


small is beautiful 



**SMALL - Representation and Voice in Small and Medium Sized European Enterprises: Monitoring Actors, Labour Organisations and Legal Frameworks**

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## Summary

Small and medium-sized firms are commonly seen as key to employment and competitiveness. Globally, more than half of the European labour force is employed in SMEs. Yet compared to those in larger organisation, they have limited individual or collective representation, particularly at workplace level. With collective bargaining coverage generally increasing with company size and terms and conditions in SMEs generally lower, these workers often have more need of protection. Trade unions have difficulties organising in SMEs, yet if European unions are to reverse decline they have to overcome these barriers. In over half of European countries the legal framework governing collective representation includes thresholds based upon employee numbers that effectively exclude workers in small firms (1 up to 50) This final report presents eight chapter reflecting the work of the SMALL research project, which examine the nature of employee representation and voice in SMEs in eight European countries as part of a European Union Framework Five Program <sup>1</sup>.

The **first chapter** by Stephen Bouquin, Salvo Leonardi and Sian Moore offers an introduction to the research project as well as a contextualisation of it. The collective bargaining coverage as well as trade union density is related to the issue of SME's that are in most cases our countries not a field of active trade union intervention (from outside or inside). They also explore the role of legal frameworks as well as worker and employer choices regarding union activity. They quote figures suggesting that, with some exceptions, union membership in SMEs is generally lower than in larger organizations.

In the **second chapter**, Stefano Palmieri, provides a wider context for the findings, setting out the position of small and medium-sized enterprises (SME's) in the economic system of the European Union. He argues that European SMEs are less likely to operate in international markets and are not equipped to compete in global markets because they cannot provide the required technological innovation or training. This intrinsic weakness represents a barrier for further development of the SME. Palmieri suggests that smaller-sized enterprises achieve profitability, often at the expense of productivity, by relying on factors such as lower salaries, longer working hours, below-standard working conditions and irregular forms of employment. Such working conditions are explored in two further articles.

On the **third chapter**, Monica Andersson and Christer Thörnqvist examine pay. The main argument in this chapter is that, in their examination of wage setting in SMEs, it is the existence of strong legislative norms and extensive centralised bargaining systems preventing fragmentary union coverage, rather than the size of the company, that protects workers' terms and conditions. This is reflected in more robust union membership in SMEs in Sweden, Italy and Belgium. The decentralisation of such frameworks in other, countries covered by the SMALL project, Bulgaria, Hungary, France and the UK, has weakened both conditions and representation in SMEs.

In the **fourth chapter**, Paulo Alvès, Stephen Bouquin, Teresa Duarte, Leonor Pires and Luis Poças looks at the issue of working time. Evidence suggests that workers in SMEs work longer hours than those in larger enterprises and the case studies provide examples of long, unsocial and irregular working patterns. It also suggests that, in the protection of workers' terms and conditions, at least, workplace mobilisation and organisation is less important than coverage of collective bargaining with a strong sectoral level.

In the **fifth chapter**, Marianne Detroyer and Stéphane Le Lay analyse the situation regarding health and safety. They data from fieldwork as well as other empirical material suggest that working conditions are frequently harsher with more hazards and accidents.

In the **sixth chapter** Miklos Illesy, Vassil Kirov, Csaba Mako, and Svetla Stoeva address the specific experience of Hungary and Bulgaria and the spectacular expansion of the SME sector

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<sup>1</sup> ; see also [www.unions-in-small-firms.net](http://www.unions-in-small-firms.net)

during the post-socialist transition, focussing upon the relationship between the regulation of employment relations in SMEs and employee representation and 'voice'. They highlight the weakness of collective bargaining in SMEs and the collapse of union membership in the private sector.

In the **seventh chapter**, Gail Kirton and Ian Read in their exploration of inequalities in SMEs, similarly suggest that informality can lead to flexible working arrangements accommodating work-life balance, albeit contingent upon the labour market context. Yet, they conclude from the case studies that generally European SMEs do not adopt formal equality policies or procedures that may offer protection against discrimination and that ultimately the informality and unitarism characteristic of employee relations in SMEs militate against equality. This is crucial when the SME workforce comprises some of the most vulnerable and disadvantaged groups in the labour market, including an over-representation of women, black, minority ethnic (BME) and migrant workers. Kirton and Read highlight the need for union organisation, to which equality is central, in SMEs.

In **chapter eight**, Sian Moore, Steve Jefferys and Pierre Cours-Salies explore the barriers to union membership and organisation at workplace level in SMEs and identify the challenges for trade unions in ensuring workers in SMEs rights to representation and collective organisation. They highlight the informal social relations which can substitute for formalised mechanisms in SMEs and this is reinforced by Illesy et al in their work on Bulgaria and Hungary, where they found that individual bargaining underpinned by personal loyalties coexisted with more formal employment relations. Such informality can allow workers a measure of control. Yet, arrangements based upon interpersonal relationships are fragile, employers expect reciprocity and this often means long, unpaid and irregular working hours.

The exploration of worker representation in SMEs involves consideration of the relationship between institutionalised industrial relations systems and worker mobilisation at the level of the workplace. The case studies upon which this research is based suggest that even where SMEs are formally covered by national or sectoral collective agreements there may be no company-level bargaining or union representation. A number of the case studies were characterised by no or limited union membership and more importantly, an absence of workplace union organisation. The five Swedish case studies were exceptional in that they all had trade union members and, with the exception the Information and Communication Technology (ICT) sector company, those in membership formed the majority of workers. The absence of a workplace union presence means that workers have little opportunity to articulate individual or collective grievances. Conflict resolution is rarely resolved through institutional or representational channels, but more likely through voluntary or involuntary informal 'exit'. This places workers in a position of extreme weakness in the face of corporate power. Issues such as health and safety are thus dependent upon employer prerogative, the individual commitment and awareness of the owner/manager, in turn subject to product/service market competition.

Worker mobilization at workplace level is thus as important, as well as predicated upon, European and national legislation and centralized collective bargaining systems. Whilst suggesting the challenges for Europe's trade unions, this issue does highlight the possibilities. Moore et al emphasise that SMEs are dynamic organizations and the conditions for mobilization can alter – in the UK a changing legal context with regard to trade union recognition has allowed key activists to build organisation and unionization. Whilst the example of Emilia Romagna, where there is high union density in an economy based upon SMEs, suggests that where unions can get access, open engagement on a regional/local basis through the social issues that workers feel strongly about can succeed.

# Policy recommendations

Stephen Bouquin <sup>2</sup>

## 1 – The double face of SMEs: performance and vulnerability

### Observations

The European definition of SMEs – up to 250 employees, less than 10 million euro turnover– is administratively coherent but in fact covers a very wide range of heterogeneous situations. We can say that, within the SME world, there exist three basic typologies:

- The first consists of the traditional SME type of small companies, artisanal production, small shops, workshops and owner-employees. For these we will use the term “family SME”. They offer goods and services to local markets, upon which – distribution of purchasing power, socio-economic fabric, institutional environment (taxation etc.) – it is very much dependent. We are seeing this world expand with the development of a residual, or “second zone” economic activity (informal shopkeeping and building construction)
- Simultaneously, a second cluster of SMEs is developing out of the fragmentation of larger companies, with the externalization, sub-contracting and hiving off of departments into subsidiaries, which are then given relative autonomy, or else become franchises or agencies. This fragmentation makes it possible to unite productive flexibility with employment flexibility, combining the effects of commercial subordination with salary subordination. The standardized employment contract – and the opposition between capital and labour – is thus also a contract between two companies. The “hiring of labour” or other forms of subcontracting of labour are coming back in force. At the same time it can be demonstrated that this fragmentation is being introduced into value chains and into network structures (franchises, agencies among others in the banking sector) which make it possible to extract value unbeknown to or at the expense of those producing it (labour and capital).
- There exists, finally, a third typology of “innovative” SMEs, which combine a high level of organizational flexibility with strong interpersonal relationships, cemented by a spirit of cooperation and professionalism, which instils an impetus throughout the whole enterprise towards objectives that can be are at ambitious, at times modest but also robust.

Our analyses on the ground and the statistical data have enabled us to distinguish these types of SME by form of ownership, activity and management:

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<sup>2</sup> , I would like to thank Sian Moore ( Working Lives Institute, Londres), Pierre Cours-Salies and Salvo Leonardi (IRES, Rome) for their comments and fruitfull suggestions.

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<b>Ownership</b>	Family capital “entrepreneur/worker” coming from the ranks or the profession	Family capital “small-scale entrepreneur”	Composite capital “Management distinct from owners”
Market position	Local/national	National	National / international
Employment relations	Informal/interdependent cooperativist	paternalist	Formalized; elementary level of rationalization
Strong points from the viewpoints of gaining maximum value from capital	Combining production flexibility with employment flexibility => pay levels below standards => loyalty by implication and interpersonal relations => higher tolerance threshold for working conditions		
Weak points from the viewpoints of gaining maximum value from capital	Indebtedness; lack of liquidity; high variability and vulnerability	Technological depend- ence, commercial subordination and indebtedness	Played off against competitors; reduced margins, low diversification of customer portfolio
	Market access		

With its particular characteristics - the downward pressure on prices and more generally the effects of economic globalization - the SME sector is in danger of becoming less employment generating than in the past.

- Family SMEs are finding it hard to survive and are tending to become part of networks and open up their capital;
- Innovative SMEs are tending to become larger, to develop synergies and cooperation and then merging to achieve sufficient size;
- Subcontracting SMEs are surviving at the cost of a degradation of social standards internally and exploitation of the labour force. Responding to demanding quality specifications also implies reaching a critical threshold, or having technological expertise and R&D capacity.

The option which suggests itself to these companies over and above others, is that of reducing variable – i.e. salary – costs. In many of the countries and sectors that have been studied, the danger is that the SME sector is becoming one in which the nature of work, pay and working conditions are below the standards prevailing in large companies.

There is a need to work to support SMEs by creating more healthy conditions for economic activity

We propose:

- Better access to financial resources at advantageous rates
- Better support for the mutualization of resources
- Improved support for research
- Greater market regulation to guarantee access by all operators whilst avoiding a distortion of competition through lower prevailing standards.

## 2. SME: employment versus labour?

### Observations

In terms of employment and labour relations, the macro-social data point to significant differences between countries and sectors. In certain countries, large companies remain preponderant ( $\pm 50\%$  of employment), in other countries they are in a minority position ( $\pm 20$  to  $25\%$  of jobs), whilst in a third category they represent a third of the active workforce. These differences are explained in part by whether or not there is competitive advantage in structuring a value chain made of several SMEs. This reflects the existence of consistent employment and salary/wage standards, closely monitored by powerful trade unions and extensive social dialogue. This is clearly the case in Sweden, where the presence of temporary agency employees is also low (50,000 temps and all on permanent contracts to the agencies).

This situation is not comparable with Italy, where manufacturing traditions are different, with much of the production and trading undertaken by small-sized firms. Certain sectors or branches of activity in other countries display similarities with the Italian situation (France, Belgium, Portugal).

Analyzing data longitudinally, by country, it is important to relativize the importance of SMEs as “drivers” in job creation. Where the weight of SMEs in total employment has perhaps increased [ $+16\%$  in France in 15 years], this has been at the expense of the large companies. Employment in SMEs is not therefore necessarily additional employment, and the growth in SMEs’ share of employment needs to be viewed in conjunction with other major trends (in terms of FTEs), including the transfer of jobs to SMEs with the phenomenon of “fragmentation”.

In family type SMEs, micro-firms (very small enterprises) and craft collectives, employment is tending to stagnate, if not reduce, in particular in the services sector (networking, franchised shops etc.). The portion of companies without employees (self-employed persons) or based upon a single employee (entrepreneur with employee status) also falsifies the statistical data. It therefore seems important to us to stress that SMEs represent first of all an empirical incarnation of the ideal (very often idealized) form of enterprise. This ideal type is that of a player whose small size adjusts best to the flows of trade in economy of variety. What we have here is a “discourse” that falsely homogenizes a more complex reality. As we have reminded our readers, small size can also be a disadvantage; at times it is functional, not for employment (neither quantitatively nor qualitatively) but for profitability, and at times it is functional for both employment (quality and quantity) and for profitability.

This contrasting reality is often absent from arguments which represent SMEs as drivers of job creation. It is a discourse which starts from the perspective of organizing a specific environment and regulatory derogations (for example from the 35 hour week in France).

In this way job creation becomes an alibi for

- authorizing or facilitating informal forms of operating of supposedly proven flexibility (which is not necessarily true);
- permitting direct representation (without “intermediaries” ) to become the norm. The salaried relationship becomes individualized, facilitating extended working hours, worse working conditions and remuneration well below habitual levels.

Job creation becomes the justification for accepting the development of under-employment or, put another way, employment on the cheap. This can be verified on several registers:



- In terms of health, safety and working conditions, we have observed variations as a function of the type of SME (family/innovative/subcontracting). These working conditions tend to be poorer, but less subject to technical constraints, in industrial sector SMEs (subcontracting) and less correlated to size in the services sector.
- Salaries in microfirms differ considerably from those in large companies. In Italy (textile and metallurgy), the average salary is 62% of that paid in large companies. In France, Belgium and the United Kingdom it is 80% of the sector average. Only in Sweden is there no difference, reflecting the weight of industrial relations, their degree of centralization and the level of contract coverage.
- Working time tends to be longer in SMEs and is arranged much less formally, with only limited flexibility for employees (“all hands on deck” and overtime when the customer is waiting). Annualization and time credit systems are less developed, as direct, informal and interpersonal arrangements often permit greater flexibility.
- Professional training is more often on the job, by the “worker and mate” system, with lesser use of public and joint employer-employee provision.

In our view, accepting social and regulatory derogations in SMEs in the name of job creation represents an impasse from both the social and economic viewpoint. This disarms any trade union and public action and only amplifies a dynamic of instability, going as far as reducing employment to standard norms (bad working conditions chasing out the good). The separation of working society into poor workers on the one hand and a new aristocracy of blue-collar technicians on the other reflects this evolution. What we have here is a social hierarchization which appears to be defined in terms of merit and the value of human capital (its employability) and which presents itself as “natural”. A labour market operating at several different speeds, divided on ethnic and gender lines, ends up appearing natural and consistent.

To take this path means accepting the “recommodification of work”, making labour a commodity, a good which is bought and sold, is consumed and wears out. That this recommodification is functional from the viewpoint of capital is not contested, as is the fact that it is contrary to the interests of the world of work as a whole. How do we reconcile the two? Certain national cases (Sweden and Italy) show that the economy can adjust to the social dimension, that the existence of rules and standards, at times binding, helps invigorate activity by directing research into levers of profits in the direction, not of social regression, but of innovation and cooperation.

**Recommendation: We need to reverse the perspective...**

Three strong arguments exist for the introduction of measures reduce differentiations and the incentive of “social dumping”.

- First of all there is no reason to accept the introduction of inequality of conditions which reflect, not the professional activity, but the environment in which it operates;
- Second, if we are unable to reduce differentials, these inequalities will spread and will succeed in dragging down the working population as a whole
- Third, State structures do have an enormous amount of work to implement workfare politics

Proposals:

- Wages should be harmonized and indexed on the productivity of the particular industry or the “value chain”. The unit of analysis for deciding on the distribution of productivity gains should no longer be the company (understood as a legal entity) but be based on the economic activity, in the form of an instituted group of enterprises or a “value chain”. For this we need to revalorize the existing sectoral agreements, to initiate wage bargaining at a territorial level (employment basin) and to take steps to articulate wages in sectors which operate in mutual synergy (e.g. the plastics and automotive sectors).
- The size of an enterprise and/or establishment should not be accepted as a reason for derogating from collective social rights (professional training, working time, etc.).

### 3 – Industrial relations and collective bargaining

#### Observations

Three aspects need to be taken into account in respect of SMEs:

- the existence of employee representative bodies (ERBs), Work Councils (WCs), Hygiene, Safety and Working Conditions Committees (HSWCCs) and the representation thresholds;
- the degree of coverage of sectoral agreements and their extension to SMEs;
- the forms of trade union presence in SMEs.

In terms of the existence of ERBs, we find significant differences from one country to another. These differences confirm the importance of the thresholds and their impact. These thresholds enable employers to avoid introducing ERBs, at times artificially (by recruiting workers on temporary contracts or interim workers who are not counted in). In the absence of thresholds (Sweden, Portugal), collective labour relations are introduced more easily and unionization levels climb in SMEs. Social dialogue develops in them and employment standards tend to slip less.

As for coverage by sectoral agreements, it should be pointed out that this can come close to 90% in certain countries without reflecting any social consistency in a particular sector. Everything depends on how negotiation is centralized, and whether the centre of gravity is at the company or at sector level. Our research results plead for sector-based coordination and centralization, in particular over wages.

Directive 2002/14 of 11 March 2002 represents an important innovation that we have been unable to study through case studies:

- The Directive prescribes information and consultation “on decisions likely to lead to substantial changes in work organisation or in contractual relations” (article 4. 2C). In so doing the Directive includes in its scope restructurings, collective redundancies and the transfer of labour contracts to another company.
- The Directive introduces for the first time in European texts the concepts of “undertaking” (*entreprise*) and “establishment” (*établissement*) by precisely defining these two realities. In so doing it allows for a situation where information and consultation procedures apply not only to companies as legal entities but also to ensembles consisting of several units (establishments) without real economic autonomy and with or without legal personality.
- The Directive mentions two thresholds: a minimum of 50 employees for an enterprise and of 20 employees for an establishment. In this way the Directive creates the conditions for social dialogue to be extended to a broad fringe of the salaried population working in small companies.

In the debates on the transposing of the Directive (in particular in Belgium), certain people came out in favour of maintaining a direct form of information and consultation, without intermediaries

(elected within specific bodies). In our view this falsifies the nature of the procedure and brings it back to the level of the individual relationship between management and worker. The indirect mode (via ERBs) does not exclude direct consultation. But it does guarantee, through the constitution and protection (relative, of course) of representatives, the respect of the spirit and the letter of the legal framework. In the absence of protected representatives, it is impossible to have an independent opinion or viewpoint emanating from the employee collective. This underscores secondly the importance of conferring the function of representing personnel to a trade union organization, something that is far from being the case in the EU.

A second item also occasions heated debate: below the 50 employee threshold, should one, for example, merge the Enterprise Committee and the Health, Safety and Working Conditions Committee. In certain countries (Netherlands), there is a single body, which can effectively form the framework within which collective rights are exercised.

A third aspect is no less important: Directive 2002/14 requires the setting up of indirect representative bodies, which can be a trade union delegation or an employee delegation, the composition and action of which are determined on an autonomous basis. These forms of representation correspond to the “single channel” and cannot substitute for the ERB.

### **Recommendations: drawing working conditions and job quality upwards**

A number of levers for change can be mobilized. Apart from the action of the public authorities, there are also industrial relations (IR) as a primary (or secondary) source of law.

- Public authorities include the work of the labour inspectorate, occupational health and the regulatory framework. These departments need to have full rights to intervene in all undertakings.
- IR is a factor making competition between companies healthier, leading to management rationalization and the modernization of the undertaking.
  - The representation thresholds in ERBs vary from one country to the next and are a source of discriminations, of insecurity and social dumping.
  - The “identical-treatment-for-all” approach to representation (Sweden and Portugal) potentially opens up all enterprises to industrial relations. This brings up the questions of extending this type of union intervention, and of placing renewed emphasis on sectoral agreements.
- It is important to overcome the obstacles to the development of IR:
  - by reducing employee thresholds and the institutional form taken by these relations, which can combine voluntary and automatic registers (at the request of the majority of employees or not);
  - the institutional architecture of IRs should no longer be focused on the firm (large sized) but on the sector.
- The social advance represented by Directive 2002/14/EC, which harmonizes thresholds at 20 (establishment) and 50 (undertaking), should be extended by conferring a primarily trade union composition to Enterprise Councils/Works Councils.

### **Recommendations for extending IRs and improving their impact on the working population.**

- For defining minimum wages, fresh importance should be accorded to sectoral-level negotiation;
- With regard to subcontracting:
  - The liability of the client should be recognized in every subcontracting deal. In this way the person giving the order is criminally co-responsible.
  - The principle that prevails for temporary employees and temporary employment agency

personnel should be applied to subcontractors: equal pay for equal work, with subcontractors brought into line with the client's collective agreement once a minimum of 30% of their turnover depends on the same client.

- The unit of intervention and regulation should not be just the company (legal form) or the establishment (dependent unit), but also that of a "value chain" covering a field of activity. Encouragement should be given to recognizing "economic and social units" to prevent the breaking up of the workforce into establishments, franchises, etc. in order to circumvent social thresholds and the rights deriving from them.
- Encouragement should be given to the setting up of:
  - territorial employee-employer bodies which can conclude agreements beyond branch boundaries
  - employee-employer bodies based on fields of activity and "value chains".

#### **Recommendations for unifying employment situations through social protection**

- Social rights cannot be an asset that increases as a function of the position one acquires in an internal or external labour market;
- Social rights should start from a universal basis which includes all hybrid, unstable and transitional situations. We need to pick up again the movement for the decommodification of salaried labour that has been interrupted since the 1980s.
- Several projects exist which address the problem of differential employment quality in SMEs. The French CGT's professional social security project is one such project. This aims to create a new employee status.

*Two questions emerge, however, in the light of our investigations: 1) is the continuity of the employment contract compatible with a continuation of subordination and how, without the latter, will the labour market function? 2) what would be the amount of the substitution income "between two employers"?*
- Other directions, inter alia those defended by IG Metall in terms of flexi-insurance, move in the same direction.

The principle of the continuity of rights to a socialized salary (health insurance, unemployment pay, retirement pension) should be linked up to an equalization of socio-professional conditions and limit the indexation of this right to the trajectory of employment. Should a ceiling be set to accumulated rights by company and/or should one develop a base of universal social rights (drawing rights) to training, commitment to citizenship (voluntary work), leisure, etc., which are unlinked to the direct employer. More fundamentally, one area where there is no consensus either in the research community or in civil society is the degree of dissociation between delivered work, benefits and the possibility of cumulation or not between work and benefits

## **4. The need to extend and consolidate trade union action**

### ***Observations***

The unionization rate as a function of the size of the undertaking/establishment remains an unknown factor in almost all the EU countries. But globally, this rate tends to erode in the MEs and is reduced to very little in the microfirms. Rare are the situations where the absence of trade union affiliates or ERBs is compensated by the possibility of concluding agreements. In many cases, a contractual dynamism centred on the firm induces, in a situation of exacerbated competition, a neo-corporatist logic which subordinates everything in the field of social relations, rights and collective guarantees to the competitiveness of the enterprise. Based on our studies of cases "with trade unions", "without trade unions" or with "trade unions trying to gain a footing", we have observed that the degree of trade union action in SMEs correlates with the presence:

- of the "Ghent system", which increases unionization rates to 70% or even higher (Finland,

Sweden, Belgium, Denmark) because a certain number of social benefits pass via the trade union movement;

- of structures of local and regional trade union structures which are authorized to intervene in companies in order to act (strike, boycott, pickets, blockade, etc.) and to negotiate (mandating);
- the existence of IR on a territorial basis and a high level of contract coverage;
- the democratic nature and the quality of trade union practices, their militancy “know-how” (renewal of trade union teams, merger of generations, trade union training, etc.);
- the possibility of recourse to judicial bodies and the possibilities accorded to the public authorities to sanction or arbitrate in disputes (labour tribunal, labour inspectorate etc.);
- aid services for employees (legal, tax, social).

### **Recommendation: extending trade union action to SMEs and casual workers**

#### *Proposals:*

- Promoting the introduction of “zone” or regional delegates, a sort of multi-company delegates having the necessary freedom of action and the right to intervene in SMEs and microfirms.
- Obtaining the right of a client’s personnel delegates or trade union delegates to obtain injunctions against subcontractors or service providers in the case of poor working conditions and on questions of health and safety.
- Encouraging trade unions to develop legal aid services and territorially-based proximity services enabling individuals working in SMEs to know and press their rights.
- Developing the powers of “pay advisers”, that is a sort of “ombudsmen” for SMEs. It is difficult, if not impossible, for employees in small units to pay the costs of personnel delegates. Appointed on the advice of the trade unions, their names could be placed on a list which is accessible to the employees of undertakings which lack their own ERBs, and they could be given delegation time, means of transport and communication whilst retaining their jobs in the original enterprise. This activity would be financed by a mutualized fund fed by a levy on the salary mass of all enterprises in a district (large and small).

# Recommandations

Stephen Bouquin <sup>3</sup>

## 1 – Le double visage des PME : performance et vulnérabilité

### Constats

La définition européenne des PME – jusqu'à 250 salariés, moins de 10 millions d'euros en chiffre d'affaire – relève d'une cohérence administrative qui recouvre une très grande hétérogénéité de situations. On peut dire qu'il existe au sein du monde des PME trois situations :

- Le premier est composé de l'ancien monde des PME, petites firmes, artisans, petits commerces, ateliers et patrons salariés. Nous le désignons par le monde de la PME familiale. Ce monde-là offre des biens et services pour un marché de proximité et semble fortement dépendant de la nature de celui-ci : distribution du pouvoir d'achat au sein de la population, tissu socio-économique, environnement institutionnel (fiscalité etc.). On voit ce monde-là s'élargir avec le développement d'une activité économique résiduelle ou de seconde zone (l'informel dans le commerce et le bâtiment).
- Simultanément, se développe un second pôle : celui qui résulte de la « pméisation » des entreprises : externalisation, sous-traitance, filialisation puis autonomisation relative, ou encore franchisés ou formation d'agences. Cette « pméisation » permet de combiner une flexibilité productive et la flexibilité d'emploi, en conjuguant les effets de la subordination commerciale avec la subordination salariale. Le contrat de travail standardisé – et l'opposition capital-travail – est désormais doublé d'un contrat entre deux entreprises. Le « louage de main-d'œuvre » opère un retour en force. En même temps, il est assez facile de démontrer que cette « pméisation » s'insère dans des chaînes de valeurs et des structures en réseau (franchisés, régies ou agences, notamment dans le secteur bancaire) qui permettent d'extraire de la valeur à l'insu ou aux dépens de ceux qui la produisent (travail et capital).
- Il existe enfin un troisième monde des PME, « innovantes » et qui combinent un degré élevé de souplesse organisationnelle avec des relations interpersonnelles fortes, cimentées par un esprit de coopération, de professionnalisme qui dynamise l'ensemble vers la poursuite d'objectifs parfois audacieux, parfois modestes mais robustes.

Nos analyses de terrain et des données statistiques a permis de distinguer ces types de PME selon le mode de propriété, l'activité et le management .

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<sup>3</sup> , Je tiens à remercier ici Sian Moore ( Working Lives Institute, Londres), Pierre Cours-Salies et Salvo Leonardi (IRES, Rome) pour leurs relecture et commentaires.

	1	2	3
<i>Propriété</i>	Capital familial « entrepreneur/travailleur » issu du rang ou de la profession	Capital familial « petit entrepreneur »	Capital composite « Management distinct des propriétaires »
<i>Position de marché</i>	Local/national	National	National / international
<i>Relation d'emploi</i>	Informel/interdépendant coopérativiste	paternaliste	Formalisées ; niveau élémentaire de rationalisation
<i>Point forts du point de vue de la valorisation du capital</i>	Combiner flexibilité productive avec flexibilité d'emploi => niveaux de rémunération inférieurs aux standards => loyauté par l'implication et l'interpersonnel => seuil de tolérance plus élevé sur les conditions de travail		
<i>Point faibles du point de vue de la valorisation du capital</i>	Endettement ; manque de liquidités ; variabilité et vulnérabilité forte	Dépendance technologique, subordination commerciale et endettement	Mise en concurrence ; marges réduites ; faible diversification du portefeuille de donneurs d'ordre & clients
	Accès au marché		

Avec leurs caractéristiques propres, la pression à la baisse des prix et plus généralement les effets de la globalisation économique, le monde des PME risque à l'avenir d'être bien moins créateur d'emplois qu'auparavant.

- En effet, les PME familiales ont du mal à survivre et tendent à s'intégrer dans des réseaux, à ouvrir leur capital ;
- Les PME innovantes tendent soit à devenir de plus en plus grandes sinon à développer des synergies des coopérations puis à fusionner afin d'atteindre la taille suffisante ;
- Les PME sous-traitantes survivent qu'au prix d'une dégradation des standards sociaux en leur sein, de surexploitation de la force de travail. Répondre à des cahiers de charges exigeants, qualitatifs implique aussi d'atteindre un seuil critique sinon de disposer d'une expertise technologique et d'une capacité en R&D.

L'issue qui se présente à ces entreprises est donc également, sinon plus qu'ailleurs, composé d'un effort de réduction des coûts variables, i.e. des coûts salariaux. Le risque existe dans bon nombre des pays et secteurs étudiés, que le monde des PME devienne globalement un territoire où la nature de l'emploi, les rémunérations et les conditions de travail se situent en deçà de ceux en vigueur dans les grandes entreprises.

**Recommandation : il faut œuvrer à la consolidation des PME en assainissant les conditions d'activité économique**

Nous préconisons :

- de l'accès au crédit risque à taux avantageux
- le soutien à la mutualisation des ressources, notamment sur le plan de la gestion des risques environnementaux et sanitaires
- le soutien à la recherche
- une réglementation des marchés qui garantit l'accès de tous les opérateurs à celui-ci, tout en évitant que la concurrence soit faussée par l'acceptation de normes sociales en dessous des standards en vigueur.

## 2. PME : l'emploi contre le travail ?

### Constats

Au niveau de l'emploi et des relations de travail, les données macro-sociales mettent en évidence une importante différenciation nationale et sectorielle. Dans certains pays, le poids des grandes entreprises reste prépondérant ( $\pm 50\%$  de l'emploi), dans d'autres pays, il est vraiment minoritaire ( $\pm 20$  à  $25\%$  de l'emploi) tandis que dans une troisième catégorie, il représente un tiers de la population active employée. Ces différences s'expliquent pour partie par le fait qu'il n'existe aucun avantage compétitif dans la structuration d'une chaîne de valeur via la petitesse. Cette absence est bien un effet dérivé de la cohérence de la norme d'emploi et salariale, surveillée de près par une puissance syndicale et un dialogue social étendu. A l'évidence, c'est le cas de la Suède et nous pouvons faire un parallèle avec le faible développement de l'intérim dans ce pays (50.000 intérimaires et tous en CDI dans les agences).

Toutefois, cette situation n'est pas comparable à l'Italie, où les traditions manufacturières sont différentes et ont laissé une large place à des formes de production et d'échanges avec des firmes de petite taille. Certains secteurs ou branches d'activité d'autres pays ont des similitudes avec la situation Italienne (France, Belgique, Portugal).

Lorsqu'on analyse les données de manière longitudinale, par pays, il semble important de relativiser l'importance des PME comme « moteurs » dans la création d'emploi. Si le poids des PME dans l'emploi total s'est peut-être accru [ $+16\%$  en France en 15 années] cela s'est fait au dépens des grandes entreprises. L'emploi dans les PME n'est donc pas forcément un emploi additionnel et la croissance de leur part dans l'emploi doit être croisée avec les grandes tendances (en termes d'équivalents temps plein). Ce croisement montre qu'il convient aussi de prendre en compte le transfert de postes de travail vers les PME, ce qui relève du phénomène de « pméisation ».

Dans les PME de type familiales, les TPE, micro-firmes artisanales, l'emploi tend plutôt à stagner sinon à se réduire, surtout dans le tertiaire (développement de réseaux, magasins franchisés etc.). La part des entreprises sans salariés (indépendants) ou avec un seul salarié (entrepreneur-salarié) fausse les données statistiques. Il nous semble donc important de souligner que les PME représentent d'abord un socle empirique et forment une sorte d'incarnation de la forme idéale (et bien souvent idéalisée) de l'entreprise. Celle-ci correspond à la figure d'un acteur dont la petite taille s'ajusterait au mieux aux flux d'échanges de l'économie de la variété. Il s'agit-là d'un « discours » qui homogénéise faussement une réalité. En effet, comme nous l'avons rappelé, parfois la petitesse est un handicap ; parfois elle est fonctionnelle, non pas pour l'emploi (ni sur un plan quantitatif, ni qualitatif) mais pour la profitabilité et parfois, aussi, pour l'emploi (qualité et quantité) et pour la profitabilité.

Cette réalité contrastée n'est prise en compte dans l'argumentation qui représente les PME comme moteurs de la création d'emploi. Il s'agit donc d'un discours qui représente un point d'appui pour organiser un environnement spécifique et des dérogations réglementaires (exemple, la RTT 35h en France). L'emploi devient alors alibi pour

- autoriser ou faciliter des modes opératoires informels dont la flexibilité serait avérée (ce qui n'est pas forcément vrai) ;
- permettre le développement d'une norme d'emploi « sans intermédiaires » et par voie de conséquence, une individualisation de la relation salariale ; ce qui facilite un allongement du temps de travail, des conditions de travail plus pénibles et une rémunération en deçà des niveaux habituels.
- des risques sur la santé accrus



L'emploi devient la justification pour accepter que se développe un sous-emploi ou, autrement dit, un emploi au rabais. Cela se vérifie sur plusieurs registres :

- En matière de santé, sécurité et conditions de travail, nous avons observé une variation en fonction du type de PME (familiale/innovante/sous-traitantes). Ces conditions de travail tendent à être plus pénibles mais moins soumises à la contrainte technique dans les PME des secteurs industriels (sous-traitance) et moins corrélés à la taille dans le tertiaire.
- Les salaires des (T)PE versus les grandes entreprises connaissent des écarts considérables. En Italie (textile et métallurgie) le montant moyen se situe à 62% de celui des grandes entreprises; 80 % par rapport à la moyenne sectorielle en France, Belgique et Royaume-Uni. Seule la Suède ne connaît pas d'écarts ce qui reflète poids des relations professionnelles, leur degré de centralisation et le taux de couverture conventionnel.
- Le temps de travail tend à être plus long dans les PME ; sa détermination est beaucoup plus informelle tandis que la flexibilité semble limitée (le « coup de collier » et les heures supplémentaires quand le client attend). Les systèmes d'annualisation et de crédit-temps sont moins développés car les arrangements directs, informels et interpersonnels donnent souvent plus de souplesse.
- La formation professionnelle se fait davantage sur le tas, par le compagnonnage ; il y a un moindre usage des dispositifs publics et paritaires.

Accepter les dérogations sociales et réglementaires dans les PME au nom de l'emploi représente à notre avis une impasse du point de vue social et économique. Cela désarme toute action syndicale et publique et ne fait qu'amplifier une dynamique de précarisation, allant jusqu'à fragiliser l'emploi conforme aux normes standards (le mauvais emploi chasse le bon). La dualisation avec les travailleurs pauvres d'un côté et la nouvelle aristocratie de techniciens en cols bleus reflète cette évolution. Il s'agit ici d'une hiérarchisation sociale qui se retrouve être indexée sur le mérite et la valeur du capital humain (son employabilité) et qui tend à se présenter comme « naturelle ». Une condition laborieuse, à plusieurs vitesses et divisée selon des lignes de clivage ethniques et sexuels, finit par trouver ici sa cohérence.

Accepter de s'engager dans cette voie signifie accepter que s'amplifie le mouvement de reflux du droit du travail et le retour à un traitement plus étroitement commercial et marchand, qui fait du travail... une denrée, une marchandise qui s'achète et se vend, se consomme et s'use. Que cette remarchandisation soit fonctionnelle du point de vue du capital ne fait aucun doute, tout comme le fait qu'elle soit contraire aux intérêts du monde du travail dans sa globalité.

Comment concilier les deux ? Certains cas nationaux (Suède et Italie) montrent que l'économie peut aussi s'ajuster au social, que l'existence de règles et de normes, parfois contraignants, participe à la vigueur de l'activité puisque cela oriente la recherche des leviers de profits non pas dans la régression sociale mais dans l'innovation, la coopération.

### **Recommandation : Il faut inverser la perspective ...**

Trois arguments forts peuvent servir à l'application de mesures visant à réduire les écarts et la dynamique de « dumping social » :

- Primo, il n'y a pas lieu d'accepter que s'installent des inégalités de conditions qui ne relèvent en rien de l'activité professionnelle mais du lieu où elle s'exerce ;
- Secundo, faute de réduire les écarts, ces inégalités feront tâche d'huile et participeront à tirer vers le bas la condition laborieuse dans son ensemble.
- tertio : nous rencontrons de plus en plus de structures étatiques alourdies par les contrôles à assurer au workfare direct ou à ses variantes

### **Préconisations :**

- Les montants de rémunération doivent être harmonisés et indexés sur la productivité de la filière ou de la « chaîne de valeur ». L'unité d'analyse pour décider de la distribution des gains de productivité doit sortir du cadre de la firme (comprise comme entité juridique) et se fonder sur l'activité économique, dès lors que celle-ci forme un groupement d'entreprise institué ou une « chaîne de valeur ». Il faut pour cela à la fois revaloriser les conventions sectorielles existantes, initier des conférences salariales sur le plan territorial (bassin d'emploi) et agir en faveur d'une articulation des secteurs synergiques (ex. plasturgie et automobile).
- Les droits sociaux collectifs (formation professionnelle, temps de travail, etc.) ne peuvent souffrir de dérogations selon la taille d'entreprise et/ou de l'établissement.

## **3 – Relations collectives de travail**

### **Constats**

Trois aspects doivent être pris en compte en relation avec les PME :

- l'existence d'IRP (CE, CHS-CT) et des seuils de représentation
- le taux de couverture des accords de secteur, leur extension aux PME
- les modalités de présence syndicale dans les PME

Pour ce qui concerne l'existence d'IRP, les différences nationales sont importantes. Ces différences confirment l'importance des seuils et leur impact. Grâce à ces seuils, les employeurs peuvent éviter la mise sur pied d'IRP, parfois de manière artificielle (recruter des CDD ou des intérimaires qui ne sont pas comptabilisés). En absence de seuils (Suède, Portugal), les relations collectives de travail s'instaurent plus facilement et le taux de syndicalisation grimpe dans les PME. Le dialogue social s'y développe et les formes d'emploi glissent moins vers des normes inférieures.

Au niveau du taux de couverture conventionnelle, il faut souligner que dans certains pays, celui-ci peut avoisiner les 90 % sans que cela reflète pour autant une mise en cohérence sociale au sein d'un secteur. Tout dépend comment la négociation est centralisée, et si le centre de gravité se situe du côté de l'entreprise ou de la branche. Nos résultats de recherche plaident en faveur d'une coordination et centralisation sectorielle, surtout au niveau salarial.

La directive 2002/14 du 11 mars 2002 représente une innovation importante que nous n'avons pas su étudier au travers des études de cas :

- Elle prescrit l'information et la consultation « pour toutes les décisions affectant de manière importante tant l'organisation du travail que les contrats de travail » (article 4, 2C.).

En cela, la directive intègre dans son champ d'application les restructurations, licenciements collectifs et aussi le transfert de contrats de travail vers une autre entreprise.

- La directive introduit pour la première fois les textes européens les notions d'entreprise et d'établissement, en définissant précisément ces deux réalités.

Elle permet dès lors que les procédures d'information et de consultation ne concernent pas seulement les entreprises comme entités juridiques mais aussi comme un ensemble composé de plusieurs unités (établissements) sans réelle autonomie économique et qui peuvent ou non avoir une personnalité juridique.

- La directive mentionne deux seuils : au minimum 50 salariés pour une entreprise et pour un établissement le seuil de 20 salariés.

La directive crée ainsi les conditions pour que l'une des procédures clés du dialogue social soit étendue à une large frange : secteur du salariat, employé dans les petites entreprises.

Dans les débats sur la transposition de la directive (c'est notamment le cas de la Belgique), certains plaident en faveur de la possibilité de maintenir un mode direct d'information et de consultation, sans intermédiaire (élu au sein d'instances). Cela fausse à notre avis la nature de la procédure et la ramène dans le giron des relations entre management et collectifs de travail. Le mode indirect (via les IRP) n'exclut pas de consultations directes mais garantit, par la constitution de représentants et leur protection (relative bien sûr) le respect de l'esprit et de lettre du cadre juridique. Faute de représentants protégés, il ne peut y avoir d'avis ou de point de vue émanant du collectif de travail. Ceci souligne en second lieu l'importance de conférer la fonction de représenter le personnel à une organisation syndicale ; ce qui est loin d'être le cas dans l'UE.

Un second point suscite également des discussions : faut-il ou non, en deçà de 50 salariés par exemple, fusionner les organes CE et CHS-CT ? Dans certains pays (Pays-Bas) une instance unique fonctionne et peut en effet former le cadre au sein duquel les droits collectifs s'exercent.

Un troisième aspect est non moins important : la directive 2002/14 impose la mise sur pied d'instances représentatives indirectes et à celles-ci peuvent s'ajouter les instances directes tel qu'une délégation syndicale, une délégation du personnel dont la composition et l'action sont déterminés sur une base autonome. Ces formes de représentation directes correspondent au « canal unique » (single channel) et ne peuvent se substituer aux IRP.

### **Recommandations : tirer les conditions de travail et la qualité de l'emploi vers le haut**

Plusieurs leviers de changement peuvent être mobilisés. Outre l'action de la puissance publique il y a aussi les relations collectives de travail (RCT) comme source première (ou secondaire) de droit.

- La puissance publique englobe l'inspection du travail, la médecine du travail et le cadre réglementaire. Ces services doivent pouvoir intervenir pleinement dans l'ensemble des entreprises.
- Les RCT sont un facteur d'assainissement de la concurrence interfirmes et conduisent à la rationalisation du management et la modernisation de l'entreprise.
  - Les seuils de représentation pour les IRP sont variables selon les pays et sont une source d'écart et de discriminations, de précarisation et de « dumping social ».
  - Le « monisme » en matière de représentation (Suède et Portugal) ouvre potentiellement toutes les entreprises aux relations professionnelles. La question d'étendre ce type d'intervention syndicale se pose de même que la revalorisation des accords sectoriels.

- Il faut surmonter les obstacles au développement de RCT :
  - en abaissant les seuils de personnel et le mode d'installation qui peut combiner les registres volontaristes et automatiques (sur demande d'une majorité des salariés ou non) ;
  - l'architecture institutionnelle des RCT ne doit plus être focalisée sur l'entreprise (de grande taille) mais sur le secteur.
- L'avancée sociale que constitue la directive 2002/14/EC qui harmonise les seuils à 20 (établissement) et 50 (entreprise) doit pouvoir se prolonger en conférant au CE/Works councils une composition avant tout syndicale.

### **Les préconisations pour étendre les RCT et améliorer leur impact sur la condition laborieuse**

- 
- Au niveau des salaires planchers, il faut revaloriser la négociation de branche ;
- Par rapport à la sous-traitance :
  - La responsabilité des donneurs d'ordre doit être reconnue dans toute passation de marché. Dans cette optique, celui qui passe commande est pénalement co-responsable.
  - Le principe qui prévaut pour les CDD et l'intérim doit être appliqué aux sous-traitants : à travail égal, salaire égal, l'alignement des sous-traitants sur la convention collective du donneur d'ordre doit être organisé dès lors qu'au minimum 30% du chiffre d'affaire dépend d'un même donneur d'ordre.
- L'unité d'intervention et de régulation n'est pas la seule entreprise (forme juridique) ni l'établissement (unité dépendante) mais aussi une « chaîne de valeur » / filière. Il faut favoriser la reconnaissance « d'unités économiques et sociales » et entraver l'éclatement en établissements, franchisés, etc. pour contourner les seuils sociaux et les droits qui en découlent.
- Favoriser la mise sur pied :
  - d'instances paritaires territoriales pouvant conclure des accords qui transcendent les délimitations de branches
  - d'instances paritaires autour de filières et de « chaînes de valeur »

### **Préconisations pour unifier les situations d'emploi via la protection sociale**

- Les droits sociaux ne peuvent être un patrimoine qui s'accumule en fonction de la position que l'on acquiert dans un marché de l'emploi interne ou externe ;
- Les droits sociaux doivent se constituer à partir d'un socle universel intégrant toutes les situations hybrides, précaires, transitoires. Il faut reprendre le mouvement de démarchandisation du travail salarié interrompu depuis le début des années 1980.
- Il existe plusieurs projets qui peuvent s'appliquer à la problématique des écarts en termes de qualité d'emploi pour les PME. Le projet de sécurité sociale professionnelle de la CGT française en est un. Il vise à créer un nouveau statut du travailleur.
 

