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Oliver Stettes

Employment Relations in SMEs

The case of Germany

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Comparative study on IR in SMEs – the case of Germany

Abstract

In Germany, 99.7% of all firms are SMEs. They employ more than 70% of the total workforce, provide roughly 82% of all vocational training places and account for 41% of total turnover. The distribution of SMEs between different sectors varies distinctly. Furthermore, wages rise as firm size increases; working hours, however, decline as firm size increases. Nonetheless, it would be misleading to conclude that working conditions in small and medium-sized enterprises are, in general, worse than they are in large firms. The coverage of collective bargaining and workers' representation by works council rise with increasing firm size. In many firms, however, the social dialogue is effectively conducted via individual contracts, informal agreements or alternative forms of workers' representation.

Background and aims

The purpose of this comparative study is to update and extend the study on this topic published in 1999. This will be done in two main ways.

- The earlier work examined the then EU 15 plus Norway. The objective here is to assess trends since 1999 and also to examine issues, detailed below, that have become more prominent in recent years. The specific focus is 13 of the 15 (i.e. excluding Luxembourg and Portugal) plus Norway ('the old 14').
- The study will include four new Member States (Hungary, Poland, Slovakia and Slovenia). These countries illustrate different histories of the development of market economies and the place of SMEs within these economies. It is recognised that there is great diversity across the new Member States. For example, in some the SME sector is dominated by agriculture while in others small privately owned firms have come into prominence only very recently. It is impossible in one study to reflect this great diversity. The aim is to illustrate some key patterns.

The general context remains largely the same as in 1999, though with important developments.

- First, SMEs continue to be widely seen as important in terms of the quality of jobs, albeit from different perspectives. Some accounts see SMEs as engines of employment growth. They stress innovation, entrepreneurship and the role of SMEs in developing new economic activities such as biotechnology. In the employment field, we would expect to see substantial adoption of human resource management or high performance practices, such as systematic recruitment and selection policies, training, and team work. Alternative views stress the con-

tinued existence of large numbers of SMEs where pay is low and the quality of jobs is poor.

- Second, SMEs vary greatly according to factors including their size and the markets in which they operate. Very small high technology firms differ substantially from larger firms in low-wage sectors.
- Third, public policy gives an important role to SMEs. As EIRO reported of the jobs strategy of the Lisbon European Council in March 2000, special attention is devoted to the problems of new and innovative businesses, and particularly small and medium-sized enterprises (SMEs), looking in particular at ways of lowering the costs of business and removing unnecessary 'red tape'. This included a European charter for small companies committing member states to focus on small companies and respond to their needs, recognising that these companies are the main engine of job creation. Data from the Observatory of European SMEs (see below) show that, across 19 European countries in 2001, SMEs accounted for 20 million enterprises employing 122 million workers. This represented two-thirds of total employment, half of which was in micro enterprises (with fewer than 10 employees) and half in larger firms (10-249 employees). SMEs are thus crucial to employment in quantitative terms.
- Fourth, there are the effects of economic integration and global competition. How far does growing competition since 1999 weaken SMEs in such sectors as clothing and footwear? Has EU enlargement specifically affected SMEs in the old EU? How far is enlargement an opportunity or a challenge for SMEs in new Member States?

The aims of this comparative study may be stated in relation to these four points. The first two, relating to the quality of jobs and the great diversity of SMEs, are central. We seek information on the overall pattern. Does the general picture of poorer employment and working conditions in SMEs reported in the 1999 study still hold true? Is it also true in the 4 new new Member States? And, crucially, what are the main lines of variation around a national average? Can SMEs be divided into types, with some offering distinctively poor quality jobs while others have higher wages and better working conditions? What sectors have concentrations of particular types of SME?

On the third (the extent and distribution of SMEs), substantial statistical information is provided by the Observatory of SMEs. The 1999 study al-

so provided information on national definitions of SMEs. This information will be updated by the team writing the comparative study.

On the impact of economic change, information may not be readily available. We seek any indicative data on trends in key sectors.

We are aware that, as in 1999, data may be limited on some issues. The aim is to draw together what is known, and also to identify key information gaps.

Questionnaire

1. Definition and extent

1.1 Definition

The SME Observatory identifies 3 categories of SME: micro enterprises (fewer than 10 employees); small firms (10-49 employees); and medium-sized enterprises (50-249 employees). EIRO's 1999 study found that national statistics are not always classified in this way. For example, in several countries a cut-off of 100 employees is used. There is thus a potential difficulty of providing comparable information across countries. Our planned solution is as follows, in order of preference.

