



# Employment relations in micro and small enterprises - literature review

## Country profile: Spain

|                                   |
|-----------------------------------|
| Collective representation         |
| Collective bargaining             |
| Working and employment conditions |
| Conflicts                         |
| Size and sector considerations    |
| Policy implications               |
| Bibliography                      |

This paper forms part of the literature review, *Employment relations in micro and small firms* (2001), prepared by the Basque Institute of Research and Studies (Ikea). It is available in electronic format only and has not been subjected to the standard Foundation editorial procedures.

## Collective representation

All the literature reviewed with regards to this topic agrees that Spanish Micro and Small firms are characterised by a lower presence of workers' representatives.

One explanation for this result is given by the existing Spanish labour legislation. Thus, and concerning labour representation, the Spanish legislation states the following with respect to enterprise size:

- Less than 6 employees: there is no room for individual representation of workers. Similarly, there are not health and safety representatives who are in charge of risk prevention issues.
- Less than 10 employees and more than 6: workers have the right to have representatives but they have to agree on it on a majority basis.
- Less than 50 employees: as far as collective representation is concerned, these firms can only have workers' representatives (not workers' committees): 1 in firms with up to 30 workers and up to 3 in those between 31 and 49 employees.
- 50 or more employees: these firms are on the limit between small and medium sized enterprises and they are legally obliged to have a health and safety committee.
- 250 or more employees: this figure constitutes the barrier between medium and large firms. In these enterprises, the law allows the existence of trade union representatives that form up a workers' committee in order to monitor the observance of labour law within the business.

Having in mind the legal provisions on labour representation, it is not therefore strange that the percentage of firms with health and safety representatives reported both by the firms and by the workers themselves increase with business size (see Table 1)

Table 1: *Percentage of firms with health and safety representatives, reported by the firm and the workers, by firm size.*

| Questionnaire | Size of firm  |                 |                  |
|---------------|---------------|-----------------|------------------|
|               | 6-9 employees | 10-49 employees | 50-249 employees |
| Enterprise    | 13.3          | 35.5            | 68.4             |
| Worker        | 13.8          | 28.7            | 58.2             |

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

Looking at the Spanish legislation, it seems to increasingly support the employer's power as firm size goes down, taking a step back and not wanting to interfere in the development of industrial relations within small firms.

Generally speaking, it is possible to argue that due to the scarce presence of trade unions within the micro and small businesses, control of working conditions by the employees' legal representatives is very weak (unfortunately there is no data on this). This fact determines to a large extent industrial relations within these firms.

According to Fita Ortega <sup>1</sup>, several reasons, in addition to existing labour legislation, can be provided to explain this low union presence:

Workforce composition in micro and small firms: both women and temporary workers, who have a smaller tendency to joining unions, are more likely to work in these firms (see Table 2).

Table 2: *Percentage of temporary workers in the workforce, by firm size.*

| Size of firm            | 1998        | 1999        |
|-------------------------|-------------|-------------|
| 1 to 10 employees       | 40.4        | 37.2        |
| 11 to 50 employees      | 42.6        | 42.1        |
| 51 to 250 employees     | 38.1        | 38.2        |
| More than 250 employees | 26.5        | 28.5        |
| <b>Total</b>            | <b>37.3</b> | <b>36.8</b> |

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

Spanish Trade Unions have traditionally focused their attention on large enterprises, perhaps because it is an easier and more rewarding job for them. As a matter of fact, there are no unions representing Micro and small enterprises' labour interests in particular but all employees in general, regardless of firm size.

Micro and small entrepreneurs tend to regard these firms as "their own home" and they do not want to have strangers i.e. unions.

Workers themselves fear retaliation (dismissal) from employers.

This lack of union presence is regarded ambiguously by workers, as Blanco and Otaegui <sup>2</sup> explain. On the one hand it makes them feel unprotected against their employers' demands. On the other hand, employees may feel comfortable to have trade unions away from the workplace so that direct confrontation with the close and ever-present boss is avoided. It is as though trade unions are perceived by small business employees as a problem since they may end up distorting the fragile social balance within small firms.

As it has been mentioned above, the lack of workers' formal representative structures within the Spanish micro and small enterprises determines the nature of industrial relations and helps to explain existing worse working conditions within them, as it will be shown subsequently.