Deux questions émergent néanmoins à la lumière de nos investigations : 1). la continuité du contrat de travail est-elle compatible avec une continuité de la subordination et comment, sans cette dernière, le marché du travail fonctionnera-t-il ? ; 2). quel montant serait le revenu de substitution « entre deux employeurs » ?
- D'autres orientations, notamment défendues au sein de l'IG Metal en termes de flexassurance vont dans le même sens.
- Le principe de continuité du droit au salaire socialisé (assurance maladie, chômage, retraite) doit s'articuler à une égalisation des conditions socio-professionnelles et limiter l'indexation de ce droit sur la trajectoire d'emploi. Faut-il plafonner les droits accumulés par entreprise et/ou développer un socle de droits sociaux universels (droits de tirage) non liés à l'employeur direct en

matière de formation, de temps citoyen (bénévolat), de loisirs, etc. Plus fondamentalement, ce qui ne fait pas consensus dans la communauté de recherche comme dans la société civile est de savoir s'il est acceptable une dissociation entre travail et revenu, dans quelles conditions et avec quelles garanties, de même que la possibilité de cumul ou non.

#### **4. Une action syndicale à étendre et à consolider**

##### **Constats**

Dans l'ensemble des pays de l'UE, le taux de syndicalisation selon la taille de l'entreprise/établissement demeure une inconnue. Mais globalement, celui-ci tend à s'éroder dans les ME et se réduit à très peu dans le (T)PE. Il est rare que l'absence d'affiliés ou d'IRP se compense par la possibilité de conclure des accords. Une dynamique contractuelle centrée sur la firme induit souvent, dans le contexte de concurrence exacerbée, une logique néo-corporatiste qui soumet ce qui relève du social, des droits et garanties collectives, à la compétitivité de l'entreprise. Sur base de nos études de cas « avec syndicats », « sans syndicat » ou avec des « syndicats essayant de s'implanter », nous avons observé que le degré d'action syndicale dans les PME est corrélé à la présence :

- du « Ghent system » qui augmente le taux de syndicalisation à 70% voire plus (Finlande, Suède, Belgique, Danemark) car un certain nombre de prestations sociales transitent par le mouvement syndical ;
- de structures internes aux syndicats locales et régionales habilitées à intervenir dans les entreprises, à agir (grève, boycott, piquets, blocus, ...) et à négocier (mandatement).
- l'existence de RCT sur une base territoriale et le degré élevé de couverture conventionnelle.
- la nature démocratique et la qualité des pratiques syndicales, le « savoir-faire » militant (renouvellement des équipes syndicales, fusion entre générations, formation syndicale, ...).
- la possibilité de recours auprès d'instances juridiques et la possibilité par la puissance publique de sanctionner sinon d'arbitrer en cas de litiges (prud'hommes, inspection du travail, etc.).
- de services et d'aides aux salarié-e-s (juridique, fiscalité, sociale)

**Recommandation : développer une action syndicale élargie aux PME et aux secteurs périphériques/précaires**

##### **Préconisations :**

- Favoriser la mise sur pied et la liberté d'action des délégués de « zone » ou de districts ; sorte de délégués multi-firmes ayant droit d'intervention dans les PME et TPE ;
- Obtenir le droit d'injonction des délégués du personnel ou délégués syndicaux des donneurs d'ordre chez les sous-traitants ou les prestataires, tant au niveau des conditions d'emploi que pour des questions de sécurité et santé.
- Susciter parmi les syndicats le développement de services d'aide juridique et des services sociaux « de proximité » territoriaux de proximité qui permettent aux individus travaillant dans les PME de connaître leurs droits et de les faire valoir ;
- Développer les pouvoirs des « conseillers du salarié » ou sorte d' « ombudsmen » pour les PME. Pour les salariés, il est difficile, sinon impossible dans de petites unités de faire vivre des délégués du personnel. Nommés sur proposition des syndicats, ils pourraient figurer sur une liste accessible aux salariés d'entreprises sans IRP, disposeraient d'heures de délégation, de moyens de déplacement et de communication tout en gardant leur poste de travail dans l'entreprise d'origine. Le financement de cette activité se ferait par un fonds mutualisé alimenté par une ponction sur la masse salariale de l'ensemble des entreprises d'un district (grandes et petites).

# Chapter 1

## Employee representation and voice in small and medium-sized enterprises. An introduction to the SMALL project

Stephen Bouquin, Salvo Leonardi, Sian Moore \*

### Summary

*This article introduces the SMALL project, its key research questions and methodology. It places SMEs within the context of the wider European economy. It sets out the data that exists on union membership in SMEs which suggest that across Europe union membership is lower than in larger organisations. It then looks at rights to representation in SMEs and how thresholds based upon the number of employees reduce the potential for representation. It explores collective bargaining coverage in SMEs and considers the relationship between centralised collective bargaining systems and union membership in SMEs and the extent to which such systems can protect the terms and conditions of workers, drawing upon the case study evidence to suggest that such systems do not always ensure collective representation and organisation at workplace level and considering the steps that unions may need to take to address this.*

Small and medium-sized enterprises (SMEs) are a major feature of the European Union (EU) economy. They represent nine out of ten enterprises across Europe and employ around two-thirds of Europe's workers. Yet little attention has been devoted to employee representation and voice and even less to collective organisation in these organisations. This issue of *Transfer* reflects the research findings of the SMALL project, which aimed to explore employee representation and voice in SMEs. The project was established in 2002 as a European Union Fifth Framework Programme project across eight European countries – Belgium, Bulgaria, France, Hungary, Italy, Portugal, Sweden and the UK. The research design is qualitative and based upon 48 case studies of SMEs in selected sectors conducted by research teams in the eight countries. The project adopted the EU definition of SMEs as organisations employing fewer than 250 workers. The sectors selected were:

- Retail
- personal services/ care
- Hotel/catering/tourism
- Information and communication technology (ICT)
- manufacturing
- garment/ textiles

Existing research on industrial relations in SMEs has involved debates over the relative importance of structural forces and human agency (Barrett and Rainnie 2002; Ram and Edwards 2003). Discussion of structural forces has included the relationship of SMEs to large capital and supply chains (Rainnie 1989) and the influence of labour and product markets (Goss 1991). These factors produce variation between and within sectors. In the SMALL project, case selection was purposive and case studies reported here were not necessarily selected on the basis that they were 'typical', but aim to illustrate such variability, capturing a range of behaviours and outcomes, whilst also highlighting common themes. They represent different typologies of SME in terms of ownership, employment relations and their relationship to larger firms and position in national and

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international markets. In terms of ownership Scase (2003) has proposed a number of proprietorial models. These include the 'small employer' model, where organisations were originally based upon one professional establishing him or herself in practice and working alongside their employees undertaking administrative and managerial tasks; owner-controllers who do not work alongside their employees, but are responsible for the administration and management of their businesses and the owner-director model, where management has evolved beyond owner management, with the introduction of formal management structures and human resource functions.

Case selection in the SMALL project aimed to capture variation in employee representation that would enable us to explore factors that lead to employee representation and unionisation in SMEs as well as those that might explain the absence of collective organisation and activity. The case studies were based upon semi-structured, face-to-face interviews and were conducted between April 2004 and March 2005. Access varied between countries, in some cases it was sought through trade union officers, in others through employers or employer associations. The objective was to interview all parties to the employment relationship, a representative of the employer, the workers themselves and, where there was unionisation, a trade union representative. The interviews were supplemented by documentary analysis based upon company reports, information from company websites, union recognition agreements and staff handbooks or contracts. The case studies allow us to reflect upon theory rather than to seek to generalise findings to a wider population of SMEs. In particular, in-depth interviews captured the perspectives of the different actors within one workplace. Crucially they allowed us to examine the expression of employee interests within the workplace and how dissatisfaction or conflict was or was not articulated; but also to explore actors' work and family histories, which illuminated the existence and operation of collective frames of reference.

**Table 1: The SMALL case studies**

	Retail	Hotels/catering/ Tourism	Manufacturing	Garments/ textiles	Personal services care	ICT
Belgium	1	1			2	
Bulgaria	2	2	1	1		2
France	1		3		1	1
Hungary		1		1	1	1
Italy	2		2	1		1
Portugal			1	1	1	2
Sweden			1		3	1
UK		2	2	2	2	2
Total	6	6	8	6	12	10

## **The research context**

The remainder of this introductory article sets out the framework in which the SMALL project was set. SMEs must be seen within the context of the wider European economy. The growth in flexible specialisation (Piore and Sabel 1984) has led to an increase in externalisation by larger organisations alongside organisational fragmentation (Scase 2003). Subcontractors execute different parts of the production process in the industry and service sectors, with SMEs increasingly acting as suppliers and subcontractors. It is estimated that around half of SMEs act as subcontractors for firms that control access to the market, defined in Rainnie's typology (1989), as 'dependent'. Other typologies include those that compete with larger organisations on the basis of lower operating costs, described as 'dominated'; those that develop new products and services, in the typology, 'innovative'; and those that trade in specialised or localised markets and do not compete against large firms. Across these typologies, in order to compete, SMEs may have to be highly flexible and this, as a number of articles in this issue suggest (Alves *et al.* and Andersson *et al.*), may be at the expense of the quality of employment and health and safety. The case studies presented here also suggest that small firms do not fit neatly into pre-existing typologies, but are dynamic organisations that change over time in response to wider socio-economic forces. This means that the conditions for representation may change.

Small firms employ an important proportion of Europe's workforces, but, as Palmieri shows, are more important in some countries than others. We can distinguish three different groups: countries such as Portugal, Italy and Spain where a major proportion – more than 70% – of employment is in SMEs; a more balanced group where the proportion of employment in SMEs is around 55-60% and a third category of countries such as Sweden, Germany and Finland where large firms still play a prominent role in terms of employment, and less than 50% is employed in SME's. Countries like UK, France and Belgium do have an employment in SME's that is little above the 50% which reflect the persistent importance of large structures.

In a situation of growing international competition and increased dependence, with regard to access to the market, we consider the hypothesis that SMEs may disproportionately reflect substandard working conditions, in terms of health and safety, pay, working time and equality. In the study of SMEs, little attention has been devoted to employee representation and voice in and even less to collective organisation. In response to this the SMALL project focuses upon the presence or absence of representation or trade union activity and its impact upon employment standards at the workplace.

## **Union membership in SMEs**

Within the changed economic context alluded to above, trade unions have been weakened across the industrial world, with declining densities (Ebbinghaus and Visser 2000; Hoffmann and Waddington 2000; Boeri *et al.* 2001; EIRO 2004; Visser 2006). In general, the restructuring of the global economy and relocation of manufacturing, where unionisation has historically been strong, has led to lower union membership (Table 2). This has not yet been compensated by the unionisation of newer industries (services, ICT, logistics) and categories of wage labour.

The exceptions are those countries, like Belgium and Sweden (but also Denmark and Finland), where unions are institutionalised, in part through their role in managing the system of unemployment benefits – known as 'the Ghent System' – which brings employees seeking jobs into contact with unions, (Western 1999; Bouquin 2002; Kjellberg 2006; Leonardi 2006).



**Table 2: Union density in the 8 countries of the SMALL project, 1970-2003 (%)**

Year	Belgium	Bulgaria	France	Hungary	Italy	Portugal	Sweden	UK
1970	42.1	-	21.7	-	37.0	-	67.7	44.8
1980	54.1	-	18.3	-	49.6	-	78.0	50.7
1990	53.9	42.0*	10.1	63.4°	38.8	25.0^	80.8	39.3
2003	55.4	26.0**	8.3	19.9	33.7	24.0	78.0	29.3

\* Refers to 1995; \*\* for Bulgaria the source is Dimitrova and Vilroks (eds.), 2005; ° the data refer to 1995; ^ for Portugal the source is EIRO.

Source: Visser (2006).

The data that do exist on union membership in SMEs (EIRO 2006) suggest that across Europe union membership in SMEs is lower than in larger organisations. Yet in Italy there are comparable levels of unionisation in SMEs in industrial districts in the central and north-eastern areas. The pessimistic image of SMEs as a vacuum, entirely dominated by owner-managers (Rainnie 1989) seems to be challenged by Italian empirical research (Bordogna and Pedersini 2001; Pini *et al.* 2002; Carrieri and Megale 2003). These authors have suggested that union density in small enterprises, at least those with over 20 employees, is not far from the national average. Where the unions get access to SMEs, organisation can even be facilitated by the size and personal nature of the relationships amongst workers. This trend is traditionally attributed to the specific nature of social relations in these areas (especially Emilia Romagna, Toscana and Veneto), territorial human capital and political sub-cultures. In addition, sectors like construction and agriculture are covered by forms of voluntary and mutual employment insurance (*Casse edili* or *Disoccupazione agricola*), which provide an incentive for union membership. The outcome is that union density, in these two sectors, reaches very high proportions, comparable to the northern European performances related to the Ghent systems.

### Rights to worker representation in SMEs

It is likely that a favourable national legal context is important in influencing employee (and employer) choices about union organisation. The rights of workers in SMEs to representation vary across the eight countries. The international literature on industrial relations usually distinguishes between 'dual' and 'single' channel of employees' representation at the workplace.<sup>1</sup> Among the countries involved in the SMALL project some have a dual channel system and others a single channel; France, Belgium, Portugal and Hungary belong to the first group, whereas the UK, Sweden, Italy and Bulgaria belong to the second.

EIRO (2006) has shown that over half the countries in the EU exclude some workers in SMEs from provisions on collective representation by incorporating thresholds based upon employee numbers below which rights to collective representation do not apply. High thresholds, in countries with a majority of SMEs, seriously reduce the potential for collective representation and the exercise of union rights at the workplace level.

In terms of consultation rights, the Information and Consultation Directive grants rights to information and consultation between the employer and employee representatives in undertakings with at least 50 employees or establishments with at least 20 employees, with the choice left to Member States. The Directive was to be transposed by Member States by March 2005, but there was provision for countries to phase in its application to smaller firms up until 2008.

<sup>1</sup> This means that there is autonomous union representation with the capacity to act and negotiate as well as (elected) councils where union representatives and management engage in 'social dialogue'.

**Table 3: Representative structures in SMEs**

	<b>Bodies</b>	<b>Threshold (EMPLOYEE NUMBERS UNLESS OTHERWISE INDICATED)</b>	<b>Main body</b>
Belgium	Trade union delegates Works council Health and safety committees	From 20 to 50 from 100 from 50	Dual channel, trade union dominates works council
Bulgaria	Trade union representation	5 union members	Single channel, trade union
France	Employees delegates Works council Trade union delegates Health and safety committees	11 50	Dual channel
Hungary	Works council Trade union delegates	50	Dual channel
Italy	2/3 Elected <b>?works council?</b> by all the workers 1/3 nominated trade union representative bodies	15	Single channel, trade union dominates informally works council
Portugal	Workers' committee	None	Dual channel
Sweden	Trade union representation	None	Single channel, trade union
UK	Trade union representation	50?, redundancy? Statutory recognition limited to employers with over 21employees; Information and Consultation threshold?	Single channel, trade union

Source: Based upon EIRO 2006.

Company level collective bargaining in the UK was legally underpinned by the introduction of a statutory trade union recognition procedure in June 2000 (Employment Relations Act, 1999). This gave unions the right to apply for statutory recognition on the basis of majority membership or support in a specified bargaining unit. However, the legislation specifically excludes employers employing fewer than 21 workers, estimated at 8.1 million workers or 31% of the total UK workforce. The Trade Union Congress (TUC) has responded:

*Although unions have no legal right to recognition in small companies, it is often workers in this sector who are in need of the most protection. With low union membership and recognition levels small enterprises usually have lower rates of pay, bigger gender pay gaps, and poorer health and safety records than larger companies which recognise unions.*

The TUC argues that UK law is out of step with other European countries in excluding employers with fewer than 21 workers from union recognition laws. In particular, in Sweden one employee is

enough for a union to be granted negotiation rights – a trade union has the right to negotiate with an employer on all matters which concern the relationship between the employer and such members of the union who are or have been employees (Ewing and Hock 2003).

In Sweden representation involves a four -tier structure, at workplace organisation, local branch, national industry and central confederation levels local organisation combined with central back up mean high organisational levels, with the latter providing putting pressure on employers on issues such as working time, health and safety, vocational training, equality and pay.

In terms of Works Councils in Italy *Rappresentanze Sindacali Unitarie* (RSU or Unitary Works Councils) can be elected for production units with more than 15 workers, whether or not they are unionised. Since the election of RSU are not compulsory their presence often depends upon the power relations within workplaces. This means that 11 million workers, many in very small firms and in the south, are excluded from access to rights enshrined in the Workers' Charter of 1970 and have no collective representation. In order to overcome this representation deficit inter-confederate collective and sector agreements may allow for inter-enterprise representatives or district delegates within industrial districts or networks of enterprises. For example there are some SMEs where collective contracts allow a lower threshold (eight employees in textiles, ten in metallurgy) for the right to elect workplace representatives and/or hold assemblies in the enterprise.

In Portugal national surveys undertaken in the second half of the 1990s showed that Workers' Committees are found in only 11% of medium-sized companies compared to 40% of large enterprises.

In France and Belgium the establishment of Works Councils beyond the stated threshold is a right, but depends upon the presence of candidates standing for election. In France the threshold for the right to establish workplace representation in the form of workers' delegates (*Délégués du personnel*) is based upon a threshold of more than 10 employees. The threshold for the right to establish works councils (*Comité d'entreprise*), health and safety committees (*Comité d'Hygiène et de Sécurité*) and statutory elected union delegates (*Délégué syndical*) is 50. What is the effectiveness of these rights? The number of bodies and institutions – works council, employee delegates, trade union delegates, and health and safety councils – are much lower than they should be. From recent enquiry produced by the French Ministry of Labour (2004), we may observe that in the small firms (up to 20 employees) less than 20% of the firms do have a form of workplace representation for employees. This percentage increases to 68% for firms with 20-49 employees and to 93% in firms with more than 50 employees. (Jacod, 2007) French trade unions are acting to reduce inequalities in working and employment conditions between employees of SMEs and those of larger sized companies

In Belgium, the right to establish a Works Council still has a high threshold of 100 employees. The Belgian government is being legally challenged by the European Commission for not applying the Information and Consultation Directive, which put the highest (maximum) threshold at 50. Although in some sectors rights to collective representation are dependent upon a minimum employee threshold of 50, in others agreements provide a possible representation by shop stewards at lower levels, at 20 or 30 or even five employees. In their comparative report on labour relations in countries participating in the Leonardo project, Makó *et al.* (2006) report that Belgian trade unions are seeking to lower the thresholds for the creation of various representative structures or the application of other employment rights.

In Bulgaria the threshold for union delegates is formally low; according to legislation (Decree No 7/1003, Art. 3) each trade union organisation at enterprise level should have at least five members. In Hungary the Labour Force Survey found that in 2004 the rate of representation by

Works Councils was 36% (Balogh and Neumann 2005) in medium and large enterprises, but 18% for establishments with between 14 and 49 employees. The large majority of employees remain without representation, located in established enterprises in the service and construction sectors and in SMEs. The Survey found that a third of respondents reported a trade union presence in their workplace.

### Collective bargaining coverage

In their comparative study of European labour relations, Makó *et al.* (2006) conclude that 'there is a direct relationship between the company size and collective bargaining coverage rate. As the size of the companies increases, so does the bargaining coverage rate. In the smaller firms, and especially in those with fewer than 20 employees, collective agreements are the exception.' In the countries featured in the SMALL project the various collective bargaining frameworks can be characterised as either providing a system of nationally binding sectoral and in some cases territorial agreements as in the case of Belgium, France, Italy, Portugal and Sweden; or a process largely limited to company level agreements typified by Bulgaria, Hungary and the UK. Not unsurprisingly there is considerable variation in the coverage of collective bargaining in the eight countries and this divergence clearly has some importance for those working in SMEs. In France, Italy and Sweden collective agreements signed at national and sectoral level cover small as well as large enterprises. In Belgium, France and Italy, organisations of SME employers participate in collective bargaining of at least some kind, and are often represented on bipartite and tripartite advisory and consultative bodies. In Portugal and the UK, they do not generally play a role in collective bargaining.

A relatively high level of centralisation – as in Sweden, but also Belgium and Italy – seems better to prevent fragmentary union coverage, promotes bargaining power and facilitates forms of 'solidaristic wage policies', while decentralisation may bring the unions closer to their rank-and-file members, but risks leaving large segments of the labour market uncovered. The trade unions are more likely to have local activists with good resources for organising employees even at small plants, as in Sweden, or at the territorial level (at confederation or branch/sector level), as in Italy. The high rate of density on the union and the employers' association sides (Sweden), together with the fact that the courts assume the national collective agreements provide national minimum standards of wages and protection (Italy), provide the national collective agreements – subscribed to by the social partners – with substantial *erga omnes* effects.<sup>2</sup>

In Sweden the combination of strong central and local levels is a very important aspect of Swedish unionism (Kjellberg, 2006). It includes a four-tier structure (workplace organisation, local branch, national industry-wide union, central confederation) that first emerged among blue-collar workers, and was later copied by white-collar unions. Historically this has been the basis of the high organisational levels in SMEs. In theory local organisation combined with central back up mean high organisational levels, with the latter putting pressure on employers on issues such as working time, health and safety, vocational training, equality and pay.

In Sweden around 70% of enterprises with up to 20 workers are covered by collective agreements, compared with 95% for larger companies. High union density and strong bargaining coverage means there is less variation by size, but some newer industries, such as ICT, are less well covered.

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<sup>2</sup> Italy and Sweden belong to that small group of European countries which do not have a statutory minimum wage. The others are Austria, Denmark, Finland and Germany. Swedish law does not regulate minimum wages; instead, minimum wages are regulated by clauses in most industry-wide collective agreements. According to most collective agreements, minimum wages are today lower than the unemployment benefit. This is one of the main reasons why the clauses are no longer important. Even though all unemployment benefit takers must accept a job if they are offered one it has proved barely possible to hire someone for a lower wage than the unemployment allowance. Thus the unemployment benefit level has in practice replaced the clauses on minimum wages as the lowest wage level (Junesjö 1998: 68-69)

In contrast, where collective bargaining is less centralised, in the UK, 21% of employees in workplaces with fewer than 50 employees had their pay affected by collective agreements compared to 48% of employees in workplaces with 50 or more (DTI 2006).

The coverage of collective bargaining in Italy is high, estimated at around 85-90% according to different national and international sources. This is guaranteed by more than 400 national sectoral/branch contracts, formally covering both public and private sector employment. SMEs, craft enterprises and cooperatives have their own national collective agreements, signed by the most representative trade unions and the appropriate employers' associations. The second level of bargaining can be developed at company or, alternatively, at territorial level. The latter is the case for the sectors with a traditionally high presence of SMEs, like the craft sector, retail, hotels and catering, building and farming. The second level covers around 30% of the whole workforce. This is a national average, portraying a very differentiated map, in which the firm's size and the territory play a quite crucial role. Almost absent in the south and in very small enterprises (under 15 employees), it is more developed in the centre and in the north of the country, medium and large manufacturing enterprises and public administration. The size of the enterprise is a crucial explanatory factor. According to an enquiry of the National Institute of Statistics (ISTAT), company collective agreements in industry involved only 4.4% of enterprises with fewer than 20 employees. This percentage increases to 15.7% for enterprises with between 20 and 49 employees and 37% for those with 200 employees; for enterprises with over 500 employees the percentage is 68.3% (Pellegrini 2002).

In France, the Lois Auroux of 1982 established a 'duty to bargain' every year, within all enterprises with more than 50 employees, basically over pay. As a result the epicentre of collective bargaining shifted to firms because of the necessary annual negotiation of wages. A national and intersectoral agreement legalised in 1996 (though not signed by the CGT (Confédération Générale du Travail) and CGT-FO (Force ouvrière) trade union confederations, provided that sector level agreements may allow companies with more than 10 employees, but without a union delegate, to negotiate either with the elected workforce representatives (works council members or workforce delegates, who are not necessarily union members), or employees mandated to bargain by a union. The introduction of the 35-hour working week (June 1998) extended mandates to firms of all sizes, removing the requirement for an authorising sectoral agreement. In fact, the Loi Aubry 2 has delegated negotiations over the reduction of working hours, in enterprises with more than 20 employees, to the signature of a collective agreement with a *Délégué du personnel* or an employee delegated by one of the five representative trade unions. The Lois Aubry has greatly promoted the development of collective bargaining in SMEs. In the early 1980s, an average of 4 800 collective agreements were signed every year; between 1999 and 2001 there were almost 40 000 (Sandeau and Lasserre 2005). With a few exceptions (Slovakia and, above all, Slovenia) the rate of collective agreement coverage in central and eastern Europe is quite low: 25-30% on average, dropping in the three Baltic States to between 15% and 22% (EIRO 2006; Illesy *et al.*, in this issue). Large sections of the workforce remain excluded from collective bargaining coverage, especially in the large majority of SMEs; the workers of the huge informal sector; and a large part of the public administration. Many factors affect the enforcement and diffusion of collective bargaining (Dimitrova and Vilroks 2005). Among them, the small and medium size of local enterprises – often in the craft and retail sector – does not favour collective work relationships. As Illesy *et al.* demonstrate in this issue, the situation worsens within the vast and well-rooted informal sector and economy. The employers' associations are weakly organised and levels of membership and representation low. Employers have not developed modern industrial relations practices, opting for more informal and paternalistic styles of management.

Makó *et al.* quote data from a statistically representative survey carried out in 2002 in Hungary; confirming that the proportion of works councils, trade unions and collective agreements increases

according to the size of the firm. The collective bargaining coverage rate by company and sectoral level agreements varies, according to recent Hungarian information, from between 39.5% and 44.5%. The Labour Force Survey of the Central Statistical Office reports a lower rate for 2004 (Balogh and Neumann 2005); so considering the trend against the conclusion of company agreements on the one hand, and the extension of a few sectoral agreements to all employees on the other, a coverage rate of some 40% seems to be realistic to date for Hungary. In competitive business, typically manufacturing and private services, only around one-third of employees are covered by wage agreements.

In Bulgaria the number of whole-sector collective agreements stood at 11 (15 prior to 2001) – no agreements had been concluded in the chemicals, foodstuffs or power engineering sectors – and the number of branch level agreements at 57 (41 before 2001, representing a rise of 40%). Collective bargaining coverage in the tourism and catering sector stopped short of SMEs; a collective agreement had been concluded for the sector, but covered only a limited number of employers.

The research undertaken by the SMALL project show that legal rights to representation and institutionalised collective bargaining offers SME employees some protection over terms and conditions. Legal changes to collective bargaining rights, as in France with the introduction of *Lois Aubry* and to a more limited degree in the UK with the introduction of a statutory recognition procedure, have created more favourable conditions for collective bargaining in SMEs. It is in those countries with highly centralised collective bargaining systems that we find higher organisational levels in SMEs. Central bargaining power prevents fragmentary union coverage, yet the case studies suggest that even where SMEs are formally covered by national or sectoral collective agreements there may be no company-level bargaining or union representation. A number of the case studies were characterised by no or limited union membership and more importantly, an absence of workplace union organisation. The five Swedish case studies were exceptional in that they all had trade union members and, with the exception of the Information and Communication Technology (ICT) sector company; those in membership formed the majority of workers. Yet even in Sweden, in the case studies in both the ICT and the dental technician sub-contracting sector, there existed no workplace representation. In the former a number of staff were union members, but workers viewed the role of the union primarily in terms of providing advice. Thus even though national systems with extensive collective bargaining may offer some protection to the pay and working conditions of workers in SMEs, they do not necessarily provide workers with rights to representation at workplace level, and, more importantly, the ability to organise collectively.

European trade unions are facing a crisis and are being forced to review their strategies in order to reverse membership decline. Hoffmann and Waddington (2000) identified two approaches that may address decline: one centred upon a servicing model and another focused upon organisation and mobilisation. From the point of view of workers in SMEs, both approaches need to be combined. Under the 'Ghent System', union instrumentality is high and the cost to workers low, which allows unions to achieve high densities even amongst sections of the labour force that are seen as peripheral. Given the fact that unemployment benefit can be defined as part of the collective wage, and that the social protection system is co-managed by unions and employers' organisations, the fact that benefits are paid by unions is not irrational. The provision of wider services may help unions to engage with unorganised workers, for example legal aid, often on an individual basis over dismissals or discrimination or in cases of injury at work, or financial advice. Such services represent 'capillary' action from outside the firm. The existence of union centres in close proximity to concentrations of workers who are organisationally dispersed may also facilitate relationships between unions and individual workers.

Our fieldwork confirms existing research (Hoffmann and Waddington 2000), in indicating that the capacity to negotiate over working conditions and to promote a collective identity are also relevant in terms of unionisation. The ability collectively to bargain for traditionally organised segments of the labour force also depends upon union capacity to organise those who are working in small firms, in the service sector and new sectors of the economy, as well as more flexible casual workers.

There have been a number of initiatives attempting to extend representational rights to workers in SMEs. In transposing the EU norms about information and consultation, some governments have amended the national laws and labour codes, allowing for the establishment of works councils in enterprises with a minimum number of employees, where no trade unions operate. Belgian unions have called for the threshold of 50 employees to be lowered to 20. The threshold for the establishment of works councils is 100 employees, but unions have demanded that it be lowered to 50. Since 2003 the Confédération des Syndicats Chrétiens (CSC, General Confederation of Christian Trade Unions), the largest trade union confederation, had proposed the creation of a specific structure of social dialogue for SMEs with more than 20 employees. In Italy employers' associations and trade unions have established some bipartite bodies (*enti bilaterali*) for small firms in the craft sector (Leonardi 2005) or in sectors with a high rate of irregular work and mobility (hotels and catering, retail, construction, farming), which provide for social dialogue, territorial pacts and welfare schemes at local level. Similar forms of territorial bargaining may exist in France, although union weakness means coverage is erratic. In Belgium and Italy there have been attempts to introduce regional level bargaining structures, which transfer the powers of workers' representatives in SMEs to regional level, creating representational structures for a number of SMEs in the same industry or region.

Such structures may overcome the limits of traditional Fordist centralisation inside factories as the basis of organisation. The Italian experience of bilateralism provides a high level of representation, both nationally and locally (territorially), because it guarantees minimal social standards, levels of wages and welfare for those sections of the labour force that work discontinuously and/or in small firms. At the level of public policy it seems important to highlight some of the issues developed in the papers published in this issue:

It may be necessary to sustain, through mergers and the mutualisation of risks, the competitive capacities of firms (Palmieri). Some firms are too small to compete in a global economic order, are unable to survive in the context of international competition and do not possess the resources to develop product and process innovation necessary to enable them to export to emerging markets.

To respond to the unrestrained flexibilisation in the labour process and employee relations, it is necessary to renew welfare provision, with the introduction of measures that are more universal, especially for the traditional continental bismarckian welfare systems. The dualisation, casualisation and segmentation of the labour force need to be controlled and therefore a type of social protection, integrating all forms and types of work needs to be developed.

Above all, the findings of the SMALL project suggest the importance of multi-level representation, at regional, sectoral and workplace level, in order to protect the terms and conditions of workers in SMEs, but also to give them rights, not only to representation within the workplace, but also to organise collectively.

## Chapter 2

# The European system of small- and medium-sized enterprises - An economic overview

Stefano Palmieri\*

### Summary

*The aim of this article is to provide a synthetic outline of the presence of small- and medium-sized enterprises (SME) in the manufacturing system of the European Union and thus to encourage debate on their strengths and weaknesses. Over the past decade the European Commission has indicated SMEs as holding a key role in stimulating job creation as well as Europe's relative competitiveness.*

*Those very factors that had always allowed SMEs to promptly respond to the conditions of the market now appear to be restricting their growth and – following the globalisation of markets – even threatening their survival. Questions should be raised on how to overcome the contradiction that considers, on one hand, the SME system as a strategic lever in the pursuing of the Lisbon objectives as recalled by Commissioner Verheugen, and, on the other, as a system that is incapable of providing technological innovation as well as continuing education for the improvement of workers' professional skills.*

### Introduction

Starting with the mercantile revolution of the middle ages, the small handicraft enterprise has held a crucial role in the European continent<sup>1</sup>. In the various stages of the industrial revolution, which developed at different times and ways in various countries, the small-sized handicraft enterprise was joined by medium- and large-sized firms to trigger a process that ultimately remodulated manufacturing systems in various areas of Europe. For most of the 20<sup>th</sup> century – at least until the Seventies – the dominating model was that of the large-sized enterprise (public and private), and it would be only towards the end of the last century that SMEs once again emerged as a reference model. This situation was favoured by a number of factors, among which the crisis of large enterprises in the Seventies<sup>2</sup>, the development of local manufacturing systems (industrial districts and clusters)<sup>3</sup>, the rise of private enterprise in eastern Europe<sup>4</sup>. As the new millennium approached,

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<sup>1</sup> Fernand Braudel noticed that in many European cities starting from the 15<sup>th</sup> century there were numerous small-sized manufacturing concerns (factories that were shops or workshops comprising a master with three or four "boys") that dispersed and faced great difficulties in transporting the goods they manufactured. (Braudel, F., 1982)

<sup>2</sup> The beginning of the Seventies saw the emergence of conditions that undermined the Fordist model based on low flexibility and high production volumes. There was, on one hand, the progressive saturation, segmentation and instability of markets that, combined with contingent phenomena (such as the demise of the Bretton Woods exchange regime, the oil crises of 1973-'74 and 1978), triggered those elements of strong rigidity that prevented the development of competitive strategies based on cost cutting. On the other hand, there was the growing diffusion of flexible technologies and economies that tended to reduce the advantages connected to economies of scale (Crouch, C., et al. 2001, Pag. 76).

<sup>3</sup> "(...) local production systems made up of specialised enterprise networks where "the demarcation between enterprises and environment is very slight", thereby allowing very intense levels of inter-enterprise co-operation to be accomplished. (...) It is possible to note a series of peaks of excellence that encourage flexible specialisation, a characteristic of post-fordist economic systems. This takes the form of a good social diffusion of knowledge, co-operation among the economic subjects and a strong capacity for self-organised work. Local enterprise systems, in these regions, are characterised by the relatively small size of production units and the low intensity of capital investment. This had led the centrality of the work factor as a strategic resource of these areas." (Leonardi, S., Palmieri, S., 2004, Pag.4).



the globalisation of markets and economies seemed to pose new challenges to small- and medium-sized enterprises: on the one hand they no longer seem to be able to respond fully to the new market dynamics, while on the other the successful model seems to be that of industrial districts, which is principally applied to specific sectors, namely information communication technologies, biotech, software, etc.<sup>5</sup> (Cambridge, Helsinki, etc.).

Starting from 2000, the European Commission (EC) gave new impulse to the concept of entrepreneurship by once again placing SMEs at the centre of its strategies aimed at creating jobs and at boosting European competitiveness<sup>6</sup>. In its green paper on entrepreneurship, the EC, while observing the low dynamism of the European manufacturing system compared with that of the United States, suggested the necessity to stimulate those conditions that would lead to the creation and development of small and medium-sized enterprises in the European manufacturing system<sup>7</sup>. On January 1, 2005, Recommendation 2003/361/EC, which on May 6, 2003, replaced Recommendation 96/280/EC, provided a new “administrative” definition of small and medium-sized enterprise. The initiative (Table 1) was in line with the economic changes that had occurred starting 1996 while providing a normative framework that could eliminate, or at least reduce, the irregularities that could arise from the previous definition when applying for domestic or European funding (i.e. structural funds; research and development framework programme). The new definition thus bore in mind the EC’s strategy aimed at boosting employment and competitiveness by putting SME at the heart of its strategy as underlined by a Günter Verheugen (Member of the European Commission - Responsible for Enterprise and Industry): *“Micro, small and medium-sized enterprises are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment. The new SME definition, which entered into force on January 1, 2005, represents a major step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth. This definition has been elaborated after broad consultations with the stakeholders involved which proves that listening to SMEs is a key towards the successful implementation of the Lisbon goals”*. (EC, 2005, Pg. 3).

Considering the increasingly important role of the SME system in the European manufacturing sector, it would be useful to observe the following figures and thus get a clearer picture as to their entity and peculiarities.

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<sup>4</sup> As noticed by Kirov, in post-communist Bulgaria small- and medium-sized enterprises are a relatively new phenomenon. The enforcement in January 1989 of Decree n° 56 marks the beginning of a phase characterised by the massive creation of SMEs (Kirov, V., 2003, pg. 2), while in Hungary: *“The legal conditions of free enterprise were created in Hungary in 1989. As legal and political restrictions were lifted, small businesses sprang up spontaneously. In only four to six years the stratum of small business owners became established, bringing economic transition in this sphere to conclusion. As a consequence, the transformation of the economy was virtually over by the mid-1990s. All subsequent events in the small business sector, for instance, numerical growth, changes in ratio among the various size groups etc., were influenced by market economy and the national economic policy regulations (e.g. taxation, financial support system etc.)”* (Makò, C., Tibor, K., 2003, Pag. 3).

<sup>5</sup> *“While traditional districts in traditional sectors seem to go toward the networked-firm model to survive, new district-like forms develop in some high-tech activities.”* (Crouch, C., et al., 2004, pg. 333.)

<sup>6</sup> The past decade saw several international organisms, among which the OECD and the World Bank, show growing interest for the role that SMEs can play in enhancing entrepreneurship and in driving the economy (OECD: 2001, 2002, 2004, 2005).

<sup>7</sup> *“It is increasingly new and small firms, rather than large ones, that are the major provider of new jobs. Countries exhibiting a greater increase in entrepreneurship rates tended to exhibit greater subsequent decreases in unemployment rates (...). People’s attitudes towards and involvement in entrepreneurship vary widely across the EU Member States, and differences are even greater between regions. On average, the European Union has no lack of business owners. However, people’s inclination towards developing new entrepreneurial initiatives in the European Union could be improved. Compared to the US, there is a less entrepreneurial dynamism in the European Union. Europeans are less involved than Americans in new entrepreneurial initiatives and European business do not grow as much as in the US”*. (EC, 2003, pgs. 6-9).

**Table 1. The new thresholds**

Enterprise category	Headcount (annual work unit)	Annual turnover	Annual balance sheet total
<i>Medium-sized</i>	< 250	= € 50 million in 1996: € 40 million	= 43 million in 1996: 27 million
<i>Small</i>	< 50	= € 10 million in 1996: 7 million	= 10 million in 1996: 5 million
<i>Micro</i>	< 10	= € 2 million previously not defined	= € 2 million previously not defined

Source, EC (2003/361/EC, Art. 2)

## An overview on European small and medium-sized enterprises

In attempting to give an outline of the European SME system in terms of quantity and quality, we will refer to the widely acknowledged statistical definition (EUROSTAT, OECD) according to which belonging to the SME category are those enterprises with a headcount of less than 250 – a category that includes micro-enterprises (staff of 1-9), small-sized enterprises (10-49) and medium-sized enterprises (50-249).

On the basis of the data collected for table 2, we can observe that a feature of the European manufacturing system is the significant presence of small and medium-sized enterprises, which in 2003 represented over 99% of European enterprises<sup>8</sup>. A prominent role is played by the 1-to-9 segment, which gathers 91.5% of European firms<sup>9</sup>. It should be specified that the weight of micro firms is impacted by the significant presence of so-called independent entrepreneurs or self-employed professionals who carry out business without hiring anybody.

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<sup>8</sup> The data developed in this article come from EUROSTAT – Structural Business Statistics (Industry, Construction, Trade and Services). The following sectors were considered: NACE Section: Mining and quarrying (C), Manufacturing (D), Electricity, gas and water supplies (E), Construction (F), Distributive trades (G), Hotels & restaurants (H), Transport, storage & communication (I), Real estate, renting & business activities (K).

<sup>9</sup> For as many as ten Member States (MS) the quota is higher than the European average. Among these, significant quotas were recorded in Poland (96.9%), the Czech Republic (95.3%) and Italy (94.7%). The situation is totally different in those countries where the share of micro enterprises is markedly low with respect to the European average: Estonia (56.7%), Slovenia (63.3%), Lithuania (76.8%) and Ireland (78.6%).

<b>Table 2</b>				
<b>Enterprises share by size-class - Total Economy - 2003 (% val.).</b>				
	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>	<b>&gt;250</b>
<b>EU25</b>	<b>91,5%</b>	<b>7,2%</b>	<b>1,1%</b>	<b>0,2%</b>
BE	92,0%	6,8%	1,0%	0,2%
CZ	95,3%	3,8%	0,7%	0,2%
DK	82,6%	15,2%	1,8%	0,3%
DE	83,0%	13,9%	2,6%	0,6%
EE	56,7%	40,8%	2,2%	0,3%
ES	92,4%	6,7%	0,8%	0,1%
FR	92,5%	6,2%	1,1%	0,2%
IE	78,6%	18,4%	2,6%	0,4%
IT	94,7%	4,7%	0,5%	0,1%
CY	93,2%	5,9%	0,9%	0,1%
LV	82,3%	14,6%	2,7%	0,4%
LT	76,8%	18,9%	3,9%	0,5%
HU	94,9%	4,2%	0,7%	0,2%
NL	88,3%	9,6%	1,8%	0,3%
AT	87,3%	10,7%	1,7%	0,3%
PL	96,9%	1,9%	1,0%	0,2%
PT	92,7%	6,2%	0,9%	0,1%
SI	92,8%	5,6%	1,3%	0,3%
SK	63,4%	27,7%	7,0%	1,9%
FI	85,3%	13,2%	1,3%	0,3%
SE	87,5%	10,6%	1,6%	0,4%
UK	87,1%	10,7%	1,8%	0,4%
BG	90,6%	7,8%	1,5%	0,1%
RO	87,3%	9,6%	2,5%	0,6%
NO	91,7%	7,1%	1,1%	0,2%

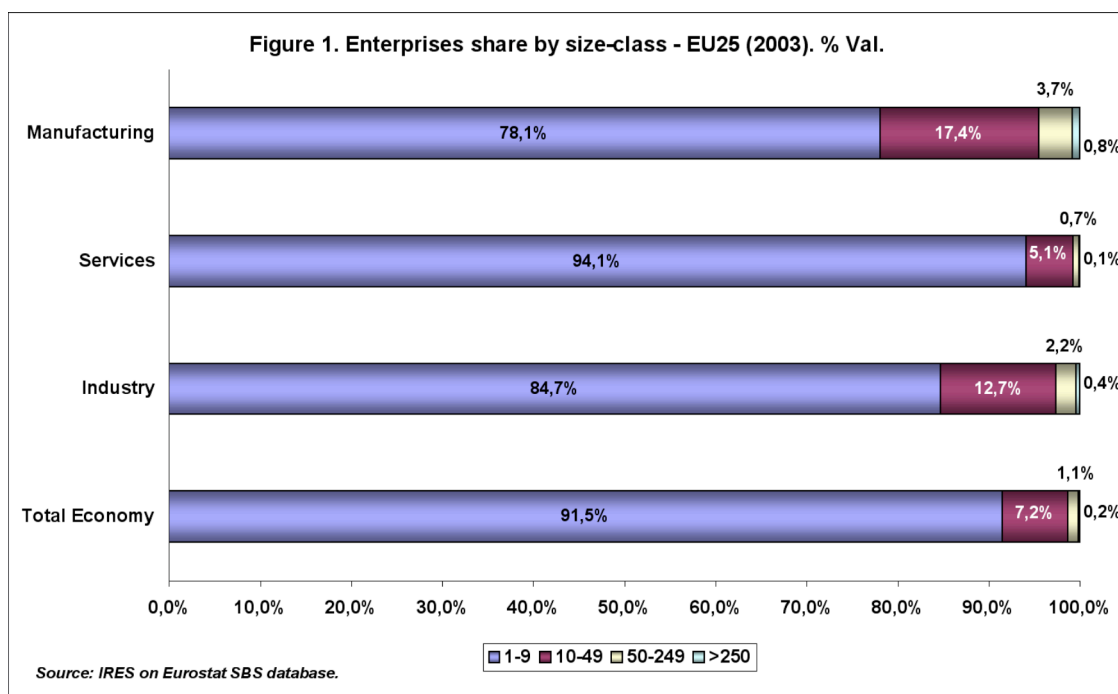
**Fonte: IRES on Eurostat SBS database.**

To give an idea of the role played by the self-employed, it is useful to observe what occurs in the services sector (the only one where it is possible, thanks to the data provided by Eurostat Structural Business Statistics, to calculate the quota of micro enterprises made up exclusively of self-employed workers). In this sector, in fact, approximately 62% of micro enterprises is made up of a single self-employed worker (i.e. by an enterprise that has only one worker: the owner)<sup>10</sup>.