1. Please report information on the totals for SMEs as defined above (i.e. 1-249 employees) **and** separate figures for the small (10-49) category.
2. If this is not possible, then please report figures for the small category, together with any total figures for what in your country is defined as an SME (e.g. firms with up to 100 employees).
3. Failing that, please report figures based on your national definitions, and state what these are.

If you follow options 2 or 3, please also offer, wherever possible, any estimates that are available for the whole of the category of 1-249 employees. Note that we are interested in private sector firms only.

Please comment if necessary on any particular definitional issues affecting data in your country, and any changes since 1999.

Availability of official and comprehensive data regarding the size distribution of companies has, until now, been limited. A commonly accepted definition does not exist in Germany; there is, however, agreement that enterprises can be classified, from a quantitative point of view, according to

their number of employees and, in particular, to their level of annual turnover. In this respect, the definition of SMEs most frequently used in Germany still differs from the EU definition mentioned above. In general, the Institute for SME-Research Bonn (Institut fuer Mittelstandsforschung Bonn, IfM Bonn) applies the following criteria for classifying SMEs:

Table 1: IfM Bonn classification scheme

Size of enterprise	Number of employees	Turnover (EUR/Year)
small	up to and including 9	up to 1 million
medium-sized	10 to 499	1 to 50 million
large	500 and more	50 million and more

Source: IfM Bonn

Based on VAT statistics and using the turnover thresholds of the IfM Bonn, the significance of SMEs remained stable between 1999 and 2003 (see Table 2). Almost 90% of firms – that is, the bulk of enterprises in Germany – have a turnover that is below EUR 1 million per year. In manufacturing (NACE - D), the share of small enterprises is distinctly smaller (below 80%) whereas the share of large firms is remarkably higher than the average. In wholesale and retail trade (NACE – G) the share of medium-sized and large companies is, on the average, higher than in other industries, too. In contrast to these sectors, firms belonging to NACE category H (hotels and restaurants) as well as to NACE section O (other community, social and personal service activities) almost exclusively sell less than EUR 1 million per year. Neither within the reported NACE section in Table 2 (number of firms in the nine sectors accounts for 96.6% of the total number of firms that are liable to pay VAT) nor among the different sectors did the distribution of SMEs change significantly between 1999 and 2003.

Table 2: Size structure of enterprises in selected NACE sections based on the turnover thresholds of the IfM Bonn (in per cent)

NACE section	1999 ¹			2003		
	Small	Medium-sized	Large	Small	Medium-sized	Large
All section	89.7%	10.1%	0.2%	89.8%	9.9%	0.3%
D	78.4%	20.6%	1.0%	77.5%	21.4%	1.1%
F	88.2%	11.7%	0.1%	90.3%	9.7%	0.1%
G	85.2%	14.5%	0.3%	84.5%	15.1%	0.4%
H	98.1%	1.9%	0.0%	97.8%	2.2%	0.0%
I	89.6%	10.3%	0.2%	88.1%	11.7%	0.2%
J	92.2%	7.4%	0.4%	91.9%	7.7%	0.5%
K	93.3%	6.6%	0.1%	93.4%	6.5%	0.1%
N	94.5%	5.2%	0.4%	94.1%	5.5%	0.3%
O	96.9%	3.1%	0.1%	96.8%	3.1%	0.1%

¹ As the number of firms is originally reported for various thresholds in DM per year, the share of the three size classes is approximated. Owing to data restrictions, the thresholds of classes based on firm size could only be converted from DM into EUR by the rate 2:1 (DM/EUR).

Source: Federal Statistical Office (Statistisches Bundesamt, destatis), Cologne Institute for Economic Research (Institut der deutschen Wirtschaft Köln, IW Köln)

As far as the number of employees is concerned, the only data base continuously providing information on the size distribution of SMEs is generated by the Federal Employment Agency (Bundesagentur fuer Arbeit, BA). Unfortunately, the data are restricted to establishments instead of enterprises. In this respect, companies that are, for example, classified as medium-sized or even large companies according to the definition used by the IfM Bonn can consist of many small establishments. This may result in an over-estimation, in particular, of enterprises with less than 50 employees. Moreover, the data cover only those employees who have to pay social security contributions. The limitation of employees to those workers who pay social security contributions is, in turn, expected to produce a downward-biased estimation. In 2003, the total number of firms (2,915,482) reported by VAT statistics exceeded by a considerable margin the total number of establishments registered by the BA (2,021,777).

These caveats should be borne in mind when assessing the size structure of establishments provided in Table 3.

