



# Employment relations in micro and small enterprises - literature review

## Country profile: France

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## Introduction

### 1. Definition of a very small firm, of a small company

It is arbitrary to say that a very small firm has from 1 to 9 employees and a small one has from 10 to 49 employees. In France for instance, there are various definitions of a SME or of a very small firm:

- the Work Ministry, in its legislation on the 35h00, has estimated that the very small firms are those with up to 20 employees;

The Insee institute - National Institute for Statistics and Economical Studies (Institut National des Statistiques et des Etudes Economiques) defines very small firms as those with up to 10 employees;

Social legislation considers very small firms those companies having up to 11 employees.

The small and very small firms taken into account for the purpose of this research will be those not only meeting the size criteria but also those companies that are independent and not the subsidiaries of a group. As a matter of fact, in subsidiaries, social relations are most often managed by the Human Resources Department in the mother company.

### 2. “Good social relations” in this study will be those that are:

- agreed by employers and employees;
- agreed between the employees;
- in accordance with social legislation.

### 3. About employment conditions in France

First of all, small and very small firms are very heterogeneous in their social relations.

Secondly, one must keep in mind when reading the following that all workers in France are protected by the social and work legislation: historically, unions have gained social achievements. More specifically, concerning work relations:

- there is a minimal authorised wage (7.101.38 francs on the 01/01/2001, i.e. 11082.60 Euros);
- there are employment and redundancy conditions: people have to have a written contract on which their tasks and functions are specified, as well as the salary, working conditions (number of working hours and working days per week), the conditions of leaving and of redundancy, overtime payment and annual vacations;
- a company cannot fire an employee without any reason (for instance professional fault or economical redundancy);
- if an employee quits the job or when the company fires an employee, the separation has to be made a certain time before it becomes effective (the length of this period of time depends on the type of job - roughly from one to three months);

- all workers benefit from a five week-annual leave as well as from paid sick leave and maternity leave (the latter only for women);
- employees pay a subscription during their working life (around 40 years) before retiring and being paid a certain amount of their past salary.

#### 4. Literature about social relations in SMEs

The topic of employment relations is approached from the triangular relations between the State, the employers' organisation and trade unions. However, all of these actors are not present in SMEs. Little literature is to be found on the exact issue apart from experts' reports, which have been at most exploited in this study.

Small and very small firms, and more generally SMEs, do represent a heterogeneous reality.

Collective representation and bargaining are not developed in small and very small firms because relations are rather individual and informal. Moreover, there is little room for open conflicts in small and micro-firms because they directly affect the good running of the company.

- Working and employment conditions

According to the data, working and employment conditions in small and very small firms are far less attractive than in bigger companies. However, some people do prefer small and micro-firms because they find the informal and individual nature of their employment relations motivating: they can take initiatives and have responsibilities, they subscribe to the company project and relations are closer and less formal.

- Social relations vary according not only to firm size, but also to the manager's socio-cultural profile and behaviour, the geographical area of the firm, the structuring of the profession, the labour market, the independence of the company, the local network, etc.

- Policy implications

The three main political actors are: the State, the employers' organisations and trade unions.

These three players are - to explain it roughly - not very active in the domain of SMEs - and even less so for very small firms.

### Collective representation

Collective representation is the representation either of the employer or of the wage earner. The spokesperson is the manager or the employee.

#### External representation

According to Michel Avolat (CNRS), some very small firms regroup through collective structures, professional unions, co-operatives, etc.

There are historically two types of relay actors:

1. the political relay actor: professional unions, trade unions;
2. the economical relay actor: co-operatives, groups of economic interests, and economical -vocational associations.

External collective representation is appreciated because it allows:

- the employees to be represented without feeling any tension about it in the workplace;
- the employer to comply with the social legislation without having to take on this in addition to managing the whole process (meetings, etc.).

External collective representation is most often done at a local level.

Traditional sectors like agriculture, fishing, handicraft, small businesses or transportation have developed co-operatives and do have strong professional unions.

In industry and services, companies are however far less unionised and not really structured around economical-like groups.

Beyond these two types of actors, the Public Force has recently developed collective actions along with its development policies (for instance the backing of employers' groups as a means of employment creation).

### **Internal representation**

Those companies with more than 11 wage earners have<sup>1</sup> to hold elections in order to elect the staff representative delegate. If there is not any candidate, this very fact will have to be notified in an official report.

Small and very small firms can also hold elections to choose a union delegate (this is compulsory only for firms with more than 50 wage earners).

91.6% of the 2,300,000 French companies are very small firms (less than 10 employees), 1,200,00 of them having no wage-earners.

SMEs (10-499 wage-earners) represent 8.3% of the French companies, and big companies only 0.1%. However, their weight on the economy differs strongly: 46% of the jobs are in SMEs, 35% in big companies, and "only" 19% in very small firms.