Within the 25 Member States (MS) this component is particularly significant in the Czech Republic (78%), Finland (75%), Hungary (70%), France (69%), Belgium (66%), Denmark and Portugal (65%) and Italy (64%). Thus, in the services sector approximately 58.3% of European enterprises is made up of a single autonomous entrepreneur, 35.8% of enterprises employing from between 2 to 9 workers, 5.1% of enterprises belonging to the 10-49 size class, 0.7% of enterprises belonging to the 50 to 249 size class, while the remaining 0.1% of large firms (=>250 employees).

<sup>10</sup> Out of 9.6 million micro enterprises, as many as 5.9 million are made up of self-employed workers. It is worth mentioning that out of the 5.9 million self-employed workers in the EU services sector, over half are registered in just three countries: Italy with 1.6 million; Spain with 1.0 million and France with 990,000.

We can observe from the graph in figure 1 how the number of European firms is distributed within the four size-classes considered for the European economy as a whole and for the three principal sectors: industry, services and manufacturing. It may be noticed that in industry, particularly in the manufacturing segment, medium and large-sized enterprises tend to gain importance. Compared to a European average of 7.2% as far as small enterprises are concerned, the medium- and large-



sized segment reaches 12.7% in the industrial sector and 17.4% in the manufacturing. Medium-sized firms make up 2.2% of industry and 3.7% of manufacturing (compared to a European average of around 1.1%). As for large firms, their quota is 0.4% in industry and 0.8% in manufacturing, compared to a European average of 0.2%. The situation is exactly the opposite in the services sector where micro enterprises play a dominant role. In this sector, the quota of micro enterprises reaches 94.1% compared to a European average of 91.5%. While observing the significance of small and medium-sized enterprises in the EU, it is useful at this point to highlight, with the help of the figures shown in table 3, the segmental differences in the national distribution of enterprises in the 25 Member States of the EU.

In the manufacturing sector, the countries that record the highest number of micro enterprises are Czech Republic 90.2%, Slovenia 87.4%, Hungary 86.4%, France 82.8% and Italy 82.6%. The number of small-sized enterprises is significant in Finland 55.6%, Ireland 42.3%, Estonia 30.2% and Slovakia 30.0%. As for medium-sized enterprises, the countries where their number is highest are Slovakia 14.4%, Estonia 10.3%, Lithuania 9.3% and Latvia 6.9%. While large firms are mostly located in Slovakia (5.0%), Ireland (3.5%) and Denmark (2.1%).

In the services sector, the quota of micro enterprises is particularly high in Poland (97.6%), Italy (97.0%), Hungary (96.2%), Spain (95.1%) and Portugal (95.0%). Significant quotas of small-sized enterprises are recorded in Slovakia (25.2%), Lithuania (14.2%), Estonia (12.2%) and Ireland (11.0%). The medium-size class reaches 3.9% in Slovakia, 2.0% in Lithuania and 1.8% in Ireland. As to large firms, the highest quota is in Slovakia with 0.7%.

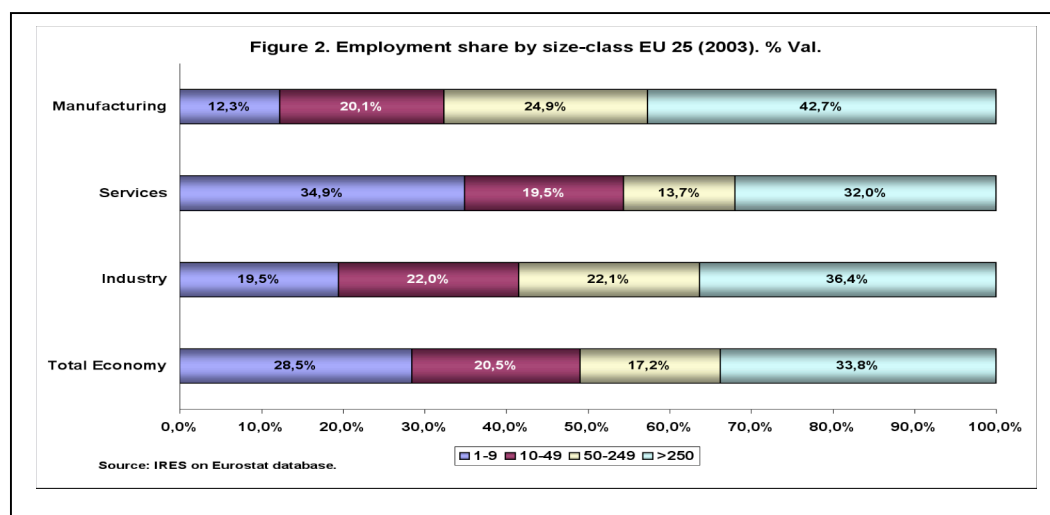
**Table 3**  
Enterprises share by size-class - Manufacturing and Services - EU25 - 2003 (% val.)

Manufacturing					Services				
	1-9	10-49	50-249	>250		1-9	10-49	50-249	>250
<b>EU25</b>	<b>78,1%</b>	<b>17,4%</b>	<b>3,7%</b>	<b>0,8%</b>	<b>EU25</b>	<b>94,1%</b>	<b>5,1%</b>	<b>0,7%</b>	<b>0,1%</b>
BE	79,2%	15,8%	4,0%	1,0%	BE	93,7%	5,5%	0,6%	0,1%
CZ	90,2%	7,1%	2,1%	0,6%	CZ	96,4%	3,2%	0,4%	0,1%
DK	71,7%	20,9%	6,0%	1,4%	DK	88,8%	9,5%	1,5%	0,2%
DE	60,2%	29,7%	8,0%	2,1%	DE	88,0%	10,3%	1,5%	0,3%
EE	58,1%	30,2%	10,3%	1,5%	EE	85,8%	12,5%	1,5%	0,2%
ES	78,0%	18,7%	2,8%	0,5%	ES	95,1%	4,4%	0,5%	0,1%
FR	82,8%	13,2%	3,2%	0,8%	FR	93,7%	5,4%	0,8%	0,2%
IE	39,5%	42,3%	14,7%	3,5%	IE	87,0%	11,0%	1,8%	0,3%
IT	82,6%	15,1%	2,0%	0,3%	IT	97,0%	2,7%	0,3%	0,0%
CY	88,7%	9,8%	1,3%	0,2%	CY	95,0%	4,1%	0,8%	0,1%
LV	68,5%	23,3%	6,9%	1,4%	LV	86,3%	11,9%	1,6%	0,2%
LT	59,6%	29,4%	9,3%	1,6%	LT	83,6%	14,2%	2,0%	0,1%
HU	86,2%	10,2%	2,8%	0,8%	HU	96,2%	3,3%	0,4%	0,1%
NL	74,5%	19,1%	5,3%	1,1%	NL	89,9%	8,5%	1,4%	0,3%
AT	72,5%	20,6%	5,3%	1,5%	AT	90,0%	8,8%	1,0%	0,2%
PT	79,8%	16,3%	3,5%	0,4%	PL	97,6%	1,9%	0,4%	0,1%
SI	87,4%	8,3%	3,3%	1,1%	PT	95,0%	4,4%	0,5%	0,1%
SK	50,6%	30,0%	14,4%	5,0%	SI	94,7%	4,6%	0,6%	0,1%
FI	39,8%	55,6%	3,7%	1,0%	SK	70,2%	25,2%	3,9%	0,7%
BG	70,8%	21,9%	7,3%	0,0%	FI	94,0%	5,0%	0,8%	0,2%
RO	69,7%	19,5%	8,2%	2,5%	SE	89,0%	9,3%	1,4%	0,3%
NO	60,5%	30,1%	7,7%	1,6%	UK	88,4%	9,9%	1,3%	0,3%
					BG	94,2%	5,1%	0,6%	0,1%
					RO	91,4%	7,4%	1,1%	0,1%
					NO	92,7%	6,4%	0,8%	0,1%

Fonte: IRES on Eurostat SBS database.

We may observe that the entry of the ten new Member States has produced in the EU a further size structure polarisation in European manufacturing. Prior to the EU's enlargement to 25, the presence of SMEs was particularly significant in southern Europe. In 2002, Eurostat recorded as a series of indicators (number of enterprises, jobs and added value) for each of the four size-classes, confirming " ... the importance of micro enterprises in the southern Member States, with Italy, Portugal and Spain appearing among the first four countries in the ranking for each of the figures (which are ranked according to the importance of micro enterprises)." (Eurostat, 2002, pg. 18)<sup>11</sup>. The enlargement process highlighted, on one hand, a group of countries that presented a significant presence of micro and small-sized enterprises (among which the southern European members now alongside new members Poland, Hungary and Czech Republic), and, on the other hand, a group of countries that presented a more balanced distribution of their manufacturing system for each size-class (Netherlands, Austria, United Kingdom, Germany, Denmark, Ireland, plus Slovakia, Lithuania and Estonia).

After having provided an overview of the distribution of enterprises in the size-classes considered, it is necessary to focus on the employment distribution within the same size-classes. We would



<sup>11</sup> It should be noticed that alongside southern European countries, interesting figures were also recorded in two Scandinavian countries: Sweden and Finland. On the basis of figures released for 2000, there was a density of 40 micro enterprises for each inhabitant in Italy, Portugal and Sweden, and of between 30 and 40 micro enterprises in Belgium, Finland, France and Spain. EUROSTAT, 2002.

notice that while the European SME system is very significant in terms of number of enterprises, its role in terms of employment is less significant.

The graph in Figure 2 shows that in terms of jobs, the micro and small-sized class employ slightly under half of the total employment (49.0%). This quota increases to 54.0% in the services segment, while decreasing to 41.5% in industry and to 32.4% in manufacturing. Average European employment level in medium-sized enterprises was 17.2%, declining to 13.7% in the services sector while rising to 22.1% in industry and to 24.9% in manufacturing. As for large firms, European average employment level was 33.8%, decreasing to 32.0% in the services sector and rising to 36.4% in industry and to 42.7% in manufacturing.

**Table 4**  
**Employment share by size-class - Manufacturing and Services EU25 - 2003 (% Val.).**

Manufacturing					Services				
	1-9	10-49	50-249	>250		1-9	10-49	50-249	>250
<b>EU25</b>	<b>12,3%</b>	<b>20,1%</b>	<b>24,9%</b>	<b>42,7%</b>	<b>EU25</b>	<b>34,9%</b>	<b>19,5%</b>	<b>13,7%</b>	<b>32,0%</b>
BE	11,1%	19,6%	24,2%	45,1%	BE	34,9%	21,5%	12,1%	31,6%
CZ	15,8%	16,4%	25,3%	42,5%	CZ	45,2%	19,7%	12,1%	23,0%
DK	7,5%	19,0%	26,4%	47,0%	DK	22,5%	25,3%	19,7%	32,5%
DE	6,7%	15,8%	23,4%	54,1%	DE	25,4%	23,4%	16,4%	34,8%
EE	8,3%	24,4%	36,9%	30,4%	EE	51,6%	48,4%	0,0%	0,0%
ES	18,7%	31,9%	23,2%	26,1%	ES	45,6%	20,0%	11,6%	22,8%
FR	12,1%	18,9%	22,1%	46,9%	FR	25,5%	20,1%	15,3%	39,1%
IE	4,5%	19,9%	32,0%	43,6%	IE	29,6%	24,2%	17,9%	28,3%
IT	25,3%	31,5%	21,0%	22,2%	IT	57,3%	15,5%	8,6%	18,6%
CY	34,6%	31,9%	21,3%	12,2%	LV	29,1%	29,2%	20,4%	21,3%
LV	8,0%	22,8%	34,0%	35,2%	LT	28,4%	30,7%	20,0%	20,9%
LT	6,9%	21,4%	32,1%	39,6%	HU	48,5%	18,3%	11,7%	21,5%
HU	14,0%	17,3%	24,3%	44,4%	MT	57,3%	18,9%	23,8%	0,0%
NL	15,0%	21,4%	28,2%	35,5%	NL	31,8%	19,4%	16,1%	32,7%
AT	10,7%	18,8%	26,9%	43,6%	AT	32,4%	23,6%	14,9%	29,2%
PT	21,6%	28,5%	29,1%	20,7%	PL	55,8%	11,0%	12,0%	21,3%
SI	13,0%	12,6%	26,0%	48,4%	PT	48,2%	19,5%	11,8%	20,5%
SK	4,5%	9,7%	25,6%	60,3%	SI	39,9%	19,7%	14,7%	25,7%
FI	7,9%	15,9%	22,8%	53,4%	SK	20,3%	20,4%	18,2%	41,1%
SE	11,2%	15,0%	20,5%	53,3%	FI	28,3%	19,0%	16,1%	36,5%
UK	10,5%	19,6%	26,0%	43,9%	SE	29,8%	22,6%	15,8%	31,7%
BG	9,8%	19,5%	31,9%	38,7%	UK	20,7%	16,9%	12,6%	49,8%
RO	5,4%	12,7%	26,0%	55,9%	BG	48,8%	21,1%	11,8%	18,3%
NO	9,0%	22,8%	28,3%	39,9%	RO	32,8%	23,6%	17,9%	25,8%

**Fonte: IRES on Eurostat SBS database.**

With the help of table 4 we can observe how employment is distributed in each of the four size-classes in the manufacturing and services sector for each EU member.

In the manufacturing sector, significant employment quotas area continue to be absorbed by large firms in Slovakia (60.3%), Germany (54.1%), Finland (53.4%), Sweden (53.3%)<sup>12</sup>. In a number of southern EU countries – namely Italy, Portugal and Spain – the large-sized class does not appear to be the single largest segment in terms of employment. These countries, in fact, present relatively low job absorption quotas (Spain 26.1%, Italy 22.2%, Portugal 20.7%) if compared to the remaining countries.

As for the services sector in the large majority of the European countries examined, employment is concentrated in the micro enterprise segment. For countries like Italy (57.3%), Estonia (51.6%), Poland (55.8%) and Malta (57.3%) more than half of the sector's employment tends to concentrate in this size-class. In addition to these countries, there are several more in which the micro

<sup>12</sup> This group of countries is expected to include a new member in the coming years: Romania with a quota of 55.9%.

enterprise tertiary is just as significant: Portugal (48.2%), Czech Republic (45.2%), Spain (45.6%), Hungary (48.5%), Bulgaria (48.8%). The services sector also presents a group of countries in which employment characteristics are completely different. The countries in this group in fact record significant occupational levels in the large-sized segment: United Kingdom (49.8%); Slovakia (41.1%); France (39.1%); Finland (36.5%); Germany (34.8%); Netherlands (32.7%); Denmark (32.5%).

After having outlined the occupational incidence of Europe's manufacturing system in terms of numbers and job absorption, we can summarise how the size composition of a manufacturing system – given by the distribution of enterprises in micro, small, medium and large – is strongly impacted by that specific country's manufacturing specialisation. In countries that present

**Table 5**  
**Enterprise size and economy specialisation: 2001-2003.**

	<b>Occupied persons per enterprises: INDUSTRY</b>	<b>Occupied persons per enterprises: SERVICES</b>	<b>Highest value added specialisation ratios (relative to the EU25 average) within the industrial economy</b>	<b>Highest value added specialisation ratios (relative to the EU25 average) within the non-financial services economy</b>
<b>BE</b>	9,9	5,0	Chemicals (NACE 24) Recycling (NACE 37) Textiles (NACE 17)	Land transport (NACE 60) Wholesale trade (NACE 51) Renting (NACE 71)
<b>FR</b>	9,0	5,5	Recycling (NACE 37) Office machinery and computers (NACE 30) Electricity, gas, steam and hot water supply (NACE 40)	Renting (NACE 71) Land transport (NACE 60) Post and telecommunications (NACE 64)
<b>IT</b>	6,1	3,0	Leather (NACE 19) Clothing (NACE 18) Textiles (NACE 17)	Hotels and Restaurants (NACE 55) Land transport (NACE 60) Post and telecommunications (NACE 64)
<b>HU</b>	8,3	3,3	Coke, refined petroleum products, nuclear fuels (NACE 23) Radio TV and communication equipment (NACE 32) Electrical machinery and apparatus (NACE 31)	Land transport (NACE 60) Post and telecommunications (NACE 64) Motor trades (NACE 50)
<b>PT</b>	6,0	4,0	Clothing (NACE 18) Leather (NACE 19) Textiles (NACE 17)	Air transport (NACE 62) Wholesale trade (NACE 51) Motor trades (NACE 50)
<b>SE</b>	4,8	15,9	Mining of metal ores (NACE 13) Pulp and paper (NACE 21) Wood (NACE 20)	Real estate (NACE 70) Water transport (NACE 61) Computer services (NACE 72)
<b>UK</b>	14,8	10,5	Extraction of crude petroleum and natural gas (NACE 11) Other transport equipment (NACE 35) Office machinery and computers (NACE 30)	Air transport (NACE 62) Research and development (NACE 73) Computer services (NACE 72)

**Source: IRES on Eurostat SBS database and European Business Facts and Figures (2005).**

specialisations in those sectors – industrial (mining and quarrying, electricity, gas and water supplies), manufacturing (chemicals, fuel, machinery and equipment, transport equipment) or services (air and water transports, communication services, banking) – where the large scale production of an item or the providing of a service dominates, there will be a significant presence of large firms. A totally opposite picture arises in those countries where specialisation is above all in manufacturing (textiles, clothing, leather) and in the tertiary (trade, hotels and restaurants, personal services) where small scale production features a strong presence of smaller-sized enterprises (micro, small and medium). The data collected in table 5 for a selected group of countries tend to highlight the existing connection between manufacturing and size-class of enterprises.

### **Size of enterprise and performance**

After having observed how SMEs play a key role in the European manufacturing system, it would now be useful to understand the impact of size on the competitive performances of the different manufacturing systems.

An aspect connected to the size of the productive structure of a country is represented by the productivity of the system itself. With the aid of the data given in table 6 we will attempt to show how productivity in European Union countries varies as enterprise sizes change. A first productivity indicator may be *gross value added per person employed* (known also with the term *apparent labour productivity*). For the countries examined, this indicator underlines a growth that is strictly connected to the growth in the size of the enterprise. This product indicator is defined as “apparent” for it does not take into account two factors that should be considered when examining existing productivity differentials at national level and in terms of size: labour cost per employee, or unit labour cost, including wages and welfare costs (an indicator that tends to grow in medium-size class); and the share of employees in persons employed (a key indicator in those firms where the share of self employees or family member workers is particularly high). It is in view of the importance of these two factors within a manufacturing system that it is possible to calculate the wage adjusted labour productivity, which is the outcome of labour productivity, net of the employee factor.

The data given in table 6 show that generally speaking large enterprises (employing 250 people or more), while reporting higher average labour costs are more productive than micro and small enterprises (among the countries surveyed, the productivity levels reached by Ireland’s large-sized firm should be mentioned). There are, however, some exceptions to this general rule: in Belgium, highest productivity is achieved by enterprises employing between 10-19 people; in Germany and Estonia, productivity is highest in medium-sized enterprises (50-249 employees); in Latvia, productivity in all size-classes is higher than that in large firms; in Slovakia, productivity is high not only on large firms but also in micro enterprises and in those employing between 10-19 people.



Table 6 SME's competitiveness indicators in the manufacturing sector: 2003																					
Wage adjusted labour productivity in the manufacturing sector, broken down by size-class (% val.)																					
	BE	CZ	DK	DE	EE	ES	FR	IE	IT	LV	LT	HU	NL	AT	PT	SI	SK	FI	SE	UK	BG
Total	144.0	147.3	139.3	124.6	159.8	146.4	128.2	443.7	114.5	210.5	161.0	188.0	151.5	143.3	148.1	141.8	178.3	171.7	146.9	162.8	153.6
1-9	75.2	28.8	108.7	97.1	136.9	91.3	97.1	123.9	57.6	207.5	106.7	98.0	79.2	107.1	97.5	82.6	183.1	129.8	105.8	177.6	90.2
10-19	210.3	134.2	126.3	122.6	153.1	133.6	120.2	131.1	124.7	299.7	152.4	158.0	145.9	143.2	131.8	154.4	189.9	114.4	131.6	152.7	157.5
20-49	138.8	146.3	129.6	127.6	155.7	147.8	124.4	161.4	139.8	271.7	170.1	164.0	147.1	141.5	143.0	146.6	170.2	134.4	131.6	152.7	160.2
50-249	146.8	163.4	131.7	131.4	170.1	157.3	127.6	246.2	148.9	221.6	157.7	164.5	154.3	143.0	150.9	136.7	152.7	153.2	139.6	148.5	164.0
=>250	158.0	197.7	152.1	127.2	157.7	177.2	138.1	683.1	148.8	193.9	176.7	231.4	184.7	155.9	192.2	160.1	183.6	195.5	161.1	172.1	..
Gross value added per person employed (apparent labour productivity) (thousand EUR)																					
	BE	CZ	DK	DE	EE	ES	FR	IE	IT	LV	LT	HU	NL	AT	PT	SI	SK	FI	SE	UK	BG
Total	72.3	13.7	59.2	56.5	10.0	42.9	52.3	167.9	42.3	7.9	6.7	16.5	67.9	60.7	20.7	22.6	10.9	69.2	..	..	3.4
1-9	32.3	7.1	51.7	27.8	6.1	22.8	35.6	36.6	24.2	4.0	2.6	5.8	33.3	37.1	10.6	16.0	9.1	46.0	33.5	48.5	1.8
10-19	71.0	9.7	46.1	32.6	7.4	28.7	39.1	36.7	33.7	6.0	3.9	8.3	51.8	41.7	14.0	21.0	9.6	45.4	48.1	45.3	2.0
20-49	51.6	10.9	50.0	42.7	8.6	34.7	41.8	48.8	41.6	6.8	4.8	9.9	53.3	46.4	16.6	20.9	9.2	46.3	48.1	45.3	2.3
50-249	65.0	12.8	54.0	50.4	12.1	45.0	45.3	89.7	51.3	8.2	6.0	13.2	63.7	57.7	21.0	20.1	8.4	55.5	56.4	50.8	2.8
=>250	92.2	17.9	65.4	68.2	9.8	68.3	64.5	294.7	60.8	9.5	9.2	24.6	94.9	75.2	37.9	26.1	12.3	85.5	73.4	72.2	..
Labour cost per employee (Unit labour cost) (thousand EUR)																					
	BE	CZ	DK	DE	EE	ES	FR	IE	IT	LV	LT	HU	NL	AT	PT	SI	SK	FI	SE	UK	BG
Total	47.3	8.1	41.0	44.3	6.2	27.7	39.9	37.5	30.8	3.7	4.1	8.4	43.3	40.8	13.4	15.2	6.1	39.7	41.9	36.5	2.1
1-9	25.5	7.4	37.0	21.5	4.1	18.6	30.2	26.5	20.2	1.6	2.0	4.2	27.4	24.5	9.0	12.7	4.8	32.4	31.7	27.3	1.2
10-19	31.4	6.5	36.0	25.1	4.8	20.9	32.3	27.1	23.3	2.0	2.5	5.2	36.4	27.7	10.4	13.3	5.0	34.8	36.6	29.7	1.2
20-49	36.1	7.1	38.4	33.0	5.5	23.2	33.6	29.9	28.1	2.5	2.8	6.0	37.1	32.4	11.5	14.3	5.4	34.3	36.6	29.7	1.4
50-249	43.8	7.7	41.0	38.2	7.1	28.5	35.5	36.4	33.9	3.7	3.8	8.0	42.1	40.3	13.9	14.7	5.5	36.2	40.4	34.2	1.8
=>250	57.7	8.9	43.0	53.4	6.2	38.4	46.7	43.1	40.2	4.9	5.2	10.6	52.4	48.2	19.7	16.3	6.7	43.7	45.5	41.9	..
Share of employees in persons employed (% val.)																					
	BE	CZ	DK	DE	EE	ES	FR	IE	IT	LV	LT	HU	NL	AT	PT	SI	SK	FI	SE	UK	BG
Total	94.2	87.1	98.1	97.7	99.1	94.5	97.8	99.1	83.4	98.6	98.5	95.7	96.6	96.3	95.9	95.4	99.8	98.5	..	..	94.9
1-9	59.4	30.0	77.8	75.1	92.0	74.5	82.4	89.7	48.1	83.0	82.1	71.0	65.2	70.7	82.8	65.6	96.6	91.4	..	..	60.1
10-19	93.0	89.9	98.6	94.4	99.3	97.3	99.3	96.8	86.2	99.9	97.7	99.0	102.5	95.1	97.9	97.8	98.9	87.7	..	..	94.5
20-49	97.1	95.3	99.5	98.6	99.6	98.8	100.0	98.9	94.4	99.9	99.2	99.4	102.4	98.8	99.1	99.6	99.9	99.6	..	..	97.5
50-249	98.9	98.3	100.0	99.6	99.8	99.6	100.0	99.9	98.4	100.0	99.9	99.7	102.0	99.9	99.9	100.0	100.0	99.9	..	..	99.0
=>250	99.5	99.4	100.0	100.0	100.0	99.5	100.0	100.0	99.8	100.0	100.0	100.0	101.9	100.0	100.0	100.0	100.0	100.0	..	..	..

Note: For Sweden and UK data reference year 2000.  
Source: IRES on Eurostat SBS database.

Another performance indicator of the manufacturing system is represented by the *gross operating rate* calculated for each size class<sup>13</sup>. The gross operating rate is what remains to the enterprise after having deducted from turnover expenses for the acquisition of intermediate items and services, stock variations and labour cost. It represents, in other words, the profitability that allows an enterprise to eventually make a profit after having covered amortisements, financial charges, taxes and extraordinary expenses. From data in table 7 we can observe how gross operative rates in the countries surveyed tend to show significant differences depending on size classes. In most member states gross operating rates in micro enterprises (1-9 employees) and generally in very small firms (10-19 employees) is higher than those recorded in firms belonging to other size classes. In this context, a key factor that comes into play is the low cost of labour sustained by firms belonging to these two size classes. The situation is somewhat different in those countries where large firms record particularly high profitability, such as Ireland, or showing above-average rates, such as Denmark, France, Hungary, Portugal, Slovenia, Finland and Sweden.

Table 7 Gross operating rate (% val.) - 2003 Manufacturing																						
	BE	CZ	DK	DE	EE	ES	FR	IE	IT	CY	LV	LT	HU	NL	AT	PT	SI	SK	FI	SE	UK	
Total	9.5	12.3	10.2	6.4	10.3	10.3	5.3	28.7	9.8	11.2	17.0	9.6	11.1	9.3	11.5	10.1	10.6	8.1	11.8	9.7	12.7	7.3
1-9	12.6	24.1	15.7	16.3	8.6	12.7	4.4	11.3	19.7	11.5	18.3	7.3	8.8	16.7	24.8	9.6	14.6	12.0	13.4	11.5	23.1	11.2
10-19	21.4	11.8	9.5	11.3	8.8	9.5	5.9	8.4	12.6	12.5	19.6	10.0	8.8	9.3	15.8	8.7	11.8	13.5	11.2	8.2	15.5	7.9
20-49	8.1	9.5	8.9	8.6	8.6	10.2	4.5	12.8	9.9	13.3	18.1	11.4	9.7	7.1	11.7	9.0	9.9	7.7	8.3	8.2	15.5	8.1
50-249	8.2	11.1	8.2	7.7	10.8	10.2	5.4	18.9	8.6	10.9	16.1	9.8	10.4	8.4	9.3	9.1	8.3	7.0	10.9	8.8	11.1	5.0
=>250	9.0	12.0	10.8	5.5	11.3	10.2	5.6	33.0	7.0	7.6	17.0	9.3	11.7	9.5	11.3	11.3	10.9	8.1	12.3	9.9	11.7	NA

Note: For Sweden and UK data reference year 2000.  
Gross operating rate is defined as (value added - personnel cost)/turnover\*100.  
Source: IRES on Eurostat SBS database.

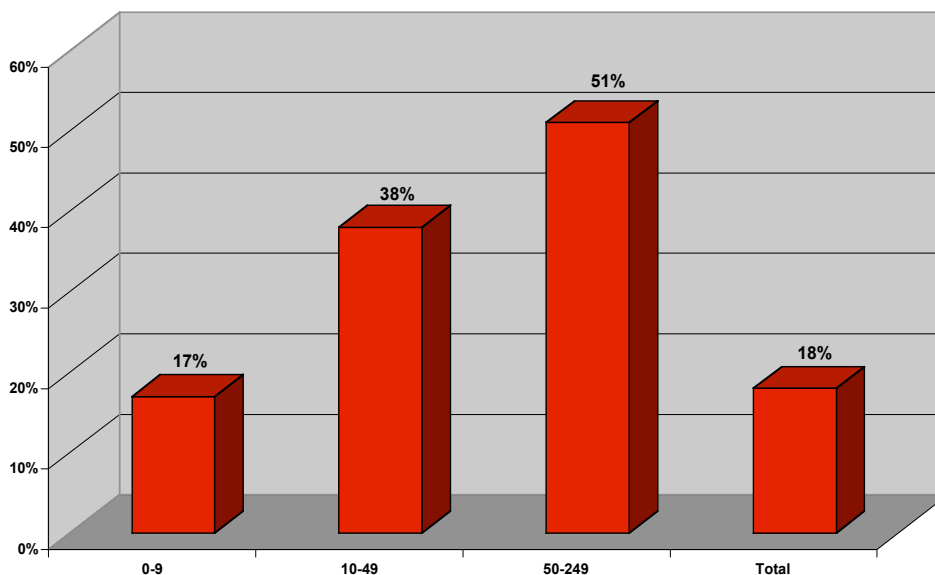
The analysis of these two indicators (wage adjusted labour productivity and gross operating rate) thus shows within enterprise size-classes a degree of discrepancy in productivity results. In only six countries (Estonia, France, Ireland, Hungary, Slovakia and Finland) there is a direct correspondence between productivity and profitability. In four countries (Germany, Lithuania, Portugal and Sweden) this correspondence is recorded in certain size-classes and not in others, while there is no correspondence whatsoever in the other eleven countries. It should be noted, for example, that in eleven countries the micro enterprise segment while recording low productivity, profitability is

<sup>13</sup> Gross operating margin is calculated by including in the numerator the difference between added value and cost of staff, and in the denominator the turnover, all expressed in percentage terms.

nevertheless high<sup>14</sup>. It does appear that in these countries the smaller-sized enterprises are in a position to achieve profitability by relying on other factors that are not less important than productivity such as lower salaries, longer working hours, below-standard working conditions, etc.<sup>15</sup>. To fully understand the impact of several factors – such as pay and working hours – on the enterprise size we can utilise a recent study conducted the Dublin-based European Foundation (EF, 2005). As for pay levels, we can observe how these tend to be generally lower in micro enterprises and to grow as enterprise size increases. In Italy, pay levels in micro enterprises are equal to 62% of national average, reaching 73% in Ireland; 80% in France, Belgium and United Kingdom and 94% in the Netherlands. In the countries surveyed, only in Slovakia SME pay levels are higher than the national average (+7%), also in view of the fact that salaries in large state firms continue to be low. SME pay levels in Europe continue to be low because they principally operate in textiles, clothing, footwear, hotels, restaurants, sectors in which low wages are a feature (EF, 2006). Working hours, too, depend on the size of the enterprises. In countries like Greece, Poland and Slovenia, working hours are longer in SMEs than in large firms. This may be due to the specific characteristic of local SMEs, such as, for example, the fact that they are micro enterprises that are generally family run or provide services to the hotel, restaurant and catering business (HORECA). A similar situation of longer working hours in SMEs than in large firms was nevertheless also observed in Belgium, Germany, France and, for certain sectors (restaurants and catering), in the United Kingdom.

Another characteristic that must be analysed is how the propensity to export is impacted by the size of the enterprises involved. With the help of the graph in figure 3 giving the result of a survey carried out by the European Network for SME Research (ENSR) involving a sample of 7,837 small- and medium-sized enterprises from 19 European countries, it is possible to observe that only 18% of SMEs is present in international markets<sup>16</sup>. Even within the SME class, internationalisation

**Figure 3. Internationalisation: export in 2002 (% of SMEs) by size.**



Source: weighted data ENSR Survey 2003 among 7837 SMEs in 19 European countries.

<sup>14</sup> This takes place in Belgium, Czech Republic, Denmark, Estonia, Italia, Lithuania, Netherlands, Austria, Slovenia, United Kingdom and Bulgaria.

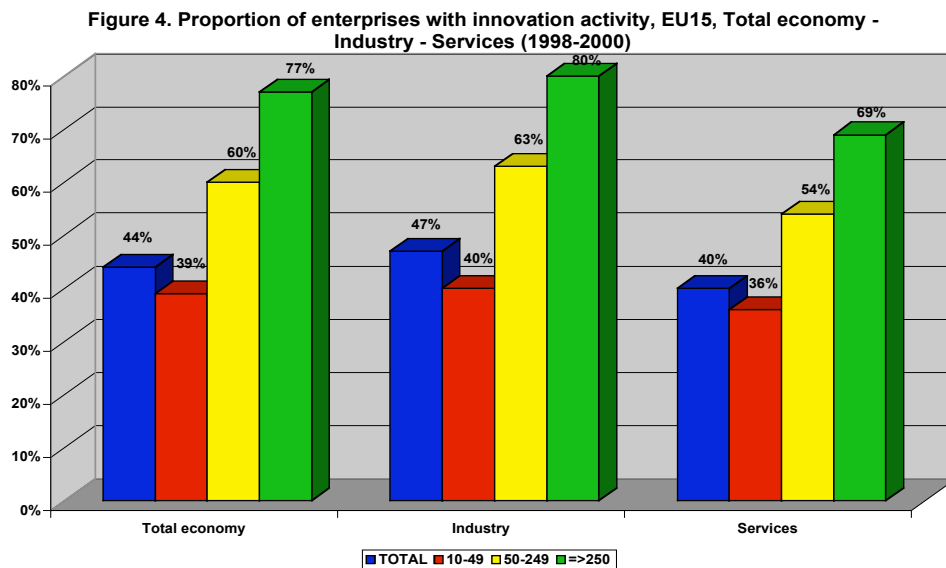
<sup>15</sup> Thanks above all to the accessibility of EUROSTAT data, we hope to be able to further develop this line of investigation that connects productivity and profitability to enterprise size.

<sup>16</sup> The quota reaches 31% in Austria, Denmark and Germany; 24% in Belgium, Ireland and Sweden ; 19% in Italy (EC, 2004 [a]).

depends on the dynamics produced by the size of the enterprise. In fact, only 17% of micro enterprises exports in international markets, a percentage that rises to 38% for small-sized enterprises (10-49), reaching 51% for medium-sized enterprises. As a proportion of total turnover, business from exports in just under half of the SMEs (48%) ranges from between 1% to 10%<sup>17</sup>, while the opposite occurs in those 18% of enterprises mentioned earlier, where earnings from exports amount to over 50% of their turnover<sup>18</sup>.

## Innovation and training in European SMEs

In the current phase of the economy characterised by increasing globalisation, SMEs are face with the objective difficulty of entering and staying in the global markets. To understand some of the reasons behind these difficulties, it would be interesting to investigate how European SMEs tackle the two issues that are crucial for business internationalisation: the extent and degree in the utilisation of information technology (IT) and the availability of human capital. As we will see, the Lisbon process launched by the European Council in March 2000 had included in its first draft the innovation technology and the human capital as core issues in its strategic approach. Technological innovation improves the physical capital of economic systems (via product and production process innovation). In the current phase, the diffusion of IT entails production process reorganisation and human capital re-adaptation, which can be achieved by encouraging education and life-long learning and thus stimulate the economy in terms of higher productivity and competitiveness.



Source: CIS3 Eurostat

As for the degree of technological innovation, data contained in figure 4 confirm that generally speaking the use of innovative technology spreads with size and is more extensive in industry than in the services sector<sup>19</sup>. Compared to a European 44% average of enterprises with innovation activity (in terms of product and/or processes), the percentage decreases to 39% for SMEs, while

<sup>17</sup> For some Member States, the quota is significantly high: Ireland (65%); Sweden (61%); Austria (56%) ; Greece (55%) (EC, 2004 [a]).

<sup>18</sup> More than half of turnover is generated by exports in 23% of exporters in Greece and Denmark; 21% in Italy and United Kingdom; and 19% in the Netherlands (EC, 2004 [a]).

<sup>19</sup> These data are from the Third Community Innovation Survey (CIS3) of EUROSTAT. Small-sized enterprises in this survey exclusively include those employing a staff of between 10 and 49. Micro enterprises are thus not considered in the research.

standing at respectively 60% e al 77% for medium- and large-sized enterprises. As mentioned earlier, the quota of enterprises with innovation activity in industry is higher (47%) than that in the services sector, although in both sectors the quota increases as the enterprises get bigger.

The data in table 8 provides some interesting indications. In the industry sector, the quota of small-sized enterprises that carry out innovation activity is just above half the sample considered (respectively 52.8% and 51.0%). The number of enterprises with innovation activity is lower everywhere else. In this context, Greece stands out for the fact that only one enterprise out four carries out innovation activity. The situation changes radically when medium- and large-sized enterprises are observed, for, in the first segment, in nine countries more than half of the enterprises surveyed carry out innovation activity, while in the second segment (with the exception of Greece), in all the remaining countries the number of enterprises with innovation activity is above fifty percent of the sample under consideration. In the services sector, the number of countries that record a quota of enterprises with innovation activity that is higher than the European average are seven in the SME segment, six in the medium and 11 in the large-size class.

<b>Total economy</b>															
	BE	DK	DE	GR	ES	FR	IT	LU	NL	AT	PT	FI	SE	IS	NO
<b>Total</b>	50,0%	41,7%	53,6%	27,3%	31,7%	35,7%	34,6%	44,7%	42,3%	43,0%	44,3%	40,5%	39,6%	51,2%	32,5%
<b>10-49</b>	44,9%	37,4%	46,8%	25,7%	28,7%	26,5%	31,6%	39,2%	36,6%	35,1%	38,2%	35,9%	36,2%	47,4%	29,5%
<b>50-249</b>	64,2%	52,7%	66,8%	30,5%	43,0%	46,3%	53,1%	51,9%	54,9%	61,4%	64,2%	49,3%	48,7%	66,3%	40,0%
<b>=&gt;250</b>	75,9%	65,2%	80,3%	44,4%	66,9%	72,2%	68,3%	91,1%	72,9%	85,4%	73,4%	65,9%	63,3%	69,9%	59,2%
<b>Industry</b>															
	BE	DK	DE	GR	ES	FR	IT	LU	NL	AT	PT	FI	SE	IS	NO
<b>Total</b>	58,5%	49,5%	59,7%	26,3%	36,6%	40,2%	38,1%	46,9%	51,1%	43,9%	42,4%	42,9%	39,5%	49,8%	35,4%
<b>10-49</b>	52,8%	43,6%	51,0%	24,8%	33,4%	28,5%	35,1%	34,8%	43,0%	31,3%	35,4%	37,7%	33,8%	47,0%	30,6%
<b>50-249</b>	69,7%	62,2%	68,1%	28,9%	48,1%	48,7%	57,3%	62,9%	65,8%	67,4%	62,0%	47,7%	51,1%	61,4%	44,5%
<b>=&gt;250</b>	82,0%	76,5%	83,2%	45,0%	72,6%	73,7%	73,9%	96,5%	81,0%	91,0%	72,4%	78,9%	69,0%	63,2%	69,6%
<b>Services</b>															
	BE	DK	DE	GR	ES	FR	IT	LU	NL	AT	PT	FI	SE	IS	NO
<b>Total</b>	42,3%	34,1%	48,8%	31,9%	23,2%	28,9%	24,1%	44,0%	35,7%	42,0%	48,7%	37,3%	39,7%	53,0%	30,1%
<b>10-49</b>	38,8%	31,8%	44,4%	29,9%	20,9%	24,5%	21,3%	40,6%	32,3%	38,5%	44,0%	33,8%	38,2%	47,9%	28,7%
<b>50-249</b>	56,8%	40,9%	64,7%	40,5%	32,5%	38,9%	40,3%	48,7%	44,3%	53,9%	72,2%	52,2%	45,1%	72,2%	34,0%
<b>=&gt;250</b>	64,7%	49,5%	74,5%	41,5%	56,1%	67,2%	57,2%	85,5%	62,1%	68,5%	76,9%	37,9%	53,9%	78,6%	45,9%

Source: Third Community Innovation Survey (CIS3) Eurostat.

The data so far outlined indicate that SMEs have great difficulties in implementing and spreading technological innovation in terms of product and/or processes. It does appear that what links innovation activity to size is the fact that medium and especially large enterprises more frequently carry out in-house research. In countries like Germany and France, where there is the highest number of large firms carrying out innovation activity, we can observe that the cost allocated to R&D is around 14.6% and 11.4% in terms of

**Table 9. Proportion of enterprises with innovation activity having received public financial support for innovation activities. EU - 1998-2000 (%)**

	Public funding	Local or regional authorities	Central government	The European Union	EU's 4th or 5th framework programme
Total	29	15	15	7	4
Small enterprises	27	15	12	5	3
Medium-sized enterprises	31	14	18	8	5
Large enterprises	48	19	33	20	15

Source: EUROSTAT (2004).

added value, absorbing 6.4% and 6.2% of the workforce (data relating to the manufacturing sector – EUROSTAT SBS database). Another factor that SMEs face in activating new technology in manufacturing processes is the difficulty in accessing funding. Table 9 shows the quota of enterprises that receive, in each size class, public funding for their innovation activity. We can observe that large enterprises are the principal beneficiaries of public funding. The situation, though, appears to level out at a local level, where the number of enterprises with innovation activity having received public financial support for innovation activities in the SME and large-sized classes is almost similar.

**Table 10. Enterprises with CVT courses in the EU:**

Enterprises with CVT courses as % of all enterprises, by size class					
	Total	10-19	20-49	50-249	=>250
EU25	53	40	57	74	91
EU15	54	41	58	75	93
BE	48	40	46	77	95
CZ	61	48	60	79	95
DK	88	86	86	94	100
DE	67	57	69	80	93
EE	47	37	48	72	93
GR	9	3	8	27	58
ES	28	20	28	49	80
FR	71	51	71	92	97
IE	56	40	71	80	95
IT	23	16	29	46	79
LV	26	18	27	39	70
LT	21	11	22	35	61
LU	50	:	:	68	97
HU	24	17	23	37	64
NL	82	73	82	92	97
AT	71	62	73	90	96
PL	26	14	30	44	59
PT	11	5	12	26	58
SI	33	15	28	54	86
FI	75	67	74	91	98
SE	83	73	88	97	99
UK	76	66	77	88	98
BG	17	9	18	20	47
RO	7	4	5	9	31
NO	81	75	84	95	99

Source: CVTS2 - EUROSTAT

Within enterprises, the capacity to leverage the diffusion of innovation technology depends on another important strategic factor: the capacity to adapt workers' skills by continuing vocational training courses. The two factors, innovation of technology and life-long learning are complementary to boost the productivity and competitiveness of enterprises. We would therefore like to now focus on the data provided by Eurostat on the diffusion of continuing vocational training (CVT) in European SMEs and large firms<sup>20</sup>. Table 10 gives the percentages of enterprises that provide CVT to employees. In the European Union, 53% of enterprises provide CVT to staff. This percentage tends to increase as enterprises get bigger. We can observe, in fact, that in the lower segment of SMEs (i.e. between 10 and 19 employees), the percentage goes down to 40%, going up to 57% in the bigger segment (20 to 49 employees). CVT

<sup>20</sup> The data are from the Second Continuing Vocational Training Survey (year of reference 1999), a research conducted by EUROSTAT every six years. In this case as well, the survey includes only those small-sized enterprises employing a staff of between 10 and 49, thereby not considering micro enterprises.

is provided extensively in medium-sized enterprises (74% provide training) and in large firms (91%). Countrywide analyses allow us to divide the member states surveyed in three groups:

- i) Scandinavian countries and the Netherlands have the highest number of enterprises – in all size classes – that provide CVT to employees;
- ii) Germany, France, Ireland, Austria, Finland and United Kingdom where CVT to staff is mainly provided by large and medium-sized firms as well as by the bigger SMEs (20 to 49 employees);
- iii) The remaining countries, where CVT initiatives in SMEs are unsatisfactory. It should be specified, however, that there are significant differences. In fact, the number of SMEs in countries like Belgium, Spain, Czech Republic and Estonia that provide CVT is in line with the European average, while in others, namely Poland, Italy, Latvia, Lithuania and Slovenia, that number is far below the European standards. And finally there are countries like Portugal, Bulgaria, Romania and Greece where the number of enterprises providing CVT is practically insignificant.