Table 3: Size structure of establishments and employment in selected NACE sectors (1999 and 2004)

NACE sector									
Establishment with ...	All	D	F	G	H	I	J	K	N
1999									
fewer than 10 employees who are liable to social-security contributions									
Establishments ¹	1,729.3	163.1	188.5	398.5	137.1	83.9	39.2	266.5	173.2
in %	80.6	66.1	76.1	82.6	90.4	77.9	79.0	84.8	85.7
Employees ¹	5,060	564	659	1,173	338	246	93.8	693	577
in %	18.4	7.8	27.9	28.0	45.7	16.8	8.9	25.6	20.0
10 – 49 employees									
Establishments ¹	332.2	60.5	52.8	71.1	13.2	19.4	6.8	39.1	20.2
in %	15.5	24.5	21.3	14.7	8.7	18.0	13.8	12.4	10.0
Employees ¹	6,597	1,258	989	1,387	252	385	151	755	413
in %	24.0	17.4	41.8	33.2	34.0	26.2	14.4	27.9	14.3
50 – 499 employees									
Establishments ¹	79.9	21.1	6.2	12.6	1.4	4.1	3.2	8.5	8.1
in %	3.7	8.6	2.5	2.6	0.9	3.8	6.5	2.7	4.0
Employees ¹	9,876	2,873	623	1,363	136	513	440	985	1,030
in %	35.9	39.8	26.4	32.6	18.4	34.9	41.8	36.4	35.8
500 and more employees									
Establishments ¹	4.9	1.8	0.1	0.3	0.0	0.3	0.3	0.3	0.8
in %	0.2	0.7	0.0	0.1	0.0	0.3	0.6	0.1	0.4
Employees ¹	5,950	2,484	93	259	14	324	367	274	860
in %	21.6	34.4	3.9	6.2	1.9	22.1	34.9	10.1	29.9
NACE sector									
Size	All	D	F	G	H	I	J	K	N

¹ in 1,000

Source: BA, IW Köln

Table 3 continued									
2004									
fewer than 10 employees									
Establishments ¹	1,659.8	147.2	175.6	360.1	130.3	77.8	42.2	279.1	178.9
in %	80.8	66.1	81.6	81.9	89.3	75.4	81.5	84.0	84.3
Employees ¹	4,821	501	573	1,073	322	234	99	716	603
in %	18.2	7.4	34.9	27.2	42.9	15.9	9.6	22.7	19.5
10 – 49 employees									
Establishments ¹	311.9	53.7	11.2	67.0	14.2	20.4	6.3	42.6	23.4
in %	15.2	24.1	16.7	15.2	9.7	19.8	12.1	12.8	11.0
Employees ¹	6,228	1,135	656	1,304	273	414	135	844	478
in %	23.5	16.7	39.9	33.0	36.3	28.2	13.1	26.8	15.4
50 – 499 employees									
Establishments ¹	79,0	20.2	3.7	12.2	1.5	4.6	3.0	10.4	9.2
in %	3.8	9.0	1.7	2.8	1.0	4.5	5.8	3.1	4.3
Employees ¹	9,805	2,775	377	1,324	143	558	423	1,217	1,139
in %	37.0	40.9	23.0	33.5	19.0	38.0	41.2	38.7	36.8
500 and more employees									
Establishments ¹	4.7	1.7	0.0	0.3	0.0	0.2	0.3	0.4	0.8
in %	0.2	0.8	0.0	0.1	0.0	0.2	0.6	0.1	0.4
Employees ¹	5,669	2,371	37	249	14	263	370	372	873
in %	21.4	35.0	2.3	6.3	1.8	17.9	36.1	11.8	28.2

¹ in 1,000

Source: BA, IW Köln

1.2 Extent and trends

For the old 14,

(a). Are there any particularly significant instances of change that official statistics will not capture? For example has there been any notable employment growth in new sectors such as information technology or decline in older manufacturing sectors such as footwear? Please give brief details.

(b). Have global competition and economic restructuring featured in public debates on the position of SMEs? If so, please give details.

From a qualitative point of view, the coherence between enterprise and owner is a crucial feature of small and medium-sized firms. Between 1999 and 2003, the number of self-employed persons grew by almost 200,000. According to the IfM Bonn, the ratio of self-employed persons to the total working population increased from 9.3% in 1999 to 9.8% in 2003 (latest figures). The growing significance of self-employment holds particularly true for the service sector. According to the annual report by the German Council of Economic Experts (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, SVR) in 2004, the number of self-employed persons rose between 2001 (4,077,000) and 2004 (4,298,000; preliminary figures) by 5.4%, whereas the number of workers fell by 2.2%. The continuing increase in self-employment has partly been driven by active labour market programmes and has, thus, partly resulted from a higher exit rate from unemployment into self-employment.