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<sup>1</sup> Work legislation

SMEs managers are on average in 40 employee-companies, mainly in three sectors: industry, services, and business.

The number of staff representatives is very low in small firms and it is even lower when it comes to union memberships. In France, the rate of unionisation is globally of 6-8%: 12% in the Public Domain, and 5% in the private, essentially in big companies.

Social relations are a sum of inter-individual arrangements rather than something official and organised, which explains the small level of unionisation.

Moreover, the general trend is towards a decrease in the unionisation of the staff representative.

In very small firms, there is little collective representation. Employees are most often agents of the production process or key people for social exchanges with the clients. Therefore co-operation from employees is essential for the good functioning of the firm, conflicts are rare, and consequently, union representation does not seem to apply for micro-firms in France.

In small and very small firms trade unions are badly seen from both parties, employers and employees: they are regarded as a disruptive element, which could introduce political conflict, create a hierarchy and be a source of rigidity.

The fact that employees hardly have representative implies that there is no unity in their social relations:

- relations are held personally between the employer and the employee and little is formally written;
- wages are a taboo issue;
- relations are informal and unstable because they are linked to personalities rather than tasks and functions;
- there is an affective relation between the employee and the company: employees regard the firm as their own, feel indebted for that and they are willing to work very hard;
- most of the times changes come from a decision taken by the employer.

However, the increasing requirements regarding quality on products and services introduce rules and formalisation in SMEs.

On the one hand small and very small firm employees like these kinds of relations.

On the other hand, employers and employees in most cases:

- either do not know trade unions and ignore their roles; thus they don't see any use in being collectively represented,
- or fear collective representation and unionisation because they see in it a potential disrupting element, something that could break the existing harmony and work relations.

Trade unions should indeed not break that friendly atmosphere but:

- inform employees about collective conventions and work legislation;
- supervise the compliance of the legislation and answer for that;
- avoid overindulgence (i.e.; when employees accept doing something they do not want to do and that legally or contractually, they do not have to do).

Trade unions in France are active in medium and large companies. In those firms this notion of proximity between employers and employees is not that important and relations are often strained.

Trade unions do not have any field of action specifically for small and very small firms except for one, the CFDT (French Confederation of Work), which has a specific branch for SMEs.

Thus the very structure of the trade union is not adapted to SMEs and even less to micro-firms.

## **Collective bargaining**

In small and very small firms, there is little collective negotiation because:

- generally, both managers and employees are not well acquainted with the social and work legislation;
- there is neither collective reflection nor any practical experience of collective bargaining;
- the managing and bargaining areas are generally too close to be properly distinguishable. Employees in small companies will indeed have more difficulties than in bigger ones to strongly negotiate and then go back to their jobs since work relations are far closer than in big firms: if there is any confrontation during the negotiation, the situation can rapidly become hard to bear and unproductive;
- inter-individual relations rather than just work relations result in the difficulty to build up collective actions or negotiations;
- managers do not want to delegate the decision-making process because the company is of their own creation and they are particularly attached to how it will evolve;
- employees fear being fired if no agreement is found when bargaining. Thus, they will only negotiate for essential issues for them, always bearing in mind that the consequences of this can lead to them having to leave the firm.

Collective bargaining is indeed directly dependant on social relations. Given the way they are and the affective part involved, it is very difficult for an individual to negotiate.

As a matter of fact being a negotiator implies:

- to be chosen and to choose to be the workers representative with employees who do not always agree together on the decisions to take;

- a change in the relation with the employer, which can turn into a conflict. In SMEs however conflicts are avoided, and the role of the negotiator will rather be defined with limitations that is to say that there must be a final decision.

Negotiations deal with <sup>2</sup>:

- working conditions (64%);
- the company project (61%);
- wages (41%).

Dialogue does exist but in a rather informal way and social discussions are rarely in the centre of interest of the employer/employee relation.

A remarkable recent evolution in France in terms of collective bargaining is the introduction of legislation on the 35 effective working hours per week.

This new legislation came into effect in January 2000 for all companies except those with less than 20 employees, for which it will be compulsory from the 1st January 2002 onwards <sup>3</sup>. By September 1999 <sup>4</sup>, only 0.5% <sup>5</sup> of the very small firms had begun to sign-up agreements, even if they represent 40% of the agreements signatories. Three out of four very small firms chose an employee representative to sign up the agreement.

Companies must agree with their employees the way they will implement this legislation.

It is compulsory for them to have at least one staff representative and one direction representative. If there is no staff representative, an employee is then mandated by the staff to represent them.

Then a negotiation process begins and if no solution is found, the staff can ask for a union delegate.

If the problem persists, the Work Direction can be called for. Nevertheless, this case is rare.

Union intervention generally comes at the end of the negotiation because employers and employees prefer holding discussions without any external influence. The way unions are regarded in small and very small firms is indeed very different, ranging from useless (unions are only interested in getting new members) to little use (unions make some interesting remarks) and even helpful (judicious advice).