After having pointed out the quota of European enterprises that provide CVT to employees, we will now analyse, with the data in table 11, participation rates in these enterprises. Table 11 gives the employees attendance rates in CVT courses in the three size classes, considered as a proportion of the workforce in the enterprises that provide CVT and of total working population (in this case considering also the workforce in those enterprises that do not provide CVT).

**Table 11. Participation in CVT courses in EU: 1999.**

	Percentage of employees (only enterprises with CVT courses) participating in CVT courses, by size class				Percentage of employees (all enterprises) participating in CVT courses, by size class			
	Total	Small enterpr.	Medium-sized enterpr.	Large enterpr.	Total	Small enterpr.	Medium-sized enterpr.	Large enterpr.
EU25	47	43	42	49	39	22	32	47
EU15	47	43	42	49	40	23	33	48
EURO-ZONE	na	na	na	na	34	19	29	43
BE	54	44	46	62	41	20	39	59
CZ	49	42	42	53	42	24	34	52
DK	55	56	52	55	53	48	50	55
DE	36	39	33	37	32	25	27	35
EE	28	27	25	30	19	12	18	29
GR	34	45	32	34	15	3	10	25
ES	44	40	39	47	25	10	20	42
FR	51	34	41	59	46	23	38	58
IE	52	47	49	59	41	28	41	57
IT	47	46	41	50	26	11	20	45
LV	25	31	22	24	12	8	9	19
LT	20	23	15	22	10	4	6	17
LU	48	42	46	52	36	19	31	49
HU	26	32	22	26	12	7	9	19
NL	44	46	45	43	41	36	42	43
AT	35	35	31	38	31	24	29	37
PL	33	31	28	37	16	8	14	27
PT	45	44	41	47	17	4	12	35
SI	46	50	35	50	32	13	20	46
FI	54	53	45	58	50	38	41	58
SE	63	61	54	67	61	51	53	67
UK	51	47	50	52	49	35	44	52
BG	28	27	22	29	13	4	5	20
RO	20	30	19	20	8	2	2	11
NO	53	54	51	53	48	43	48	53

Source: CVTS2 - EUROSTAT

It would appear, at an initial perusal, that results are positive: just under half of the employees in enterprises that provide CVT attend such courses, the quota reaches 47% of total workforce; there is, in addition, no significant differences in the three size classes, for the percentage goes down to only 43% for SMEs, to 42% for medium-sized enterprises, rising to 49% large firms. If participation rates are compared against total European workforce, results that at first had were

positive present several drawbacks. Participation rate, in this case, falls to 39% with significant differences in the three size classes: 47% in large firms; 32% in medium-sized enterprises; and as low as 22% in small-sized enterprises. We also notice that in those countries where the number of small-size enterprises providing CVT was not excellent, the participation rate of employees in such courses plummets: Slovenia 13%, Estonia 12%, Italy 11%, Spain 10%, Latvia, Hungary and Poland 8%, Portugal and Bulgaria 4%, Greece 3%, Romania 2%. As for those countries that record the best performances, table 11, shows that only Sweden and Denmark continue to show excellent results, with a CVT participation rate in SMEs of around 50%.

We will now focus on two factors that appear to have direct consequences on the degree of employee participation in CVT courses: i) the existence of a joint CVT agreement; ii) the degree of technological innovation in the enterprise concerned.

We have included in table 12 participation rates in enterprises with or without joint CVT agreements. It may be observed that the implementation of such agreements raise participation to 52% compared to 34% when such agreements are not in place. Joint CVT agreements aimed at providing training to employees is a key factor, especially in SMEs, in ensuring the participation of employees in such courses: in small-sized enterprises the attendance rate rises to 47% against

**Table 12**  
**Percentage of employees in enterprises with and without a joint CVT agreement participating in CVT courses, by size class**

	Total		10-49		50-249		=>250	
	Joint	Without	Joint	Without	Joint	Without	Joint	Without
EU25	52	34	47	19	47	29	53	44
EU15	53	35	48	20	48	30	54	45
BE	57	37	48	23	49	35	61	57
CZ	56	33	45	22	48	31	58	44
DK	56	51	57	45	52	49	56	54
DE	48	28	40	24	39	26	50	30
EE	31	17	27	11	46	15	28	29
GR	29	12	14	2	25	8	31	23
ES	47	16	39	9	38	16	50	31
FR	63	40	44	22	49	37	65	54
IE	55	38	57	26	50	39	59	57
IT	52	20	34	9	35	18	58	37
LV	26	9	34	7	29	8	25	14
LT	22	7	24	4	14	5	23	13
LU	54	30	49	19	53	29	55	44
HU	22	10	18	6	12	8	26	16
NL	47	34	53	29	51	35	45	37
AT	44	33	:	:	42	29	45	36
PL	25	16	23	8	30	14	25	27
PT	50	14	38	4	37	11	52	30
SI	55	29	30	13	34	20	57	42
FI	64	45	53	39	52	38	67	52
SE	68	54	65	47	58	50	70	62
UK	52	48	52	31	56	41	52	52
BG	31	7	25	4	30	3	31	12
RO	18	4	14	1	12	1	18	6
NO	55	41	54	37	50	46	57	44

Source: CVTS2 - EUROSTAT

19% when there are no agreements, and to 47% against 29% in medium-sized enterprises. It is possible to observe that even in those countries where performance was not outstanding in the SMEs segment, the situation improved significantly. We can see that for the small-sized enterprises participation rate in Spain, for example, was 39% with the implementation of CVT agreement and 9% without; in Italy 34% against 9%; Latvia 34% against 7%; Portugal 38% against 8%; Slovenia 30% against 13%. These figures show how European enterprises in general, and SMEs in particular, appear to be substantially unable to utilise continuing vocational training as competitive lever. It is when trade unions are strong enough to include the issue of CVT in the countrywide

negotiation process that the conditions are created for the enhancement of human capita with a view to improving productivity and competitiveness. What Bruno Trentin defines as: *“The only relatively stable wealth (or less mobile) that can still define the competitive potential of a company, territory, nation, is intelligent and informed labour capable of ‘resolving problems’ and innovating; and equipped, for this very reason, with new spaces of decision-making discretion. Enhancing this resource, investing in the human factor, constitutes the real challenge that an economic policy targeted at full employment must face. The separation, common in the past, of employment policies from labour policies, technological and organisational research and innovation policies from initial training policies and continuous upgrading of professional skills*

founded on the construction of new relations between school and companies, would lead to the failure of every attempt to construct in Italy and especially in Europe a social policy to sustain the challenge of unbridled competition.” (Trentin, B., 1997, page 239). The possibility to providing valid solutions to the change, forecasting the consequences through a pro-active role of all the economic and social players, lies essentially in the human capital possessed and its adequate use. In this context, training represents a lever through which the adequate valuation of human capital is ensured allowing challenges induced by the change to be better treated.

Just as there is a strong connection between the presence of joint CVT agreements and the participation of employees in these courses, a similarly strong relationship exists between the degree and extent of technological innovation and employee attendance rates. Table 13 shows the percentages of employees attending CVT courses in enterprises with or without new technologies. In this case as well, participation rate is higher (45%) in the so-called “innovative” enterprises that in those that do not carry out innovation activity (30%). But what is important to observe is that in this case as well the “innovation” factor bears a stronger impact in the small enterprises than on medium- and large-sized firms. In fact in small-sized enterprises, participation rates in “innovative” companies rise to 31% against the 17% recorded

**Table 13**  
**Percentage of employees in enterprises with and without 'new technologies' participating in CVT courses, by size class**

	Total		10-49		50-249		=>250	
	with new tech.	without	with new tech.	without	with new tech.	without	with new tech.	without
EU25	45	30	31	17	37	27	49	44
EU15	45	32	32	19	38	29	49	45
BE	53	29	32	16	43	36	63	49
CZ	49	32	32	20	42	27	55	45
DK	53	53	46	48	56	48	54	56
DE	36	23	36	18	32	21	36	30
EE	27	12	19	9	21	17	34	13
GR	22	4	7	1	12	7	29	5
ES	32	14	14	6	25	12	45	31
FR	54	43	29	22	45	35	62	57
IE	47	23	33	18	47	23	58	50
IT	37	15	18	7	24	16	49	33
LV	19	6	15	5	14	6	22	10
LT	16	4	9	3	9	4	20	8
LU	41	28	28	15	32	30	48	52
HU	19	8	12	5	13	6	23	13
NL	47	35	43	34	48	37	47	33
AT	38	26	40	25	34	25	40	29
PL	25	9	17	5	18	10	32	16
PT	29	7	10	2	18	7	40	20
SI	47	14	23	9	33	10	56	24
FI	55	35	47	32	47	31	58	46
SE	67	54	60	46	57	51	71	61
UK	53	46	48	41	51	45	53	47
BG	28	6	18	2	10	3	33	10
RO	11	3	3	1	3	1	14	5
NO	55	41	52	39	53	43	56	45

Source: CVTS2 - EUROSTAT

in those that do not carry out innovation. The averages are therefore respectively 37% and 27% in medium-sized enterprises and 49% and 44% in the large-sized enterprises. Training is thus a means to adapt the skills of workers, allowing them to update and enhance specialisation with a view to boosting competitiveness. It is thus surprising that the added value generated by training continues to be neglected by the key players of the manufacturing process – the entrepreneurs – especially those belonging to the SME segment.

## Conclusions

The changes that have taken place over the past decade have opened new and interesting scenarios for the SMEs system. Consider, for example, how technological changes, as well as those affecting workforce composition and customer preferences and tastes, have seriously put under pressure large scale manufacturing, triggering new opportunities for SMEs. In this new context, ICT



and related business has seen a significant increase in the number of SMEs, operating as both service providers and manufacturers<sup>21</sup>.

Notwithstanding these undoubtedly positive and encouraging aspects, there are several critical drawbacks undermining the full development of the SMEs system in Europe. Consider, for example, the following difficulties arising from: i) the dearth of technological innovation processes in SMEs-driven sectors; ii) the failure to adequately enhance human capital by stimulating vocational training to employees; iii) the consequently low productivity levels; iv) the insufficient presence of international business; and v) the excessive presence in traditional sectors.

These are some of the shortcomings that affect the European SMEs system as outlined in this report. The aim has been to stimulate a debate on the new role of SMEs in the strategic framework of Europe's industrial policy<sup>22</sup>. While there is no doubt that the SMEs system is one of the drivers of the European Union's economic development, it is true that this same system has manifested its inability to exercise just these functions. In other terms, the virtuosity of an enterprise does not reside simply in its being part of a size class or status but is related to the presence or absence of those "advantageous" factors that allow it to be competitive in the sector in which it operates (regardless whether it belongs to industrial districts, to local SME clusters, to a network company or is totally unconnected).

On the basis of the latest EU documents, it appears that the European Commission is aiming exclusively at boosting the entrepreneurship factor, and, through this, at strengthening the SME system, by implementing a series of specific actions that in our opinion do not take into due account the intrinsic weaknesses of the system itself as we have tried to emphasise in this report. As we observed, the problem faced by the EU is not connected to the insufficient presence of SMEs but, rather, to the insufficiency of a system of medium- and large-sized enterprises<sup>23</sup>. It would be useful, then, to attempt a rebalancing of the European manufacturing system by defining a new industrial policy that also considered the presence of European "pillars" of a size that would allow them to sustain global competition<sup>24</sup>. Encouraging such a policy would also drive the European SME system<sup>25</sup>. In other words, what is called for is a European industrial policy – with a particular concern for member states whose manufacturing system tilts heavily on the side of SMEs such as Italy, Czech Republic, Hungary, Portugal, etc. – that is in a position to focus its attention on strengthening large European firms (the pillars) and medium-sized enterprises and on boosting SME in terms of competitiveness.

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<sup>21</sup> The ICT has undergone a radical transformation starting from the Eighties. The innovations introduced in the electronics, telecommunication and IT sectors have triggered a progressive transformation of the manufacturing systems in the more advanced economies. The growing multi-functionality of some products (telephony, television, personal computer) combined with the possibility to connect such instruments to communication networks (internet, satellite) has led to the convergence of IT and TLC thereby creating a new manufacturing sector, the ICT (Iuzzolino, G., 2001).

<sup>22</sup> For a synthetic outline of the available literature on SME see: Audretsch, D.B., 2002. The European Commission's position regarding the role of SME is outlined in EC, 2003 [a], 2005 [a].

<sup>23</sup> The OECD allows us to compare enterprises in the USA and in EU member states according to size classes that are different to those that have been used so far: 0-9 employees; 10-49; 50-99; 100-499 and finally over 500 employees. It should be observed that in 1999, the quota of over 500 enterprises in the USA was 1.5%, while in Europe it varied from 0.8% in Germany to 0.1% in Italy. The quota of employment in this size class in the United States reached 58.9% while in Europe it ranged from 43.2% in Germany to 7.9% in Portugal. In the size classes from 100 to 499 employees, the quota of US firms was 5.2% compared to 4.0% in Germany and 1.1% in Portugal. But if job absorption is analysed, the trend changes. Under this indicator, jobs in these size classes was 17.4% in the US, while increasing to from 39.3% in Ireland and 19.1% in Spain. (OECD, 2002)

<sup>24</sup> The weakness of European pillars is attested in the research conducted by Mediobanca on 280 multinational companies (R&S, 2005). Out of 235 industrial groups, 135 were European (employing a total of 8.4 million, i.e. an average of 62,300 employees per firm); 69 were Northern American (employing 6.4 million, i.e. an average of 93,300 employees per firm); while 31 were Japanese (employing 2.8 million, i.e. an average of 92,500 per firm). The larger size of American and Japanese firms emerges when average turnovers are analysed (turnover/enterprises): € 17.3 billion for Europe, € 25.9 billion for North America and € 27.9 billion for Japan. The data given here – from a study by Bianchi, P. (2004) – have been independently updated.

<sup>25</sup> A proposal of this kind applied to Italy was put forward by Fortis, M., 2005, Quadrio-Curzio, 2004, Bianchi, P., 2004.

We share commissioner Verheugen position when he affirms that the objective of turning the European Union economy into one of the world's most dynamic and competitive economies can only be achieved through the SME system, which is a key driving force of the European economy. However, we are just as convinced that the full implementation of the Lisbon strategy (at least in its original and more efficient form of 2000) entails – as we have tried to outline in this report – that its intrinsic shortcomings be solved. Only then will it be possible to re-launch the SME system, sharpening its competitive edge by enhancing innovation and training and, consequently, increase its productivity.

## Chapter 3

# Determining Wages in Europe's SMEs: How Relevant are the Trade Unions?

Monica Andersson\* and Christer Thörnqvist\*\*

### Summary

*This article discusses wage setting in SMEs in eight European countries, how it differs from larger firms and how trade unions address the issue. The context is the increased decentralization of wage setting analyzed at four different levels: i) workplaces; ii) regions; iii) industries; iv) and national level. The main finding is that trade unions' ability to secure higher wages for workers in SMEs depends not upon workplace organisation, but upon well functioning industrial relations institutions. That is, if workers in SMEs earn less than employees in larger companies, it is not because of the size of the company, it is because of the absence of a comprehensive collective bargaining system that encompasses SMEs.*

### Introduction

There was a strong, common notion in most Western welfare states during the economic upswing in the 1950s and 1960s that real wages would just go on rising, with trade unions often apologists for this view. Following the oil crises in the 1970s and, in particular, after the world-wide neo-liberal turn in the 1980s and 1990s, there has however been little space for such arguments. The goal of full employment in *combination* with real wage increases gave way to neo-liberal ideas prioritising low inflation and accepting a 'natural' unemployment rate, NAIRU, that should not be questioned. Several studies trace the impact this move has had on wages at an aggregated national, European or OECD level. Less is known about trade union strategies and resistance; it is very hard for trade unions, especially for national trade union confederations, to accept the idea of NAIRU when it means that some of the confederation's members must accept unemployment in order that others secure wage increases. According to the dominant discourse among European politicians and business representatives, jobs can only be maintained or created in 'flexible' economies; wage formation must adapt at enterprise level to the new demands of a customer oriented, supply-side economy. The Keynesian model of a demand-side economy has been superseded. Even if the point of departure is largely neo-liberal, this view is today, in various guises, held by social democratic leaders throughout Europe (for example, Giddens 2000; Hertz 2002).

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The central tenets of this discourse are decentralization and increased flexibility. The two trends are closely connected and, throughout Europe, they have been stressed by employers' associations and representatives in the context of larger enterprises. Trade unions have opposed the decentralization of wage setting, since it brings an obvious risk of increased wage competition between companies – and with that, amongst workers. Furthermore, the growing use of flexible working hours has also posed a new challenge, discussed by Alves et al. in this issue. In particular, the increase in part-time employment and short-term contracts has widened the gender pay gap; consequently, it has been most marked in health care, retail and services, all industries where the growth and importance of small and medium-sized enterprises (SMEs) is remarkable.

This article discusses how wages are set in SMEs in eight European countries,<sup>i</sup> how it differs from larger firms and/or the public sector and, in particular, how trade unions address the issue. As suggested in the introductory article to this issue of *Transfer* (Bouquin, Moore and Leonardi), trade unionism is on the one hand a means for reducing the democratic deficit and ensuring employee voice, but on the other, employee relations in SMEs are in many ways very far from the EU norms of 'social partnership'. The move towards decentralization and flexibility represents a greater threat in SMEs since they operate in a less institutionalized and unionized context. As stressed by Anders Kjellberg (2000; 2006), trade union density and strength is to a large extent depending on a combination of central and local organizations. Central bargaining power prevents fragmentary union coverage and facilitates 'solidaristic wage policies', while extensive networks of local union branches, well integrated into national unions, bring the unions closer to their rank-and-file members.

This article discusses trade unions and wages in SMEs in the light of the overall decentralization of pay formation in the eight countries. Social partnership and wage setting can be analyzed as a four-tier system with four different levels: i) the workplaces; ii) the local/regional level; iii) industry level; iv) and national, confederate level. All levels are not meaningful in all countries, but on the other hand, there is no 'fifth' level in any country. We first outline the transformation of the industrial relations systems at large, i.e. the national frameworks for wage formation. We then discuss wage setting in SMEs and the trade union response. The conclusions draw on the impact of the wage bargaining systems and upon evidence from the SMALL case-studies (see Bouquin, Moore and Leonardi in Chapter 1). Regrettably there is no reliable, comparative data, either from *Eurostat*, ILO or other sources, which can give us valid empirical evidence of the exact wage gap between SMEs and larger companies in the eight countries. Thus our results are exploratory rather than conclusive.

### **National Frameworks for wage formation**

Even though trade union influence on wage formation in general has been weakened in all eight countries over the last few decades, it would still not be correct to generalise across them. In three countries, Belgium, Italy and Sweden, unions are still strong enough to influence wage setting at all levels. In three of the other countries, Bulgaria, Hungary and the UK, the collective bargaining system is too dissolved to guarantee trade unions any extensive influence, although in the UK there remains some company level bargaining in the private sector. The remaining two countries, France and Portugal, constitute a middle group; they are countries that despite low union density have relatively influential, centralized pay setting systems. This section outlines the main characteristics of these three categories.

### ***Belgium, Sweden and Italy***

To start with the three countries with the most influential unions, it is often argued that both Belgium and Sweden have strong unions because of the so-called 'Ghent system', i.e. union-led unemployment schemes, funded by state subsidies, which bring the unions into contact with workers seeking jobs or receiving unemployment benefit (Leonardo 2006). One key trade union benefit of the system is that unions have access to workers even in companies, such as SMEs, where there is no shop-floor representation. Yet the Ghent system must still be combined with well-developed trade union organizations at both confederate, industry and company level to be powerful (Kjellberg 2000) and it is in the latter respect that Italy is comparable to the other two countries.

No doubt the Ghent system is a main reason that there is still high trade union density and collective agreement coverage of over 95 per cent in Belgium. The traditional Belgian model of industrial relations consisted, in the words of Vilrocx and Van Leemput (1998: 316), of three distinctive features: 'wide-ranging central agreements, an institutionalized and hierarchical negotiation structure, and the automatic linkage of wages to the cost of living'. This model was however radically transformed in the second half of the 1990s. The system has moved from 'classic' social partnership between employers' confederations and trade unions towards extensive state involvement. This has in particular affected the wage formation. According to Vilrocx and Van Leemput (1998: 342) 'the state has monopolized the crucial industrial relations issues of wage formation and employment' at national, inter-sectoral level.

The Belgian labour market has been under statutory wage control since 1994 onwards and minimum wages are regulated by legislation. Yet there are still tripartite discussions over the minimum wages that impose statutory wage norms binding for all negotiations, normally of two years expiration. The social partners settle national inter-sectoral agreements on maximum permitted wage increases based on recommendations from 'experts' on the central economic board, the *Centrale Raad van het Bedrijfsleven/Conseil Central de l'Economie*. Such agreements also contain recommendations for SMEs, but more specific issues regarding SMEs are normally negotiated as separate chapters attached to the general agreement. The power of the state was clearly demonstrated in the settling of the agreement for 2005-06. When the parties were not able to agree on a time-frame, the state simply prolonged the agreement that had just expired for a further two more years. As often in Belgium, there are also considerable regional discrepancies, but they are less important for the overall trends.

The other country with the Ghent system, Sweden, is even more centralized with strong, nationwide, high-density associations for both employers and employees, and with a bargaining coverage of over 95 per cent of the economy. What really distinguishes Sweden from other 'centralized' countries is the reliance on collective bargaining over legislation. A most salient feature is that Swedish law does not regulate minimum wages, but this is covered in collective agreements. Collective bargaining extends to almost 90 per cent of Swedish employees and all sectors of the labour market are covered. Moreover, Swedish unions additionally negotiate wages at shop-floor level, within the frameworks set by industry-wide agreement, instead of handing over the issue to works councils as in central European countries. In the heyday of the Swedish model, from 1956 to the mid-1980s, the Swedish Trade Union Confederation (LO) and the Swedish Employers' Confederation (SAF; from 2000 onwards the Swedish Confederation of Enterprise, SN) settled peak-level agreements that, among other things, set the frameworks for wage formation. Trade union confederations no longer negotiate such agreements with their employer counterparts, although the synchronizing power of the union confederations is so strong that it in practice sets

frameworks for industry level bargaining (Thörnqvist 1998; 1999). From 2000 onwards, the National Mediation Office has taken over much of the task of regulating the former confederate and nationwide industry agreements and in the early 2000s this has promoted both lower inflation and higher real wages than in the early 1990s, when SAF discontinued confederate negotiations (Larson 2006).

The third country in this category, Italy, has often been considered as having 'weaker', or less formalized industrial relations than Belgium and Sweden. Yet, when it comes to wage formation, perhaps Italy is the most stable of all the eight countries in our sample. At a first glance, the Italian system of wage formation has not changed much over the last decades, even though the emphasis has altered. Italian industrial relations experienced a dramatic decentralization during the neo-liberal turn in the 1980s and 1990s. The most serious change took place in spring 1992, with the abolition of the *scala mobile*, a wage indexation from the mid-1970s, agreed by the main employers' confederation *Confindustria* and the trade unions. The abolition was a unilateral decision by *Confindustria*, but supported by the government. The socialist-lead, but weak government that came into office the same year did not change anything. The final outcome was a much more flexible version of the *scala* that seriously narrowed the scope of the multi-level system for wage bargaining. Despite initial protests from the unions, they were not in the position to really challenge the decentralization - the neo-liberal turn was too strong. (Hyman 2001: 158-62).

The Italian system has few legally binding norms. The general reference text of the Protocol of 23 July 1993 is not a law but a social pact of tripartite concertation signed by the government, the main unions and the employers' associations. Given that a contract is legally binding for the signatories, it acts as a formal restraint for as long as it is recognised by the parties. Thus the Italian contractual system sets a framework based on two levels: a national collective sector contract; and a second level of bargaining at the enterprise or alternatively territorial level. Wages are regulated by two-year contracts with a mid-term renewal to adjust the growth in salaries to the inflation rate. Each sector is divided into various sub-sectors or branches, but still it is the nation-wide union or employer confederations that settle the wage frames, not sectoral associations. Further, there is a vertical distinction, related to the size and/or the type of organization, i.e. larger enterprises, craft enterprises and cooperatives. Yet, enterprise bargaining can deal only with different issues to those already dealt with by the national contract. Since the former establishes the minimum pay, the firm level additions and distribution must be closely related to company competitiveness. Hence, the bargaining unit at this level usually coincides with the production unit, especially in SMEs (Megale et al. 2003).

### ***France and Portugal***

The two countries in the 'middle' group at first sight seem to have little in common. Yet, both France and Portugal have formalized and relatively strong national norms for wage formation, much like the countries in the first group, but with rather loose connections to the plant-level realities, in particular in SMEs, where they are more like the countries in the third group below.

French industrial relations are often described in terms of *étatisme*; the government's role is strong and interventions are common; consequently, wages and labour conditions depend more on legislation than collective bargaining (Goetschy 1998). Despite the low union density, less than 10 per cent in total, the collective bargaining coverage is high in France, around 95 per cent (Traxler et al. 2001: 196). On the other hand, the collective agreements do not contain much beyond what is already provided by the legal framework. The government guarantees a statutory minimum

wage, which is set (for adults) to 55.2 per cent of the median male full-time earnings. The rate is indexed to consumer prices and must rise by at least half the increase of all wages.

The Portuguese legal regulation of remuneration is highly elaborated and comprehensive, most notably through the 2003 Labour Code (Act no. 99/2003). According to the act, 'remuneration' is everything that the employee is entitled to under the work contract including the basic salary and all the regular and periodic installments made, direct or indirectly, in money or kind. Remuneration is calculated according to the work contract or collective bargaining taking into account two major components of the wage:

- the *basic salary*, which corresponds to the activity executed by the worker during the normal period of working time that has been contractually defined;
- the *seniority prize (diuturnidade)*, which takes account of the workers' seniority in the enterprise, profession or sector.

Remuneration can be fixed, variable or mixed and the labour code anticipates an increased role for mixed wages to increase productivity. There is a monthly minimum wage guaranteed to all workers, which is annually revised by special legislation, considering, among others factors, the workers' needs, the cost of living and productivity. In 2000, the socialist government proposed a new model for collective bargaining, based upon the negotiation of a set of specific national agreements (e.g. vocational training, wages, occupational health and health and safety etc.). Wage formation was thus made distinct from other issues and the social partners negotiate sectoral agreements.

To conclude France and Portugal both have well elaborated norms for pay formation. yet, as we shall see below, this has little bearing on company-level practices.

### ***United Kingdom, Bulgaria and Hungary***

In the three countries in the third group there has been marked decentralization and individualization in wage setting over the last decades, but from very different points of departure. Bulgaria and Hungary have faced the wholesale privatization process initiated in all countries of the former Eastern bloc, but the Hungarian experience is distinctive since private SMEs existed before the transformation. We begin this section, however, with a brief consideration of the country that more than any other in Europe symbolizes the move towards a deregulated labour market, namely the UK.

Undoubtedly the UK has the weakest legislative system with regard to wage formation of the eight countries discussed here. British industrial relations have been characterized by a 'voluntaristic' tradition, in which the law and government generally does not intervene in employment relations; in the private sector collective bargaining coverage is partial and this is particularly the case for workers in SMEs. .

The 1998 National Minimum Wage Act established for the first time a statutory national minimum wage (NMW) in the UK. Drawing on European comparisons of statutory minimum wages as a percentage of median pay, the UK, with a rate of 45 per cent (in 1997) lies midway between those countries with relatively low rates such as the Czech Republic (21%) and the higher levels found in France (57%).

Even if the UK has the least encompassing legislative system of the eight countries, the changes in the system of pay formation have been more drastic in Bulgaria and Hungary due to the transition from the planned economy. In Bulgaria, the pre-1989 system of wage setting was

almost completely controlled by the government. To compensate for low salaries, medical care and education were free, and part of the remuneration was in kind, for example, free food and transport and subsidized holidays. Low wages were combined with small pay differentials. Further, an important feature of the Bulgarian system was that manual workers were better paid than administrative, managerial and technical staff (Beleva et al. 1993; ILO 1994: 69, 79).

Bulgaria began to develop a functioning tripartite system in the early 1990s and social dialogue was established. The first tripartite body, introduced in 1990, was the National Commission for the Coordination of Interests, which instigated general legal rules for collective bargaining and how to settle collective agreements (Kirov 2005: 136-37). The most serious wage reforms were introduced in July 1991, when a system for bargaining was adopted that stimulated wage negotiations at three different levels: national, sectoral/industry and company level. The system was a first attempt to decentralize wage formation and by the end of the 1990s, bargaining was totally decentralized to firm-level in several sectors of the Bulgarian economy – and in particular in small enterprises. Decentralization seriously eroded the average Bulgarian's income. In early 1998, average real wages had fallen to only 35 per cent of their 1990 level and wage differentials grew considerably in the same period (Tzanov and Vaughan-Whitehead 1998: 11). Moreover, the ratio between the minimum wage and the national median wage fell from 0.54 in 1991 to 0.39 in 2003. Bulgaria introduced a Currency Board in 1997, dependent upon the International Monetary Fund's (IMF) approval of minimum wage setting. In 2004 Bulgarian wages were among the lowest of the former socialist countries.

As mentioned above, Hungary is distinctive amongst the former Eastern bloc countries in that private SMEs were in existence prior to the transformation. Reforms of the industrial relations system had begun in the late 1960s, and continued over the 1970s. During this period, the legal framework governing the labour market was also reshaped and the Hungarian social partners of today largely emerged from these legal changes. All through the transformation process, the government remained the most important actor in the tripartite system, both as a major employer and in its political role (Makó and Simonyi 1999: 221-23). From 1993 onwards, the National Council for the Reconciliation of Interests (NCRI), set minimum wages. On an annual basis the NCRI assembles representatives of the most important employer associations and trade unions to agree on wage growth, but overall real wage increases have since 1993 been higher than those recommended by the agreement, to a large extent due to the lack of control over firm-level negotiations (Neumann 2005)<sup>ii</sup>. Wage formation in the private sector largely takes place at enterprise level and there are neither national-level collective agreements nor statutory regulation of annual wage increases.

### **SMEs and Firm Level Wage setting in practice**

The previous section outlined the general frameworks for wage formation in the eight countries. As we can see, the main distinction between the three groups is how encompassing the bargaining system is, i.e. the extent to which national, sectoral and/or company level agreements cover SMEs. It is widely held that industrial relations frameworks are more relevant for larger firms than for SMEs. Therefore we now discuss the application of the bargaining systems at workplace level, in theory and in practice, drawing upon the case studies of SMEs, upon which the SMALL project is based. The countries are grouped in the same way as above.

#### ***Belgium, Sweden and Italy***

In theory, the Belgian system regulates wage setting at company level, regardless of the size of the organization. Since 1996, pay rises have been indexed on the basis of wage development in



the neighbouring countries - Germany, France and the Netherlands. Sectoral bargaining adapts the overall agreement to each industry, based on the index for different occupational groups, although the wage norm may vary between different regions (Pochet 1999). The individual employment contract is legally bound to reflect the work tasks in a way that corresponds to the general classification of functions within the index system. The system seems sophisticated, but in reality wage setting and flexibility reflect the history and balance of power relations within the sector.

Yet the index regulation of wages is not always easy to adapt to company-level; as the SMALL case studies demonstrate. A study of the hotel and catering sector in general, and of a small hotel in Belgium in particular, revealed that a 'classic' system of remuneration (based upon fixed salaries, independent of the turn-over of the company) coexisted with an older model where fixed pay and performance related pay were combined. This dual system is common in the Belgian hotel and catering sector and it generates industrial relations with a high risk of conflict and disruptive competition between workers. Another source of discontent within the wage system is the downward pressure from the 'grey' sector, dependent upon migrant workers with no employment contracts. Since there is an abundance of cheap, though more or less illegal, labour from other countries, remuneration is generally close to the index minimum.

A second case study, of a care home for elderly people, revealed the challenges for trade unions. In the absence of social dialogue in institutional care, paternalistic relations dominate the sector; the trade unions are weak with no real representation and are generally not accepted as negotiating partners; employees are often afraid to voice grievances. Most agreements are based upon individual contracts, which do not include terms and conditions of service or a job classification. The criteria for pay setting still seem to be relatively transparent, reflecting qualifications and seniority, but also levels of responsibility. As in hotels and catering there are issues with unofficial migrant workers

The third case study, in the auto repair industry, reflected a more formalized wage system than in the other two industries. Minimum wages were set in accordance with an indexed scheme based on age, seniority, work tasks and working hours, with room for additional remuneration. In this company, as in other similar firms, the management was eager to keep young and well-skilled workers, which enabled these employees to improve their wages. On the other hand, it led to growing wage differentials between people performing the same jobs within the same company.

Turning to Sweden, the main source of trade unions strength in SMEs is the formalized links between industry and workplace level. In contrast to the situation throughout the European Union, Sweden does not have any works councils; instead all firm-level negotiations over wages and working conditions are handled by a local trade union branch. This is particularly beneficial when it comes to pay setting in SMEs and wages are therefore at the same level as in large companies (Thörnqvist 2006). In fact, the Swedish trade unions can influence wages even in companies without trade union members! If a company where there are no union members is affiliated to an employers association, the trade union can force the company to settle a company-level agreement in line with the industry-wide agreement. If the company is *not* a member of any employers organization, the trade union still has the right to take industrial action to enforce the employer to either apply for membership to the relevant employers association or to at least sign the most relevant existing agreement. This is the crucial point: if there is no existing local/firm level collective agreement, the union and the individual employer can conclude an 'affiliated' agreement that reflects the industry-wide agreement, or an adaptation based upon local

agreements in comparable firms in the same environment. The Swedish term for such an affiliated agreement is *hängavtal*, which is best translated as ‘overarching agreement’; that is, an agreement that figuratively speaking arches over workplaces with no trade union representation. If an employer refuses to sign such an agreement, the trade union can call a strike of its members at the workplace, and if there are no union members, it can still take industrial action, which may take the form of a boycott of the company. In the latter case, the aim of such action is to avoid ‘wage dumping’; that is, to stop non-unionized workers from working at lower wages than union members in comparable companies. This system of *hängavtal*, is the most important reason why the wages of workers in small enterprises are as high as those of workers in bigger and much more profitable ones (Thörnqvist 2006).

However, at the same time it is relatively cheap for Swedish employers, no matter the size of the company, to dismiss workers. If a business can no longer afford to maintain its workforce, it can dismiss employees with only six months’ notice – often even less – and does thereafter not have to compensate them or take any social responsibility. Swedish trade unions consider higher wages more important, due to the strong social safety-net for the unemployed, even though holes increasingly appeared in this safety-net over the 1990s, a trend that is still (in 2006) not reversed. The four case studies of Swedish SMEs all confirm the general picture of wages and wage setting that do not differ from what is customary in larger companies. All four companies, including the one in ICT, had settled firm-level agreements and thus none of them had a real *hängavtal*.

The connections between the sectoral and local levels in Italy are not as direct as in the Swedish case, but they are still highly important for wage formation. The central tripartite bargaining establishes a wage ceiling for the whole economy, but with room for sectoral or regional negotiations to influence the final outcome and distribution. Industry level agreements reflect the effects of inflation and the impact of sectoral productivity. The national contract establishes minimum pay and firm level additions and distribution must be closely related to company competitiveness. The bargaining unit thus usually coincides with the production unit, especially in SMEs (Megale et al. 2003). Nonetheless, collective bargaining at workplace level is not compulsory but dependent on the concrete power relations between labour and management; power relations that are rather asymmetrical in SMEs. The most crucial issue for the trade unions, no matter the size of the company, is how to reflect the three different criteria established in the social pact of July 1993: productivity, productivity and quality. Generally the unions are more favourable to the first (and third), which are the easiest to control, while managers are more in favour of the criteria of profitability, which depends on many factors and only partially relate to labour. Consequently, actual wages at workplace level can vary from one sector or one region to another. In sectors with traditionally weak bargaining practices at company level – as small crafts enterprises and co-operatives in farming or construction – the contractual unit is usually territorial. Most salient in this respect is the ‘Third Italy’ (i.e. the ‘Catholic’ Veneto and the ‘left-wing’ Emilia Romagna). Unionization is higher than the Italian average in both regions, despite the total domination of SMEs in the regions. However, it appears that trade unions in Veneto and Emilia are less affected by class-conscious, antagonistic values and more inclined towards finding a co-operative method of resolving conflict. To a large extent, the unions have managed well in negotiating high wages and good working conditions. Yet, the situation is not as ‘rosy’ as it often seems on the surface. The entire regional infrastructure is affected by undeclared work and short-term contracts are widespread, including seasonal work.

### ***France and Portugal***

As hinted above, the French and Portuguese pay setting systems seem to be comprehensive in their coverage on the surface, but have little impact in SMEs in practice. In the French case, a major reason for this weak correspondence is the lack of influence by organized social partners. The industry-wide agreements do not regulate wages apart from minimum rates for the lowest paid. Neither do company or workplace level agreements extend much beyond what is stipulated by legislation, since there are seldom any guidelines negotiated by the social partners before the agreements are concluded (Jefferys 1996: 512-13).

From this it follows that there is a lot of room for individual negotiations and wage setting within the French system, which in practice means that it is very much up to the single employer to decide how much above the minimum wage an employee shall earn. Consequently, if there were no minimum wages, the collective bargaining system would not be sufficient to prevent rock-bottom wages. The inadequacy of the minimum wage was demonstrated in practice by one of the French case studies, a study of a hairdressers' salon. Many of the younger hairdressers in the company had salaries below the minimum wages, or what was referred to as 'the traditional level'. Employees in management positions could claim salaries in accordance with their level of qualification, but this was not the case for the 'ordinary' hairdressers. The hairdressers interviewed claimed that the only way for them to get remuneration above the minimum wage was through individual bonuses reflecting the turnover of the salon. The system was compared to a 'cascade': that is, in the words of the employees, there were several hurdles to negotiate before they could get any real bonus at all, until finally, above a certain level, the hairdresser got a percentage of the business/sales. Wages in hairdressing were depressed by the high proportion of younger employees and the high levels of part-time workers and women.

Another case study, of a subcontracting electronics company, providing electronic cards and cables to the metal sector, revealed similar patterns. Of 123 employees, wage setting was transparent for all but five persons belonging to management. Only these five persons could benefit from individual bonuses. Among the other workers, there were 'higher' and 'lower' levels of wages; the women interviewed perceived the lower levels as female wages. In their opinion, the company justified the wage differentials by arguing that the women were not the main breadwinners of their families and therefore lower remuneration was acceptable. Other explanations offered were that the area where the company was based was an rural industrial, underdeveloped region (Picardie) with relatively more women than men working in industry and with higher fertility than in the rest of France. Among other things, this had led to a situation where many women had limited education and qualifications.

Not surprisingly the situation was better for the high-skilled professionals in the case study of a French ICT company, yet even here the situation was not unproblematic. Pay negotiation was individual, but highly unequal. The salaries comprised an 'individual' share and a 'flexible', bonus. Yet, despite the existence of a collective agreement, some employees received a total remuneration below the stipulated minimum wages. Several of the interviewees felt that the salaries were decided in a very haphazard manner and much depended upon what workers negotiated when they were recruited and before the employment contract was signed. Workers interviewed suggested that subsequent pay increases reflected individual relationships with managers and workers' ability to bargain with managers on an individual basis, rather than the quality of their work and effort.

The Portuguese system too leaves much space for firm level wage distribution. There is little articulation between the sectoral agreements and those of the enterprises and it is possible that different groups in the workforce are covered by different wage agreements within the same firm. This may be explained by the strength of owner/manager prerogative as well as the low qualifications of workers. Yet, the state plays an important role in all levels of negotiation (Lima 2004). Further, collective agreements are not as 'hollow' as those in France; in fact, the Portuguese case studies demonstrate that wage setting in SMEs seem to follow the relevant collective agreements. A case study of a kindergarten showed that salaries were determined both by applying the industry agreement and according to individual qualifications and performance, without workplace level negotiations. The workers interviewed, however, claimed that the salaries were low considering their skills and individual performance. The case study in the clothing sector, a sector generally characterized by low wages, provided a similar picture. Workers' wages were determined in line with the applicable industry agreement, competence in the job, performance and seniority, in that order. The difference between the stipulated base salary and what was actually paid was less than 10 per cent in all categories. Yet, several workers claimed that they had not had any recent pay rise. Nor had they, contrary to management's view, received any type of flexible salary. The case study organisation in the metallurgy sector also followed the sectoral agreement, but pay was close to the minimum standards of the collective agreement. Unlike the other cases, there were so-called productivity bonuses. Workers' performance and competence were the criteria used to determine basic wages, and pay rises were usually individualized. Two case studies of ICT enterprises also followed the established, applicable agreements, but with strong variable salary components for qualified employees based on individual productivity, merit and quality. In one of the two firms, workers with fixed-term contracts had received the biggest salary increases. The second enterprise did not use variable salaries, but pay was related to performance. Salaries and additional payments were negotiated at company level and complementary benefits given by the enterprise covered all workers and consisted of insurance, performance bonuses and additional subsidies.

### ***United Kingdom, Bulgaria and Hungary***

From a trade union perspective, there is a 'Catch 22' situation for the third group of countries: the more decentralized industrial relations are, the higher is the need for shop-floor representation, but when industrial relations systems dissolve, so does trade union density. In other words, pay for workers in SMEs in these countries is often governed by owner/manager prerogative.

To start with the UK, the Trades Union Congress (TUC) has estimated that the presence of a union at the workplace on average increases pay by eight per cent although this will vary with the characteristics of the firm. SME employees have limited access to collective representation and in firms with a working owner present, collective representation is even less likely (Cully et al. 1999). Collective bargaining coverage has declined and pay inequalities grew faster in Britain than in any other OECD country over the 1980s and early 1990s (OECD 1994). Data, from the Labour Force Survey for Autumn 2005 show that pay is affected by collective agreements for 21.1 per cent of employees in workplaces with less than 50 employees, compared with 48.4 per cent in larger organizations (Grainger 2006).

Woodham et al. (2004) found that very few SMEs used a transparent job evaluation scheme to determine pay, rather, firms preferred to reward experience, pay by the hour or match the market rate. There is also some evidence that employers in SMEs may on occasion avoid paying the National Minimum Wage (NMW) by paying workers 'off the books'. Arrowsmith et al. (2003) reported several examples of this type of practice amongst small firms in the hotel and catering and textile

sectors, whilst Colgan et al. (2001) found that 29 per cent of employees in their sample were engaged in this way.