Information on employment growth or decline, respectively, in the various sectors is provided in Table 4. Contrary to the other size classes, the employment level remained stable in medium-sized establishments. Looking at the various sectors, employment decline is most significant in sectors such as manufacturing, construction and wholesale/retail trade/etc. Whereas in manufacturing as well as in wholesale/retail trade/etc the loss of jobs occurred, predominantly, in micro and small establishments, the number of jobs in construction decreased, in particular, in medium-sized and large establishments. Employment increased significantly in sectors such as real estate/renting/business activities, which also contains firms belonging to the information industry, and health/social work. This occurred in every size class. In health/social work, employment, however, grew especially in small and medium-sized enterprises. In real estate/renting/business activities, the growth rate was distinctly higher in medium-sized and, in particular, large establishments.

Table 4: Employment growth/decline in establishment with ... employees in selected NACE sections 1999-2004

NACE section	Establishments with ... employees who are liable to social security contributions				
	1-9	20-49	50-499	more than 500	all establishments
D	-11.2%	-9.8%	-3.4%	-4.6%	-6.1%
F	-13.1%	-33.7%	-39.4%	-59.7%	-30.5%
G	-8.5%	-6.0%	-2.9%	-3.9%	-5.6%
H	-4.6%	+8.5%	+5.5%	-2.7%	+1.7%
I	-4.9%	+7.4%	+8.7%	-18.7%	+/- 0.0%
J	+5.4%	-11.1%	-3.9%	+0.8%	-2.5%
K	+3.4%	+11.7%	+23.6%	+35.9%	+16.3%
N	+4.4%	+15.8%	+10.6%	+1.5%	+7.4%
all sectors	-4.7%	-5.6%	-0.7%	-4.7%	-3.5%

Source: BA, IW Köln

According to the IfM Bonn, the share of exporting enterprises (disaggregated by firm size) as a percentage of all enterprises (based on VAT statistics) increases as enterprise size increases. Moreover, the likelihood that production sites are relocated and new ones established abroad also increases as firm size increases. SMEs have, however, expanded their international activities as well. They have also adapted production and work organisation to cope with growing international competition. Internationalisation and, in particular, EU enlargement have often been assumed to pose more problems for SMEs in Germany than they have created new opportunities for them. At the start of 2005, for example, 40% of SMEs in Germany expected that the risks related to EU enlargement were larger than the opportunities that had been created. Interestingly, only 13% of the firms responding to the poll had, until the beginning of 2005, operated in one or more of the accession countries. Fears amongst SMEs that internationalisation could endanger jobs and establishments at home have, therefore, attracted the public's attention. According to a poll among German citizens conducted by a polling institute (Institut für Demoskopie Allensbach, Ifd) in 2004, 28% of respondents assumed that small and medium-sized firms intended to relocate production facilities abroad or had already carried out such a relocation as a result of international competition.

2. Employment and working conditions

2.1 Pay and employment conditions

Please report all the following in terms of the figure for SMEs **and** how that figure compares to the national average. Where possible, please also report figures under items (a) to (e) for men and women separately.

(a). What is the overall level of pay in SMEs?

(b). Please also give pay data if available on 2 key sectors where SMEs are concentrated, namely, clothing manufacture and hotels and restaurants.

(c). Please also give, if available, information on pay rates within indicative occupations, e.g. the typical pay of a routine clerical worker in SMEs and in large firms.

(d). What are typical annual working hours for full-time employees? As with (b) above, if data are available please give figures for clothing manufacture and hotels and restaurants.

(e). What is the average job tenure of workers in SMEs?

(f). What is the extent of formal procedures to handle discipline and dismissal? What is the frequency of use of dismissal and disciplinary sanctions?

(h). What is the extent of the following human resource management practices: use of team work; presence of a specialist personnel manager; performance appraisals; merit- or performance-related pay; provision of training? Please also report on any other available indicators of HRM practices such as team briefings or use of total quality management.

According to the latest survey by destatis on the structure of pay and working time data are available for the most of NACE sectors (C, D, E, F, G, H, I, J, K); these data are also disaggregated by firm size. Differentiation between male and female employees is, however, not yet possible. Moreover, destatis only provides data for 2001 and for eastern (not reported here) and western Germany separately. Finally, firms are classified into four classes that are not the same as the classification system used above. In this respect, monthly wages usually rise as firm size increases (see Table 5). This holds true both for blue-collar and white-collar workers. With regard to the wages paid in the textile and clothing industry (NACE 17 and NACE 18), average monthly gross wages lie approximately 20% below those paid in manufacturing. The wage gap be-

tween blue-collar workers decreases from 22% in the smallest size class to 13% in companies with more than 1,000 employees. With regard to white-collar workers, the wage gap is at its greatest for workers in firms with 200 to 999 employees (17%).