Generally speaking, the main feature of employment relations <sup>3</sup> within the Spanish micro and small firms is given by their informality, regardless of sectoral differences. This is said to happen due to two main factors:

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<sup>1</sup> F. Fita Ortega. "La pequeña y mediana empresa en el ordenamiento jurídico-laboral" (Small and medium-sized enterprises in the labour legal ordinance), 1997.

<sup>2</sup> 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.

<sup>3</sup> J. Blanco and A. Otaegui, op. cit.

- Firstly, physical and daily closeness of the employer, that enables relationships with him/her to be friendly but also regarded suspiciously because of the belief that the situation can be used in the employer's own benefit.
- Secondly, these relations are determined outside the workplace by the existing labour market. In this case, workers perceive the Spanish labour market as adverse and precarious because it favours temporary contracts and negative overall working conditions.

As a result of this, small business employees bind themselves closer to the firm's organisation, leading to labour relations that lie between identification with the employer and insecurity emerging from the outside-the-firm environment. It can be said that employment relations tend to be collaborative in this context because of fear of retaliation from the employer. Consequently working conditions are likely to be worse than those of their counterparts in larger firms because the owner/employer has got as more prevailing position in the enterprise and the last say.

As opposed to what happens amongst workers, micro and small business entrepreneurs are actually associated in organisations independent from those of big companies (i.e. CEPYME). Such organisation intervenes in labour policy determination together with the general employers' association (CEOE).

It is possible to conclude that both Spanish micro and small business employee and entrepreneurs organisations are quite weak, if existent at all in the Spanish micro and small firms, when it comes to labour issues. This leaves huge room for individual regulation of industrial relations within these enterprises, as it actually happens. In the majority of cases, employment relations are held personally between the employer and the employee without any interference.

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.

As far as legislation with regards to consultation is concerned, Spanish labour law states the following:

- Less than 6 employees: workers do not have to be consulted before a decision is made.
- Less than 10 employees but more than 6: employers do not have to consult workers for task and working schedule modification, transfers or collective dismissals (in the last two, unless it involves the whole of the workforce and it includes more than 5 workers).
- Less than 50 employees: these enterprises have some advantages when it comes to collective dismissals. The consultation period with workers' representatives is limited to 15 days and the employer is not obliged to present a plan with measures to alleviate the negative consequences for workers.
- 50 or more employees: the advantages mentioned are lost for these employers.

It can be seen that with regards to consultation and exactly the same way as it happened with employee representation, legal requirements for employers are tougher and more demanding the larger the firm is. Table B. 20 shows that consultation procedures are more frequently used as firm size grows, that is, there is a positive correlation between employees' participation and business size. For instance, only 23% of companies with less than 10 employees report workers' participation when it comes to determine their working conditions whereas this figure goes up to 55.1% in firms with 500 or more 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                  | 43.3                 | 51.5                  |
| Introduction of new technologies | 17.9                   | 23.7               | 23.3                | 30.5                 | 31.6                  |
| Choice of equipment              | 17                     | 25                 | 27.7                | 40                   | 36.5                  |
| Working conditions determination | 23                     | 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.*

Moving on to information sharing, and according to Toña<sup>4</sup>, the observed absence of intermediaries and union representatives in micro and small firms, together with the lack of legal obligations in this respect, may explain why employers in these businesses share less information with workers than larger firms do. Micro and small firm workers report less information sharing not only about the economic and financial situation of the firm but also about the sector and industry. Moreover, their opinion about its quality is quite bad, rating it as “not thorough, difficult to understand and untrue”<sup>5</sup>.

Toña also suggests that the amount of information given to employees may give a hint about the way micro and small business employers approach industrial relations. Those entrepreneurs who regard labour relations as “just another management tool”<sup>6</sup> to achieve merely business goals will tend to be more restrictive with the information given to employees. On the other hand, owners/managers who consider the development of employment relations as a goal by itself instead of a means to achieve something else, will place emphasis on information sharing.

In small and micro firms, the right for information is often secondary as a result of the weakness of workers’ representatives. Because of this, when the micro and small employer shares information with their employees on a voluntary basis, this info is positively valued by employees.

## **Collective bargaining**

Fita Ortega<sup>7</sup> states that collective bargaining has been a key element in trying to overcome the lack of balance in the power distribution between employers and employees in the contracting relation. It is said that tripartite

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<sup>4</sup> A. Toña Güenaga, “Empresarios y trabajadores ante la información sobre la empresa” (Entrepreneurs and workers in the face of information about the firm), in *Boletín de Estudios Económicos*, Vol. XLIX, No. 151, Bilbao, 1994.