Due to the complexity of the British wage formation in SMEs, it is also difficult to find any overall pattern in the SMALL case studies. However, one of the case study organizations in the printing and packaging industry, illustrated the difference that workplace union representation can make. Following the introduction of a statutory trade union procedure (under the Employment Relations Act 1999) the owner/manager had recognised the trade union. Unionisation was largely driven by the low level and individual nature of pay. Following recognition, pay became the subject of collective bargaining. In 2003, for the first time, a two-year pay deal was negotiated. Although this only increased the income of some of these low paid workers to just above statutory levels, the worker interviewed felt there was more transparency:

*'Well we have never had a pay scale when I came here. There was no pay [scale]...the management paid what they thought they would pay them. There wasn't any bonus when we came here. At least we have got a small bonus. Before the union came the company could just do whatever they wanted'.*

The company operated a bonus scheme directly linked to the company's performance in respect of financial turnover, but capped at three per cent.

In the case study of a second company in manufacturing, employee respondents agreed that pay levels were relatively low compared to larger companies in the sector and region. The management respondent conceded that pay rates had been low in the past and there had been a concern that the company would be unable to attract workers. With the exception of drivers (which were covered by collective bargaining following union recognition) and production workers (the latter were migrant workers thought to be paid the NMW), pay rates were individual, 'based on personal negotiation'; workers did not know what their colleagues were earning and expressed frustration at this.

In a case study in the UK ICT sector, pay was based on individual negotiation; the management respondent reported that it was assessed on the basis of skills, performance and role within the organization. No two employees earned the same and individual pay details were the only company information not shared with all staff. Pay was discussed twice a year as part of employees' individual performance review. For sales and marketing staff remuneration was based upon performance since the company operated a bonus scheme. There was also a bonus scheme for executive directors. There was no pension scheme or other non-pay benefits although there were paid holidays and a company health insurance scheme to which the employer made no contribution.

In another case study of an insurance company, a formal system of grading had been replaced by market rates, based upon salary surveys, which established that the company was paying above market rates. This had resulted in two distinct pay scales based on regional pay comparisons for two different regions. The rates were to be renegotiated annually by the company and union.

If we move on to the Bulgarian cases, it is difficult to conclude how far pay levels differ between SMEs and larger companies. It is probable that they do, at least with regard to officially paid wages (NSI 2004: 44). One reason for the pay differentials is the lower productivity in the SMEs, but also that many SMEs combine 'official' payments and 'other payments' (see Illesy et al. in this journal). Moreover, the 1990s witnessed huge amounts of wage arrears and unpaid wages,

with the volume of wage debts in private-owned enterprises almost doubling from 1997 to 1999. (Tsanov and Zlatanova 2001; Shtonova 2004).

Examining five sectors – textiles, industrial sub-contracting, retail, hotels and catering and ICT – there is evidence that wages differed according to company size. There is some evidence that foreign investors offer better wages than local companies (Dobbelaere 2001). One hotel was part of an international chain and human resource practices from the international company had been introduced regarding wage formation. In the three case studies in ICT, retail and hotels and catering there were no framework agreements covering the companies. Wage setting was on an individual basis (in retail, ICT and hotels and catering) or on a team basis (in the case of the hotel). There were neither local union branches nor works councils in these companies. Yet, in one of the case studies from the ICT sector management had held a ‘referendum’ each year since the establishment of the firm to estimate the level of satisfaction of the employees with working conditions and – especially – pay. Evidence suggests that where organisations sub-contract with foreign companies there can be an impact on wage levels.

The Bulgarian case studies also show that remuneration can vary according to performance related bonuses, which reflect owner/management prerogative. Each of the case study organisations had bonus systems of some kind. Often the distribution of the bonus was obscure and dependant on individual or familial relations with the employer. In two of the case studies from the ICT and retail sectors such practices were perceived as the rule rather than the exception: employees with close relations (on a family or friendship basis) received bonuses more often than the rest of the staff.

After the dismantling of the socialist system in Hungary, the wage-gap has widened remarkably; yet all sectors have not been affected in the same way and to the same extent. The Hungarian trade unions are strongest in industries where the state is still the main or sole employer and their impact is limited in SMEs. Kertesi and Köllö (2001) differentiate two types of sectors according to their wage policy. The first category consists of capital-intensive sectors such as electricity, post, railroad transports and energy, all of them sectors with a high concentration of large firms. These sectors are the ‘winners’ of the transformation as they succeeded in maintaining or even strengthening their position in the economy. The second type are the ‘losers’: sectors which are labour-intensive such as retail, textile and clothing, tourism and agriculture. These sectors can be characterized by a high level of competition and a more or less total absence of institutionalized labour relations. Regardless of the sector wage differentials due to firm-size are comparable: on average, employees working in a micro company (employing 5-9 persons) earn about half of those employed in large companies (employing more than 250 persons). Average wages in SMEs are concentrated around the minimum wage.

This concentration around minimum wages was illustrated by a case study of a micro-firm in the garment industry. All employees including the owner earned the registered minimum wage. The real earnings though, on average 90,000 HUF per month, comprised of registered minimal wage *and* non-registered payment by results. The machinists, who were women, put their professional knowledge and ability to use in the informal sector; in their free time all of them worked at home. With this extra work they earned 10-15,000 HUF extra per a month. Still, social insurance contributions payable by employers were based on registered wages, which meant that the employee will get the lowest amount of provision for pensions and will probably have to continue working after their official retirement. None of the employees were members of a trade union; and

the owner was not organized in any professional association. In her own words, 'the whole business is based on the black economy', so why participate in powerless associations?

When it comes to the case study in hotels and catering, the wage system in the company was similar to the agreed practice in the sector: employees got a basic salary plus bonuses in proportion to the firm's turnover. The bonus was previously dictated by individual achievement, but in the past two years there had been a profit-sharing scheme, distributing 10 per cent of the profit in equal proportions among the employees. This was considered by the workforce as a fairer solution in the long run. Employees received an extra month's worth of salary every December, as well as the opportunity to participate in study tours and to book charter flights at cost price (for themselves and family members).

In the case study of an ICT company, the salaries comprised monthly pay, but no bonus payments. Remuneration depended on professional experience, seniority in the company and the position in the rather flat company hierarchy. The employees working in different departments had various opinions on wages offered by the firm. Those working in the development section thought their salaries better than the average; those in the digital media section believed they were averagely paid. The point of reference was the known or supposed wages of employees working in similar positions for large, mainly multinational companies. According to the employees interviewed pay setting had two main weaknesses. One of them was the lack of bonuses, which was pointed out in particular by employees who used to work for multinational companies, where bonus packages were considered to have increased motivation. The other problem was typical within the interactive media sector: the workers at the company were not 'employees', but 'sub-contractors'. This meant that officially they did not get a monthly salary; rather they invoiced the company every month, saving the company insurance payments as well as administration work. The absence of employment contracts meant there was no guaranteed job security, whilst there was no trade union representation at the workplace.

## Conclusions

In the introduction of this article we stated that there is no reliable data that can give us valid empirical evidence of the exact wage gap between SMEs and larger companies in the eight countries, and that our results are thus exploratory. Yet, the case studies of SMEs reported here suggest that workers in SMEs earn less than workers of equal skills and competence in larger companies, not because of the size of the company, but because of the absence of a functioning, comprehensive industrial relations system covering SMEs. The combination of strong legislative norms and extensive collective bargaining coverage can provide workers in SMEs with similar terms and conditions to those in larger firms. Differences in pay between SMEs and larger companies are found in the 'deregulated' UK, Bulgaria and Hungary, where almost all wage formation take place at firm level, but also in France, where the strong, protective legislation is not combined with functioning collective bargaining and thus leaves too much room for manoeuvre at firm-level. Seemingly this difference is neither dependent upon sector nor overall pay development. The ICT industry is better paid than other industries in all the examined countries, but it still seems more profitable to work in a large ICT firm than in a SME in the four most deregulated countries, and this is most accentuated in Hungary and Bulgaria.

In the remaining four countries, the legislative norms are strong *and* combined with trade union influence on wage formation. The Portuguese unions are not strong at workplace level, but the case-studies from Portugal show that wage setting in the case study organizations still follow

closely the recommendations set out in industry-wide agreements. In Belgium, Italy and Sweden, the trade unions have been on the defensive for more than a decade, but they have never left wage formation to employers' discretion. Paradoxically the country with the smallest differences today, i.e. Sweden, might in the near future be the country where the trade unions will have most difficulties defending the wage system.

The Swedish system without minimum wages registered in legislation can easily be exposed to 'wage dumping' by foreign-owned companies that bring with them workers from the companies' home country. Even if Swedish trade unions can force such companies to sign Swedish agreements, they will hardly be able to stop them from employing foreign workers who are willing to work for the minimum wages incorporated in collective agreements, wages that are normally only meant as a 'benchmark' for negotiations. This problem is not imminent in Belgium or Italy, where the legally stipulated national minimum wages make such attempts at wage dumping too transparent to work in practice. Wage dumping is no doubt a threat to employees in these two countries too, but it is easier for trade unions to stop violations of 'normal' labour market practice than it is in Sweden.

With regard to trade union influence on wage formation in SMEs, this study can modify the negative view that the decreasing union density in Europe necessarily leads to more limited influence in small companies. It is important for a trade union to have members and representatives in as many firms as possible, but, we suggest that it is even more important to have strong bargaining power institutionalized within a well functioning industrial relations system; such a system allows employees in SMEs the opportunity to earn adequate wages.

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<sup>ii</sup> Neumann 2005 points out a second argument too, a wide-spread argument claiming that productivity growth was much higher than real wage increase during the first 10 years of the transformation justifies a wage increase larger than the annual productivity growth. Moreover, there are much stronger tripartite collective bargaining mechanisms for wage-setting in the public sector and wages are generally much higher in MNCs, but since that is less important for wages in SMEs these features will not be further discussed here.



# CHAPTER 4

## Working time in European SMEs

Paulo Alvès, Stephen Bouquin, Teresa Duarte, Leonor Pires, Luis Poças <sup>1</sup>

### Summary

*Among the different actors within industrial relations working time has been viewed as a policy tool to save jobs, to create jobs, to balance work and life, and to enhance the competitiveness of firms. Working time has thus always been a source of conflict in employment relations. This paper draws upon the SMALL research project to answer the questions; to what extent can we observe differences between SMEs and larger organisations and does the presence or absence of unions make any difference for employees? It suggests that there is an inverse relationship between the size of the company and average working hours. The informality which characterises employment relations means that working time in SMEs can be flexible which may offer opportunities for workers to achieve some work-life balance; at the same time it may also mean they are obliged to work longer and unsocial hours.*

### Introduction

Since the establishment of the organised labour movement, the reduction of working time has been a major objective of trade unions. Initially, this demand was part of the drive to improve working conditions, and to create time for leisure, family and culture. Around the 1970s, the reduction of working time was linked to the idea that work sharing may be a means to address the problem of unemployment. As Freyssinet notes, working time has always been a source of conflict, with trade unions emphasising its quantitative dimension, in order to reduce working time, and employers stressing flexibility and the link between working time and competitiveness (1998:5).

From 1870 the power of the trade unions facilitated the reduction of the working week and by the 1970s in many countries it had reached 40-hours. With the economic downturn of the 1970s, the process of working time reduction began to stagnate. Nevertheless, in the 1980s, it was reinvigorated, and the barrier of the 40-hour week was broken. This occurred in the context of a trade-off between the reduction of working time and flexibility in the operation of working time. The 1970s and 1980s, therefore, marked the beginning of a move from one model, based on standardised working hours, to a new one characterised by more flexible working patterns, accompanied by an increase in part-time work. One important exception to this new model was the introduction of a statutory 35-hour working week in France, following the failure to negotiate a trade-off between working time reductions and flexibility (Freyssinet, 1998: 646).

Recent years are marked by deregulation and an offensive by employers, particularly since 1995. As Lehdorff states, with the imposition of a new model of *'market-based governance of labour'* (2002: 417), the norm is now the diversification of working time patterns alongside the individualisation of working time, due to the increasing regulatory weakness and the decentralization of collective bargaining, accompanied by the growth of employer unilateralism.

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### Grasping a moving topic

Working time varies from one country to another. These differences reflect the social traditions and regulations structured on a national level. In some of the countries involved in the SMALL project, the 40 hour week remains the norm (Portugal, Italy, and Sweden); while for others a 36-39 hour week has become the norm (Belgium, France). At the same time, longer average working weeks occur and are characteristic of the UK and Portugal and not only for managers and the self-employed. Discrepancies also reflect gender and age. If part-time work is spreading through Europe, it engages the majority of women in the Netherlands (61 per cent) while it oscillates between 20 per cent and 35-40 per cent of the female workforce in other countries, but not more than 5 to 7 per cent of the male workforce in all EU member states. Generally speaking, atypical time schedules are unequally spread among socio-professional categories, status, age, gender and sector. Because of these variations, and because of the multiple determinants (individuals, firms, social partners, law, etc.), it is difficult to analyse the subject of working time comparatively.

The last twenty years could be summarised as witnessing an unequal, uncertain, but continuing reduction of working time, combined with flexibility, but there is the prospect of a reversal. An employer offensive to lengthen the working week (without increase of pay) has been under way since the late-1990s and has been successful within several large-scale multinational companies, including Siemens, Bosch and Volkswagen in Germany.

Alongside the tendency of social differentiation regarding working time is the fragmentation of the institutional frameworks. Attempting a cross-national overview of regulations regarding working time, through statutory regulation or collective bargaining, is like trying to map permanent turmoil. It might have been expected that the European Working Time directive (Council directive 93/104/EEC)<sup>2</sup> would contribute to a harmonisation of working time and, therefore, of real worked hours; but this is not necessarily the case since the minimal standards it implemented regarding the maximum length of a working week (48 hours), the length of a working day (12 hours) and the minimum duration of intervals in between working shifts (9 hours) were set far beyond current practices within most member states. In terms of the statutory maximum duration of the working week: in Hungary, Italy and UK legislation follows the EU limit of 48 hours, while Bulgaria, Portugal and Sweden have adopted a lower limit of 40 hours and Belgium a limit of 38 hours. Nevertheless, regulation may allow for those limits to be exceeded by using an average over a reference period. The extent of the reference period varies according to national legislation, from a four-week period to a 12 month period. It has to be underlined that some professions or sectors are outside the remit of the directive and retain working times beyond these limits.<sup>3</sup> Generally speaking, if the directive facilitated longer shifts, evening, night or weekend working, it also put some limits to this flexibilisation. But, the regulatory strength of the overall legal framework is also diminished by the potential for 'opt outs'. Indeed, exceptions to the standards set by the directive are authorized under the condition that they are negotiated or confirmed by collective agreements. Implicit in the directive, therefore, is the probability that the standards set by the directive are not necessarily those that will be enforced. The European directive did not reverse the ongoing decentralisation of collective bargaining, with differentiated and negotiated patterns of working time. Hence, we have flexibility in patterns of working time as well as variation between institutional frameworks.

If we observe throughout Europe a differentiation in working time, we can ask the question: to what extent it is still reasonable to develop an analysis regarding working time in SMEs? In our view, the study of working time in SMEs is important for two reasons. First, we wanted to verify how the length and patterns of working time differ between larger and smaller firms. Second, we wanted to

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<sup>2</sup> As amended by Directive 2000/34/EC, of 22 June 2000, and consolidated in Directive 2003/88/EC, of 4 November 2003

<sup>3</sup> - There is still no consensus regarding an updated version of the working time directive since some want to keep the opting out possibilities for sectors or countries (EIRO, 2006).

understand to what extent the presence or absence of union activity in SMEs has an effect on working hours and flexibility.

### SMEs and long working hours

In order to verify the extent to which employees are working longer in SMEs than in larger enterprises, a statistical analysis was conducted using the French data-bank SUMER 2003 (Bouquin, 2006). This SUMER-survey integrates the responses of 50,000 employees to a questionnaire conducted by medical visitors during the employees' obligatory annual medical visit. We selected the results of five different sectors reflecting those sectors covered by the SMALL case studies: retail, metallurgy (part of manufacturing), ICT, personal services/care and garments, which represented almost 9,000 respondents. In response to the question 'how many hours did you work last week?', with the exception of personal services/care, it was clear that the smaller the firm, the longer hours employees were working. In metallurgy in the manufacturing sector, the average was 38.5 hours in firms with less than 50 employees, 37 hours in the middle sized firms (51-250) declining to 36 hours in the larger firms (250+). There was a similar trend in the garments industry, in retail and ICT. In SMEs 60 per cent of the people reported 'working longer often' while in the large enterprises only 50 per cent of the respondents did so. This is particularly the case in ICT and garments where the proportion of those reporting 'working longer often' in SMEs was between 15 and 20 per cent higher than those in larger enterprises. In contrast, in retail, employees in larger organisations are more likely to work a longer working week. In absolute terms, the longest working hours in small and medium sized structures were in retail and textile with a maximum of 42 per week, 44 hours in metallurgy and a maximum 46 hours in the ITC sector. For a vast majority of the respondents in larger enterprises (250+ employees), the maximum worked hours per week rarely exceed 40 hours.

This data confirms the general trends observed by France's statistical department, INSEE as is shown in Table 1. As the statistical analysis shows, however, retail and personal services are exceptions. In these sectors a substantial proportion of the female labour force works part-time and the working week can be longer in larger firms although for full time employees only.

**Table 1 – Working hours and firm size (France)**

	Enterprise Size (number of employees)						Total
	10-19	20-49	50-99	100-249	250-499	500 (or +)	
Average annual worked hours / employee	1675	1637	1606	1604	1598	1586	1609
% of employees working less than 1620 hours per year	49	61	79	76	85	88	77

Source: French Employment, Social Cohesion and Housing Ministry (2003), quoted by INSEE (2006)

It has to be taken into account that the situation in France may have been affected by the fact that the statutory 35-hour week was not applied to the enterprises with less than 20 employees, which still follow a 39-hour week (EIRO, 2006b). Nevertheless, although statistical data for other countries on working time in SMEs are generally not available – because data are often aggregated and not presented by firm size – and taking into account that it is not easy to make comparisons between countries, since data often refer to different reference periods and are grouped in a different manner, the fact is that in most of the countries there is evidence that employees in SMEs work longer hours than their counterparts employed in larger enterprises.

Data from Belgium (EIRO, 2006) show longer working hours in micro-enterprises (an average of 44 hours a week) than in large enterprises (40 hours a week). In Italy, statistical data for the whole economy (source: ISTAT 2001, quoted by Allamprese *et al.*, 2005) shows that in companies with more than 20 employees the average number of annual working hours per employee is 50 hours below those working in companies with up to 19 employees. As a specific example, data on the

metal sector (source: ISTAT 2003, quoted by Allamprese *et al.*, 2005) show that the average number of hours worked per year per employee is higher in companies with less than 20 employees (1780 hours) than in companies with 20 or more employees (1732 hours). Furthermore, there is also a clear trend in manufacturing, with an inverse relationship between working hours and company size (Table 2).

**Table 2 – Working hours and firm size in the manufacture industries (Italy)**

	Number of employees					Total
	1-9	10-19	20-99	100-249	250 and more	
Annual worked hours per employee	1,763	1,756	1,731	1,691	1,659	1,714

Source: ISTAT 2001, quoted by Allamprese *et al.*, (2005).

Portuguese data from 2000 (DGEPP, 2003) reveal that the average working week for all sectors is of 37.1 hours. However, this increases to 37.3 hours in enterprises of between ten and 499 workers; but decreases to 36.6 in enterprises with more than 500 workers.

Hungarian data suggests that almost 90 per cent of employees work more than 35 hours per week. However, the proportion varies between the various size bands. In large firms 82 per cent of the employees regularly work more than 35 hours a week, whilst in micro firms the figure is only 62 per cent. It is also the case that working hours vary more frequently in the smallest organisation, suggesting perhaps that these small firms organise working time more flexibly.

The Confederation of Swedish Enterprise (Svenskt Näringsliv) has published a report (2005) showing the working hours of entrepreneurs in micro firms, with 1-10 employees. In general, an entrepreneur worked an average of 48.3 hours a week, although there were geographical differences. The report concludes that there is a relationship between company profit and the length of working hours with profit increasing by 20-25 per cent per hour worked.

In the UK, average working hours vary more by occupation and sector than by establishment size. Some sectors are characterised by very long working hours in SMEs (in hotels and catering, for example), while other sectors follow the same average regardless of the company size (EIRO, 2006b). Hogarth (2003), however, suggests that workers in small firms (5-49 and 50-249) are more likely to work 'sustained long hours' (more than 48 hours per week on average over a four month reference period) than those in larger firms (250 or more). They are slightly more likely to work 'occasional long hours' (more than 48 hours per week at any time in the last 12 months), but no more likely to work regular 'additional hours. More recent research from the UK (Forth *et al.*, 2006) suggests that the mean average overtime hours worked by those in SMEs is lower than those working in larger firms, at three and four hours respectively. However, this is thought to be largely due to the higher numbers of part-time workers employed in small firms who work fewer overtime hours than full-time employees (Forth *et al.*, 2006). In the UK a minimalist approach to the legal regulation of working time has been defended by some SME employers believing that the nature of social relations in small firms renders legal regulation unnecessary. In the UK transposition of the Working Time directive allowed employers and employees to enter into agreements to exempt themselves from the 48 hour limit. One survey, conducted by the Confederation of British Industry (CBI, Employment Trends Survey 2003) suggested that, an average of one-third (32 per cent) of workers have signed an opt-out. However, this figure rose to 41 per cent and 37 per cent for firms employing 50-199 workers and 200-499 workers respectively. It also found that for the small- and large-size bands on either side of these the level of opting out was lower than average. The data does not reveal the extent to which these agreements were entered into 'voluntarily'.

In terms of the flexibilisation of working time, drawing upon the statistical analysis of the French SUMER survey (Bouquin, 2006 : 44-45) we observe that employees in SMEs report that that they are

less likely than employees in larger firms to work on Sunday or during public holidays and during the night, but more likely to work on Saturday.

**Table 3 – Working patterns (France)**

Numbers of employees	1-10	11-50	51-250	251 +
'yes, there are periods when weekly working hours are shorter'	35,9%	38%	45,4%	46,6%
If so, how much do you work during that period?	31h	30h	29h	28h
Working in shifts (2 x8 & 3 x8)	2,4%	7,7%	27,8%	49,2%
Working Sundays and public holidays (annual # of days)	36,5 % (13)	37,6 (14)	41,3% (13)	46,7% (16)
Working on Saturday (annual # of days)	69,3 % (33)	65,3 % (30)	64% (24)	66% (20)
Working during the night (annual # of days)	9,6% (62)	13% (64)	22,5% (65)	32,1 (76)

(Source: Bouquin & Huynen, 2005:12-14)

In conclusion, the available evidence shows that there seems to be an inverse relationship between the size of the company and the average length of working hours: the larger the firm the shorter the average number of hours worked per year per employee. This is congruent with Palmieri's analysis in this journal when he assumes that profitability in SMEs is based upon lower terms and conditions including lower salaries, longer working hours, below-standard working conditions and irregular forms of employment.

### Collective bargaining in SMEs

Collective bargaining sets another regulatory level, which can establish more favourable conditions for workers. Yet as the Introduction to this issue of *Transfer* shows, collective bargaining coverage in SMEs is often partial and management may be unilateral. Table 4 shows the gap between the legal and the average collectively agreed maximum weekly hours, highlighting the important role of collective bargaining over working time, although it is important to note that in the case of the UK, at least, collective bargaining coverage is partial in the private sector. Throughout the EU as a whole, the average was around 38.6 hours, well below the statutory maximum standards of 43.8 hours (EIRO 2005). The exception is France, where the first of the two laws enacted in 1998 and 1999, which stipulate the 35 hour week, encourage the social partners to negotiate on this issue at company and sectoral levels. It is reported that this seems to have happened immediately in 1999 'with exceptional energy' (EIRO 2000b). With annualisation, the average remains at 35 hours, but over longer working periods of several weeks may go up to 45 or 48 hours.

**Table 4: Weekly Working hours in the SMALL countries**

Country	Weekly working hours		Difference
	Legal	Agreed by collective bargaining	
Belgium	38	38	0
Bulgaria	40	40	0
France	35	Variable 35=>48 *	+13
Hungary	48	40	-8
Italy	48	38	-10
Portugal	40	38.4	-1.6
Sweden	40	38.8	-1.2
UK	48	37.2	-10.8
Average	43.8	38.2	-5.6

Source: EIRO 2005 / \* depends upon the sector and firm level agreements with three-monthly averages

The 35 hour week was applied in France through a combined use of law and negotiation (Eiro, 2002)<sup>4</sup>, with SMEs at the heart of the negotiation: 40,000 of the 55,000 collective agreements were signed in enterprises with less than 50 employees. A further 25,000 very small enterprises applied the 35 hours week through a branch agreement. Hence, the application of working time reduction in France was an important element in fostering social dialogue in SMEs. It was made possible through the system of 'mandating', whereby an external union negotiator assisted the employees. However, the advantages of this mandating system could not overcome the limits of the legal framework. Indeed, the most recent surveys, suggest that 70 per cent of the labour force of very small enterprises had not yet seen working time reduced. Officially, a 35 hour statutory week has been applied to all workers since 2002, but practically, the right-wing government decided to maintain a large annual contingent of overtime from 134 hours. Under this maximum, worked hours are paid as overtime but at a reduced rate compared to larger firms. Indeed, in the very small enterprises, the payment rate of overtime has to be increased with 10 per cent from 35 hours to 39 hours, 25 per cent from 39 hours up to 43 hours and 50 per cent up to 43 hours. Beyond the annual maximum allocation, overtime has to be compensated. With this system, it is easy to understand why, in the context of SMEs, the application of the 35 hour week appears to be more concerned with the introduction of flexibility than the reduction of weekly working time.

The trend towards the decentralization of working time regulation and the extent of the coverage of collective agreements varies from state to state. In Portugal, for example, the key level of collective bargaining is sectoral level. There is no reliable data on the real coverage of collective agreements, particularly with regard to SMEs. In any case, whilst collective agreements often follow the legal standards, employers may evade regulation, For example, there are numerous reported cases of underpaid or unpaid overtime.

In contrast, in Belgium coverage of collective agreements is wide, regardless of enterprise size or sector. The Belgian system is characterized by the dominant role of sectoral bipartite commissions, which adapt collective agreements to the particularities of each sector, allowing for the establishment of specific norms for SMEs. At the same time, when, in 2000, the Belgian government announced a plan that stipulated a four-day working week and a 35 hour working week, unions deplored the fact that this was done outside the social dialogue process.

The three Italian trade union confederations, each of which is opposed to legislative intervention in principal in the area of working time, approved a bill reducing the statutory working week from 40 to 35 hours from 2001 when the government proposed such a measure in 1998 (EIRO 1997). In Italy, industry wide agreements still leave room for further reductions and for its adjustment to particular situations through company level agreements. Nevertheless, company level bargaining varies according to company size and the local strength of unions, with coverage more extensive in larger enterprises, and northern Italy. The length of working time and flexibility has been one of the main subjects of collective bargaining.

The situation is different in Hungary, where collective agreements are mostly established at the national level and do not go much further than national legislation (EIRO 2003b). In the Bulgarian case the application of sectoral collective agreements to SMEs is almost symbolic; in the few cases where there are collective agreements they usually follow the legal minimum standards.

As in Bulgaria, some Swedish trade union organisations have demanded legislative intervention on issues concerning working time, such as the Swedish Confederation of Professional Employees (*Tjänstemännens Centralorganisation*, TCO), which in 2000 called for a new working hours act largely due to concerns over the health implications of long hours working amongst white collar

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<sup>4</sup> - [http://www.cfdt.fr/pratique/guides\\_droits/pme/rtt.htm](http://www.cfdt.fr/pratique/guides_droits/pme/rtt.htm) (december 2006)

employees (EIRO 2000). However, a majority of those unions representing blue collar employees prefer working time to be regulated through the process and outcomes of collective bargaining, a view shared by both government and the Swedish Employers Confederation (*Svenska Arbetsgivareföreningen, SAF*) (EIRO 2000).

In the United Kingdom in the private sector the key level of bargaining over working time matters in the private sector is at company level. The partial nature of collective bargaining coverage in the private sector means that working time is often left to the unilateral initiative of the employer. Yet, as Hogarth suggests (2003), using primary survey data, the presence of a trade union undoubtedly has an impact on reducing the average working hours of all occupational groups, curtailing the working week in general by an average of 24 minutes.

The case studies upon which the SMALL project is based do not provide a coherent picture with regard to working time and there is variation in the extent to which working time was influenced by collective bargaining frameworks. For example, all the Swedish cases conformed to the national law and sectoral agreements; in other countries working time tended to be determined by managerial prerogative. Nevertheless, a comparative analysis has shown some common themes; longer working hours and a degree of informal and individual flexibility.

#### **Working long and unsocial hours...**

Additional working hours (above and beyond contractual hours) were a common feature of the case studies across very different sectors: the ICT firms in most countries, small French manufacturing firms, a dental sub-contracting company in Sweden, the manufacturing companies in Portugal and a automobile garage in Belgium. The case studies suggest that in SMEs working long hours do not often follow the path of annualisation. In a number of our cases, there was evidence of paid overtime, which may vary on a seasonal basis. In a Swedish organisation producing wrapping paper, an attempt to allocate equally the production over the whole year did not succeed because the pace of work was particularly intensive before Christmas. Yet, in this case, the seasonal fluctuations were accommodated through annual flexible working time as well as the use of temporary workers and paid overtime. In the manufacturing companies in Portugal overtime is paid and not compensated by the recuperation of worked hours.

In some cases additional working hours were compensated by 'time-off in lieu' and flexibility, rather than paid overtime. For some workers time-off in lieu is an option (alternatively to paid overtime); while for others it is the only compensation for additional hours. This happens to be the case in the garment sector in Bulgaria, where the extra work is not paid but compensated with a reduction of the duration of another working day. It is also the case of an ICT firm in UK, where only around a third of employees worked within their contracted hours, while another third worked up to five hours extra a week and the senior management team worked between 50 and 60 hours a week. These additional hours were unpaid, although staff could take time off in lieu and they were taken into account as 'extra effort' during the performance review.

Where additional hours are paid, workers' dependence upon extra income means they often cannot afford to see their hours cut. We observed in one of the UK manufacturing cases how the removal of additional overtime rates for the drivers was the main grievance that led to union recognition. The full-time union officer reported that the union had not subsequently addressed this issue, partly because of the financial dependence of drivers on overtime, but also because of its awareness of the vulnerability of the company's position in the market. The Working Time Regulations had raised issues for drivers since they exceeded the number of hours, which could be averaged over the time period laid down by the regulations. They subsequently signed individual opt-outs.

Working long and unsocial hours in a context of economic competition is a common feature in SMEs. In most of the cases, the reasons mentioned are 'the competitiveness of the firm' or 'reaching business goals'. Competition between firms encourages longer working hours. The case study done in Bulgaria the retail sector shows precisely how this works: the owner of the firm stated that previously his shop was opened till 7 p.m., but since other shops in the vicinity opened till 8 or 9 p.m., although he perceived this extension in opening hours in extremely negative terms, he had to extend the working hours in order to avoid a loss of customers.

But there is a specific dimension related to SMEs. Indeed, holding a supplying or a subcontracting role reinforces the importance of longer working hours. Clients do not wait and orders have to be met within tight deadlines. SMEs are increasingly assuming a role in supply-chains and have other firms as clients. The less they have access to the consumer market or the more the order book is dependent on a few companies, the more they need to comply themselves. The commitment of the workers to the enterprise, the fear they have in losing their jobs may also lead them to accept longer working hours. In a UK case study of an insurance company, working hours were structured around a basic 35-hour week. The workplace union representatives suggested that they acted as a contractual minimum where workers were both expected to and accepted the need to work longer hours in order to 'get the job done'. Although these 'extra hours' were not contractually enforceable it appeared that employees viewed them as necessary to ensure the success of the company and to preserve their own employment.

Other illustrations of this aspect can be found particularly in firms in the ICT sector, where, weekend working in response to workloads is very common. But this situation is not exclusive to this sector as week-end work was also found in the Hungarian garment company. In the UK case study of a hotel it is also reported that chefs worked long and unsocial hours throughout the sector.

In contrast to this reality, in two UK case studies in the personal services sector (a dentist and optician) there had been a reduction in hours, confirming the view that in SMEs the individual beliefs and values of employers can be influential over working time. Here, both organisations appeared to be at a similar stage in their life cycles. That is, they had been founded by owner-managers who had worked long hours in establishing the practices, but who were now in their fifties and were looking to cut down on their own working hours. This and the lack of unbridled product market competition (evident in these cases) may support a benign or protective paternalist owner management style that does not have to depend on excessive working hours – in both the opening hours of the practices had been reduced.

### **Flexible Working Time**

Analysis of the French SUMER survey demonstrates a strong correlation between the way decisions are taken regarding working time schedules and the size of the enterprise (see Table 5). The larger the enterprise, the more likely working schedules are to be formalised and the more employees can choose between different options or schedules. Conversely, the smaller the size, the more likely working schedules are to be subject to individual employee choice (13.2 per cent in enterprises of between 1 and 10 employees, 10.2 per cent in 11-50; 7.5 per cent in 51-250 and 6.1 per cent in 251+).



**Table 5 - Who determines the working time schedule?**

<b>Number of employees</b>	<b>1+10</b>	<b>11-50</b>	<b>51-250</b>	<b>251+</b>
Working time schedules are determined by the company	76,6% (n1713)	79,0% (n2068)	81,4% (n2198)	80,4% (2717)
We may choose between different options of working hours schedules	10,1% (n226)	10,6% (n282)	11,2% (n302)	13,3% (n449)
We determine schedules by ourselves	13,2% (n294)	10,2% (n194)	7,4% (n200)	6,1% (n208)
No answer	0,2%	0,2%	0,0%	0,2%

(Source: Bouquin & Huynen, 2005: 22)

Flexible working time was a common practice in almost all studied cases. Workers may vary their start and end times and, in some cases, even the number of hours that they work in a particular week. This may allow workers some control over their work and represent one advantage of working for a smaller organisation.

Such flexibility with employee-decision making was observed in the ICT sector. For instance, in one Bulgarian ICT case study, the employees could start work at any point in the period between 8.30 and 10.00 am and finish between 6.30 and 7.30 pm. Each of the employees was free to allocate their own time as long as they fulfilled their working responsibilities, which include, of course, meeting deadlines and clients' needs. Similarly, in the other Bulgarian ICT case study, the owner explained that each of the employees determined their working time in accordance with the needs of the clients:

'We are serving a lot of clients. They are the ones who determine the working time of employees – at what time to be at their offices and how tasks should be undertaken. Thus working time depends on clients' requirements. When we have no work with the clients everyone is free to come and stay whenever he/she wants to.' (Interview with the owner of a Bulgarian company in the ICT sector)

Elsewhere in the ICT sector, in Hungary an interactive media company did not formally regulate working time. Work organisation was project based, and resources and working hours were assigned according to the needs of current projects and governed by project workloads. Inter-departmental differences in time management were frequently found, as different groups of workers (for example, consultants, sales staff or financial administration) had to meet different deadlines.

In the UK case study of an optician, the owner suggested that informal flexibility can give workers, in this case the receptionists, some control over their working lives:

'They can do day swaps, you know job share. If they want the day off – 'I'll work it for you, you work it for me', you know that sort of thing. Basically, they've been here for 18 years and I have nothing to do with it. They don't come to me with leave or whatever. If they want a week off they're prepared to work it for each other. By and large I let them get on with it. They tend to work pretty well the hours that they are employed for. It varies from the week to the next, but they're pretty well varied. And if problems arise you know it's all very flexible here. I say to them as long as we've got somebody here I don't care who does it'. (Interview with the owner of a UK optical enterprise)

Flexibility over working time is increased if workers have bargaining power based upon a stronger labour market position. This means that the traditional paternalistic culture of small family businesses or enterprises where the 'boss' decides everything in an authoritarian way cannot be maintained everywhere. In the Belgian study of garages Saturday work was a very regular

arrangement in response to clients' needs. Only limited activity was scheduled for Saturdays, however, to allow white- and blue-collar workers to alternate in order to reduce their number on a personal basis. Time swapping and interpersonal negotiation are common practice. This situation is tolerated or favored by employers in order to retain labour. Labour turnover appears to be high and shortages of qualified engineers or mechanical technicians gives workers some bargaining power. Similarly in the Bulgarian case study in the garment sector, during the summer a number of the workforce were engaged in domestic agricultural activities and the owner reduced the working day to allow them the opportunity to fulfil these tasks. Here very low wages are combined with plural sources of income to fulfil household needs and a employers' vary their requirements in order to stabilise the labour force.

Such a constrained flexibility neither excludes longer working hours nor intensification. A study of family friendly working in UK-based SMEs found that in some cases workers had access to flexible working arrangements, but they were expected to offer reciprocal goodwill or flexibility (Dex and Scheibl 2001). The case studies suggest that employers expected flexibility to be reciprocal. In one of the UK case studies in the manufacturing sector, one employee respondent appreciated the company's flexibility:

'The good points are that they tend to be more flexible with you. I think it works both ways as well because a lot of the times we have to be flexible with the company.'

He felt that the company was flexible on its own terms. For example, employees had not been consulted when shifts for production workers were changed.

The absence of unions does not necessarily mean absence of resistance to employer offensives, although this may be on an informal basis. In the French case of a small enterprise manufacturing taps, valves and fittings employing 120 persons, the Company Director took the decision to lengthen production time through shift work. Workers resisted through passive and informal means, undermining the quality of the products, and the employer had to revert to a traditional time organisation from 8 to 5 that allowed overtime at the end of the day or at the weekend. This demonstrates the strength of largely male craft 'tradition' can be, even in a non-unionised workplace. Of course, this 'tradition' is also linked with the substandard wages (20 per cent of employees are below the average of the sector) and the way workers responded to proposed changes through output restriction on the one hand and dependence upon overtime on the other. Again, this pattern is also made possible by a restricted labour market and the strong ties of this family based industry with the region.

Informal flexibility reflects the need for social consensus among employees and between management and the labour force. It is also as a way to avoid control-related costs. In spite of the organizational advantages perceived by the employers, an enterprise in the ICT sector in the UK abolished a tight flexibility-scheme, as it considered the management resources required to monitor such a scheme meant it was not cost effective.

### **Work-Life Balance**

Kirton and Read in this issue show that flexible working arrangements in SMEs may reflect the general informality of industrial relations in SMEs and that this sometimes allow workers to adjust their hours to suit family responsibilities, albeit on an individual and informal basis. Analysis of enterprises with 'round the clock' organization shows that the constraints set on working time flexibility reflect the impact of work-life balance choices. This is clearly the case in the Swedish personal care sector. Working time was divided in three shifts, including one night shift. It was the collective responsibility of the workforce to ensure that night shifts were covered. This was possible because some of the employees did not want to work the nights, but one third of the workforce lived at some distance from the workplace and preferred to work longer interrelated working shifts,

working and sleeping at the call centre and then returning to their families for consolidated periods. The workforce thus had some control over working time, based upon internal solidarity. Similarly, in the case study of care homes for the elderly in Belgium, employees ensured that working time was reconciled with their personal life or even avoided working nights through reciprocal arrangements based upon work networks.

A number of the case study organizations accommodated part-time working to attract or retain women workers with caring responsibilities, even though their preference might be for full-time workers. The case studies do not indicate that part-time working is more frequent in small and medium organizations than in larger ones, but suggest that part-time working may reflect sectoral and national economic trends. As in large enterprises, part-time is regarded as an important instrument of adjusting employment levels to fluctuations in the activity of SMEs, and as an important solution for work-life balance, particularly for women workers. In the case of the UK insurance firm, the company had no formal policies on work-life balance and, as a result, it dealt with work-life balance issues on an ad-hoc basis, mainly through part-time working, which had been agreed with a number of workers, generally women returning from maternity leave.

Nevertheless, sometimes part-time work is also regarded as a solution to increase productivity or to adjust employee's presence to the volume of activity. We can see that in the UK insurance company. Indeed, as was already mentioned, the company's position was not to encourage part-time working, but to use it as a tool to recruit and retain valuable workers. In the interview, one management respondent felt that employers 'get a good deal out of part-time staff' as they work much harder during the hours that they work. The case study on French personal services (a hairdressing firm) is particularly significant. In this case, part time workers were limited to work periods, which met client demands, i.e. midday and late-afternoon. If they wanted to work all day (10am up to 7 pm) they had to work on a piece-rate system, which reduces labour costs. Working full-time implies earning a relatively lower income on an hourly basis.

The case study in the Belgium retail sector teaches us something else. As we could expect, more than half of the women are working part time in a sector where they represent 47 per cent of the labour force overall. When women are working part-time, mostly they are half-time or less. Thus, working at unsocial hours like late afternoon, weekends or evenings seems to be bearable when it is limited to short periods in the week. A number of case studies suggested that female employment in small retail or trade structures is mainly possible through a family based business or with a strong and extended family network. This confirms the view that unsocial hours tend to limit the weekly working period for women. There are of course other ways of coping with the economic categorical imperative of long opening hours, for example, mobilizing community-networks. This can explain why workers from some ethnic minorities form relatively large proportions of workforce in small trading and retailing enterprises.

In the Belgian hotels and catering sector, employment is equally balanced between men and women and half of the men are employed part-time. However, it is a 'public secret' in this country, that part-time work is a screen for full-time employment by which employers avoid social insurance contributions and taxes. This is particularly the case in small enterprises and less in chains or networks. Male employees are in real terms working full time.

At a medium-sized French metal working firm, women were employed with neither part-time arrangements nor shift-work, but still managed to attain a work-life balance. In this case, women work from 8.30 a.m. to 4.30 p.m. and were satisfied with this working timetable, because it allows them to reconcile their full-time working with their family life (as the daily work timetable is similar to that of the school). When necessary, the firm turns to annualized working hours arrangements, but employees are all working full time.

Because of the importance of work-life balance and the financial needs of employees, allowing them time to take a second job seems to be a key factor in the wage relationship within SMEs. This is no less the case on the employer's side, because of the need for flexibility in responding to market fluctuations. But the necessity to foster or maintain competitiveness for small structures via longer working time is mainly through overtime and less frequently through formal or organized flexibility, such as annualisation. Obtaining acceptance for such arrangements depends upon workers' need to increase income, but also via loose arrangements that leave space for interpersonal adjustments. In all cases, the flexible working arrangements in SMEs that allowed workers to adjust their working hours to match a work-life balance were of an informal nature, often on interpersonal or individual basis rather than through the adoption of formal policies and procedures. We, therefore, conclude that a limited but real 'time sovereignty' for employees is an important dimension of the wage relationship inside small organisations.

Does this mean that compliance is less present in SMEs than in larger firms and that unions are therefore not necessary? The answer is no. What happens when schedules become irregular, unexpectedly prolonged or unbalanced regarding outside work, or when unpaid overtime cannot be recuperated? As Moore et al, in this volume argue, the primary response to dissatisfaction is informal exit, which may be the result of pressure from managers or other workers. This means that without union representation or other countervailing power, the balance of power between employees and management is strongly dependent upon management's need to retain staff. The internal dynamics of the firm, therefore, is strongly linked to the market position of the labour force.

The relative abundance of informatics specialists may explain why in the ICT services and engineering we observed so much unpaid overtime, irregular work schedules, sacrifices of rest periods and severe changes in work rhythms (from over-occupied to under-occupied periods), all of which affected employees' work-life balance. Of course, those aspects existed before, but were accepted because of the specific work ethic (a job that integrates a hobby and give a high satisfaction) and compensated by periods of chosen inactivity. This is not possible anymore and the changed labour market facilitated *flexibility with high competition* between individuals. The only exceptions to this situation were those with particularly high-level qualifications. Sometimes, such a harsh climate has effects on work organization, as it cause conflict and put organization under pressure, as it was mentioned in the Hungarian ICT firm:

*'It happens every day that there is a work, it is sectioned out, and an order comes above us saying: you do this and that because it has priority. And after a short time later the manager comes, and you are asked why you aren't ready with your first task. This causes permanent conflicts.'* (Interview with a senior developer of a Hungarian enterprise in the ICT Sector).