Table 5: Monthly gross wages of blue-collar and white-collar workers (in EUR) in firms with ... employees in selected NACE sectors – western Germany (2001)

Gross wage	NACE section									
	Selection	C	D	E	F	G	H	I	J	K
10 – 49 employees										
blue-collar ¹	2,215	2,634	2,221	2,795	2,365	2,137	1,671	2,211	2,294	1,942
white-collar ²	2,671	3,058	2,873	3,050	2,813	2,376	2,069	2,659	3,116	2,832
50 – 199 employees										
blue-collar	2,277	2,608	2,302	2,734	2,585	2,194	1,670	2,267	2,291	1,790
white-collar	2,983	3,456	3,181	3,042	3,391	2,543	2,379	2,677	3,221	3,264
200 – 999 employees										
blue-collar	2,389	2,672	2,442	3,002	2,637	2,197	1,776	2,337	2,600	1,863
white-collar	3,263	3,738	3,510	3,648	3,428	2,715	2,454	3,029	2,949	3,545
1000 and more employees										
blue-collar	2,676	2,448	2,760	3,036	2,587	2,343	2,229	2,485	2,625	1,922
white-collar	3,532	3,962	4,082	3,703	3,686	2,364	3,017	3,108	3,311	3,631
all firms										
blue-collar	2,383	2,510	2,465	2,935	2,457	2,187	1,717	2,336	2,528	1,861
white-collar	3,130	3,797	3,520	3,522	3,112	2,492	2,295	2,932	3,174	3,259

¹ full-time employed workers

² full-time and part-time workers

Source: destatis

Destatis only provides data on weekly working hours for blue-collar workers in the various classes based on firm size (see Table 6). Therefore,

annual working time has to be estimated. Weekly working hours for blue-collar workers declines, in general, as firm size increases.

Table 6: Weekly and annual working hours of blue-collar worker in firms with ... employees in selected NACE sections – western Germany (2001)

	NACE section									
	Selec- tion	C	D	E	F	G	H	I	J	K
10 – 49 employees										
weekl y hours	40,52	45,04	40,23	38,85	40,16	40,32	39,81	44,11	37,71	40,14
annu- al hours ¹	1,783	1,982	1,770	1,709	1,767	1,774	1,752	1,941	1,659	1,766
50 – 199 employees										
weekl y hours	40,06	43,34	39,37	39,12	41,14	40,43	39,59	43,66	39,61	40,00
annu- al hours ¹	1,763	1,907	1,732	1,721	1,810	1,779	1,742	1,921	1,742	1,760
200 – 999 employees										
weekl y hours	38,61	40,88	38,02	38,72	41,19	39,45	39,71	41,38	38,73	40,56
annu- al hours ¹	1,699	1,799	1,673	1,703	1,812	1,736	1,747	1,821	1,704	1,785
1000 and more employees										
weekl y hours	37,49	40,80	36,82	38,45	40,11	38,50	39,36	39,59	38,75	40,17
annu- al hours ¹	1,650	1,795	1,620	1,692	1,764	1,694	1,732	1,742	1,705	1,767
all firms										
weekl y hours	39,20	41,69	38,34	38,73	40,54	40,04	39,71	42,03	38,87	40,25
annu- al hours ¹	1,725	1,834	1,687	1,704	1,784	1,762	1,747	1,849	1,710	1,771

¹ annual working hours = weekly working hours x (220/5)

Source: destatis, IW Köln

According to destatis, average job tenure of blue-collar as well as white-collar workers rises with increasing firm size. In western Germany, it is 7 (8) years for blue-collar (white-collar) workers in firms with up to and in-

cluding 49 employees, 9 (9) years in firms with 50 to 199 employees, 11 (11) years in firms with 200 to 999 employees, and 13 (12) years in large companies with 1000 or more employees. Figures for both groups in eastern Germany reveal a slightly shorter average tenure in each size class.

Data on formal procedures to handle discipline or dismissals are not available.

Data on high performance work systems (HPWS) are only provided by an analysis that was conducted by the Institute for Labour Market and Employment Research (Institut für Arbeitsmarkt- und Berufsforschung, IAB) in 2002 (Kölling/Möller 2002). Between 1998 and 2000, 13.6% of firms that are covered by the IAB-establishment panel, introduced *employee participation in decision making*, implemented *team work and autonomous work groups*, or set up *profit centres*. In addition, 6.4% of companies implemented a profit-sharing scheme or an employee share ownership programme, etc. The introduction of both high performance work practices and participation in the capital and profits of firms was more widespread among larger companies than among smaller ones (see Table 7). Probit regressions reveal a higher probability in larger firms to implement HPWS. Nonetheless, it should be borne in mind that employees in many small companies had already participated in decision making etc due to more informal procedures of information, consultation and decision making. Contrary to expectations, the implementation of profit-sharing schemes etc was more probable in smaller firms. The results indicate either that small firms may have gone through a catch-up process during 1998 and 2000 or that the impact of the fix costs of implementing profit-sharing schemes etc may have been less than expected.