<sup>5</sup> A. Toña Güenaga, “Información a los trabajadores sobre la empresa” (Information about the company to workers). PhD Thesis, Bilbao, 1995. Pg 168.

<sup>6</sup> A. Toña Güenaga, 1994, op. cit. Pg 153.

<sup>7</sup> F. Fita Ortega, op. cit.

negotiation (including the government) have guaranteed a minimum standard for small business employees, limit that probably would have not been achieved had workers had to negotiate directly with their employers. Nonetheless, and in order to play its role to the full, the presence of the actors is needed first and as it has been shown above, this is precisely what is missing in micro and small firms. Thus, it can be said that whereas collective bargaining is the central element in the regulation of industrial relations in large firms, personal relations are much more common in Micro and small firms.

Since social actors are not organised within small firms, the influence of collective bargaining in Micro and small firms will depend on whether the collective bargaining system of the country is centralised or not. 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. On the other hand, 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.

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 the special and diverse features of small firms are not taken into account and therefore the agreement contents can end up becoming a burden for the small firm.

As far as Spain is concerned, and despite the fact that the Spanish collective bargaining system is centralised, around 71.4% of all agreements reached in 1990 were obtained at enterprise level, affecting around 14% of total workers affected by collective agreements. By way of contrast, the remaining 86% of these workers had their working conditions regulated by agreements reached at levels other than enterprise one (sector, provincial, state-level, etc).

In any case a centralised collective bargaining system alone does not guarantee a maximal coverage of workers by the agreements reached. Control mechanisms are required to guarantee that what is stated in those collective agreements is actually followed and met in the workplace. However, once again due to the lack of both workers' representation and union presence in micro and small firms, this is likely to be hindered in these businesses.

The centralisation of collective bargaining in Spain usually takes place at provincial level (by sectors) but without any communication between different levels which leads to excessive uniformity of conditions disregarding not only enterprise differences but also workers' individual rights, which might require diversified solutions.

There is an additional problem for Micro and small firms, that is to say, the pre-eminence of large firms in collective bargaining at centralised level, which leaves Spanish Micro and small firms at a detrimental position. Thus, these agreements do not take into account small firms' special and heterogeneous features. For instance, there are not unions representing small firm workers' interests in particular but all employees in general regardless of firm size. As a result of this, the special features of small firms when collective bargaining are ignored and the problems affecting these businesses are misunderstood. This problem is aggravated by the fact that there is hardly any chance for micro and small enterprises to carry out such bargaining by themselves.

Therefore the employee-employer relation in Micro and small firms is basically of an individual nature. As it is explained in Blanco and Otaegui<sup>8</sup>, collective bargaining by unions at national level is positively regarded by Micro and small workers as it sets the benchmark to individually negotiate their own conditions with the employer and at the same time, assess their position with respect to others. Toña<sup>9</sup> explains that collective agreements agreed at firm level are more likely amongst larger enterprises, resulting in agreements closer to the firm's situation. By way of contrast, collective agreements followed by micro and small firms are not usually negotiated at enterprise level but are likely to be sectoral, provincial or territorial ones.

Table 3: *Number of enterprises' agreements, workers, wage increase and agreed average working hours in enterprise agreements, by firm 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               |
| <b>TOTAL</b>          | <b>3,420</b> | <b>952,786</b>   | <b>2.09</b>            | <b>2.51</b>              | <b>1,718</b>          |

(\*) 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.

Table 3 shows data about enterprise agreements by enterprise size. According to these data, agreements tend to be detrimental for micro and small business employees in terms of working hours or wage increases.

## Working and employment conditions

As Fita<sup>10</sup> explains, there are confronting views in this respect, depending on the stereotypes researchers have on the topic.

Some pieces of research stress the advantages that close relationships between the employer and employees can create: better human relationships, a better working atmosphere, higher professional satisfaction arising from more diverse tasks along with a deeper identification with the enterprise, etc. These studies support their views with data on number of strikes as an indicator of the small amount of conflicts in these firms. However, these pieces of research do not take into account several issues such as the opposed interests of employer and

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<sup>8</sup> J. Blanco and A. Otaegui, op. cit.

<sup>9</sup> A. Toña Güenaga, 1995, op. cit.