The flexible organization of working time can also lead to situations where no records are kept regarding daily, weekly or annual working time and, therefore, there is neither control over working time nor company conformity with legal or agreed limits. Unpaid overtime can be a common feature. When working time is frequently deregulated because of an orientation towards specific goals (namely projects' deadlines and clients' needs), it appears that flexibility may have no boundaries, not even average ones within a reference period. Examples of such realities were shown in the Bulgarian and Portuguese ICT case studies. In the ICT company in Italy, the legal limitations on total hours in shifts, breaks and weekend working are sometimes put aside, at the organization level, through individual agreement made in an informal basis with the workers. Yet, even if these norms give room for flexibility they reduce the degree of informality and unilateralism

since they keep the need for employee's work-life balance into the framework of working time. A similar situation was found in Belgium where the retail sector has developed different statutory norms based on the size of the firm (less than 20, less than 50 and more than 50 employees) and the nature of the trade (food and non-food). Concretely, norms produced through social dialogue or by law will be applied in a different way. The smaller the enterprise, the longer the working time (39 hours instead of 38 hours), the longer the week (six days instead of a five day week) and the lower overtime will be paid on a supplementary rate. Both situations demonstrate that monitoring tools for unions and public institutions are necessary. Without them, individual workers would not be able to enforce the law.

## Conclusions

Although statistical evidence is not comprehensive or comparable for all the countries involved in the SMALL project, it suggests that employees in SMEs work longer hours than their counterparts in large enterprises, and that, in general, the smaller the company, the longer the average number of hours worked.

Working time in SMEs in the eight countries is only partially regulated by European and national legal frameworks or by collective bargaining. The case studies reflect the larger trends in working time towards flexibility but mainly through informality. The social relations that characterize SMEs may mean they are particularly suited to flexibility of working time. Workers may negotiate flexible working time arrangements at an individual level and the case studies suggest that this may give them a degree of control over their work-life balance. For women, part-time working arrangements were used to accommodate work with caring responsibilities and may be necessary to retain women in the workforce. This means that, depending upon the labour market position of individuals or workers collectively, there is some 'time sovereignty'. However, this is dependent on the labour market and company competitiveness and profitability, particularly where SMEs are part of a supply chain. In SMEs, such dependence may lead to fluctuations in demand and unpredictable working hours; there is a trade-off between irregular working hours and flexibility. Flexibility may be granted on a reciprocal basis and the case studies suggest that employers expected commitment in terms of additional long, irregular and unsocial hours. Work-life balance arrangements dependent upon interpersonal relationships, therefore, are fragile. Time sovereignty may be part of the wage relation, but lower wages may also lead to dependence upon overtime and excessive working hours. In the absence of collective representation or action, workers with grievances have to adapt or to leave.

Flexibility is often subject to the unilateral exercise of managerial prerogative. Unions can make a difference in checking this, subject to product/service market competition. They can contribute to a rationalization of the organization, of working time as well as of repartition of the workload and the general dynamism of a structure. In their absence, longer working hours and informal flexibility are management's response to competitive pressures.

## Chapter 5

# Health and safety in SMEs: the challenge for unions

Marianne De Troyer and Stéphane Le Lay\*

### Summary

*This paper proposes that health and safety risk is related to the size of firm; where statistics are available they show that risk is higher in smaller than larger organisations. Although some SMALL case studies demonstrate compliance and even proactive health and safety initiatives there are economical, social as well as institutional barriers to the effective implementation of health and safety in SMEs. Health and safety committees with worker representation have a positive impact in the workplace, yet legal thresholds for representation, mean that few SMEs are required to have such representation. The paper concludes by suggesting measures to strengthen health and safety compliance, arguing that this requires the active participation of workers and their organisations in defining and implementing preventative policies.*

### Introduction

The issue of health and safety at work has to be considered within the context of wider political, social, economic and scientific processes. Rather than separate fields, in the context of health and safety, these are interdependent and have dynamic relationships, for example, certain forms of cancer can be recognised as an occupational illness (Dares 1998: 51-59). Whilst the issue health and safety is defined by specialists (doctors, work inspectors, ergonomists, sociologists, statisticians, psychodynamic specialists, etc.), in reality, it is determined by the social conduct of employers, employees and eventually, their representatives, in the context of productive relations in the workplace. In this context health and safety is determined by a various number of factors, often intertwined. Following David Walters (2002), social barriers like close relations between workers and employer or peer pressure do have an impact as well as economic pressure (survival struggle of the company), regulatory weakness (limited presence or implementation of measures, no advice nor support), professional limitations (limited interest insurance organisations, limited resources) and last but not least labour organisational pressures (weak unionisation or absence of representation). Following other authors, the issue is more strongly linked with the general balance of forces in wider social relations (class, gender, generation, race) (Appay, Thébaud-Mony 1997; Vogel 2003; Flourey, Guignon 2004).

The past 20 years has seen the increased integration of health and safety policies at European level, (speeded up by the signing of the Amsterdam Treaty in October 1997). This move towards harmonisation was reinforced by a decision of the European Court of Justice in 2003, whereby heavy financial sanctions were applied to countries not conforming to the transposition of European decisions into national legislation. Regulation in this field has become considerably more complex, influencing both national policies and entrepreneurial behaviour. However, the position of Small and Medium Sized Enterprises (SMEs) in this architecture remains problematic from a number of points of view. The aim of this paper is to look at barriers to the effective implementation of health and safety in SMEs and at the ways in which unions and public

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institutions may develop policies to improve working conditions and gain a renewed understanding of the links between the external environment and health and safety in the workplace.

### Health and safety in SMEs

Recent data produced by European institutions questions how far European Union (EU) legislation on health and safety at work is significantly improving working conditions in firms (European Foundation for the Improvement of Living and Working Conditions 2005). It is true to say, that trends in death rates, accident rates, and risk rates diverge and make it difficult to demonstrate a *generalised degradation* of health and safety at work. At the same time though, there are indicators that suggest the relative ineffectiveness of measures taken over the last few years, to improve the situation of workers.

There is a considerable amount of European legislation regarding health and safety at work (Soudry 1999), and its transposition into national law forms a substantial legal base. Yet, even in a particularly well-developed system, such as the French system, which is extensive in its coverage and involves a multiplicity of decentralised structures close to workplace level, it has to be acknowledged that the profile health and safety generally remains low *within* SMEs (Le Lay 2005).

One of the main reasons for this contradiction is the fact that European regulations have been designed, to a large extent, to fit an industrial model based upon large-scale organisations, which does not take into account recent developments - such as the expansion of the service and tertiary sectors and the phenomenon of sub-contracting. With regard to health and safety, it has been argued, by some European or national institutions, that emphasis should not be placed upon the size of the firm<sup>1</sup>. Rather it is necessary to take into account a series of factors ; sector, product or service market and relationships with large firms (as isolated companies, subsidiaries, or subcontractors). For example the Commission of European Communities (2004: 26) has reported that risk levels have no connection with the size of the firm, but are related to sector. Existing statistical studies do not allow us to isolate these different elements and the results obtained from surveys do not explore the relationships between these different dimensions. Yet, the SUMER 2003<sup>2</sup> survey does demonstrate that certain types of risk are related to the sector of activity and the size of firm (Le Lay 2005; Bouquin 2006). In line with this we propose that although size is not the one and only factor, it may after all have some importance (a view suggested by Pham, Monteau, Favaro 1993; Saglio 1994; Ardenti, Vrain 2000). This would appear to be particularly true in Italy and the United Kingdom (UK) where accident rates are generally higher in SMEs than in larger organisations. For example in Italy the risk workers are exposed to in organisations with less than 15 workers is double that of enterprises with over 200 workers. Similarly in the UK each smaller size-band places on average a 20% premium on the risk or injury. In other words workers in the smallest firms are 40% more likely to suffer a major injury than those working in large organisations. As Walters (1998) notes this is partly because:

*'Industrial sectors with the highest accident rates are those in which employment in small enterprises predominates...'* (p.182).

The ineffectiveness of health and safety, in SMEs, can be explained in a number of different ways. The first hypothesis, which does not only concern SMEs, stems from confusion in levels of analysis: both EU and national policies often define health and safety issues at the workplace in purely technical terms. Yet their complexity and interdependence with other dimensions (for example an

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<sup>1</sup> In the French case studies, we have shown that, according to an official from the Labour Ministry, size criterion is not taken in consideration in the definition of regulations on health and safety issues.

<sup>2</sup> The survey '*Surveillance médicale des risques professionnels*' (Medical monitoring of occupational risk) has been carried out by nearly 1 800 occupational doctors with over 49 000 salaried workers. For further details, read Arnaudo, Magaud-Camus, Sandret, Coutrot, Flourey, Guignon, Hamon-Cholet, Waltisperger (2004).

explosion in a chemical plant or effluents of carcinogenic products in a river do not solely affect the health and safety of those working in the firm) and the efforts expended by governments to try to tackle them, illustrate that on the contrary, there is a dimension which is eminently political.

The second hypothesis, relates to the first, and reflects back on transformations made over the last twenty years in capitalistic work organisation. Currently, the managerial approach favours highly flexible work organisation designed to achieve immediate profitability (Coutrot 1999). This short-term approach has been accompanied by a refocusing of the largest firms on core tasks through externalisation, or the sub-contracting of peripheral activities to smaller structures, whose high level of flexibility is valued, at the expense of the quality of work and employment. Deterioration in health and safety has been observed alongside the spectacular increase in insecure employment (including the increase in fixed term contracts). The limited life cycles of many SMEs, in part as a result of these productive constraints, discourages preventative measures and encourages blatant abuses. Roland Gauthy, ergonomist in charge of research at Bureau Technique Syndical Européen pour la Santé et la Sécurité (BTS) has concluded, that 'groups externalise the risk to their sub-contractors [...] multinationals race to reach zero accidents, but in reality they are transferring the management of their risk to their service providers' (Rio 2005: 13).

The third hypothesis refers to the effect of a undermined collective bargaining system. For example even Sweden had a large part of its centralised system for work risk and accident prevention (OHS) dismantled in the 1990s, in response to a reduction of the state budget and an offensive from the Swedish Employers Confederation (Svenska Arbetsgivareföreningen, SAF) aimed at decentralising collective negotiations, in a national context where an increasing number of employers considered that the existing system was harmful to international competitiveness. Concretely, these decisions led to a decrease in the percentage of salaried workers covered by OHS services from 80% in 1989 to 50% in 2000, with the proportion of workers in SMEs covered lower). Similarly a French report from the Economic and Social committee (2004), presented without a lot of publicity, underlined that technical progress and growth in national productivity were accompanied by a higher level of health risk for workers, to the surprise of both political and union leaders.

The weakening of national frameworks is taking place despite the fact that, since the 1960s, approaches developed in the field of health and safety at work have emphasised 'the importance of a global strategy, structured at different levels:

- a national prevention strategy, involving labour inspection, consisting of better integration between health at work and public health, as well as environmental protection; stricter regulation on the use of work equipment and on the chemical products market; with monitoring, early warning, control and sanction systems;
- sectoral and territorial strategies taking into account the specificities of sectors or territories;
- the integration of health-at-work requirements into company management structures and strategies;
- the active participation of workers and their organisations in defining and implementing prevention policies' (Vogel 2004: 13).

But as we observed through our fieldwork, corroborating other research (Walters :2002), the enforcement of rules and procedures as well as the extension of statutory obligations, above all in a more or less harmonised way is still not able to overcome the obstacles to a good health & safety policy inside SMEs. The main reason is the strongness of a cluster of factors that are working together against this, making small structures rather tenacious in keeping bad traditions of work behaviour as well as bad habits in management.



### **Representation as a factor of change ?**

The first and most evident way to deal with this problem is to give voice and representation to employees. We observed indeed how in the eight countries under study, national law, sometimes instigated by European Union directives, encourages the establishment of collective structures for health and safety issues. These structures may have joint employer and worker representation or may be dominated by union or worker representation and are organised according to various spatial configurations (at company or sector level, or on a territorial basis as in Italy). These health and safety committees are the employers' interlocutors, with legal obligations to inform them of risk. Generally speaking, health and safety committees are responsible for ensuring that regulations are implemented and for keeping workers informed and raising their awareness of safety issues, by organising, for example, training sessions. Whether they are purely consultative bodies, or have negotiating rights, health and safety committees form an interface between workers and employers and it is at this level that the responsiveness of employers can be measured.

Evidence underlines the positive impact of representative health and safety committees in the workplace and the importance of the union role. On this subject, Thomas Coutrot provides some interesting details for France: firms with a trade union presence are more likely than other firms to have a health and safety committee. On studying firms with over 20 salaried workers, 54% have health and safety committees where there is trade-union representation, but this figure falls to only 19% where there is no trade union presence (2001: 3). This confirms that health and safety coverage is more effective within organisations where there are collective channels of representation, which allow the discussion of problematic and potentially conflictual issues. A conclusion that in turn has been supported by research findings from the UK (Reilly *et al.* 1995; Litwin 2000), Canada (Shannon *et al.* 1992), Sweden (Tucker 1992), Australia (Warren-Langford *et al.* 1993) and the United States (Ochsner and Greenburg 1998). All of which have shown that the outcomes of health and safety management become more successful when unions and their representatives are involved.

For example, drawing upon the case studies that form the basis of the SMALL project, in the two UK manufacturing sector case studies recent trade union recognition appeared to have played a key role in the formalisation of health and safety. It not only provided workers with a voice in the workplace, but also established health and safety management structures. In one case, a SME producing packaging, following union recognition a Health and Safety Committee with union representation had begun to meet on a three monthly basis, although the management respondent noted that most health and safety problems were sorted out between the union representative and himself through informal daily interaction. One specific issue raised by the union was that since a number of workers did not adequately speak or understand English they could not fully comprehend the safety procedures, particularly in terms of stopping machinery.

At the other manufacturing case study respondents reported a recent improvement in health and safety and for drivers this was attributed to recent union recognition. A workplace representative recalled that prior to recognition:

'Health and safety was basically non-existent ... since the union has been recognized it is a lot better.'

Substandard wooden trolleys for loading vans had been replaced; visibility vests had been supplied for drivers and fire extinguishers and first aid kits provided in the cabs (following a fire). Health and safety had been formalised through a health and safety committee with union representation and regular meetings. A committee of managers had been established to deal with health and safety and one manager had recently taken responsibility for health and safety in the workplace

and more attention was being paid to the control of substances hazardous to health (COSH) regulations and manual handling guidance, with heavy lifting equipment introduced. Management representatives suggested that this was the result of changes in the law and possibly of legal claims by workers and the fear of compensation. However there was still no health and safety representation for non-unionised groups of workers in the organisation; here health and safety enforcement was done through direct communication with the workforce and notices in the workplace.

In Belgium, the Confederation of Christian Trade Unions has been asking for employee representation in SMEs for a number of years. The need for such representation was reinforced by a report for the year 2002, by the federal administration of work safety (Federal Public Service for employment, work and social dialogue), published in 2004, which demonstrated that for a number of health and safety regulations, violations were higher in SMEs than in larger firms. For example fire safety was a problem in 36% of SMEs visited; 38% of SMEs did not respect legislation regarding electrical installations; there was a higher risk of falls in 23% of SMEs, whilst essential safety instructions to operate machinery was not available in 46% of the SMEs visited.

Research on the actual effectiveness of the interventions made by health and safety committees is rare. With few exceptions, there is a definite lack of knowledge and debate identifying the factors and conditions that enable health and safety committees to play an effective role in preventative strategies<sup>3</sup>. However, the impact of health and safety committees in the workplace is mediated by several structural issues. First, in the majority of cases, the establishment of such bodies is required in workplaces with over a certain number of workers (5 in Sweden, 11 in France, 50 in Bulgaria, etc.), leaving most workers in SMEs with no other protection than that provided by the law. It is difficult to implement health and safety law in the absence of inter-sectoral, inter-professional or territorial structures. In some cases there may be official inspections – but for instance in the UK a firm is only inspected on average once every twenty years. A large number of SMEs are not equipped with employee representative structures, and in particular they do not have a health and safety committee. In the UK the 2004 Workforce Employment Relations Survey (WERS) shows that 5% of small firms (with fewer than 50 employees) had joint consultative committees covering health and safety compared to 16% and 17% of medium (50-249 employees) and large (250+) firms respectively (Forth *et al.* 2006). Small firms were much more likely to use direct consultation methods for consultation on health and safety (meetings between management and employees; ‘the management chain’ or notice-boards or email). In one UK SME in the garment sector where there was no union recognition or formal health and safety committee, a union officer considered health and safety as poor, and not a priority for the company:

*‘There’s high quality garments being made by people on a footstool pumping the old sewing machine, things like that. It is time consuming and laborious and that manifests itself in some repetitive strain injuries, but of course they are going to occur because of a lack of the company, on a proactive basis, to prevent those accidents and injuries occurring in the workplace.’*

The effect of discriminating thresholds for representation is intensified by the weak trade-union representation in European SMEs. National trade unions and European-wide confederations (as attested by the work of the European Trade-Union Confederation) attach some importance to health and safety issues (although in Hungary it may be less important than in other countries) and are developing extensive expertise in these fields. Yet this knowledge and expertise is not being passed on, because of an insufficient network of activists within SMEs (see Moore *et al.* in this issue), or

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<sup>3</sup> In relation to this, the EPSARE project (established in 2006 to evaluate the role and the effectiveness of worker representation on health and safety issues) developed by the Health and Safety at Work Department of the European Trade-Union Institute will doubtlessly go some way to filling this gap. Web site: <<http://hesa.etui-rehs.org/fr/default.asp>>.

relative indifference from local representatives and/or workers in these firms. This is particularly problematic in countries such as the UK and Sweden where the systems of health and safety management are premised on the presence of organised labour and workplace representatives. The responsibility is thus placed upon individual workers at firm level and they are subject to pressures to meet production or service targets.

### **Forces of contingency**

As we already explained, peer pressure, social pressure, harsh economic competition, absence of knowledge do have a strong impact and those factors are much at work in SME's. This means that even unions, or representative bodies will face problems in the development of good health and safety policy. The issue becomes even more complex when, as we observed in some circumstances, the pressure to earn a living wage may mean workers compromise their health and safety. For example, In the Hungarian ICT case study workers failed to take hourly rest breaks which were introduced to protect against the possibility of eye injury, despite a legal requirement to do so. The same work behaviour is often occurring among lorry drivers, manual workers doing heavy piece-work or in the construction (building) sector. In these cases, statutory relations and control upon the good application are a condition of effectiveness to health and safety. Without them, unions are uneasy and do not have the weight to obtain changing practises that are tolerated or accepted by management and assumed by workers.

But, change is still possible and occurs, even in the most difficult circumstances. So was the the UK case study in the manufacturing sector where the company had raised concerns over the frequency of accidents amongst drivers, which they attempted to control through a bonus scheme linked to safe driving. The union representative reported that initially management had wanted to penalise drivers responsible for accidents, but the union had negotiated instead to reward safe driving. There was potentially a significant issue about the relationship between the driving accident rate and long driving hours, and for the full-time union officer;

'The big health and safety issue, as far as I am concerned, is the number of miles that they drive and the hours.'

There appeared to be reluctance, by both management and union, to address the issue, because of the dependence of the drivers on overtime. A number of the SMALL case studies attest to long and irregular working hours within SMEs (see Alves *et al.* in this issue), with implications for the health and safety of employees.

In the absence of collective representation, health and safety becomes an ~~through~~ individual rather than collective issue, often placing workers in a position of extreme weakness in the face of corporate power (Lepley 2001). Health and safety is thus dependent upon employer prerogative, the individual commitment and awareness of the owner/manager, in turn subject to product/service market competition. A manager in one UK case study in the garment sector suggested the difficulties for SMEs:

'But there's so much new legislation coming out all the time in terms of employment law and health and safety legislation that it is difficult for a small business to keep up. Virtually all the legislation that comes out has some sort of impact on us, and we have to review our contracts or review our wage structure or terms and conditions in light of them, so I think it's a bit of a challenge for small businesses.'

The next section give insight to situations whereas management could be reluctant to improving health and safety or, to the contrary, develop a proactive policy.

## In between reluctance and proactive management

According to Regnault there are three main reasons for the absence of engagement over health and safety in SMEs. Firstly, the refusal of a large majority of SME owners to accept the presence of interlocutors or representatives authorized to speak on behalf of the workforce (2002: 77). Reasons for their reluctance include cost, that is the time needed for representative meetings and consequent loss of production; and the potential for conflict that representation might bring. Regnault also considers that 'the narcissistic strategies' of many owner/managers of SMEs mean that they resent any challenge to their unilateral authority within the firm. (*idem*: 77). The dominance of management prerogative and control and paternalist relations can explain the disjunction between work organization and preventive policies<sup>4</sup>. However, the way these factors play out in individual countries would appear to depend on the nature of the legislative system and the ability of the workforce to mobilise against these obstacles. The SMALL case studies suggest that some owner managers are proactive; in the Swedish case study of tele-nursing physical risks in the work setting had been identified, related to the intensive time spent in front of the computer, which put heavy strains on the neck, shoulder and back. To prevent risk management had invested in vertically adjustable offices, making it possible for the employees to vary their working position between standing and sitting. Management had tried to encourage staff to take short rests ('micro pauses') during work time and to exercise in their leisure time, with one hour per work week dedicated for exercises to be carried out during work time, if possible with colleagues. This workplace had been certified as 'a healthy workplace', reflecting preventive measures, additional to legal requirements.

In the UK the case studies suggested that there was a trend in a small number of UK SMEs to employ external consultants to ensure compliance with regulation, particularly in the field of health and safety. In Sweden the Industrial Health Service fulfilled a similar, but wider, role for a SME in the manufacturing sector. It had initially helped the company to design the factory in an ergonomic way and to prevent for health risks from working movements and posture. The Industrial Health Service also conducted a yearly investigation into individual employee's health, the company's work environment and workers' attitudes towards work. The survey showed that a number of the employees experienced work as stressful and monotonous and suffered from the heavy work and repetitive movements. The company's participation in the project led to better physical conditions stimulated by changed diet and increased exercises. The company tried to encourage staff to become more physically active and to exercise both during work and in their leisure time. The importance of taking short breaks during the work process was also emphasised. The company was planning to establish a small gym, which would make it possible for the employees to exercise during working time, with advice from a coach from the Industrial Health Service. The concrete aim of the project was to reduce absenteeism and to map the reasons for work place injuries, for example back pain. The manager identified a relationship between working conditions and absenteeism:

*'Absenteeism is a severe problem for many employers and I like to help my employees doing a good and decent work and I want them to be pleased with the working situation.'*

In this case study managers valued the input of an external expert, not directly involved in the daily process, but well informed and acquainted with the company and its special situation.

Regnault, secondly, suggests there are an insufficient number of workers trained in the field of health and safety (2002). Under the influence of European guidelines on health and safety at work and subsequent national regulation the dissemination of information and worker training in health

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<sup>4</sup> Political leaders refuse to make corporate heads responsible for breaches of health and safety (Askenazy, 2004: 85),

and safety should play key roles in preventive measures. The European guidelines insist that these two aspects – information and training – are addressed when workers are recruited as well as when there are changes in work organisation or the introduction of new technology or new equipment. However, management continues to ignore these aspects. For example, in Sweden, the Swedish Employers' Confederation annulled the central work environment agreements, including the arrangements on OHS services and training. Information and training budgets, where they exist, are in general devoted to areas other than health and safety. Moreover, there is the question of the content and the form that information and training on this subject takes: they must be adapted to the sector of activity, to the 'corporate culture', to the different occupations of the workers and to minimum quality standards – all of which need transposition to the SME context.

Whilst this critique was clearly true of some of the firms involved in the SMALL project there were a several notable exceptions. The Italian manufacturing and Bulgarian garments sector case studies provided examples of SMEs, which provide both formalised and regular health and safety training. Interestingly however, these both fell within the medium size band (50 to 249 employees). It is also true that these sectors present a more obvious risk to workers, primarily through the use of machinery, than many of the other sectors covered by the research.

Formalised regular health and safety training was also found in some of the case study firms in personal services. The nature of the services provided means health and safety is important and is governed by national health services and professional bodies. In the case study of a UK dental practice, for example, staff were trained in health and safety issues, such as the disposal of needles and the employee contract had been revised to reflect changes in health and safety regulation. Sectors such as hotels and catering are also stringently regulated, with workers generally received training, although it appeared that regulation, for example food hygiene, was primarily for the benefit of the customer rather than the workforce. In one Hotel case study a respondent with responsibility for health and safety in the kitchen described the hotel's approach as 'very strict':

'We've got files for basically everything. If anybody new comes into the kitchen, we've got a file. There's so much to sign, paperwork, now, it's unbelievable, things like do they know the fire procedures, have they've been told all about that, where do they go? Using electrical equipment - if you're old enough to use it and you've been trained properly to use it. I've worked along with the health and safety consultant. We've got one that works for the hotel, then obviously, like anywhere else, you've got the health inspector that comes. Then you go away on courses and you pick that up, there's so much to do and you've got to be on top of it. Generally you think you're on top of it and then something else will be thrown in. It's ongoing, in a way, you know. It's always being updated, even things like wooden chopping boards - one minute they're out, one minute they're in.'

The third element identified by Regnault for the inadequacy of health and safety in SMEs is workers' reluctance to become representatives in what is often a hostile environment, making the identification and representation of collective interests extremely difficult. The case studies undertaken as part of SMALL confirm that in general such representation was not present (see Moore *et al.* in this issue).

### **Conclusions - proposals for action**

A shift in the present situation will only be possible when different factors are purpose of action at the same time. This mean that a combined effort should be developed: towards employers in order to inform and to help them applying present regulations, to make them at least co-responsible regarding the application of norms and procedures; towards employees with sensibilisation and information about risks and dangers, visible and invisible ones, through trade unions and public

campaigns ; towards union members and activists to help them find concrete solutions that may overcome social obstacles in awareness regarding H & S. Hence, we propose a number of measures to address the inadequate enforcement of health and safety in SMEs:

- To reinforce employers' financial responsibility in cases where labour inspectors identify evasion or violation of health and safety regulations. This would take the form of immediate fixed penalties, with surcharges for subsequent offences. It would also imply an expansion of labour inspections services covering SMEs. For example, France has on average two labour inspection agents in charge of inspecting SMEs, under the responsibility of a Labour inspector, and covering approximately 30 000 workers. Equally there could be stronger measures against employers who discourage employee representation in the workplace (in particular union representation);
- To enlarge the responsibility of health and safety committees in large organisations to encompass sub-contractors;
- To lower the threshold at which employee representative bodies, including health and safety committees, may be set up and to move towards. European harmonisation in this area;
- Greater HSWC training for SME employers: employers should be obliged to provide proof that they have a health and safety certificate for their sector justifying full awareness of the principal risks and demonstrating they have taken preventative measures;
- To create common health and safety committees covering a group of SMEs (defined geographically or otherwise), allowing employers to pool resources, experience and knowledge and to jointly fund measures which might be considered too costly for SMEs;
- From a sectoral point of view, the authorities could encourage, as is the practice in Belgium, the creation of independent structures with the competence to inspect and assist in the implementation of preventative policies. These structures, which are often composed of former employee representatives from the same sector, are financed by the employers, but benefit from the fact that they are independent of the existing workers and have a relationship with labour inspectors and can make official reports to them;
- Develop specific modules devoted to health and safety as part of employee training, particularly initial vocational training.

Finally, the absence of employee representation in SMEs suggests that, following the Swedish and Italian model, the presence of 'safety delegates' covering a number of SMEs could become widespread. Training of such representatives would allow a cadre of workers capable of intervening across a number of SMEs and which could provide Labour Inspectors with effective support in this area. In Italy in SMEs with less than 15 employees, health and safety representatives (Ripresentante Lavoratori per la Sicurezza) may be shared over several enterprises at regional level or within the same sector. The territorial health and safety representative has the right to unpaid leave for the duration of their office and the right to keep his or her job open. In the UK government funding has been provided to support trade union 'roving safety reps,' who promote health and safety in small and medium workplaces that do not necessarily have union members. As Regnault has argued (2002: 80) the effective implementation of health and safety in SMEs is only possible if there is 'participation by workers in the decision-making process' and this has reflects the problems of the wider representation of workers in SMEs and the presence of activists at workplace level, properly trained, and prepared to challenge owner/management prerogative.

TABLE 1 : NATIONAL LEGISLATIVE INDICATORS ON HEALTH/SAFETY AT WORK AND WORKING CONDITIONS FOR EIGHT EUROPEAN UNION MEMBER STATES.

Themes	Belgium	France	Sweden	United Kingdom	Italy	Bulgaria	Hungary	Portugal
Law	1996 : Law relative to employee well-being in the carrying out of their job 2004 : Plan Pharaon	1991 : Law n°91-1414 modifying the Labour regulations (articles L230-1 à L230-5) 2003 : Decree of 24th June 2003 (pluridisciplinary principle of health at work services) 2004 : Decree of 28th July 2004 (missions, organisation and running of occupational health services)	1977 : Law on the Working Environment + 1991 reform : notion of internal control introduced	1974 : Health and Safety at Work Act	1994 : Government decree n°626 modified by the government decree n°246 of 1996 and the government decree n°626 of 2003	1991 : Constitution 1997 : Law for health and Safety working conditions (HSWC)	1993 : Act XCIII on Labour Safety (LSA) 2001 : Strategic Programme for the worker protection (MOP) adopted by Parliament	Law n°99/2003 : Labour regulations devote a chapter to health and safety at work. Law n°35/2004 : framework for consultation and participation of employer and worker representative organisations.
Risk assessment	Yes	Yes	Yes, concept of internal control	Implicit in the HSW Act ; explicit in later regulations	Yes	Yes	Yes	Yes
Risk prevention	Yes	Yes	Yes, concept of internal control	Yes	Yes	Yes	Yes	Yes
EU acquis		Modification of Labour regulations	Introduction of a few modifications of the Law on the Working environment + special guidelines transposed as ONSST rulings			Transposition on 1st January 2007. EU report (2004) indicates that Bulgaria agrees with EU acquis except for those on explosive atmosphere, noise and vibrations	Transposition completed since 2002	
Labour inspection	Yes, within SPF (Employment, labour and social dialogue)	Yes, within the DRTEPF (of the Ministry of	Yes within the ONSST	- Yes, within the Health and Safety Directorates which	Yes, within the Local Health Units	Yes, within the Ministry of Labour and Social Policy	Yes, within OMMF (occupational safety) and ANTSZ (workers'	Yes, within the Ministry of Employment and

		Employment and Solidarity		depend hierarchically of HSE and HSC - EMAS, within the HSE			health)	Social security
Occupational medicine services	Integrated in the prevention services	Occupational health services - autonomous services - inter-corporate services	Integrated in the prevention services	Missions and existence : not mandatory by the law except in a few specific cases (example : chemical industry)		Yes, occupational medical surgeries	Yes, within ANTSZ	Yes
Prevention services	- Internal work prevention and protection services - External work prevention and protection services	Idem	No global obligation to set a service up or use external services - internal prevention services - inter-corporate prevention services - sectoral prevention services	No global obligation to set a service up in the firm but specific regulations depending on the sector of activity	- Internal work prevention and protection services - External work prevention and protection services	No	No	- Internal health and safety services - External health and safety services - Inter-corporate services
Multidisciplinarity in prevention services	Yes, but multidisciplinarity is rarely offered to SMEs by external services	Multidisciplinarity in occupational medicine services (since 2003)	Yes, but weakening of multidisciplinarity over the last few years	No	No	No	No	No



## Chapter 6

# Labour relations, collective bargaining and employee voice in SMEs in Central and Eastern Europe

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### Summary

*Drawing upon the examples of Bulgaria and Hungary, this paper explores employee voice in small and medium-sized enterprises (SMEs) in Central and Eastern Europe (CEE), in the context of the spectacular development of the SME sector during the post-socialist transition and changing labour relations and collective bargaining practices. The paper examines the relationship between the regulation of employment relations and employee representation and 'voice'. It suggests that the absence of formal channels of representation in SMEs hides the existence of a number of informal compromises between employers and employees over matters such as wages, working time and health and safety conditions. The paper argues that future trade union strategies should be based on a clear understanding of these social realities.*

### Introduction

Whilst in the socialist period employment was concentrated in large state-owned companies and jobs were secure, during the post-socialist transition of the past 16 years, it has gradually transferred to the emerging SME sector and its status is precarious. Employment in the SMEs in Central and Eastern Europe (CEE) generally stands outside of the remit of collective bargaining, which covers mainly large enterprises and the public sector. Taking account of this transitional context and drawing upon the examples of Bulgaria and Hungary, we hypothesise that SMEs play a dual role in the economic performance of CEE countries: promoting economic and social development on the one hand, but generating informal mechanisms that substitute for formal labour relations on the other. Whilst large European quantitative surveys<sup>1</sup> may provide information about the presence or absence of trade unions or the existence of such participative institutions as works councils in SMEs, they cannot explain the realities of social relations in the sector in the post-socialist societies or draw any conclusions about the nature of employee voice. On the basis of the 12 case studies of Bulgarian and Hungarian SMEs, the paper aims to examine the relationship between the regulation of employment relations in SMEs and employee representation or 'voice'. This is done in the context of (1) the spectacular development of the SME sector during the post-socialist transition; (2) changing labour relations, and (3) collective bargaining practices. The paper then (4) provides examples of employee representation in several sectors of

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<sup>1</sup> Carried out by organization such as European Industrial Relations Observatory (EIRO), International Labour Office (ILO), OECD or the Observatory of European SMEs, etc.

the economy and (5) makes a number of recommendations to policy makers and the trade unions in the region.

### **The Rise of the SME sector in the Post-Socialist Economies**

In the context of the socio-economic transformation, the development of the SME sector in CEE is regarded as an important condition for economic growth and the creation of employment. Throughout the region SMEs were growing continuously throughout the decade of the 90s, in absolute numbers and in their importance for employment, production, value added, exports, etc. (Eurostat 2003). Their development was subject to institutional support and public policies that were not concerned with the type of employment generated in small businesses. The fundamental liberalisation of economic life, the de-monopolisation of enterprises and emergence of autonomous social and economic actors in the post-socialist period, influenced organisational structures. All these processes were accompanied by the establishment of a new system of industrial relations (which will be examined in the second part of the article). Economic restructuring and fast growing unemployment forced large groups of the population to look for their economic survival to the emerging SME sector<sup>2</sup>.

In the social sciences, the early 1990s saw a number of studies of the so-called “transformation economies”, which enriched the literature on the political, economic and social changes that took place in CEE. In this decade, the theoretical concept of ‘path-dependency’ helped social scientists to refute the view of change as occurring within an “institutional vacuum” which overlooked the importance of the varied socio-economic and cultural histories of these countries. As Chavance (1995: 288) has stated; ‘the path-dependent emergence of a new, post-socialist form of capitalism calls for a complex evolutionary interpretation of this great transformation, as opposed to the “big bang” view which, as the metaphor itself suggests, overlooks the historical legacy’. The ‘path-dependency’ approach provides a better understanding of the variety of development trajectories in the post-socialist economies in the CEE region and pays attention to the evolutionary character of social-economic and technological development. The explanatory strength of this approach was helpful in understanding the “destruction” of the state-socialist political and economic regime, and the “reconstruction” of the market economy and the democratic political institutions in the post-socialist economies. This view enables us to understand the uneven development of the post-socialist firms and their management. Thus privatisation, market competition and foreign direct investments (FDI) were the main drivers of economic development and modernisation in the CEE countries, but “social filters” (the labour relations system, educational and training institutions, regional development agencies etc.) also played a significant role, as it was through these that the various social actors (owners, managers, the state, workers and their representative associations etc.) experienced and “digested” the changes.

Yet, it appears to us that none of the abovementioned approaches could entirely explain the factors triggering the spectacular growth of the SME sector in the post-socialist societies in terms of employment. The non-enforcement of legislation covering employment and employment representation must also be taken into account.

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<sup>2</sup> The SME sector was not a completely new phenomenon, deriving from the post-socialist transition. Some proto-entrepreneurial initiatives existed during the 1980's, as a result of various attempts to overcome the shortcomings of the state socialist planning system. However, following the “start” of the transformation process, the creation of private firms became a key tool by which citizens adapted to the emerging market economies

## Changing “Organisational Morphology” in the Post-socialist Economies: spectacular growth of SMEs

Table 2.1.1: Number of enterprises, 2001

	EU 15	ACC	CZ	EE	CY	LV	LT	HU (1)	MT	PL	SI	SK	BG	RO	TR
<b>Industry and services (C to I and K) (2)</b>															
All sizes (units), of which:	13 447 079	2 476 463	741 762	29 485	:	36 032	57 621	58 125	:	1 417 142	71 472	36 910	:	300 310	:
Micro (%)	90.6	93.4	94.6	78.5	:	76.9	81.5	51.0	:	96.5	91.0	:	:	:	:
Small (%)	7.9	5.2	4.4	17.8	:	18.9	14.9	40.2	:	2.4	:	23.4	:	9.9	:
Medium (%)	1.2	1.2	0.9	3.3	:	3.7	3.2	:	:	0.9	:	5.2	:	2.6	:
Large (%)	0.2	0.3	0.2	0.5	:	0.5	0.4	:	:	0.2	:	:	:	:	:
<b>Industry and construction (C to F)</b>															
All sizes (units), of which:	3 695 454	729 755	252 297	6 775	12 140	7 609	12 993	23 329	:	378 048	26 302	10 259	:	57 753	:
Micro (%)	84.0	88.7	91.8	59.2	:	57.8	64.6	41.7	:	92.5	87.3	50.1	:	67.0	:
Small (%)	13.2	8.0	6.1	31.0	:	31.3	25.4	44.6	:	4.8	:	34.2	:	21.2	:
Medium (%)	2.3	2.7	1.7	8.4	:	9.2	8.6	:	:	:	:	11.9	:	9.0	:
Large (%)	0.5	0.6	0.4	1.3	:	1.7	1.5	:	:	:	:	3.7	:	2.8	:
<b>Services (G to I and K)</b>															
All sizes (units), of which:	9 790 625	1 746 708	489 465	22 690	:	28 429	44 628	32 796	:	1 039 094	45 170	26 651	:	242 557	:
Micro (%)	93.1	95.3	95.0	84.2	:	82.0	85.4	57.8	:	:	93.2	:	:	:	:
Small (%)	6.0	4.0	3.5	13.8	:	15.6	11.9	37.0	:	:	5.9	19.2	:	7.2	:
Medium (%)	0.8	0.6	0.4	1.8	:	2.2	1.6	4.6	:	0.5	:	2.6	:	1.1	:
Large (%)	0.1	0.1	0.1	0.2	:	0.2	0.2	0.8	:	0.1	:	:	:	:	:

(1) Micro enterprises, 5-9 employees and not 1-9 employees; total for all enterprises covers 5 and more employees.

(2) PL, breakdown by enterprise size class, 2000.

Source: Eurostat, Structural business statistics (theme4/sbs/sbsdat).

A review of the available data indicates the spectacular growth of the SMEs in Bulgaria for the period 1989-2004. If at the beginning of the transition in 1989 the SME sector was almost non-existent (there were around 24,500 registered private companies), almost 13 years later SMEs represent 99% of all enterprises (or are estimated at 216,000 in 2004). By 2004 they generated 79% of employment, 75% of turnover and 61% of the value added to private enterprises<sup>3</sup>.

The fundamental changes in ownership within the Hungarian economy, from the end of the 1980s, significantly influenced the organizational morphology of the country. As a result, the number of registered businesses doubled between 1990 and 1995 and reached one million by 1995. The number of registered enterprises, approximately 400 000 in 1990, grew more than 2.5 - fold in a decade. The overwhelming majority (95%) were based upon self-employment, and these doubled in number by the mid-1990s, but then fell back somewhat due to recession and unfavourable regulations. Today 75.5% of the 1.1 million registered companies are actually in operation.

### **SME characteristics**

Comparing the growth of the SME sectors in CEE, using the examples of Bulgaria and Hungary, we can draw some general conclusions. After 1989 employment patterns changed significantly. The share of employment in SMEs started from almost zero in Bulgaria. In both countries it has grown continuously over the last 15 years. However, it seems that the role of the SME in employment generation and in economic performance was realised later in Bulgaria than Hungary. In the former for a long time SMEs could only partially absorb the outflows from the labour market, as a result of the liquidation of large enterprises (often monopolists) and economic restructuring (Beleva 2001). Yet, regional and sectoral differences are important in both countries. For example, examining the sectoral distribution of firms by size, in Bulgaria the largest number of firms can be found in the following sectors: real estate, renting and business services (227 946 firms) and trade, repair of motor vehicles and consumer goods (195 472 firms). In Bulgaria more than half of SMEs operate in the sphere of commerce, 12% are in manufacturing, about 10% in real estate and business services and another 10% in hotels, restaurants and catering.

<sup>3</sup> ASME, Annual Report 2004, <http://www.sme.government.bg/en/AnnualReportSME2004EN.pdf>

SMEs developed the ability to generate informal mechanisms for coping with the turbulent institutional environment of the post-socialist economies. They relied extensively on flexible practices – such as double entry book keeping and a combination of formal and informal<sup>4</sup> employment contracts – and this phenomenon had a major impact on the labour market and employment relations in both the Bulgarian and Hungarian economies. In addition, it is worth noting the significant differences in the innovation rate by size in the CEE countries. As the size of the firm increases the innovation activity within the firm becomes more intensive. A similar pattern of innovation activity can be observed in the EU-15 countries (see Palmieri in this issue); however the size of the firm where the impact can be observed is smaller.

### **Labour relations and collective bargaining in the CEE region – examples from Bulgaria and Hungary**

The present labour relations system in CEE was established in the early 1990s, after the collapse of the state socialist political and economic regimes. This system was built on the basis of institutional transfers, influenced by international organisations such as the International Labour Organisation. The State, the emancipated unions (reformed old unions such as CITUB in Bulgaria or MSZOSZ in Hungary or newly established confederations such as Podcrepa in Bulgaria or Liga in Hungary) and newly established employers' organisations (in Bulgaria formed mainly by company managers appointed by the State, belonging to the Bulgarian Industrial Association) entered into social dialogue over the direction of reform and contributed to the establishment of a number of tripartite institutions.

#### ***Trade unions***

While at the beginning of the transformation process trade union density rates in the former socialist countries were extremely high, due to compulsory membership; from 1990 onwards union membership in all CEE countries experienced a dramatic decline. Table 2 shows, however, that within the CEE countries, there are substantial differences between countries often considered as homogenous. In 2002 the highest unionisation rate was registered in Slovenia (41.0%) and the lowest rate was found in Poland (14.7) in spite of the legacy of a strong and militant trade union movement symbolised by the *Solidarity* trade union.

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<sup>4</sup> In this article we do not enter into the debate over which is the more appropriate term – formal/informal or official/unofficial and we use them as synonymous.

Table 2. Trade union density rates and membership composition, 1995-2002<sup>5</sup>

	Union density rates			Share of all members	
	1990	1995	2002	Female	Public
Belgium	53.9	55.7	55.8*	n. d.	n. d.
France	10.1	9.8	9.7*	48.3**	66.3**
Hungary	n. d.	63.4	19.9	48.7**	70.3**
Italy	38.8	38.1	34.0	38.3*	53.1*
Portugal	31.7	25.4	n.d.	n.d.	n.d.
Sweden	80.0	83.1	78.0	52.7	47.9
UK	39.3	34.1	30.4	43.7	47.4
Czech Republic	78.7	46.3	25.1	57.9*	44.5*
Poland	n.d.	32.9	14.7*	55.1*	76.6*
Slovakia	78.7	57.3	35.4	49.6*	70.9*
Slovenia	n.d.	n.d.	41.0	49.4*	76.2*
Average EU-25***	n. d.	32.6	26.4*	n. d.	n. d.
Average EU-15***	32.8	31.0	27.3*	n. d.	n. d.
Average EU-10***	n. d.	42.7	20.4*	n. d.	n. d.

\*Data available only from 2001.

\*\* The data on membership composition (share of female members; share of members in the public sector) are calculated from sample surveys of the International Social Science Programme (ISSP) and relate to 1998.

\*\*\*Weighted averages. In the case of missing data, the nearest year is taken into account.