Table 7: Introduction of HPWS and the implementation of profit-sharing/employee share ownership programmes etc in various firm size classes in per cent (2000)

Establishments with ... employees	HPWS	Profit-sharing/employee share ownership etc
1-19	10.6%	5.3%
20-199	33.7%	12.9%
200-499	45.5%	21.0%
500-1999	54.7%	22.9%
2000 and more	61.3%	32.8%
all	13.6%	6.4%

Source: Kölling/Möller 2000

According to the IfM Bonn, the training ratio, which is based on the number of vocational trainees in relation to the total number of employees, has been relatively high in firms with up to 20 employees. Nevertheless, the share of establishments that actually train young workers among establishments that are allowed to train increases with rising establishment size (see Table 8). Figures for continuous vocational training show that larger firms offer training programmes more often.

Table 8: Share of establishments conducting initial vocational programmes among establishments that are allowed to train (2004)

	Western Germany	Eastern Germany
1-9 employees	42%	41%
10-49 employees	71%	77%
50-499 employees	87%	91%
500 and more employees	94%	97%
all	53%	53%

Source: IAB Establishment Panel

2.2 Variation across SMEs

Please indicate as far as possible the extent to which average figures vary between SMEs. For example, are there sectors where pay is particularly high or low and are these sectors particularly populated by SMEs? Is the take-up of the high performance practices listed under (h) above concentrated among certain types of SME? Are women and ethnic minorities concentrated in certain kinds of SME?

According to an analysis by the IfM Bonn (Backes-Gellner et al 2002), prospering companies implemented profit-sharing more often than other firms did.

For all other aspects please refer to 2.1.

3. Social partners and interest representation

3.1 Interest representation

- (a). What proportion of SMEs are members of employers' organisations, and has this proportion changed since 1999?
- (b). What are the main employers' organisations specifically representing SMEs, and how many SMEs belong to them? What are the main roles of these organisations, and in particular do they have a role in social dialogue at national or sectoral level?

Data on the share of SMEs in the membership of employers' organisations are not available. The Confederation of the German Employers' Associations (Bundesvereinigung der Deutschen Arbeitgeberverbände, BDA) is the umbrella organisation of all employers' associations, which represent firms of every size. As 99.7% of all enterprises are classified as either small or medium-sized (see Table 2), the BDA can be considered as the employers' organisation that serves the interest of SMEs in social dialogue at the national level. The same applies to the employers' organisation at the sectoral level. In addition, the confederation of entrepreneurs in small and medium-sized enterprises (Bundesvereinigung mittelständische Wirtschaft, BVMW) provides information and advice that is specifically designed for SMEs. Moreover, the BVMW engages in public affairs, such as commenting upon proposed legislation both before and during its passage through parliament.

3.2 Unionisation

- (a). What is the level of union membership in SMEs, and how has this changed since 1999?
- (b). What are the sectors of relative union strength and weakness?

No data exist on union density in firms of different size classes. It is, however, assumed to rise with increasing firm or establishment size. The unions' transaction costs of recruiting new members and serving old

members are particularly high if employees are dispersed across many small workplaces. Therefore, unions focus their efforts on larger establishments (Dribbusch 2004). In addition, the unions' standard approach to attracting new members is to establish a works council and recruit new members by workers' representatives who are themselves union members (Behrens 2005). The probability of establishing a works council, in turn, rises with increasing establishment size (see 4.2). According to a questionnaire sent to works councillors by the Institute for Economic and Social Research within the Hans Böckler Foundation (Wirtschafts- und Sozialwissenschaftliches Institut in der Hans Böckler Stiftung, WSI), the share of establishments in which the number of union members decreased was higher than the share of establishments in which the number of union members grew (Behrens 2005). This held true for all establishment size classes except for establishments with up to 50 employees. In western Germany, net union density is estimated to amount to 23.8% (26.6%) in 2002 (1996) (Schnabel 2005). Though official statistics, also, lack data on union density in various sectors, an analysis by the Centre for Economic Research (Zentrum für Europäische Wirtschaftsforschung, ZEW) in 2003 provides estimations of net union densities in 46 industries. Owing to limited data availability, the survey only covers, however, the period from 1985 until 1997. According to the study, net union densities in various service industries were considerably lower (up to almost 20 percentage points lower with respect to the estimation of the national union density mentioned above) than in manufacturing. In 1997, net union density was assumed to be the highest in railways (66%), whereas the lowest was in health and veterinary services (7.3%).