<sup>10</sup> F. Fita Ortega, op. cit.

employees (especially in small firms), where the same person is in charge of both economic management and the so-called “social management”.

Other studies point out at the bad working conditions as a result of the completely adverse conditions in the labour market and the need to keep the job which leads to workers accepting longer working hours, lower wages, etc.<sup>11</sup> In addition to this, the lower number of strikes reported in small companies does not necessarily mean fewer industrial disputes but it could be due to other issues such as fear of retaliation, lower unionisation. Silence does not necessarily imply satisfaction.

The second view is more widespread as a fair depiction of working conditions in micro and small firms. It involves more flexibility, both external (less protection against dismissal) and internal (functional mobility), temporary (see Table 1) and part-time contracts (see Table 4) and lower levels of health and safety in work. Such detrimental aspects have fostered Spanish trade unions to demand equal conditions for workers across different size firms.

Table 4: *Percentage of part-time employees in the workforce, by firm size*

| Size of firm            | 1998        | 1999        |
|-------------------------|-------------|-------------|
| 1 to 10 employees       | 18.8        | 18.8        |
| 11 to 50 employees      | 10.4        | 10.3        |
| 51 to 250 employees     | 10.9        | 10.6        |
| More than 250 employees | 8.6         | 9.8         |
| <b>Total</b>            | <b>12.5</b> | <b>12.6</b> |

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

The reasons why these worse conditions take place may range from the lack of laws regulating such issues to non-compliance with already existing rules as a result of a lack of control mechanisms. As a matter of fact it is as though many of these firms worked on the verge of black economy.

As it has been mentioned above, the main feature of employment relations in the majority of small firms is informality. Recalling Blanco and Otaegui<sup>12</sup>, this is partly due to the close contact between the employer and employees. Despite acknowledging the possibility of appealing against continuous detrimental contracting, small firm workers would rather leave such tasks for unions outside the firm because of fear of ‘revenge’ from the employer. This is also due to the lack of workers’ committees or union representatives as there are in bigger firms.

The other issue bringing informality into employment relations in micro and small firms is the workers’ negative perception of the existing Spanish labour market situation, which favours the existence of temporary contracts. This type of contrast explain some of the existing working conditions amongst micro and small businesses such as uncertainty, insecurity or general worse contracting conditions.

<sup>11</sup> As it is mentioned by Blanco and Otaegui, op. cit

<sup>12</sup> J. Blanco and A. Otaegui, op. cit.

It is also believed that larger company workers are not as much affected by these features as small business employees are. The latter feel more threatened than their counterparts not just about higher contracting flexibility but also because the line between precarious contracting practices and no contracting at all (black economy, hidden employment) seems to be much blurrier in micro and small firms. As a result of this, even permanent workers in micro and small firms feel less secure about their job and working conditions. This uncertainty brings defensive and individualistic behaviour whereby collective action is unlikely to be followed and the figure of the boss is the key to maintain the job. Some possible ways of improving working conditions reported by workers include being friendly with the boss, working overtime and accepting lower wages in payroll.

There is yet another element in Fita's<sup>13</sup> opinion that makes industrial relations in micro and small firms more flexible and informal. It is the way job positions are usually fulfilled in the micro and small enterprises, that is to say, as a result of personal contact with employer, let alone those cases where there is a family relationship (See Table 5).

Table 5: *Ways to recruit new workers by firm size. In % of workforce.*

| <b>Business size</b>    | <b>Personal relation</b> | <b>Workers request</b> | <b>Job centre</b> | <b>Job ads</b> | <b>Promotion</b> | <b>Recruitment companies</b> | <b>Temporary work agencies</b> | <b>Share for foreign workers</b> |
|-------------------------|--------------------------|------------------------|-------------------|----------------|------------------|------------------------------|--------------------------------|----------------------------------|
| 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                              |
| <b>TOTAL</b>            | <b>25.6</b>              | <b>25.1</b>            | <b>16.1</b>       | <b>12.3</b>    | <b>10.4</b>      | <b>5.5</b>                   | <b>4.6</b>                     | <b>0.4</b>                       |

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

As a result of this informality, industrial relations are personalised and there are no third parties taking part in conflict resolution between employer and employees. This relates perfectly to the individualistic personality shown by small business employers, who want to solve directly with their employees any issue that may arise. Hence, employment relations in small firms are widely determined by the personal characteristics of the employer and workers will make themselves heard depending only on their skills because this will determine how "needed" they actually are.