In addition, the union density rates vary substantially between private and public sectors. For example in Hungary, Poland and Slovakia more than every second union member works in the public sector. The higher density rates in the public sector are explained partly by the institutional heritage of the post-socialist countries which became EU members (1 May 2004) and by the difficulties trade unions have in recruiting members in the private sector, especially in SMEs and newly established firms (i.e. firms created in the form of “green-field” investments in the so-called ‘trade union free zones’) (Makó-Novoszáth 1995).

Trade union representation is more fragmented in the case of Hungary, where seven trade union confederations were created after the collapse of the state socialist system, than in Bulgaria where two confederations have cooperated well since 1995. In Hungary labour relations have a dual character; as well as the historical representation of workers interests by trade unions, works councils facilitate employee participation in the companies’ decision-making system. However, these two channels of labour relations are interrelated: the existence of works councils is closely connected with the presence of trade unions. According to data from a statistically representative survey carried out in 2002 in Hungary, works councils, trade unions and collective agreements all increase with the size of the firm (Neumann 2002). Bulgaria is currently adopting the European Directive 14 (2002) and thus from 2006 or 2007 the country will introduced information and consultation mechanisms.

<sup>5</sup> The data about union density for Bulgaria was not available from official sources, but other sources (e.g. Kirov, 2005) provide the following estimates: about 42% in 1995 and about 26% in 2003. Density rates for EU-15 countries are standardised, i.e. without unemployed and self-employed, retired employees and student members, along the model in B. Ebbinghaus and J. Visser (2000) *The societies of Europe*, op.cit. In the case of the UK, figures are calculated from the Labour Force Survey. Elsewhere they are recalculated from administrative sources. See also OECD, *Employment Outlook 2004*, Chapter 3 (‘Wage-setting outcomes and institutions’), Paris, July 2004. The EU-10 figures are non-standardised and follow nationally based statistics collected by the Institut des Sciences du Travail of the Université Catholique de Louvain, *Monographs on the Situation of social partners in the candidate countries*, Brussels, December 2003, a research project conducted on behalf of the Employment and Social Affairs DG of the European Commission. Quoted by ‘Industrial Relations in Europe’ (2004), p. 19. Table 2 is an edited version of the original one containing data only for countries involved in the SMALL Project.

### ***Employers' organizations***

Employers' organisations are similarly fragmented in both countries. In Hungary there are nine employers' organisations at national level, among them four represent the interests of SMEs. In Bulgaria four of six nationally representative organisations of employers represent the interests of SMEs (either exclusively or as part of representing a range of enterprises). Employers' organizations cover a minority of the businesses in the country (according to the national statistics in 2003 15% of companies were members of employers' associations). They are relatively weak in terms of human and financial resources and services provided to their members.

### **Labour legislation**

Both Hungary and Bulgaria have implemented new Labour Codes (Hungary: 1992; Bulgaria: 1993) providing a legislative framework for labour relations. However, the logic of the new labour codes reflects the employment practices of the large firms, which dominated the former state socialist political and economic regimes. These new labour codes do not reflect the multiplicity of employment relations within the SME sector (i.e. the coexistence of formal and informal regulation, the dominance of individual bargaining, etc.).

### ***Collective bargaining***

In the region under examination, as elsewhere in Europe, there is a clear relationship between the size of the firms and collective bargaining coverage. Table 3 shows the only statistical data available on the relationship between the size of the firm and collective agreement coverage in Hungary (there is no similar data for Bulgaria) which illustrates well the weak role of collective bargaining within the SME sector.

**Table 3. Collective bargaining by company size in Hungary (1998)**

<b>Size categories of firms (number of employees)</b>	<b>Share of companies with collective agreements</b>
5–20 persons <sup>1</sup>	0.1%
20–49 persons	1.1%
50–299 persons	11.7%
300–499 persons	46.4%
500–999 persons	67.3%
1000 and more	75.4%

*Source:* Neumann (2002: 6).

<sup>1</sup>Data on collective bargaining are often not available in the case of firms employing less than four persons.

### **Employees' voice and representation in the Bulgarian and Hungarian SMEs – case-study evidence from the SMALL project**

Prior to the SMALL project there was little information on employment relations and employee voice in the emerging small businesses in CEE. The interest of researchers often lay with the emergence of the entrepreneurs themselves rather than the experience of employees. For many observers in the post-socialist countries (EIRO, etc.) in the early 1990s it was clear that the working conditions in the emerging SMEs were different from the conditions in large enterprises, but they interpreted this a 'temporary phenomena' which would pass with the development of the market economy. In the last decade it became evident that the nature of employment in SMES was as established as that in large enterprises. This employment has been examined for violations of social and even human rights (see KNSB 2000) but largely on the basis of media reports rather than more in-depth research within SMEs.

<sup>6</sup> Cases analyzed are presented in an Annex.

### ***Employment relations: the combination of formal and informal practices***

The case studies of SMEs in the CEE include three based in the ICT sector (two from Bulgaria and one from Hungary); two in the clothing sector (one from each country); three from the hotel and catering sector (two from Bulgaria and one from Hungary); two Bulgarian case studies of very small retailers; one Hungarian study based in personal services and one Bulgarian industrial sub-contractor. Seven of the 12 cases were at or around the micro level (under ten employees); one was small (under 50) and four medium-sized (50-249). For Bulgaria, two of the case studies one hotel and another ICT company, were directly foreign-owned (by Greek and Belgian interests), there was a minority foreign owner in another ICT company.

From the cases studies conducted as part of the SMALL project we argue that social relations cannot be characterised as unregulated or as dominated by the type of paternalist relations considered characteristic of family run businesses. The fact that in the majority of these enterprises there is no union representation or workers' councils does not mean that employment relations reflect the operation of unfettered owner/management prerogative. Despite the lack of formalistic regulation in the case study organisations, there were processes of adjustment and adaptation which will be illustrated below.

The reality of social relations in SMEs in CEE reflects a number of factors. Small and micro firms tend to be less "visible" and less subject to regulation by the authorities, as a result of their 'passive voice' strategy of "evasion"<sup>7</sup> (Stoeva, 2005). Informal employment relations and other non-institutional practices are typical examples of such a strategy. Often small firms have "closed" recruitment practices based upon friendship and family. SMEs rarely co-operate in business associations<sup>8</sup> and they may be reluctant to enter into relations with the state administration, which is supposed to encourage them. This behaviour is motivated by 'self-protection' and is associated with a lack of trust in the State and its institutions. Micro and small-sized firms seem to draw back from the institutionalized formal market relations' mechanisms, including with respect to labour relations.

As has already been mentioned, this means that often there are important differences between legislation and practice. For example, in the case of a small Bulgarian retailer the manager stated his view that it is impossible to fully apply existing health and safety legislation in the field of small firms (in this case a small shop) - in his opinion the law should be applied only in large production enterprises. Within most of the case studies employees under contract coexisted with workers whose status was unclear (their probation was on the basis of verbal agreement or they had no formal contract, etc.).

In the case of both pay and working time actual conditions in SMEs often did not correspond to the strict stipulations of legislation or the individual labour contract. Often employees are unfamiliar with the content of their labour contracts (e.g. working time, shifts, annual leave etc.), not because they do not have a copy of it, but more likely because working conditions are so different in practice - thus non-compliance with regulations is not seen as important.

In terms of workplace representation, in Bulgaria, enterprises with 20 or more employees that under law are required to have committees on working conditions, had rarely established them. The widespread existence in the case studies of employment relations based on "*people you*

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<sup>7</sup> The strategy of "evasion" (of legislation) is used by those economic actors who generally possess less economic freedom. The strategy is used to diminish high transaction costs such as the access to information, taxation, capital, etc.

<sup>8</sup> Examples from the Bulgarian small companies show that there is no interest for such a membership. As one owner of an ICT company says: "*this kind of organizations imitates activity and in practice they are doing nothing*".

*know*’, on loyalty, trust, etc. and the consequent informal character of employment relations discourages compliance with legal requirements on both sides – by employers and employees. Social regulation based upon individual bargaining reflects the informal basis of employment relations, underpinned by personal loyalties and coexists with employment relations based upon collective bargaining<sup>9</sup>. Conflict resolution practices support the coexistence of both forms of regulation. For example, in the Bulgarian context violation of labour contract clauses were rarely resolved through institutional or representational channels, but more likely through ‘exit’ or through the mobilisation of personal networks. The case studies suggest that this difference between prescription and real practice is not only the result of unilateral decision-making by owner/managers. Often it is the result of mutually constructed compromises between the employer and the employees. These compromises are considered below.

### **Wage regulation: the dominance of individual and informal bargaining**

The case studies demonstrated that in most cases wages are paid as ‘cash in hand’ in order to avoid social insurance payments and to allow employees to have more disposable income, especially when, at the level of the state, social security budgets are in deficit and unable to cope effectively with risk (health, pensions, unemployment). Paying a minimum working salary does not lead to the total avoidance of social insurance, but it helps to avoid high social insurance payments. It is common practice that in order to reduce the social cost of employment and the amount of income taxes paid by employees, the employer and employee agree that remuneration is divided into two parts: the first is the minimum wage (with the obligation of social insurance payment and income tax payment), while the second part is not taxed but goes directly to the employees. The fact that part of the wage is paid cash in hand is not something generally imposed by the employer – in the case of a Bulgarian food retail shop the management respondent reported that it was done in cooperation with the employee. Thus there was a difference between the wages stated in labour contracts and the real remuneration received by employees. Even in medium sized companies, such as the case study of a Bulgarian hotel, owned by an international chain, interviews showed that real salaries did not correspond to those written in the labour contract as the employee responded stated:

*‘Only the minimal salary is written or a bit above the minimal. Generally, none of the employers pays insurance on the real amount of salary. They write smaller amounts (in order) to pay less insurance. Everywhere is like that’.*

In the Hungarian clothing industry, however, a wider problem was reported by a trade union leader: ‘Many people who contact us report delayed or unpaid salaries.’

Wage related collective bargaining and the negotiation of minimal social insurance thresholds between social partners can, therefore, only partially influence this individualized bargaining process, especially in sectors where the collective bargaining coverage is very low – such as retail, hotels and catering or ICT in the case of Bulgaria. Wage levels and structure (part paid officially and part paid unofficially) in general depends on the sector of activity and the size of the company, with informal practices tend to be more frequent in small companies. Concrete wage formation mechanisms in Bulgaria appeared obscure in some case studies, for example in small shops, and mediated by the ‘proximity’ of employees to the owner/manager. Only in some medium-sized enterprises owned by foreign investors or managers (for example, in hotels and catering and the chemical sectors in Bulgaria) did we observe more transparent wage formation mechanisms and performance-related pay based upon individual or team working. Bonus systems, while existing, often also seemed to be obscure and dependant on employer prerogative, but sometimes informed by friendship/family relations with the employees.

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<sup>9</sup>As indicated in the table 3, although individual bargaining dominates there is also a segment of the SME sector, which is regulated by collective bargaining.



## Working time and working conditions

The case studies suggest that SMEs only partially observe labour legislation on working time. All of the owners/managers interviewed showed some acquaintance with the legislation. However, what is typical for these firms, despite some sectoral differences, is the informal organization of work, including the regulation of working time within them. External environmental factors, primarily the process of deregulation, defines the relatively “liberal” right of the employers to determine the working time of their business, for example, in retail.

Flexibility of working time is extremely important for both actors in ‘negotiations’. A recent publication stressed the fact that, ‘Longer working hours are among the three most often violated labour standards in Bulgarian SMEs during the post-communist transition, together with ‘work without labour contract’ and the ‘minimum working salary to avoid high social insurance payments’ (Paoli and Parent-Thirion 2003). Similarly in Hungary, it has been reported that a relatively high proportion of employees work on weekends, especially on Saturday, (European Foundation 2003).

The case studies show that, depending on the sector or business activity, the employer could ask employees to work longer hours, during the weekend or national holidays, or in tourism, during high season. In smaller case study organisations these longer working hours were not paid. Employees sometimes worked such hours in ‘exchange’ for extra pay or (in larger enterprises), but more often in the hope that it would facilitate career development or in return for flexibility in working hours (in ICT and retail). In the case studies of ICT companies in Bulgaria employees accepted that they would stay until late when it was necessary, in return they could take ‘emergency’ leave whenever they want, as long as the manager was informed. The impact of such individual bargaining power based on personal relations in small firms could be interpreted as providing more freedom and flexibility both to the employer and employees.

In exchange for longer working hours the owner/manager gives the employee more flexibility over working time, enabling them to take time-off for domestic emergencies or for personal business. However that informality could be examined from another perspective – it might limit the freedom of the employee to refuse extra work if asked by the employer. In the case of a Bulgarian ICT company working time schedules were governed by external factors; employees could start work at any point in the period between 8.30 and 10.00 am and finish between 6.30 and 7.30 pm; each was free to allocate their own time as long as they fulfilled their working responsibilities.

The owner explained that each of the employees determined their working time in accordance with the needs of the clients:

‘When we have no work with the clients everyone is free to come and stay whenever he/she wants to’.

However, at the same time:

‘We are serving a lot of clients, they are the ones who determine the working time of employees – at what time to be at their offices and how tasks should be undertaken. Thus working time depends on clients’ requirements’.

A further mismatch between labour legislation and employment practice in SMEs is over the length and regularity of rest periods, breaks and annual leave, which again are informally regulated.

The other domain for informal negotiation, at least in some SMEs, is health and safety. These 'negotiated' arrangements are built on the basis of mutually acceptable solutions, which could differ from what is prescribed by law. In general, compliance with labour legislation depends on the size of the company; the bigger the firm, the stricter the implementation of health and safety practices. The case studies demonstrated that in the micro and the small firms the level of health and safety observation is not rigorous. In those firms it appeared that neither employers nor employees were interested in health and safety. In Bulgaria, the recently introduced provision for the regular medical examination of employees is problematic, because the Labour Medicine Offices (LMO) have no financial incentive to sign contracts with SMEs (due to the small number of employees). In small companies health and safety committees rarely exist. In medium-sized companies, committees on Health and Safety Conditions (CHSC) formally exist in many cases but generally are not active (in some cases not functioning at all). One exception, illustrated in both the Bulgarian and the Hungarian case studies, are the sub-contracting companies, working for foreign contractors, who are keener to develop health and safety policies and measures under pressure from their contractors. However, even in these cases the observation of legislation could exist in theory rather than practice (for example the company could have a contract with LMO, but it is unclear if medical examinations of personnel were actually carried out). According to the owners/managers interviewed in one of the Bulgarian case studies, they lack information from the authorities about health and safety requirements. Most of the respondents (excluding a case study in a larger hotel) agreed that the governmental programs and legal initiatives are unclear and difficult to understand and adopt by employers, because of the investment they require.

Vocational training is rarely an issue addressed by Bulgarian SMEs. This is supported by the evidence of the National Statistic Institute (NSI) survey on Continuous Vocational Training (CVT) in Bulgaria, which showed that few hours are spent on training, but particularly in micro and small enterprises; few resources are allocated to training activities and there are few enterprises with a written plan and specific budget for CVT. The lack of formal training was illustrated by the case studies, with the exception of initial on-the-job training. In Bulgaria there was no accredited training amongst any of the case study organisations, except in a case study of a tourism company, which followed the standards of an international chain. In another case – a clothing company in Bulgaria, experienced workers were asked to train the newcomers. In a number of the case studies self-generated training was a strategy adopted by the employees, not only prior to joining the firm, but also whilst working there.

## Representation

In the majority of firms investigated in Hungary and Bulgaria it appeared that both owners/employers and employees preferred the 'informal regulation' of employment relations. In the ICT cases examined in Bulgaria a manager insisted on the fact that:

'Highly qualified employees have strong negotiating power and they do not need a mediator to communicate with the manager'.

It should be noted that the extremely fast development of SMEs in the emerging market economies in Central Europe did not allow the social and economic actors to focus on building an institutional framework in the sector. Economic and social policy makers were more interested in modernisation based on Foreign Direct Investment (as it was the case in Hungary) or on struggles over property ownership (as was the case in Bulgaria) and the development of the SME sector received peripheral attention. Goss has proposed a typology of managerial control, based upon a combination of two dimensions: the "extent of employer's economic dependence upon employees" and the "ability of employees to resist the exercise of the owners' prerogative". (Goss 1991, quoted by Employment Relations 2002: 4-5) In the Hungarian case studies size is significant in shaping patterns of control, but only one factor. In a number of cases employment relations were more formalised and codified, the growth of these organisations led to the increasing complexity of relationships between owner/managers and employees which required the use of new, standardised management tools to organise work and facilitate social consent (the changes arising from increased formalisation are discussed in Moore et al in this issue). The case studies also draw attention to the growing importance of the outsourcing of non-core activities. In a small Hungarian clothing company with six employees, four employees worked in the company factory and the other two employees were employed as home-workers. In the new economy - for example ICT - there appears to be a move towards more formal management models. The case study of a Hungarian interactive media company shows that during a period of growth, the owners hired an organisational consultant. In cooperation with an international audit firm the company tried to create a more efficient organisational model, firstly implementing separate cost centres, and later introducing project-based work organization. These cases suggest that there is a need to understand the management model in order to interpret employment relations and the question of representation. Yet in this case study employees criticized managerial decisions and one of the employees expressed an interest in more intensive participation in work-related decision-making:

'Compared with my previous workplace it is a very bad thing that here we don't know where we are going. We give a lot of information to the management, but they inform us sometimes just at the last minute. Often in a given situation we don't know what to do to help the company's long-term aims'.

There is widespread belief that trade unions have difficulties in creating both representative institutions (e.g. collective bargaining) and employee participation structures (e.g. works councils) in SMEs. The opinion of a Hungarian trade union leader interviewed in the clothing industry sector summarises well the difficulties of implementing collective interest representation structures in the workplace in the post-socialist economies of the CEE:

'When big clothes factories closed down many people registered themselves for unemployment benefit, but at the same time they started working in the black economy. It is hard to make these people understand what disadvantages they can suffer without being registered employees because until they have other alternatives they will not leave their black sector job. Frightening them with the ghost of being without a pension and health insurance is fairly useless until they are forced somehow to deal with this

question. Many of those who are employed in the black economy are retired or have this as a part-time or a second job. This system works reasonably well as long as employers pay correctly, but alongside this there are many unstable elements. The badly defined job contracts and unregistered salaries press employers to exclude any third party from the relationship between themselves and the employees. This often leads to the high vulnerability of workers’.

In some sectors there was low awareness of trade unions. The employees interviewed in the Bulgarian hotel did not know if a trade union for people working in tourism existed. The same was true for employees working for a clothing company. This evidence suggests that there is a deficit in communication between trade unions and employees in small companies. The

Hungarian company case studies also indicate low awareness of unions or a perception that there was no need for them. Yet the absence of official institutions of labour relations does not mean a lack of social consent between the actors involved in the labour process. In other words, we have to stress the informality of employment relations and the rather paternalistic pattern of management in the firms surveyed. The case studies indicated that the intention of owners/managers of small firms to individualise employment relationships also appeared to reflect the wishes of employees. This latter phenomenon can be attributed to a preference for informality, but also to employees’ lack of trust towards their trade unions. A number of employees, interviewed in both Bulgarian and Hungarian SMEs, shared a negative opinion of trade unions. According to a respondent working in a Bulgarian ICT company the trade unions ‘are visible only on paper but not in practice’. All of the respondents in a Bulgarian retail enterprise had heard about trade unions, but none of them declared an interest in their activities. A worker in a textile company affirmed, ‘they pretend to have activities’. Another employee working for a hotel stated:

‘I don’t rely on such organizations; in my opinion they are just dangle their legs. They wouldn’t stand for the rights of people like us. To me, this is pure bureaucracy’.

The belief of those employees is that for the moment unions cannot do anything for them and this reflects a wider legacy. In many cases, trade unions lost their legitimacy because of their support for the social and economic reforms and their failure to address dismissals from the large enterprises during the 1990s.

### **Collective bargaining**

In Bulgaria collective agreements exist for certain sectors (hotels and catering, commerce and clothing). However these agreements were not reflected in the case study organisations. There was only one example of collective bargaining and this was the case study of a sub-contracting company, which had been part of a former large state owned enterprise, acquired by a Belgian multi-national. The trade union organisation had been established in the year of 2003 and its founders were about 70 workers – almost all of them members of the trade union organisation of CITUB in the former company. The trade union section of the sub-contracting company is a part of the union branch of the larger company of which it was a part. It had recently signed an agreement with the executive director for the collection of membership subscriptions (on the base of a monthly deduction from salary) and was in the process of negotiating a collective agreement. This case study reflects the findings of the wider SMALL project, which showed that unionization in SMEs may be inherited following the fragmentation of larger companies (see Moore *et al*) and underlines the importance of preserving trade union presence in externalized activities of large enterprises. None of the Hungarian case studies were covered by collective bargaining.

## Conclusions and Policy Recommendations

In the cases of Bulgaria and Hungary, as in many CEE countries, SMEs are not covered by Collective Labour Agreements (CLAs) and representative structures rarely exist. This represents a challenge for both social partners (trade unions and employers' organisations). Yet, the case study evidence questions whether the SME sector is a priority for trade unions in the CEE. In Bulgaria and Hungary trade union representatives interviewed for the project complained that access to workers in SMEs was difficult; at the same time workers reported that in many cases they had not heard about trade union attempts to gain access to them.

However the problem of access and formal representation in the companies not only reflects trade unions strategies, but also depends on the extent to which both employers and workers can be 'convinced' of the utility of social dialogue and the development of a culture of dialogue in general. Small businesses in CEE are relatively new and their characteristics impact in a particular way upon employment relations. The possibility of collective mobilisation was undermined by individual strategies of survival, characteristic of the post-socialist economies, namely informal practices and secondary employment. Trade unions have responded to the avoidance of regulation by SME employers (e.g. payment of minimum wages, lack of labour contracts) at national level, for example the compulsory registration of labour contracts in Bulgaria and the introduction of minimal thresholds for representation. However there has been little activity at workplace level.

In any case, the absence of formal channels of representation in the SMEs hides the existence of a number of compromises between employers and employees over matters such as wages, working time or health and safety conditions. Trade union action should be based on a clear understanding of these social realities. In addition, we have to stress the absence of a meaningful regional dimension in the labour relations systems in the former state-socialist economies. It may be necessary to rethink the existing sectoral approach to social dialogue and to combine this with a regional perspective. In this regard the CEE states could draw upon effective regionally based labour relations systems as in Italy.

A more 'reflective capacity' highlighting the differences and parallels between SMEs and the public sector and multinational companies could provide a better articulation of the representation of employees and better adaptation of appropriate organisational strategies. In the post-communist reality individual strategies for survival have undermined collective action; the history of union support for liberalisation and their failure to address the associated attacks on workers' job security and living conditions have meant that unions have lost their legitimacy. They are now struggling to recruit and represent these same people now working in SMEs

The case studies show that, on the one hand, SME owners often require information and support on employment issues; and on the other hand workers need more information about their rights in the workplace. Workers have little knowledge of their rights to representation particularly in micro firms. This is especially relevant for health and safety and in relation to the legislative requirement for the establishment of representative committees. In this respect, the trade unions could be more active.

HYPERLINK

APPENDIX 1: CASE STUDY SAMPLE

Sector	Bulgaria	Hungary
ICT	<b>M-Software</b> =>10 employees <b>X-Solutions</b> => 6 employees	Interactive media, 62 employees
Clothing trade	G Apparel, 30 employees	Production of XXL size clothes, 6 employees
Hotel & Tourism	<b>Sea Hotel</b> , 156 employees <b>Family Sea Hotel</b> , 3 employees	Tour operator, 6 employees
Retail Commerce	<b>F&amp;W</b> 6 employees <b>T-Food</b> two self-employed Owners	---
Personal services	---	Health care institution, 54 employees
Industrial Subcontracting	Industrial Logistics, 194 employees	---

*Size Distribution of manufacturing firms: planned economies versus capitalist ones (1970)*

	<i>Planned economies<sup>1</sup></i>	<i>Capitalist economies<sup>2</sup></i>
<b>All manufacturing firms</b>		
1. Average number of employees per firm	197	80
2. Percentage of those employed by large firms <sup>3</sup>	66%	32%
<b>Textile industry</b>		
1. Average number of employees per firm	355	81
2. Percentage of those employed by large firms	75%	17%
<b>The ferrous metal industry</b>		
1. Average number of employees per firm	253	82
2. Percentage of those employed by large firms	61%	28%
<b>The chemical industry</b>		
1. Average number of employees per firm	325	104
2. Percentage of those employed by large firms	79%	35%
<b>The food-processing industry</b>		
1. Average number of employees per firm	103	65
2. Percentage of those employed by large firms	39%	16%

Source: Kornai, J.: *The Socialist System: The Political Economy of Communism*, Princeton University Press, Princeton, 1992., p. 400. / The sample includes Czechoslovakia, East Germany, Hungary and Poland.

<sup>2</sup> The sample includes Austria, Belgium, France, Italy, Japan and Sweden.

<sup>3</sup> Defined as employing more than 500 people.

## Chapter 7

# Inequalities in Europe's SMEs: The challenges for a trade union agenda

Gill Kirton and Ian Read\*

### Summary

*In the context of continuing gender and race/ethnic inequalities in labour markets throughout Europe, this article uses case study material gathered in eight countries to explore equality policies and practices in SMEs. Overall the findings indicate a limited and contingent approach on the part of SME owners/managers and an ineffective trade union challenge to the status quo. The article offers some thoughts on possible ways forward, concluding that unions have a long way to go before their rhetorical commitment to representing SME workers effectively and to pursuing an equality agenda is translated into action and practices at workplace level.*

### Introduction

The greater weight of existing industrial relations literature is based on policy and practice, and employee experiences within large organizations. The growing body of SMEs and industrial relations literature rarely tackles equality issues in any depth and there is seldom any consideration of the impact of the demographic composition of workforces (Dex and Scheibl 2001 and Ram and Holiday 1993 are among a small number of exceptions). Yet, the SME workforce consists of some of the most vulnerable and disadvantaged groups in the labour market, including an over-representation of women, black, minority ethnic (BME) and migrant workers. In many European countries, not only are SME employees unprotected by some areas of employment legislation, they are also typically underrepresented by trade unions at workplace level and often not covered by collective agreements (EIRO 1999). In addition, formal policies and procedures that might afford some protection against discrimination are typically lacking, with managers in SMEs demonstrating a preference for flexibility, informality and autonomy (Harris 2000; 2002; Wilkinson 1999). In addition, owner managers are often reluctant to acknowledge employee rights and may be hostile to employment regulation (Kinnie *et al.* 1999). The informality and unitarism characteristic of employee relations in SMEs militate against equality, the existence of any applicable anti-discrimination legislation notwithstanding (Woodhams *et al.* 2004).

These circumstances have to be set in the context of the traditional approach to tackling equality issues which in many countries has depended upon the establishment of formal policies and procedures designed to minimise stereotyping, bias and discrimination in employment decision-making (Kirton and Greene 2005). The formal approach to equality policy, underpinned by legislation and collective agreements, has been the one favoured by trade unions (Colling and Dickens 2001). However, it has to be acknowledged that trade unions have a 'mixed record' in challenging inequalities and the bargaining agenda in many countries has not been as progressive as it might have (Dickens *et al.* 1988: 65). Unions are widely criticised for having traditionally concentrated on improving basic terms and conditions of employment that might inadvertently improve the lot of women and 'minority' groups, but that lacked consideration of their specific concerns. More recently, unions have begun to face up to the challenges of a diverse workforce (see Colgan and Ledwith 2002; Colling and Dickens 2001; Greene *et al.* 2005), but ways of taking the broader equality agenda to SMEs still need to be developed.

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This article is based upon the findings of the SMALL research project – a cross-European evaluation of employee representation and voice in SMEs across six sectors (manufacturing, garment/textiles, retail, personal services, hotel and catering and information and communications technology (ICT)) in eight countries (UK, France, Belgium, Italy, Sweden, Portugal, Hungary and Bulgaria) (see Bouquin et al in this issue). The case study firms were characterised by an absence of workplace union organization and/or limited or no union membership, conditions that are typical of SMEs in Europe. This meant that the research focused on the experiences, views and perceptions of employers (managers and owners) and employees. Very few trade union representatives were interviewed and among those that were, there was very limited 'equality awareness'. No instances of trade union leadership and innovation on equality issues in SMEs were discovered.

The article outlines the underlying context of inequalities in European SMEs and uses the case study material to explore equality policies and practices in SMEs. This discussion has to be set against an overall economic and labour market climate that is mostly unfavourable to trade unions. Finally, in the context of (in the main) trade union absence at workplace level (see Moore *et al* this issue), it examines the considerable challenges for trade unions in seeking to tackle inequalities in Europe's SMEs and offers some thoughts on possible ways forward. However, the overall conclusion at the present time is that while unions throughout most of Europe have at national level faced up to the need to do more for SME workers and more on equality issues, this commitment is not being translated into actual action at the workplace level.

### **The context of unequal work in Europe**

For women workers, one of the most significant contributing factors to inequality is gender segregation, a persistent and pan-European phenomenon. Women are over-represented in a limited range of occupations, industrial sectors and in small private sector firms (Fagan and Burchell 2002). In the eight European countries included in this study, on average 79% of employed women work in the service industry, compared with 56% of men (Commission of European Communities 2003). Although gender disaggregated data on the SME sector is limited, within the service industry throughout Europe, women are over-represented in a number of areas where SMEs are numerous, including sales, hotels and catering, and personal service activities. In addition to this horizontal segregation in specific areas of employment and types of jobs, women in the EU-15 are under-represented in higher status, higher paid jobs and among the self-employed and small business owners (Fagan and Burchell 2002). There is less gender segregation in the countries of Central and Eastern Europe, where the expansion of private services has tended to benefit men more than women and some private services have become 'defeminized' (Pollert 2005:218). Pollert (*ibid*) makes the point that service sector growth in Western Europe was associated with feminization and gender segregation based largely on a polarization between female part-time and male full-time employment. In contrast, in Central and Eastern Europe part-time work remains relatively small-scale. However, despite less gender segregation overall, highly qualified women in the region seem to be losing out on new opportunities in the knowledge economy (Glover 2005). Gender segregation is strongly associated with lower pay for women and there is an average gender pay gap in the EU-15 of 16%. However, despite less gender segregation, the average pay gap in the CEEC-10 is bigger than that in the EU-15 at around 20% (Pollert 2005).

With regard to BME and migrant workers, the context and history of migration in Europe varies from country to country. Countries such as Belgium, France and the UK attracted substantial numbers of migrants in the period after the Second World War, while in other countries, like Sweden, immigration came later. The position continues to change, particularly with the arrival of new groups of migrants to Western Europe from Central and Eastern Europe (ETUC 2003). Following admission to the EU, some Central and Eastern European countries are also likely to become more attractive to migrant workers. The legal position of migrants and their descendants differs substantially across Europe and this influences labour market experiences and outcomes. In



addition, the terminology used in different countries to refer to migrants and their descendants varies, as does the way of thinking about and collecting data on BME and migrant issues. This makes it very difficult to make cross-national comparisons of employment participation and experiences by race and ethnicity (ETUC 2003).

Despite patchy data, there is evidence of labour market segregation by race/ethnicity across Europe with BME and migrant workers concentrated in a relatively limited range of industries and occupations and under-represented in higher status, higher paid jobs (EUMC 2003). Therefore, while BME and migrant workers are often distinct and heterogeneous populations, both are disadvantaged in the labour market in terms of lower levels of participation, higher levels of unemployment, lower levels of access to training and learning opportunities, lower pay, unfavourable working conditions, and higher levels of job insecurity. There is also evidence that BME and migrant workers encounter racism and discrimination (EIRO 2003; Wrench *et al.* 2003). However, it is thought that only a fraction of victims lodge complaints (EUMC 2003). Although there is an absence of data specifically related to BME and migrant workers in the SME sector, there is no reason to believe that the conditions for them are any more favourable than in larger organizations.

### ***Inequalities in European SMEs – evidence from the case studies***

Although there is a lack of data specifically on the SME workforce, it is clear that SMEs do not exist in a vacuum, but within a broader social and economic context, involving regimes enshrining gender and race/ethnic inequality (Ram and Holliday 1993) as briefly described above. The broad patterns of gender and race/ethnic segregation were reflected in most of the case study firms in the eight countries and were associated with a number of gender and race/ethnic inequalities. These included low pay (often at or near minimum wage rates) for women, BME and migrant workers; their under-representation in higher status/paid roles and their more limited access to training and development opportunities. The manufacturing case study firms across the eight countries were typically male dominated and men held the traditionally male-typed jobs that were higher paid, while women held the traditionally female-typed jobs that were lower paid. The manufacturing sector, in particular the clothing sector firms, also made use of BME and migrant workers as a source of low paid, low skilled labour, underscoring the significance of the wider economic and labour market contexts. The service sector firms were typically female dominated, but with women generally concentrated in the lower paid secretarial and office support roles, with men more likely to be in the more high status management and consultant roles. The exception in the service sector was the ICT case study firms which were typically male dominated with the minority of women concentrated in the lower status, lower paid areas of client and support services. The only exceptions to the general pattern of gender and race/ethnic segregation were in some professional employment areas. For example, in Sweden and the UK the dentistry case study firms had a more even gender balance, as did the optician firm in the UK, reflecting wider trends in some professional areas of employment. In the UK there was also more representation of BME workers in these areas.

It was apparent that the lack of training and development opportunities effectively meant that many women, BME and migrant workers were trapped in low paid, low status jobs. The owners and managers of most case study firms accepted gender and race/ethnic segregation as a fact of life and suggested that the composition of their own workforces simply reflected the sector in general.

### **Equality policies and practices in SMEs**

Equality policy-making involves the introduction of rules and procedures to prevent discrimination, especially in recruitment and selection. There is also now more attention given to promoting equality through formalised flexible working arrangements such as 'family-friendly' or broader 'work-life balance' initiatives (Kirton and Greene 2005). Given what we know about the prevalence

of informality in SMEs, it would be surprising to find highly developed and formalised equality policies. Nevertheless, while the formal approach to equality is usually associated with large organizations, in the UK 63% of workplaces with between ten and 24 employees claim to have a formal written policy (Kersley *et al.* 2005). Other research (Cassell *et al.* 2002: 683) finds that SME managers believe that there is 'greater tolerance' of the difficulties that may be experienced by diverse groups than in larger organizations because they know all employees personally. However, Cassell *et al.* felt there was little actual evidence of equal opportunities at work in their sample of UK firms. This section considers the case study firms' approaches to equality policy-making, looking in particular at recruitment and selection practices and flexible work arrangements as two sets of practices that have the potential to redress inequalities.

### ***Equality policy-making in European SMEs – evidence from the case studies***

Mirroring Cassell *et al.*'s (*ibid*) findings from the UK, few of our case study firms in the eight European countries had adopted a formal approach to equality policy-making. In fact most owners/managers displayed very little understanding of equality and did not feel that a formal policy would have any relevance to their firms. In the five Swedish case studies, despite a relatively strong legal framework for equality covering SMEs, only one organization – an estate management firm – had a proactive approach. Interestingly this firm was male dominated, but managed by a woman, who wanted to attract more women as caretakers and landlord's agents, indicating an informal commitment to greater workforce diversity.

The UK dentistry case study provides an example of how the preference of owner managers for flexibility over formal policy militates against equality policies. Here amongst the dental surgery assistants there was gender and ethnic diversity; the practice manager was a black woman. However, the owner expressed some frustration at the extent of the regulations he was required to comply with and in particular was hostile to the notion of a formal equality policy, since he felt that the workplace exemplified ethnic diversity in practice and he argued that this worked well at an informal level:

'Equal opportunities I refuse. You have to look round my staff. I just find it a stupidity. We're not a big enough organization to need to have it all written down in detail as far as I'm concerned. I mean again, it's a question of what size business are you running. If things are going wrong it's going to hurt me, if all my staff walk out tomorrow it's my problem – so I have to have reasonable employment... but you're asking about discrimination, what have we got [referring to ethnic diversity in the practice] – just look around, and it works.'

### **Recruitment and selection**

Adopting formal recruitment and selection methods is traditionally seen as part of good equality policy and practice and is thought to be one of the ways in which gendered and racialised barriers to employment can be broken down and workforces diversified (Kirton and Greene 2005). In contrast to this, word-of-mouth recruitment is widely seen by SME owners/managers as entirely appropriate and the most effective way of filling a job vacancy (Cassell *et al.* 2002; Ram and Holliday 1993). Holliday (1995) has illustrated the significance of workers' familial networks to the informal recruitment process in SMEs. The outcome is likely to be that people introduce others who share their gender and ethnic make-up and therefore 'outsiders' are excluded, serving to perpetuate existing patterns of ethnic and gender segregation. But, as Ram and Holliday (1993) point out, informal recruitment channels also have advantages for employees because they effectively get a say in who is recruited and are able to introduce family and friends to the firm. Thus, the 'family culture' often seen to characterise relations in SMEs is negotiated with employees, rather than simply imposed by owners/managers (Ram and Holliday 1993).

Our case studies confirm the prevalence of informal recruitment and selection processes, particularly for lower skilled workers, but also for skilled technical workers in the ICT and personal services sectors. In one Bulgarian retail case study and one Hungarian case study in the garment sector, for example, all the employees had been recruited through friends and relatives of the owner. In the UK case study of an optician's practice, two of the professional employees were recruited informally; for example, the dispensing optician was working for a multiple optician chain and heard via word-of-mouth through a sales representative who visited both organizations that the practice was looking for someone. This method of recruitment was widely seen by owners/managers and employees to create an informal and friendly atmosphere in the workplace, contributing to employee retention and satisfaction. In addition, where there are concentrations of minority ethnic workers, employers may draw upon these workers' community and social networks in order to fill vacant positions quickly and cheaply. In one of the UK manufacturing case studies, recruitment of production staff was largely informal drawing upon networks within the Sri Lankan community to access a source of low paid labour.

However, not all the SME employers had a preference for informal recruitment methods: significantly, this depended to a large extent on the labour market context and perceptions of the most effective methods of filling job vacancies. In the Swedish dentistry case study, familial networks were used but the firm also used other recruitment methods. In the UK clothing case study, it was reported that the employer was not keen on informal recruitment methods because management did not like workers with existing relationships to work together; recruitment was through the local newspaper. In one of the UK hotel case studies, acute labour shortages had led the manager not only to recruit via word-of-mouth, but to advertise via UK and German newspapers, magazines and radio, and also to forge links with a hotel and catering college in the Czech Republic. In summary, in the firms where recruitment was formalised, this was driven by (perceived and actual) business need situated within the broader labour market context, rather than by consideration of good equality practice.

### **Flexible work arrangements**

Whether or not an organization offers flexible work arrangements is often taken as an indication of its approach to equality issues, particularly gender (Kirton and Greene 2005). Although SMEs are less likely to have developed formal policy in this area, that need not imply a lack of flexibility in practice (Dex and Scheibl 2001). Ram *et al.* (2001), for example, have argued that in handling time off for family needs, SMEs may need to be less proceduralised than large ones. Thus, the way that flexible working arrangements are dealt with is indicative of the general informality of industrial relations in SMEs mentioned earlier. There is some evidence that trusted employees might be treated sympathetically and allowed to adjust their hours to suit family responsibilities (Liff and Turner 1999). Woodham *et al.*'s (2004) survey of UK SMEs showed that nearly three quarters said that they paid particular attention to female employees with family or caring responsibilities when making changes to working hours. The proportions offering flexible working were high and the authors suggest that one of the advantages of working for an SME might be their ability to be more flexible in response to the needs of employees.

In our case studies, there was a general willingness to accommodate flexible working arrangements, particularly for mothers. This was usually dealt with informally and on an individual basis rather than through the adoption of formal policies and procedures conferring rights to flexible working. There were just a small number of exceptions to the informal approach. In one Bulgarian clothing sector case study, for example, if a family problem emerged employees were free to leave the workplace once they had submitted an official request. In another exception, in one of the UK hotel case studies, the staff handbook set out formal entitlement to compassionate leave and time-off for domestic emergencies. In one of the Portuguese ICT case studies, the firm formally offered maternity and paternity benefits above the statutory minimum. These entitlements were

seen as an important contributor to employee satisfaction and motivation, suggesting that for some SMEs flexible work is as much about meeting business as it is employee needs (i.e. for many SMEs the provision of flexible work arrangements helps to recruit and retain workers in context of a tight labour market).

However, reflecting previous research (Dex and Scheibl 2001; Woodhams *et al* 2004), managers generally *talked* about flexible working as being for the benefit of employees, rather than the firm. It was also clear though, that firms operating in a predominantly female labour market had to allow some accommodation of women's needs to balance work with childcare responsibilities. As one manager in a UK hotel case study commented:

'I do encourage it, [flexible working] because I don't want to lose people.'

At the same time, many of the case study firms agreed to flexible working reluctantly because they felt it posed operational difficulties, as the UK hotel case study manager goes on to explain:

'I've got a couple of receptionists who are part-time and it was a difficult thing for the head receptionist because it's difficult for her [to manage], but they're worth their weight in gold'.

In one Portuguese manufacturing case study, management reported that because of operational constraints it would only be possible to provide flexible working hours to meet employee needs for a limited period. The employees did find the company sympathetic on an individual basis – one worker was allowed some time off to look after a young child and another to start later so he could take his children to school. When asked what the management position would be if a worker requested part-time work in order to care for young children, the management respondent stated:

'While they would not be insensitive to the situation their main role is to consider the company as a whole, and not individual cases.'

Similarly, in the French manufacturing and the Portuguese pre-school education case studies, work schedules could be arranged to suit family commitments. However, management felt that while this was beneficial to employees, it could sometimes be prejudicial to the running of the organization and these arrangements were therefore only reluctantly agreed. Similarly in the Portuguese clothing case study, managers were reluctant to offer flexible work arrangements, but employees found them receptive to individual requests, as one reported:

'I went through a situation, which was quite specific and lasted just a short time, when I had to be off work because of my father's health when he was in the final phase of a terminal illness. At the time I had to help my mother because she could not cope alone. I spoke to the managers, I said I would either take leave or alternatively go on working but whenever my mother needed me or phoned me I would leave work for a few hours to go and help my parents. The company didn't raise any problems, the managers put me at ease and I went on working and giving my parents the support they needed.'

Therefore, most owners/managers were constantly balancing operational needs with employees' needs for flexibility, in the knowledge that their workers were often difficult to replace.

In most countries and sectors, the case study firms used part-time working to accommodate caring responsibilities. Part-time work is arguably more straightforward, less disruptive and easier to manage as it avoids a possible diversity of individual flexible arrangements, such as different starting and finishing times, different holiday arrangements etc. Also, in many countries there is a

ready supply of part-time labour. This is highlighted by the managing director of one UK clothing sector firm who stated that the company was flexible in terms of working hours, but that these arrangements were driven by staff retention considerations and were not necessarily consistent with production requirements:

'We are quite flexible because it's traditionally been a sewing factory and it's traditionally been female employees doing those roles, and so we've had to be flexible to retain the skills really. It makes it more difficult to run an operation with part time people who come and go at different times of the day. It certainly doesn't help our production process and it's a hindrance if anything. But we have to recognise that and accept it as part of retaining those people. It's not ideal, I have to say, and over the years, we've tried to formalise the part time hours, to get everybody to go on the same part time hours because we've got some starting at half eight, some starting at nine, some starting at half nine, and so on, so it's not great and when you're running a production line, and you've got people coming and going, it's not easy because the people further down the line depend on the people before them to be right with the work, so it makes it difficult to supervise'.

Sometimes part-time jobs were specifically designed and advertised with mothers of young children in mind in order to attract this particular source of flexible labour. In other cases firms did not actively recruit part-time workers, but were responsive to individual requests for part-time working as long as it could be reconciled with business needs. In the Swedish call centre case study, part-time working was preferred by management because of the stressful nature of the work. Almost half of the all-female workforce worked part-time and many were happy to do so because it allowed them to reconcile work and family. However, a number of women were aged around 50 and wanted to work more hours, but management would not agree to this, again highlighting the employer-driven nature of flexible work arrangements.

