organisation. It is important that the SMEs can formulate precise strategies for worker participation, and it seems like a major problem here is the coordination between technology and human resources.

In the SMEs there is a tendency towards stronger bonds between the employer and employees. This means that the dialogue between the unions and the employer is very much consensus-oriented. On the other hand, it seems like management has problems when it comes to clarification of the organisational principles, culture and the implementation of new ways of organisation. In other words, the SMEs do not seem to be able to formulate a precise definition and formulation for a strategy for worker participation. The main problem seems to be a problem of co-ordination between technology and the human resources. (Karnøe, Peter; Hull Kristensen, Peer; Houmann Andersen, Poul (ed.): *Mobilising resources and generating competencies*).

New ways of addressing these problems seem to be developing, in which SMEs, local labour unions and vocational training schools work together. These initiatives are still in their early stages and have not yet been institutionalised. A major problem in this respect may be the lack of ability of the labour unions to transform and reorganise themselves to a decentralised labour market. But this is also an area of great potential for gaining influence in the SMEs.

Policy implications

One of the most challenging developments for the employment relations in the Danish SMEs in the coming years is the new institutional framework of an international and multi-level labour market. The existing theoretical approaches are having difficulties explaining this development (Due, Jesper, Madsen et al., *Mod multiniveau regulering af arbejdsmarkedsrelationerne*), but we will try to draw on some of the conclusions in the literature reviewed to present some policy implications.

As shown earlier, the high level of Danish unionisation does not automatically lead to high-level collective bargaining coverage, at least not in the SMEs. There must therefore be another reason for the relatively high unionisation.

In relation to the SMEs it has been suggested that the reason for the high unionisation could be that the jobs are more insecure than in the larger firms. In any circumstances the unions must recognise that there are other reasons for being a union member than collective bargaining power. The job in the near future for the Danish unions is to figure out what the reasons for the high unionisation level are. We can already observe how several of the Danish unions are losing members and they are specifically having troubles attracting younger people.

There is no doubt that there will be new roles to play for the firms, the unions and the schools in developing new forms of regulation. This will involve areas such as more flexibility, new ways of work organisation and employee involvement, development of the human resources and not least development of a union representation that can work effectively at the local, national and international levels. (Due, Jesper, Madsen et al., *Mod multiniveau regulering af arbejdsmarkedsrelationerne*.)

Some of these initiatives will challenge the existing organisational system locally and nationally, but this is already evident as we see the development and growth of company agreements, compensation packages and individual contracts (Due, Jesper, Madsen et al., *Mod multiniveau regulering af arbejdsmarkedsrelationerne*). The impact of these new developments has had the greatest impact in the new industries in service and IT, but they are spreading to more and more industries and are primarily driven by the demand for labour.

The unions have introduced one thought of policy. They believe that an active policy to enhance the general skill-level of an area will facilitate the growth of locally owned, advanced enterprises, or make it attractive for foreign enterprises to locate locally. (Karnøe, Peter; Hull Kristensen, Peer; Houmann Andersen, Poul (ed.): *Mobilising resources and generating competencies*). But looking at the literature available for this analysis, there is no doubt that if the unions want to play an active role in the Danish SME development and keep the high level of unionisation, they will have to look at a wider range of initiatives. Not least initiatives that will restructure the unions at the organisational level, so as to give the unions the power to operate more effectively at the local, the national and the international levels.