Another important issue is given by the situation of the Spanish labour market, characterised by high unemployment rates. In this context, job tenure becomes the fundamental issue above other considerations, where micro and small business workers prefer to accept precarious working conditions and over exploitation in order to keep their jobs.

Additionally, Spanish micro and small workers put special emphasis on wage claims, whereas other working condition elements such as working time, can be exchanged for money.

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<sup>13</sup> F. Fita Ortega, op. cit.

The next sub-sections will deal with the Spanish literature results on a number of different working elements within the Spanish micro and small firms.

### Wages<sup>14</sup>

Iriondo<sup>14</sup> states that the positive correlation between enterprise size and wages has been solidly confirmed. Regardless of other issues, such as market characteristics (more or less competitive), large enterprises pay more than small ones. One of the main reasons for this seems to be the lower unionisation level in small firms. In any case, the relationship between business size and wages has been proved for Spain in several studies<sup>15</sup>. Table 6 shows the existing wage differentials across different size companies.

Table 6: *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.

However, Fita<sup>16</sup> argues that wages are also determined by enterprise profits and workers' productivity and workforce composition: more skilled employees in large firms vs. more women, youngsters and temporary workers in small firms. Size seems to determine additional payments such as seniority, which is reported more often in larger businesses or those with a higher degree of unionisation. Consequently it appears that once again it is not correct to make general statements about small firms on this topic due to their heterogeneity, where many other factors apart from size itself may be explanatory of the reported wage differential.

In any case and despite having to take other factors into account, most of the empirical evidence hints at a positive relationship between wages and business size.

<sup>14</sup> 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.

<sup>15</sup> 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.

<sup>16</sup> F. Fita Ortega, op. cit.

### Hiring of personnel

Fita<sup>17</sup> states that most of small firm workers hold temporary contracts as opposed to the situation in large companies (see Table 7). It provides these businesses with flexibility to tackle with activity peaks without having to enrol in costly dismissal procedures when lows come (see Table 8). In this last case, 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.

Table 7: 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        |
| <b>Total</b>            | <b>62.6</b> | <b>63.2</b> |

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

Table 8: 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            |
| <b>TOTAL</b>            | <b>68.8</b>       | <b>49.4</b>        | <b>19.4</b>        | <b>13.2</b>                               | <b>11.6</b>            | <b>4.9</b>  | <b>1.6</b>     |

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

If such contracting flexibility did not exist it is suggested that these firms would be somehow pushed towards hidden employment, which is linked with that blurrier line mentioned above between contracting and hidden employment that seems to exist in the Spanish micro and small firms. Accordingly, the most defining feature of contracting in small businesses in Spain is the high percentage of temporary workers and the lack of response from the legislation.

### Working hours

Fita<sup>18</sup> suggests that working hours are longer in the Spanish micro and small firms than in larger ones (see Table B. 27), mainly due to the large amount of overtime (hardly paid as such) and weekend work in order to

<sup>17</sup> F. Fita Ortega, op. cit.

<sup>18</sup> F. Fita Ortega, op. cit.

respond to activity peaks. Subsequently, the weekly resting time is reduced and holidays too, which are usually below the length agreed on collective agreements.

Table 9: *Permanent workers' annual working hours by firm size.*

| <b>Business size</b>    | <b>1998</b>    | <b>1999</b>    |
|-------------------------|----------------|----------------|
| 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        |
| <b>Total</b>            | <b>1,770.1</b> | <b>1,772.5</b> |

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

Generally speaking, working hours are expected to increase when there is no union presence, which is the case in most micro and small firms. Therefore there is hardly any control, apart from that carried out by governmental inspectors (scarce). This is due to the fact that workers themselves are willing to accept worse working conditions, such as an increase in the number of hours worked, in exchange for a slight rise in their wages.

### **Health and safety**

According to Fita<sup>19</sup> this is yet another detrimental aspect of working conditions in the Spanish micro and small firms. The risk for accidents is higher the smaller the firm, where one possible explanation for this is given by the lack of formal internal institutions to watch for health and safety regulations as it happens in larger companies.

Other reasons given for this higher percentage of accidents in smaller firms are the following:

- Small businesses suffer from a shortage of space and installations that increases the risk of accidents.
- In order to reduce labour costs, temporary workers and others without proper training are hired.
- Continuous working schedules are set for machines in order to maximise their returns, leading to work in shifts and doing piecework. This in turns makes employees work faster and increases the chances of professional accidents.
- All the previous issues combined with longer working hours and less time for rest, as it happens in micro and small firms, raise the likelihood of accidents.