There were also a couple of examples of flexible work arrangements extending beyond childcare needs to the specific needs of a multi-ethnic workforce. In one of the Italian case studies in the manufacturing sector, where there were several Bengali workers, a number of informal, individual agreements were reached to allow extended annual leave – four weeks rather than the three weeks Italian workers are entitled to – so that workers could return to their country of origin. In the Bulgarian clothing firm, Muslim workers were allowed time off for their religious holidays. Again, these arrangements were conceded more because of the labour market context and the need to recruit and retain these groups of workers than because of any particular sympathy with their cultural needs.

The contingent nature of flexible work arrangements was particularly apparent in a small number of case study firms where few concessions were made. In the Italian textile sector case study, factory hours were considered to be incompatible with family commitments and with part-time working, with the consequence that the workforce was predominantly male. In one Hungarian case study in the garment sector, the owner aimed to fit her business activity with her own childcare. However, ironically she employed only older women because they were less likely to have childcare responsibilities:

'I'm not willing to employ young women because I know how things go if you have a kid! I prefer elderly workers because they have got over it.'

There was thus a widespread belief in the case study firms in all sectors and countries that while the labour market context meant that it was often necessary to allow at least a degree of flexible working, this was not always ideal from the firm's point of view. Where there was not a coincidence

of business and employee need, there was generally reluctance to concede flexible work arrangements.

### **Conclusions**

The case studies indicate that generally European SMEs do not adopt formal equality policies, preferring an informal and flexible approach to employee relations overall. In practice, we found only a limited range of practices that might be regarded as equality initiatives, the most widespread of which were flexible work arrangements. However, on balance these arrangements were driven more by business than employee needs and were contingent on the labour market context (i.e. labour shortages), and to a lesser extent on the perspectives/beliefs of owners/managers. In particular many of the case study firms clearly had a need for a source of low paid labour, usually women or BME and migrant workers, and it was this that generally influenced them to adopt a broader range of recruitment and selection practices or to concede flexible work arrangements. At best we observed a narrow equality agenda and at worst it was non-existent.

### **Challenges for trade unions**

There are several features of employee relations in SMEs that pose challenges for trade unions in developing an equality agenda. Firstly and fundamentally, unions must establish a greater presence in SMEs, not simply by recruiting more members, but by strengthening union organisation (e.g. with more workplace representatives and activists) and becoming more effective in meeting the needs of SME workers. This involves confronting the variety of worker experiences within SMEs. The evidence on equality issues found in the study of SMEs in eight European countries confirms that we cannot assume that either the 'small is beautiful' or 'bleak house' stereotype applies to the patterns of employee relations in SMEs (Wilkinson 1999). Small firm industrial relations are not defined by size alone (Ram *et al.* 2001) – for equality, as for other employment issues, the labour market context is equally important. Yet, despite the typical absence of formal equality policies, we cannot assume that all women, BME and migrant workers experience SMEs negatively. Based on the variability of employee relations discussed in other papers in this issue, neither can we assume that there is a clearly identifiable equality agenda for SMEs that all workers would support or benefit from. Working conditions vary considerably, with many firms and areas marked by low pay, long hours and poor conditions; others enjoy relatively good pay and conditions, particularly highly skilled and professional workers. For women, working in a SME might be a positive choice or at least a compromise, to facilitate the balancing of paid work and family responsibilities. For other workers, particularly some BME and migrant workers there might be little opportunity to gain employment elsewhere (Ram and Edwards 2003). All of this calls for more effective union presence at workplace level.

Secondly, one significant, but not surprising, finding was the absence of formal equality policies and the lack of commitment to promoting equality for its own sake in the case study firms. This was despite the fact that in a number of the eight countries, in some sectors SMEs are covered by national or sectoral collective agreements dealing with equality issues (Italy and Sweden for example). Generally, SMEs held the view that equality considerations were irrelevant to and not the responsibility of the firm. Therefore it has to be the role of trade unions to put forward equality claims to SME employers. We found no evidence that this is happening presently. Even where collective agreements do exist, the case studies suggest that the unions need to be more proactive in ensuring that SMEs comply. The problem seems to be that many trade unionists lack 'equality awareness', therefore there is no one to deliver an equality agenda at workplace level. Owners/managers talked about gender and ethnic segregation, for example, as a taken-for-granted fact of life over which the individual SME had no control. Where women or BME workers were under-represented it was usually stated that this was because the job was unsuitable, they did not possess the skills or did not apply. Although the widespread usage of informal recruitment

methods undoubtedly perpetuated gender and race/ethnic segregation, this was generally seen as the most cost-effective and efficient means of filling job vacancies. We found no evidence in any of the countries of a trade union challenge to such perceptions and practices. Even in firms where more formal methods were utilised, this was not out of consideration for equality policy and practice or in response to trade union bargaining, but was driven by business need (i.e. the labour market context with many of the firms relying on BME and migrant workers as a source of low paid labour).

Thirdly, it was clear, paradoxically perhaps, from the case studies that the lack of formal equality policy need not mean an absence of measures associated with the equality agenda. Flexible work arrangements were widely adopted in the case study firms and many workers, especially women, found owners/managers sympathetic and responsive to requests. For instance, where workforces were predominantly female, it was generally expected and accepted that some form of flexible working would need to be accommodated. In the context of labour shortages, many firms did not want to lose their skilled and loyal female employees and therefore it was a retention consideration that was driving 'family-friendly' working arrangements. That said, flexible work arrangements underpinned by business need, rather than consideration for good equality practice, are bound to be contingent and fragile. If for example labour market conditions meant that substitute labour could be found to replace women (e.g. migrant workers perhaps), women might find their 'rights' to flexible working withdrawn. In addition, informality by nature cannot provide protection against discriminatory practice and treatment in deciding who gets their requests accepted. Further, the costs of flexible working in SMEs are often shifted onto other employees; for example by employees covering for each other (Dex and Scheibl 2001). This should be a concern for trade unions with their responsibility to represent the interests of all members.

Within this complex industrial relations and labour market context, how can trade unions develop an equality agenda for SMEs and what might be the content of such an agenda? To answer this question, it is useful to look more broadly at the challenges that the wider socio-economic context currently poses for trade unions. Dolvik and Waddington (2004: 20) identify three major challenges for trade union organization in Europe: (i) to reverse the decline in union membership and density; (ii) creating union agendas and internal structures that meet the heterogeneous interests of diverse workers; (iii) maintaining or regenerating cohesive and coherent interrelationships between workplace, regional, national and supranational levels of organization and activity. All three challenges can be closely linked with the SME industrial relations and equality agenda.

On the first challenge, it is obvious that unions cannot hope to increase their influence on employment conditions while membership is hemorrhaging. It is widely accepted that European unions now need to recruit members beyond the traditional large manufacturing and production firms. If the SME workforce in Europe is growing, then it is common sense that unions need to find ways of attracting those workers into membership. Given their over-representation in the SME workforce, this will inevitably involve appealing to the interests and concerns of women, BME and migrant workers, so the plea for unions to take up the challenge of tackling inequalities in SMEs is therefore not simply a moral one. But, this is easier said than done because, without doubt, workers in the SME sector are hard to organize, particularly with limited resources. In more general terms, unions in Europe have varied degrees of national level influence, but there is a need for them to champion race/ethnic equality more actively and assertively than of present. Failure to do so means that unions become part of the problem and the risk is that other institutions in the polity take up the 'sword of justice' that unions should be wielding.

On the second challenge, unions need to accept that a diverse workforce means diverse interests, although this does not always involve ploughing resources into minority issues. For example, the SME sector is marked by lower average pay (EIRO 1999) and raising pay would benefit the whole

workforce. However, pay in SMEs also has an equality dimension when we consider the over-representation of women, BME and migrant workers. Pay is a basic trade union issue and should certainly be a priority bargaining and campaigning issue in relation to SMEs. While thinking about the nature and composition of internal trade union structures might seem far away from the question of a trade union equality agenda for SMEs, it is well established that changes to the bargaining agenda have often historically been associated with internal structural reforms that have increased union participation among under-represented groups, including women, BME and migrant workers. Therefore at least part of the solution to meeting the challenges of tackling inequalities in SMEs, just as in large organisations, has to lie inside the trade unions themselves. Over the last decade at least, there has been a lot of rhetorical commitment to gender equality by European trade unions. However, there is continued under-representation of women and BME workers in union decision-making. While in many countries women's presence has increased, in others, in Central and Eastern Europe for example, there remains a lack of acknowledgement that internal gender inequalities even exist (Greene and Kirton 2006). When it comes to BME and migrant worker issues, across the European trade union movement there is a lack of consensus on the way forward. For example, the ETUC (2003) reports that many national union confederations are specifically opposed to ethnic monitoring of their memberships, when such data is a necessary prerequisite for tackling internal (and external) ethnic inequalities.

On the third challenge, unions operate at multiple levels and it is vital that supra and national level policies on equality, that are often very progressive and robust, get translated to the regional and workplace levels; otherwise they remain simply rhetoric and do not impact on working people's lives. From the case study evidence it appears that even in countries where unions have considerable national level influence, their influence at the level of individual SMEs is uneven and questionable (Sweden for example). Of course, there is also a wider question under this point concerning how unions attend to the needs of workers in highly dispersed SMEs. The idea of a 'servicing' orientation is anathema to some unions (see Heery *et al.* 2000 for a summary of the advantages and disadvantages of 'servicing' versus 'organizing') and in a general context of dwindling union resources, there are not in any case enough paid union officers to service SME workers in a face-to-face sense. The 'double whammy' in SMEs is that there is more often than not an absence of local level union presence (see Moore *et al.* in this issue) meaning that members lack representation in individual and collective matters and there is little opportunity for individual and collective grievances to be articulated.

Within the context of these considerable challenges, what specific strategies could unions use to advance an equality agenda for SMEs? Clearly, there can be no simple answer to this, but there are some signs of creative union strategies that have salience for the SME sector that might go at least some way to taking up the challenge. For instance the creative usage of the Internet could be one of the ways for unions to develop proactive strategies to counter the forces of union decline and to reinvigorate local trade unionism (Greene and Kirton 2003). This might work particularly well with dispersed and disparate SME workforces because the reach of the Internet is greater than any physical presence the unions might establish and union services and resources can be tailored to suit the needs of different types of workers. Dolvik and Waddington (2004) report some success where unions provide legal and/or professional services (such as job-search) to members, particularly via the Internet. In addition to the possibility of a job-search service, a union website could be the first port of call for an individual member experiencing problems at work such as discrimination and harassment. Web-based learning opportunities can also be provided (Greene and Kirton 2003); this might appeal to SME workers with more limited access to structured training opportunities.

Another creative approach to representing members in SMEs is the concept of 'roving safety representatives' introduced in the UK in 2002 following reform of health and safety legislation,



largely because growing numbers of workers in SMEs were effectively without meaningful health and safety representation (Kirby 2002). This cadre of union representatives pays visits to SMEs at members' requests in order to give advice on health and safety issues. In theory this idea could be extended to equality issues. In the UK, the general union TGWU has called for equality representatives to have similar powers to safety representatives and the TUC has created a programme of training for equal pay representatives. This type of innovation avoids the dichotomy between 'servicing' and 'organizing' approaches, but confronts the practical difficulties of 'organizing' and starts to face up to the challenges of tackling inequalities in SMEs at the level of everyday lived experiences.

In the context outlined in this paper, there is clearly not going to be a 'one-size-fits-all' trade union equality agenda for SMEs within any given country or even sector. However, it is clear that the gender and race/ethnic composition of the SME workforce demands the modernizing of the bargaining agenda to include 'work-life balance' and 'family-friendly' issues, temporary and part-time work as suggested by Dolvik and Waddington (2004) in relation to 'marketized services' in Europe. However, it also means confronting the more thorny issues of gender and race/ethnic segregation, the gender and race/ethnic pay gap and discriminatory treatment. These are all trade union issues and unions need to be placing these at the forefront of their bargaining, campaigning and lobbying activities at the national and supra-national levels. SME workers would undoubtedly benefit from this, albeit indirectly and in the longer term. Certainly, at the level of the European Trades Union Confederation there are signs that this is happening (see ETUC website, [www.etuc.org/](http://www.etuc.org/)). For example the ETUC currently has an Equality Plan (2003-07), which includes the aim of extending gender mainstreaming in collective bargaining. It also had a two-year project (2002-04) on trade union action to tackle race and religious discrimination.

At workplace level, arguably the trade union equality agenda for SMEs should be focused more on worker experiences and outcomes than on formal agreements, procedures and processes. Increased proceduralism might not be the best strategy to, for example, give women greater working time flexibility or to tackle unequal access to higher quality jobs in SMEs. But this requires a new way of thinking about equality issues and what needs to be done, one that trade unions are less familiar and less comfortable with. Trade unions need to develop new forms of organization and activity that are sensitive to the different worker realities and expectations of employment in SMEs.

## Chapter 8

# Why do Europe's unions find it difficult to organise in small firms?

Sian Moore, Steve Jefferys, Pierre Cours-Salies\*

### Summary

*This article explores the barriers to union membership and organisation at workplace level in SMEs across Europe. It shows that the nature of social relations in SMEs makes the articulation of grievances a high-risk strategy for workers and militates against the identification of collective interests as a basis for organisation. However, SMEs are dynamic organisations and organisational change can alter the conditions for representation. The article highlights the key importance of 'pro-voice' workers, with a collective frame of reference, for unionisation at workplace level; the general absence of such workers in SMEs compounds the problems faced by unions in addressing union renewal in the growth areas of the EU economy.*

Trade unions are Europe's largest voluntary citizen associations. Yet across Europe union members are only exceptionally found in micro (under ten) or small (10-49) workplaces, and are not common in medium-sized workplaces either. The European Industrial Relations Observatory reports that only a minority of EU countries have data on union membership in SMEs (EIRO, 2004) and this is the case for the eight countries included in the SMALL project. The data that exists suggests that across Europe union density in SMEs is consistently lower than in larger organisations and this is particularly the case in very small organisations. The exceptions are Sweden and Belgium, where union density in SMEs is thought to be high, and some regions of Italy characterised by a high proportion of small firms (EIRO, 2004). Yet, a survey in Italy conducted ten years ago found that only 4% of firms with 10-19 workers and 16% of firms with 20 to 49 workers were covered by collective agreements (Fonte Instat 2000). During the 1990s, in Bulgaria, where firms with more than 100 workers are considered large, a union presence was reported in only 5% of all private sector workplaces, and by inference not at all in small firms (Kirov 2003). In Portugal, a ten-year-old study found there were shop stewards in one third of firms with 50-199 workers, compared with 72% of larger firms (Naumann and Stoleroff, 1996: 164). In the UK data from the 2004 national Workplace Employment Relations Survey (WERS), showed that 28 per cent of workers in large UK private sector workplaces (250 plus) were union members, yet in workplaces with between five and 49 workers only 7% were unionised, and just 10% were members in workplaces with 50-249 workers (Forth *et al* 2006: 46). In France, small firms (10-50 workers) are a 'desert' for trade unions. In elections to Works Councils in workplaces with less than 200 workers 'non-union' lists make up 80% of those put forward compared to less than 20% in workplaces with more than 200.

What then are the barriers to unionisation in small firms? Some of the factors are well-known, especially where the national legislative context provides a representative threshold below which trade unions do not have any legal status: for example, this is 16 in Italy, but generally 50 in Belgium, although there are some sector agreements which specify 20 or even five workers. Yet even in countries where there are no legislative thresholds or where SMEs are formally covered by national or sectoral collective agreements, there is very limited union membership or organisation at workplace level. National legal frameworks do not explain everything.

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This research, based on case studies conducted in six EU15 and two accession countries, explored how the interests and grievances of workers are expressed in SMEs and the difficulties faced by unions when attempting to recruit members and provide collective organisation in such workplaces. The challenges to unionisation we identified arose from the nature of social relations within SMEs: the individualisation of the employment relationship; the structural proximity of the employer; the resistance of owner/managers; and, in the face of all these problems, an absence of collective frames of reference or models of unionisation, in turn reflecting the low priority given SMEs by the trade unions.

Yet, the case studies demonstrated that small and medium-sized firms must be understood as heterogeneous and dynamic organisations that change over time. As small firms evolve beyond a direct owner management system, they adopt more formal and bureaucratic management systems and procedures, and the conditions for representation change. The article identifies how within slightly larger and more stable SMEs opportunities for unionisation may emerge, and how 'pro-voice' individuals play a critical role in realising any potential for collective organisation.

### **Individualisation and informality**

A major barrier to unions in the micro and small workplaces we studied is the way in which the employment relations between manager and managed are perceived by both sides as inherently individual. Although there were more formalised policies in a number of SMEs, interviews testified to the continuing informality of employee relations, with workplace and social relationships sometimes overlapping and reinforced by social activities. Under these circumstances, the cost to the individual worker of framing grievances is high and perceived as a threat to the social base of the organisation. Although such 'informal' employee relations systems do not mean a total absence of conflict, employee dissatisfaction tends to result in 'voluntary' or informal exit, rather than the emergence of collective channels of representation.

Workers in both French and UK information and communication technology (ICT) SMEs explained that the closer personal relationships that developed were one of the benefits of working in a smaller firm. Workplace relationships in one UK SME were reinforced by a weekly social event in which there was an update on company activity and then free drinks at a bar, with all employees and their partners present. Similarly, in a Bulgarian ICT SME, the employer representative emphasised the fact that work relationships were also friendships, staff sat down for lunch together on a daily basis with a worker employed on a part-time basis to cook and clean. There were also regular staff sports events.

This social basis of work was underpinned and reinforced by informal recruitment practices. These were often based on word of mouth, and led to a degree of homogeneity amongst the workforce. A number of the SMEs in the ICT sector employed young graduates and this could encourage at least the appearance of egalitarianism. At a UK ICT company an employee commented:

It's quite a flat structure and I guess the sort of people that have been recruited kind of fit into the same kind of mould; everyone gets on, there are good relationships across the whole company.

In a Hungarian ICT SME there was the same homogenous young workforce where working relationships were also social relationships.

Although in some SMEs there were formal grievance and disciplinary procedures, these were seldom used and, where they were, workers rarely took advantage of any rights they had to representation. The individualisation of the employment relationship appears to make informal management methods seem more appropriate (Harris 2002: 304; Wilkinson 1999: 209). For

owner/managers, formality is seen as curtailing flexibility and autonomy. In one UK ICT SME there were regular social events that a manager reported provided a 'low risk' forum for workers to raise issues with management. He attributed this informality to the size of the organisation and suggested that this might also rule out the need for legal regulation:

Again, because of our size we don't need to formalise the way we work, if we were 500 people I suspect some things would have to be more concrete, because you cannot deal with 500 people in the way you deal with a hundred people. I think, as companies get bigger you don't know the staff. I mean the job I left to come here had a thousand staff. Of course you don't know them all, you don't even recognise half of them and therefore having much more prescription in terms of legislation stops the abuse of people lower down and it just means you are doing the right things – where in a small company like this we don't need that kind of legislation.

The employer respondent in the Bulgarian ICT SME also considered that the need for formal representation was related to the size of a company:

There is a big difference when you have ten employees and 15 employees. When our staff numbers was a little bit more than ten I was under much more pressure and had responsibilities, so if we are talking about a staff with more than ten employees the organisation of the firm becomes more complex and the representation of staff might be needed.

In this firm, management organised an annual 'referendum' of staff to estimate the extent of employee satisfaction about working conditions and pay, but also to give the workers the opportunity to make suggestions about changes to the workplace.

The informal basis of working relations in SMEs was thus often seen to preclude the necessity for more formal employee representation. In a Hungarian garment firm, women workers reported that they trusted the informal above formal channels of representation, and where this failed they preferred to look to individual rather than collective solutions:

I do not think we need trade unions; we can handle things informally. If we cannot we can still quit and choose to be home-workers.

In a Portuguese clothing case study where there was no trade union membership or representation, issues were also taken up individually with management:

All of us, if we have a problem or need something, go straight to the engineer or the managers. Any dressmaker with a problem speaks directly with the boss. There are no problems between workers, department heads and management.

A similar emphasis on individual problem-solving was reported in several of the case studies in the ICT sector in different countries. They suggest that employment relations in small organisations employing highly skilled workers are particularly based upon informal and individual negotiation. In the UK one worker believed that she could bargain directly with the employer and thus there was no need for collective representation:

I haven't felt the need [for a trade union], I wouldn't feel the need specifically because I do feel I can influence... like if I was having a problem with the length of hours I was doing or if I didn't feel I was being paid fairly etc., I could influence that directly rather than joining a trade union.

As the other articles in this journal show (Anderson et al and Alves et al), this does not mean, however, that there were not latent grievances: in many of the SMEs we studied pay was at or near the national (or sector) minimum wage, holidays were often only at the statutory minimum and there were few examples of occupational pensions or sick pay. We also encountered several examples of excessive hours, particularly for more skilled IT workers. In the ICT sector the issue of long hours was, however, framed in terms of individual 'choice' and/or flexibility: such hours were

acceptable because skilled workers had some control over working time. However, one French ICT worker identified a possible danger of informal management-employee relations:

It's more delicate... you can be forced to... I can say if it's necessary to give a hand one evening to finish a job, that seems to me to be logical as long as it isn't abused. If it's necessary once or twice a month to get out of a fix, then that's not a problem. But by contrast, when that becomes the regular mode of working, then it's really worrying.

In three French hairdressing shops, workers explained that in their training it was stressed that conflictual issues – whether religious, political or issues to do with money – were prohibited in the salon and that this extended to communication between workers. These case studies displayed an absence of local collective organisation with no evidence of union membership or representation. One respondent's view was that because hairdressing salons are typically very small – with a staff of between three and 15 – it was easier for workers to resolve difficulties between themselves. However, some of the respondents did refer to jobs in the sector where they had been badly treated, suggesting that employment relations were not always harmonious.

### **Family owner-manager proximity**

Earlier research suggests that the organisation of work in SMEs is structured by the proximity of owners to employees and the close social and spatial relationships that may arise from this (Ram, 1991, 1994). There is recent evidence confirming the predominance of family-ownership in SMEs. In the UK in 2004, 78% of a national sample of SME workplaces with between five and 249 workers, belonged to companies that were owned by a single individual or a family, compared to 22% of firms with 250 or more workers. In three quarters (74%) of small firms with 5-49 workers and around half (48%) of medium-sized firms the family owner was involved full-time in the running of the business (Forth *et al* 2006: 12, 20).

The dual role of the owner as manager and co-worker may mean that perceptions of hierarchy within the workplace become obscured (Newby 1977; Scase and Goffee 1982). As a result, for family owners management can be a 'juggling act between exercising control and maintaining a positive social relationship with labour'; through such negotiation 'the authority of the ownership is maintained whilst attempting to mask the reality of the power imbalance involved' (Marlow and Patten 2002: 538).

In a Bulgarian clothing firm, the Greek woman owner declared that she and her mother (who also worked in a managerial role) were 'living and sharing' the lives of their employees. She allowed the workers interest-free loans to finance weddings or for the purchase of electrical items and was very proud that all her employees had washing machines, which she said was not the case for all Muslim women in the region. The other side of this was that, like a number of the owners and managers in other case studies, she was frustrated when employees did not express personal gratitude or appreciation to her for such benefits – a function of paternalistic relationships.

In several organisations where the business had originated as family-owned there were often attempts to emphasise the metaphor of 'the family', even if management had moved beyond this. Thus the human resource manager in one UK SME in the manufacturing sector suggested:

There is still a family aspect involved, I think. When you join, you join the firm; you join the business – the family business.... We are quite an informal business, so I think the people enjoy the environment.

His view was shared by one of the employees:

There is some advantage in working for smaller companies; there is a close-knit family sort of base.

In small workplaces, the proximity of the staff to the working owners and their dependence upon interpersonal relations for pay awards and flexibility suggests that the framing of issues or grievances is a 'high risk' strategy. Even in the Swedish context of high trade union density, respondents in a personal care firm reported that the small and familial nature of the organisation made it 'difficult' to find volunteers to act as trade union representatives. Framing and articulating grievance has the potential to disrupt the personal relationships that form the basis of cooperative working and threaten the social basis of the organisation. As one female respondent in a UK hotel put it:

I think it's easier in a bigger place to put your voice because there would be more of you. I think here, probably because it's so small and close-knit, you'd probably think, 'I don't want to ruffle anything.' You don't, because it's too small and you have to get on. So you would tend to turn the other way or just smooth things over. If you were a bit more antagonistic you would have to go because you couldn't... you couldn't work like that. It's too small a place to have animosity towards anyone like that. You couldn't... it would be a nightmare'.

In a UK manufacturing firm one of the workers pointed to another difficulty in organising in a family firm:

You find that if you take on something like that here it's going to be a hard battle because the company is a family oriented company. So it is owned by a family and the family is on hand, so you are battling directly with the family and it's more personal.

Owners and managers of SMEs are often reluctant to assert control and discipline since it can expose the true power relations within the workplace and disturb the team ethos they may have built (Marlow and Patten 2002). They avoid procedural formality preferring informal means of dealing with challenges to their authority and such challenges may be redefined as individual employee problems rather than organisational issues. As the European Foundation for the Improvement of Living and Working Conditions has noted, the principal means of addressing conflict in smaller firms appears to be 'exit rather than voice' (EIRO, 2002:6). The case studies confirm that dissent and under-performance were often dealt with through voluntary or involuntary exit. If new recruits did not 'fit in' there were informal exit routes (supported by the threat of disciplinary measures if necessary). In a UK personal health care SME, a dental practice, the owner reported:

It's never gone beyond a first written warning. People either pack up or take the hint. Again, because it's a very small and very close working environment; if someone's not pulling their weight everybody else soon makes it clear to them. It doesn't need to be me.

A number of SMEs in the UK also used the lawful ability to offer short (for example six week) probationary periods for new recruits to test whether workers were suited to both the work itself and the organisation. If they were not, workers could be released without obligation. In one UK hotel this 'informal' exit procedure was described by a worker respondent:

They just pull them to the side, basically, and say: 'Look, it's not working out.' We've had that a couple of times this year in the kitchen. We've had a couple of chefs that are just so slow. You give them a chance, you give them another chance and there's just no improvement. You know, you say: 'You need to speed up, you need to do this or that,' and you say, 'Look, it's not to be, is it?' And then both times they said: 'no'. We just say: 'Look, I think it's best if we parted company.'

The owners' determination to maintain 'internal equilibrium' thus tends to relocate conflict externally to industrial courts or employment tribunals. In 1998, UK employers with less than 25 employees accounted for 46% of employment tribunal applications, though employers employing less than 20 accounted in 2002 for only 20% of employment and 22.3% of people employed (DTI 2002). In the absence of a union, British employees of micro and small businesses tend to make greater use of voluntary organisations, such as the Citizens Advice Bureaux (CAB), for legal advice

on employment issues (Abbott, 1993). In the French case study of the ICT sector, respondents reported small employers making the deliberate calculation to dismiss workers on the basis that a discontented worker would only rarely have the time and energy to follow up the dismissal in the Prud'hommes industrial courts, and that even if the company lost a case two years later the maximum penalty which could be imposed was worth less than the benefits the dismissal would bring.

Exit may be 'involuntary' or 'voluntary', although the line between the two can be blurred. In one French SME that was studied, a worker who had started to organise a trade union was pulled to one side by the management and offered a sum of money to leave. With the alternative being dismissal – and the prospect of a lengthy legal case – it was not surprising that the worker took the money and left. Was this a 'voluntary' or 'involuntary' quit? These informal exits may explain the apparent lack of conflict or dissent within SMEs. Many of the case studies we researched were marked by the absence of any expression of employee grievance and few respondents voiced dissatisfaction with working conditions.

### **Union substitution and employer resistance**

In the absence of genuine employee representative structures, grievances appear to remain both unidentified and unframed amongst the wider workforce. In a Swedish case study of a dental practice, the management was unaware of any employee grievances until a survey by the health service revealed some workers were experiencing work-related stress, others found work monotonous and some were suffering physically from sitting down all day. The managers expressed surprise at the survey results:

Of course we knew that work was pressing sometimes, but we thought we were democratic and good employers, caring for our employees.

These managers, influenced by the pervasive pluralist Swedish context, addressed the issues brought up by the survey in discussions with employees and made changes to work organisation following their suggestions – including the introduction of occasional meetings of employees throughout the organisation.

Although there was little evidence that employers were consciously pursuing strategies to substitute for unions, a small number had established mechanisms that could be considered to provide alternative means of employee communication and consultation. In one UK hotel, a more formalised direct communication system was developed based on regular management and departmental team meetings. At one stage a formal employee representative system was established to deal with the Working Time Regulations. This allowed 'consultation' through employee representatives. Yet it appeared to be instigated by management in order to secure individual opt-outs from the Working Time Directive and was not sustained after this had been achieved. In another example, a UK garment firm had established an elected Works Committee and, against the advice of the union full-time officer, who represented some union members in the organisation, it had discussed the criteria to be used for compulsory redundancies. The actual selection criteria were then applied by management and the Works Committee representatives were told to personally inform those workers selected and to instruct them to immediately leave the premises, provoking some hostility. The strategy here appeared to be to incorporate the elected forum and the union representative, who sat upon it, directly into implementing company policies. The representative concerned was not integrated into the wider union and because of her caring responsibilities could not attend union training courses. This raises issues for unions in supporting and encouraging activism by workers with caring responsibilities.

Another management strategy, which by-passed collective representation and secured individual employee commitment in SMEs, was relative openness on financial information. Direct

communication centred upon profitability may tie individual workers to company performance; in one UK ICT firm, there was a profit-related pay scheme and, in another, an employee share ownership scheme. In a UK optical firm, the professional workers were involved in management decision-making and had a profit-related scheme – although this was not extended to the administrative staff.

While there is evidence that suggests most managers share an ideological opposition to trade union challenges to what they regard as their prerogatives, owner-managers of SMEs are particularly opposed. In the UK the 2004 WERS survey showed the proportions of private sector firm managers preferring to consult directly with employees rather than unions rose from 73% among large firms to 87% among small (Forth *et al* 2006: 45). Wider research suggests that owner managers are often reluctant to acknowledge employee rights (Jones, 2003: 262), with employee relations underpinned by notions of proprietorial rights. SME employers in our case studies additionally expressed considerable frustration with employment regulation, which was perceived as imposing disproportionate costs on SMEs.

In one of the UK ICT SMEs, there was a strong ideological opposition to trade union organisation. Despite the absence of trade union membership in the company and the management respondent reporting that employees had never raised the issue, he stated that the executive directors were opposed to unions both ‘politically and culturally’. They believed unions were damaging and not appropriate to the ITC industry or the service sector more generally:

In our industry I don’t think [unions] have a positive impact, I think they alienate and create a divisive effect between senior management and staff. So I’m much more in favour of internal staff forums, not external parties trying to galvanise the workforce against its management, I don’t see [unions] as positive.

Such resistance to the idea of collective consultation or bargaining is a major barrier to unionisation, and it can lead to dramatic consequences. A French worker for an ITC firm reported having witnessed the on-the-spot dismissal of a fellow worker immediately after he had started to circulate a petition criticising both the financial management of the firm and working conditions. Such repression clearly inhibits the voicing of any further discontent amongst the remaining workforce. In the French hotel sector, while the trade unions have legal rights to representation there is a high degree of anti-union pressure, in particular on those staff allocated the housekeeping and maintenance roles, as recent studies show (Chaïb 2006).

Kelly (1998) has suggested that workers’ reluctance to join unions in SMEs may be prompted by a fear of retribution from employers; in contrast, Goss (1991) argues workers have surrendered to the employers’ prerogative, making union membership pointless. Amongst the case studies, even where there was union membership, workplace organisation and union influence could be limited. Within the Belgian care homes sector, there was rising individual trade union membership but little sign of workplace organisation. Workers felt under close surveillance by management and were apprehensive about the involvement of an outside agency in the workplace. One incident illustrated this response; when a trade union organised a demonstration against poor working conditions outside one care home in Brussels, workers walked through the demonstrators into the building to express their support for management.

In a Belgian retail SME, most of the workers were union members and in a number of the shops there were union representatives. However, a climate of fear meant that workers were reluctant to pursue grievances, because they anticipated management reprisals. Management would not accept issues raised through union representation, but only responded through the managerial hierarchy. This was seen to result in preferential treatment for some staff. In an Italian retail SME trade union membership was substantial with just under half of the staff (including the temporary



workers) trade union members. Industrial relations were poor, however, with management refusing to hold talks with the union on improvements in working conditions.

Even where respondents identified grievances in the interviews, it was usually not possible for them to articulate them in the workplace. In a Bulgarian retail case study, a female employee reported being victimised in a previous job by her male boss:

In the previous firm I was insulted almost every day, my boss was yelling all the time, cursing and addressing me with vulgar words.

She was asked if she complained to anyone, but reported that she did not, partly because she had not heard of any institutions that could help her. This raises the question of the priorities given by the trade unions to workers based in small firms.

### **Union strategies and opportunities**

This research covered eight European countries and a wide range of different industries and SMEs. It did not focus on trade union policies and practices, concentrating instead upon the mechanisms used to express employee voice at workplace level. But it was startling, nonetheless, to note the very limited trade union availability for workers in these workplaces. One example from a Hungarian garment firm illustrates the problem. Several women had apparently approached trade unions on an individual basis, but had been told that the support they could provide was limited because they were not members.

In the French hairdressing salons studied, there also appeared to be a lack of knowledge about the potential for union organisation. One respondent believed that unionisation was not possible in a firm with less than 50 employees. There was also some suspicion of unions, with one respondent expressing the view that unions were more likely 'to bury your business than make it grow'.

Europe's trade unions are, with a few exceptions, struggling to maintain membership and influence. Traditionally, they have also been strongest in large firms and in the public sector. It is thus not surprising that they have given a low priority to unionising in the difficult terrain represented by small and medium-sized firms. However, SMEs are heterogeneous – and are dynamic organisations that change over time in response to wider socio-economic forces; this can alter the conditions for representation and mobilisation.

One illustration of this is the increased employment in SMEs as a direct result of larger companies splitting their activities into smaller entities and outsourcing non-core activities. Unionisation in some SMEs may be a legacy of such fragmentation. Thus in one UK ICT firm, trade union recognition was inherited from when the organisation was part of the much larger national parent company. Individual grievances and disciplinary matters were now dealt with directly by the Chief Executive but the union still had a right to represent members.

Similarly in one of the Bulgarian companies studied, trade union membership had emerged from the parent organisation following externalisation. The union had been formed from the 70 workers who had been members when working at the parent company, and were now part of a larger union branch based upon the contracting organisation and its other sub-contractors. There was no collective agreement, but there were negotiations with management. The union took up the problems of individual members who felt they could not 'discuss freely' with management, because 'they feel embarrassed to talk with the management'. As one female worker put it:

There should be a linkage between the workers and the management. The people from the management have their own engagements and it is not proper for everyone to knock at their doors whenever he/she wants to. Thus there should be an organisation for that, so

the trade union organisation is rather a living unit, linking and facilitating the communication between the two sides.

The union representative expressed the view that the presence of the trade union in the organisation 'makes the company itself more respectable'. However, another worker at the same firm believed 'the trade unions are weak' and felt that representation should be on an individual basis.

Unionisation also emerged as a result of the consolidation of organisations. In one Italian retail firm, there was both union representation and a high degree of interaction between the social partners. This had stemmed from the acquisition of the organisation by a larger retail group where the role of the trade union was crucial in negotiating the harmonisation of terms and conditions and led to the institutionalisation of social dialogue. It suggests opportunities for the extension of collective representation and organisation in cases where SMEs are taken over or the subject of mergers.

Still more interesting were the number of SMEs whose growth in turnover and staffing had led to the introduction of human resource managers, to the increased formalisation of management-employee relations and to the establishment of workplace procedures and policies. In one UK garment firm, union recognition was secured as a result of the new more favourable legal context, but it also reflected the positive attitude of the Managing Director, who had previous experience of larger unionised organisations in the sector and was not overtly hostile to union recognition. In two other UK manufacturing firms, employers who had formerly been hostile to trade union representation shifted to a stance of pragmatic accommodation in light of the change in the law<sup>1</sup>. The human resources director at one of these firms considered that the owners would have preferred not to have collective representation, but that union recognition was a result of legislation:

They have the union recognition [law]. That's been possibly the most interesting human resources experience, in the sense that when you have a traditional family business, who are very proud of the way they have developed their business and they have done it without any interference from anybody, and then somebody comes along and says: 'Well he can't do this or we don't want you to do this, we want this,' there is a human resistance to that, because: 'Hang on you're not going to tell me how to run my business, I have been doing it actually 30 years; you wouldn't have a job if it wasn't for me.' And so if the law itself had stayed as it was, and they hadn't been given the bargaining powers I would be surprised that we had a union recognition in here today – I don't think that would have happened.

Where unionisation did occur, it was in response to a perceived unfettered exercise of management prerogative and to the build-up of smaller day-to-day grievances that were important to the workers.

Yet even when the union is present, it does not necessarily represent a significant advance for the workers concerned. We have already seen that in one UK garment firm with an elected Works Council, the extent to which workers were genuinely provided with a voice was questionable, despite the fact that one of the representatives was a trade unionist (in this workplace there were union members, they were not strong enough to secure union recognition). In a second UK garment firm studied, there was no longer any workplace union representative and no collective organisation at workplace level. In this instance, union recognition was thus a formality that had little real meaning in practice. These examples highlight not only the need for a union presence, but also for sustained, independent workplace union representation and organisation. This appears

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<sup>1</sup> In the UK the Employment Relations Act (1999) gave unions the right to apply for statutory recognition on the basis of majority membership or support in a specified bargaining unit, although this was limited to employers with fewer than 21 workers.

to depend upon the presence of 'pro-voice' individuals with some form of organisational background or experience.

### **'Pro-voice' workers**

A number of the SMEs studied, in which trade union representation had either been sustained or had emerged, showed a similar pattern: present amongst the workforce were individuals with previous trade union experience or histories that made them both 'pro-voice' and aware of the importance of collective organisation.

This condition was most evident in three UK firms where the changed legal context had led to recent union recognition. In these cases, 'pro-voice' workers were present with a personal history of union membership, or a family legacy legitimating trade unionism, or a background in associations with a representative tradition (such as political or voluntary groups). It was this context that appeared to give them the ideological strength with which to challenge the unilateral exercise of management prerogative, by 'framing' injustice and promoting a shared identity amongst workers, proposing alternative, negotiated ways of drawing up work rules within a collective framework provided by a trade union.

One French manufacturing company provided another illustration of the role of political 'pro-voice' workers. In this medium-sized firm the workforce comprised around 100 and, unlike many micro-sized organisations, the women workers were prepared to articulate grievances. One complained that managers spoke to workers as if they were school children. There was very little social cohesion in the workplace; a survey of the workforce showed that a third (35%) said that there were tensions with the hierarchy. Here the workforce included a number of workers – male and female – who had previously been active both in the union and, politically, in the Communist Party. Towards the end of 2002, there had been a strike provoked by widespread dissatisfaction with pay, which most respondents felt did not reflect their skills or effort. Whilst one of the female respondents, who had been central to the strike action, criticised some of her female colleagues who had asked their husbands' permission to take strike action; at the same time, a number of women workers expressed anger at management who had suggested that in taking such action they were betraying their children.

Another French study of a large company canteen showed the importance, not of key activists within the workplace, but of an external 'pro-voice' agent. The research suggested the importance of a motivating issue, a critical mass, and union availability, to workplace organisation in small firms. Here there were about 30 staff, most of whom were from ethnic minority backgrounds. At one point, about four years before the interview, the canteen manager had promoted a white part-time student. The Works Council secretary explained what happened next:

Most of the old team are immigrants and we knew there was also a really serious discrimination problem across the firm. In any case the management should have suggested the choice to the Works Council – there already existed one, even though the delegates weren't trade unionists. Well, the student, she immediately started acting like a jumped-up boss. So tensions got worse and we started to find out how to go about getting unionised. In the end the student didn't go any further and left.

To persuade these workers to approach the union it took a combination of two infringements of social justice (the initial discriminatory appointment and then the way the student acted). Asked why they had joined the CFDT, the interviewee answered:

Because we had a CFDT customer who used to come and eat here regularly. He kept us informed and gave us quite a few pieces of literature.

There was a background of disquiet, a particular event and the presence of an individual who provided a collective frame of reference within which to define injustice, which provided the basis

for union organisation (Kelly, 1998) . The workers would not have done so individually, and the interviewee explained why:

Actually, all the old group joined the union at the same time, so they (the management) couldn't do anything about it. If we had joined the union one by one, we would definitely have been fired... or bullied.

The case studies suggest that 'pro-voice' agents tend to be present only in sectors or occupations with a prior history of trade unionism. This suggests there are greater barriers to union organisation in the sectors and occupations where there are no existing models of unionisation. In the absence of such models the French case study of the company canteen illustrates how important it is that unions have a presence in the locality.

## Conclusions

The case studies of small and medium-sized firms reported here make it clear that there are major barriers to unionisation linked to firm size. Below 250 workers, but particularly in workplaces of less than 50, collective representation and organisation is generally absent. We have shown that this results from: the informality of employment relationships in small firms and particularly their individualised nature; the proximity of the co-worker owner-manager; their resistance to the collective articulation of grievances; and the lack of priority given to small firm unionisation by the trade unions themselves.

It has long been observed, however, that the absence of collective forms of representation and, by default, collective action does not necessarily signal harmonious workplace relations (as suggested by Bolton, 1971). As other studies have shown, there are other ways in which conflict is expressed , including informal exit. The proximity of employers and workers in small firms means that articulating discontent may be a high risk strategy for workers, threatening the social basis of workplace relations. However, organisational change, in the direction of greater formality, as small firms increase in size or become more stable, can alter the conditions for employee representation and voice. Whether this occurs or not is often dependent upon the presence of 'pro-voice' workers with a background or connection to the trade unions. Whether employee voice is transformed into collective organisation appears in turn to depend on the independence, confidence and training of those 'pro-voice' workers.

Yet in much of the private service sector and in many new technology-based industries, 'pro-voice' workers seem to be rare, limiting the potential for organic collective organisation. 'Pro-voice' workers are seldom found in sectors with no union history or in those made up predominantly of younger workers who have no family history of union activism.

Could changes in the law suggest a way forward? The UK case studies show that recent changes in the legal framework in the UK have led to unionisation in certain SMEs. This confirms the importance of a positive legal context, but suggests – as is evident in particular in France – that this is not a sufficient condition for union advance. Even when national representational systems and/or national, regional and sectoral collective bargaining extend to SMEs, an absence of workplace organisation often limits union influence. Mechanisms, such as the transposition of the Information and Consultation Directive in some European countries, that put the onus on workers themselves to trigger representation, are thus likely to be limited in their impact and will continue to act as a barrier to worker voice in the smallest firms.

Although unions have been active in challenging thresholds that exclude workers in small firms from representation, there is little concrete evidence of workplace organising strategies in relation to small firms. One exception in the UK, a small manufacturing union, received external funding for

a project to promote the union as a resource to the SME sector. However, in interviews, trade union officers across the European countries taking part in this research, recognised the importance of recruitment in SMEs, but also acknowledged that servicing individual members in SMEs is resource-intensive.

Strategically it may be that unions have to try and attract the pro-voice workers within small firms through more open engagement in the localities where people live and through the political issues that such workers feel strongly about. In Italy, in areas with high proportions of SMEs, unions have launched 'three-pronged' initiatives: first attempting to gain recognition as 'social actors' at the local level and organising locally based campaigns; second, by organising local assemblies of workers; and third by providing individual services and advice to workers at local and regional level.

The trade union dilemma is twofold: how to transform the individual grievance that exists in small firms into a belief that collective organisation can make a difference; and how to identify and develop 'pro-voice' workers with the capacity to become 'proto-activists'. Acting on both will require a significant investment in areas where there are hardly any existing members available to fund it. This means convincing existing members in larger firms of the strategic necessity to consistently support such out-reach activities. Without such an investment in trade union renewal in the growth areas of the EU economy, it is probable that European trade unionism will enter a cycle in which its existing weaknesses will be further compounded in the future.

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