3.3 Social partner activities

What examples are there of social partner activities directed at SMEs? This might include recruitment campaigns by trade unions or attempts by employers' organisations to target models of innovation and good employment practice at SMEs.

In the retail sector, the United Service Union (Vereinigte Dienstleistungsgewerkschaft, ver.di) tries, for example, to conclude collective agreements according to section 3 of the Works Constitution Act (Betriebsverfassungsgesetz) in order to establish larger works councils units. With regard to increasing union membership, the success of such policies de-

pend, firstly and critically, on the outcome of the negotiations and, secondly, on the commitment of potential work councillors to the union afterwards.

Employers' associations as well as organisations, such as the BVMW, the chambers of trade and the chambers of industry and commerce (see 3.4), provide information and support in various fields that affect SMEs. In practice, the supply of, for example, legal counselling or advice on the expansion of business activities to foreign countries is particularly important for smaller companies as they do not deploy their own resources which address such issues.

3.4 Public agencies

What are the main public bodies that provide advice and support specifically targeted at SMEs? Does this advice cover employment issues?

According to the law, all firms have to become a member either of a chamber of trade or of a chamber of industry and commerce. Yet both institutions are, properly speaking, not state agencies but rather business or employers' organisations. Nonetheless, both chambers of trade and chambers of commerce act in several areas on behalf of the state. This applies, for example, to the regulation of vocational training. With respect to the typical firm size of companies belonging to the craft sector, the chambers of trade can, in particular, be regarded as quasi-public bodies that especially support SMEs. Chambers of commerce provide advice and assistance for SMEs, too. According to the Association of German Chambers of Industry and Commerce (Deutscher Industrie- und Handelskammertag, DIHK), more than 50% of the firms that join the chambers of commerce employ less than 50 persons. Concerning employment, both bodies address issues such as entrepreneurship, vocational training, recruitment and legal counselling, etc. In addition, since 2003 the Federal Government, for example, has been supporting SMEs via several programmes that aim at increasing entrepreneurial activities, improving the financial resources of SMEs, promoting vocational training, reducing the burden of red tape, fostering innovation in SMEs, and smoothing the way for SMEs to act globally.

4. Collective bargaining, representation and impact of legal regulation

4.1 Collective bargaining

- (a). To what extent are SMEs covered by collective agreements, and how has this changed since 1999?
- (b). Has there been any change in arrangements whereby agreements reached by mainstream bodies are extended to SMEs?
- (c). Is there any information on the usage of company agreements by SMEs, and whether such usage has changed since 1999 (e.g. by SMEs leaving or joining multi-employer bargaining)?

With respect to establishment size classes, Table 9 provides data on the development of collective bargaining coverage. Collective bargaining coverage increases with rising firm size. This feature holds true for both multi-employer and single-employer agreements as well as for both eastern and western Germany. Interestingly, the significance of single-employer agreements is higher in eastern Germany. Whereas, in western Germany, the share of establishments with 50 or more employees that are covered by a collective settlement remained rather stable, the coverage among small establishments with up to 50 employees diminished between 2000 and 2004. The development in eastern Germany was somewhat different. The most prominent feature was the decline in multi-employer coverage within all size classes (except for those workplaces with between 200 and 499 employees). Interestingly, the decrease was compensated by a rise in the single-employer coverage.

Table 9: Collective bargaining coverage with respect to establishment size classes (2000 and 2004)

	Share of establishments covered by ... in western Germany				Share of establishments covered by ... in eastern Germany			
	multi-employer agreements		single-employer agreements		multi-employer agreements		single-employer agreements	
Size (number of employees)	2000	2004	2000	2004	2000	2004	2000	2004
1-9	41%	36%	2%	2%	18%	15%	3%	3%
10-49	56%	53%	4%	3%	37%	31%	7%	7%
50-199	60%	59%	9%	8%	50%	45%	12%	16%
200-499	69%	70%	10%	11%	57%	57%	17%	19%
500 and more	79%	81%	13%	12%	75%	65%	14%	20%
All	45%	41%	3%	2%	23%	19%	4%	4%

Source: IAB Establishment Panel

4.2 Representative structures

How far do laws on representative structures (e.g. works councils) apply to SMEs? What is the coverage in practice of such bodies? What changes have occurred since 1999?

The share of establishments in which a works council had been set up by 2003 increases as establishment size increases (see Table 10). This feature holds true for both eastern and western Germany. According to the IAB, the same picture held true for works council coverage in 2000 (Germany). Unfortunately, the size classes differ from those used in Table 10.