The author believes that the legal framework does not favour enough to guarantee safety in small firms. For instance, prevention representatives are legally required only in those firms who have already workers' representatives, therefore excluding all companies with less than 6 employees. Actually, Table 10 shows that the smaller the firm is the higher the chances to not comply with the existing law. Half of the firms with less than 50 employees do not have a prevention representative.

<sup>19</sup> F. Fita Ortega, op. cit.

Table 10: *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          |
| <b>Total</b>  | <b>100.0</b>  | <b>100.0</b>            | <b>100.0</b>             | <b>100.0</b>              | <b>100.0</b> |

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

## Conflicts

Blanco and Otaegui<sup>20</sup> point out that in Spanish micro and small enterprises, the Government is regarded to be the last resort to solve conflicts because of its power to both regulate the labour market and to control discretionary behaviour by employers. In any case, workers prefer to remain away from conflict and most of the times they take the employer side.

Also, it has been mentioned above that Fita<sup>21</sup> argues that as a result of the informality of industrial relations, these tend to be personalised and for instance, there are no third parties taking part in conflict resolution between employer and employees in small firms.

There are no official data on strikes, disputes and lockouts by size but they are reported to be lower in micro and small firms. Nevertheless, this does not necessarily mean that there is less conflict in these firms.

## Size and sector considerations

So far the emphasis has been placed on business size but, does this mean that all Spanish micro and small firms share the same features as far as employment relations are concerned?

Blanco and Otaegui<sup>22</sup>, in spite of rating industrial relations in small firms as informal across all sectors and explaining how this brings negative working conditions for most of their workers, stress the fact that there are sectoral differences when it comes to the actual extent of the effects.

<sup>20</sup> J. Blanco and A. Otaegui, op. cit.

<sup>21</sup> F. Fita Ortega, op. cit.

<sup>22</sup> J. Blanco and A. Otaegui, op. cit.

For instance, an important element to be taken into account is the workers' skill contents. As a result of restructuring processes, small firms in the industrial sector have often taken tasks that require less skills (as a consequence of automation of many processes), which determines in turn the low qualification of their workforce and the higher probability of worse working conditions. Some manufacturing sectors such as metallurgy, mechanics, small manufacturing and textile have experienced such a reduction in jobs that workers have somehow accepted a deterioration of their working conditions. This has not happened in every single industrial sector because it is directly linked to the way restructuring has affected that particular sector. A small number of them have followed different patterns where new technologies have been adopted and workers' qualifications have risen. Hence, the latter are expected to show a different pattern of industrial relations.

López-Sintas and Martínez-Ros<sup>23</sup> show that "employees' salaries in micro and small enterprises are highly affected by the firm's competitive strength and the competition encountered in the market: the higher the market position, the higher the salaries; the less competition in the product market, the higher the wages. They also prove that innovating firms, both large and small ones, pay higher salaries than non-innovating ones, the wage gap being greater among large firms.

Iriondo<sup>24</sup> makes an interesting argument about the connection between business size and competitive strategies adopted by companies and how in turn this determines industrial relations within the companies. Firms adopting a cost reduction strategy will follow a different industrial relation system from that of an innovating company. According to Jeffrey B. Arthur<sup>25</sup>, firms following a cost reduction strategy show 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 other system is the so-called "agreement maximisation" and shows the opposite features to the previous one. Iriondo then tests the following hypotheses amongst others:

Big companies with a larger capital endowment tend to adopt product differentiation and/or innovation strategies and achieve better results in "apparent work productivity".

Those companies following product differentiation and/or innovation strategies are likely to adopt an "agreement maximisation" based system of industrial relations. On the other hand, firms adopting cost leadership strategies tend to follow a cost reduction system of industrial relations. The main features of the agreement maximisation system are job stability, shorter working schedule, qualified workforce and higher salaries whereas the cost reduction one presents a majority of temporary workers, longer working hours, less qualified workforce and lower wages.

Companies with higher "apparent work productivity" share partially their returns with their workers, meaning that higher productivity leads to higher wages.

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<sup>23</sup> López-Sintas, J. and Martínez-Ros, E., op. cit.

<sup>24</sup> I. Iriondo Mujika, op. cit.

<sup>25</sup> Arthur, J. B. (1992): "The link between Business Strategy and Industrial Relations Systems in American Steel Minimills", in *Industrial and Labour Relations Review*, Vol. 45, No. 3, April 1992. Quoted in I. Iriondo Mujika, op. cit.

Iriondo builds up on the wage differential observed across firms and tries to find out whether such gap is determined by business size alone.

The first test is about the link between business size and competitive strategies. It is shown that the larger the enterprise, the greater the investment in R&D and Marketing hence concluding that small businesses cannot possibly adopt a product differentiation and/or innovation competitive strategy.

The second hypothesis suggests that the strategic choice determines the industrial relation system of the firm. The results seem to confirm this because small firms, which do not compete in terms of product differentiation and/or innovation, report some data that hints at a cost reduction based industrial relation system:

- Twice as high a proportion of temporary workers compared to companies with more than 500 employees.
- Longer working hours.
- Less qualified workers.
- Lower wages.

Thus it can be seen that the wage differential is not just a matter of size but of different ways of competing and approaching industrial relations within the firm. In any case, wages increase with firm size but not linearly (in some sectors medium size enterprises report the highest salaries). The same results held for a disaggregated analysis of the manufacturing industry.

Fita<sup>26</sup> states that small firms are very different depending on the sector they belong to. Some characteristics traditionally attributed to small firms, such as a more flexible work organisation or being under one person management, do not necessarily happen in every small business.

It can be concluded that size does actually matter but that there are other elements such as the activity sector, the enterprise's strategic choice, the technological level and the market structure that influence employment relations within the firm.

### Policy implications

Throughout all the literature review, there seem to be remarkable differences in employment relation systems across different size firms. With regards to this, Fita<sup>27</sup> argues that small firms may create more jobs than their larger counterparts but of lower quality, measured as salary conditions, fringe benefits and job stability. As it has been shown, labour in these companies tends to be different from that in bigger firms, with a higher proportion of women and youngsters, especially in services where less skills and training are required. The reason why these groups are preferred is that they are cheaper to hire often willing to accept worse conditions on their way to a better job.

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<sup>26</sup> F. Fita Ortega, op. cit.

<sup>27</sup> F. Fita Ortega, op. cit.

The author also criticises the special application of some labour laws amongst small businesses. An example of this would be the legal requirement to pay 40% of the severance pay that is reduced for firms with less than 25 employees. One of the reasons given by the legislator to explain this fact is that Spanish micro and small firms suffer from a so-called inferior economic capacity by which some labour law requirements must be diminished in order to alleviate the excessive burden they would impose on such companies.

This argument is criticised by the author because this line of reasoning is assuming that small firms' less economic capacity is true in all cases. Thus, the author suggests that a combination of criteria should be used to effectively assess the economic capacity of enterprises instead of simply turning to the number of employees. More should be also done as far as workers' representation is concerned, which is a key issue that largely determines the development of industrial relations within micro and small firms.

With respect to the employers' views on industrial relations in micro and small firms, they usually base their demands on reducing wage costs (direct and indirect, particularly contributions and compensation for dismissal) and taxes.

On the other hand, Blanco and Otaegui's paper represent the Spanish trade unions' views<sup>28</sup>. According to them, workers report an almost absolute lack of union presence in small firms and actually, employers' perception of unions do not seem to be the right one according to this paper. This is the main reason why an information based policy is suggested by which the tasks of unions should be explained to small business workers in order to implement unions in their workplaces and ultimately, improve working conditions. The image of unions only as negotiators with the government, as an element outside the daily routine of small firms should be broken. Poorer working conditions are directly linked with the lack of collective bargaining and the individual nature of employment relations in small firms. Union presence is believed to be the key to improving the situation of small business workers.

Similarly, one of the largest Spanish trade union, CC.OO., publishes a handbook for micro and small business workers where all the information employees need to know is given. The foreword gives the views unions have on industrial relations in this type of enterprises. The unions' main aim is to represent the whole of the workforce, which cannot be achieved if they focus their efforts on those sectors already unionised. This is the reason why their main goal now is to bring small firm workers into the trade union, basically through assistance services (such as the handbook) where specific information for micro and small businesses' workers can be obtained.

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<sup>28</sup> J. Blanco and A. Otaegui, *op. cit.*

<sup>29</sup> CC.OO., "Handbook of small firm workers", Madrid, 1999.

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**EF/02/98/EN**