Table 10: Works council coverage with respect to establishment size

Size classes	Share of establishments with works councils in western Germany	Share of establishments with works councils in eastern Germany
5-50	7%	7%
51-100	47%	42%
101-199	68%	68%
200-500	82%	75%
501 and more	91%	79%
All	11%	11%

Source: IAB Establishment Panel

4.3 Terms and conditions without representative structures

Where formal collective bargaining is absent, what are the main ways in which pay and other key employment conditions are decided? Do alternative formal structures exist for information and consultation and for social dialogue more generally. In the absence of any formal structures, how is social dialogue organised in SMEs?

Employment conditions are stipulated by individual contracts. According to an IAB study, 36% of firms with up to and including nine employees in western Germany that are not covered by a collective agreement align their employment contracts, however, with multi-employer agreements (Ellguth/Kohaut 2005). Concerning the other size classes, the share of establishments orienting employment conditions to collective settlements ranges from 52% to 59%. Figures for eastern German establishments are almost the same. Social dialogue is, in general, organised informally between employer and employee or by establishing alternative forms of workers' representation, such as autonomous work groups.

4.4 Legal regulation

Do laws on pay and working time affect SMEs more than other firms? Have any such effects led to lobbying by employers' organisations or complaints about red tape?

In 2003 the IfM Bonn conducted a survey on red tape costs on behalf of the Federal Ministry of Economics and Labour (Bundesministerium für Wirtschaft und Arbeit, BMWA). Firms' responses revealed that medium-sized enterprises were, in particular, adversely affected by bureaucracy.

One third of responding firms reported that red tape costs had strongly risen since 1998. In addition, a share of 54% stated that such costs had risen since 1998. Almost 36% of firms responded that the burden of costs had become higher because they were required to comply with reporting duties etc that arise from social security legislation. Moreover, one third of SMEs blamed labour legislation for increasing the costs of red tape. The issues mostly stated in detail were, among others, *recruitment and dismissal* (32%), *attachment of earnings* (29.4%), *employment protection* (37.3%), and *compliance with the Works Constitution Act* (26.6%). The financial burden amounted to almost EUR 4,400 per employee in firms with up to and including nine workers, and more than EUR 2,700 per employee in firms with 10 to 19 workers. With regard to the other size classes, the financial burden per employee decreases with increasing firm size. In this respect, complaints by employers' association about red tape are not a chimera, but a real impediment to job creation.

5. National centre views

Please provide a brief commentary on key developments. In particular:

(a). Please give your assessment of the quality of jobs in SMEs and whether the 1999 picture of relatively poor conditions has changed; please also comment on where among SMEs the good and bad jobs may be concentrated.

(b). How far has public policy focused on the number or quality of jobs in SMEs? Has the legal regulation of employment been an issue, for example in relation to the effects of regulation on employment growth in SMEs?

(c). Where formal collective bargaining is absent, please comment on the nature of social dialogue in SMEs (see sections 3.1b and 4.3 above).

Although the number of analyses of establishment panel data has grown over the years little has, up to now, been known about the quality of jobs and working conditions which prevail, in particular, in SMEs. Existing studies, however, indicate that no clear-cut picture exists of such issues. The prevalence of *good* or *bad* jobs depends critically on the industry. Even within the same industry, the variety of working conditions is large. The products that a company sells and the work organisation that a firm has set up, ultimately, determine the quality of jobs. In this respect, any

qualification of industries as predominately providing *bad* jobs would be highly speculative. Moreover and most importantly, the classification of employment relationships, such as part-time employment or fringe-employment for example, as *bad* jobs does not give consideration to the fact that employees benefit from such jobs. Benefits especially arise either from satisfying employees' preferences for flexible working-time arrangements to reconcile family matters with work or from re-integrating employees back into the workforce after long-term unemployment.

The former Federal Government tried to stimulate job creation in SMEs, for example, by partly exempting small firms with up to and including 10 employees from the employment protection code and by extending the maximum duration of temporary employment contracts for recently founded enterprises. As these policies only came into effect on 1 January 2004, the evaluation of their impact on employment growth would not be appropriate at present.

In many establishments in which employees are not represented by a works council or are not covered by a collective agreement, employers and employees decide to deal with issues, such as pay and working conditions, on their own. Mutual agreements are either based on the individual employment contract or informally reached and realised.

Whether or not the latter results in bad working conditions depends on the relationship between the employer and his/her employees. If the relationship is characterised by a lack of trust, employees are, according to the *Works Constitution Act* (Betriebsverfassungsgesetz, BetrVG), eligible to set up a works council in small and medium-sized establishments, too. At present, this applies even if only a minority of employees wish to do so.

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