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<sup>2</sup> 1997 study of the Euro PME Institute for the CJD - Young Managers Centre.

<sup>3</sup> this outlines the common acceptance of a traditional heavier work-weight in small and micro-firms.

<sup>4</sup> DARES, Anact, Work Ministry.

<sup>5</sup> 4.700 micro-firms out of one million in activity in September 1999 - " working time reduction-learning from the agreements, 01/09/1999.

To conclude on this subject, the introduction of trade unions in small and very small firms has not upset internal harmony within them. Actually, this has revitalised collective bargaining in firms, but the perception of unions should not change very much for SMEs.

## Working and employment conditions

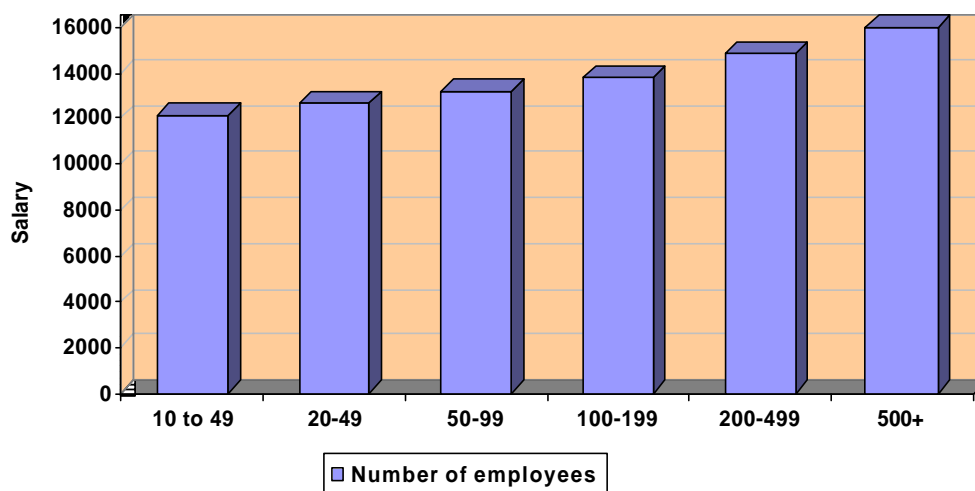
In SMEs and micro-firms, in comparison with bigger companies<sup>6</sup>.

Except for qualified jobs, wages are lower in SMEs.

On the one hand, the average difference of wages with respect to big companies is decreasing but still exists: employees in SMEs earn 10%<sup>7</sup> less than in big companies, but wages were in 1997 15% lower in SMEs (12,570 francs gross per month - 2,250 Euros).

On the other hand, qualified workers earn more in SMEs than in bigger companies. This also means that in SMEs more employees earn low wages than in big companies: 26% of the very small firms employees earn the French authorised minimal wage,<sup>9</sup> in comparison to 12.4% in big companies. This proportion of employees earning the minimal authorised wage is increasing: the percentage was ten percents lower (16.5%) in 1994.

Graph 1: Remunerations and salaries - Evolution of the annual gross earnings



<sup>6</sup> Premières Informations, "Les rémunérations et l'emploi dans les TPE" - First information, remunerations and employment in micro-firms, Employment Ministry, DARES, December 2000.

<sup>7</sup> It tends to be lower for SMEs than for micro-firms: 9% for 1-20 employees 8% and for 20-49 employees.

<sup>8</sup> Industrial relations in the SMEs in Europe, CES / CFDT, April 1997.

<sup>9</sup> CFDT, Délégation PME - French Work Confederation, SME Delegation, September 2000.



Moreover, only 31% of the very small firms and 61% of the small companies do have individual and collective productivity bonuses, whereas this figure goes up to 88% in big companies.

Finally, participation and profit-sharing received by employees in 1998 amounted to 1% and 3% respectively in small companies, in comparison with 61% and 36% in medium-sized and big companies<sup>10</sup>.

The smaller the company, the longer the working hours<sup>11</sup>: in 1999, average working hours in very small firms amounted to 39.4 hours a week compared to 38.8 hours a week in big companies. (Cf. for instance the 35h00 legislation which applies to all companies except SMEs and micro-firms); in 1997, 11.5% of workers worked less than 39h00 as opposed to 60% in bigger firms; on the other hand, 23% worked more than 41h00 a week but only 2% in the case of bigger companies.

Training policy is weak in SMEs. In 1997, training was only given by 10-12% of SMEs but more than 40% of big firms.

There is no internal mobility or career perspectives.

There is seldom mutual insurance and if so, its conditions are often not as good as in bigger companies: workers have less mutual protection than in big companies.

Social information and communication: in small and very small firms, there is often information about the respective schedules, but information concerning recruitment policy, training policy and the results of the firm is generally poor.

Company committees are not frequent- that is to say in comparison with bigger firms<sup>12</sup>. In small and very small firms there are no- or few - reduction restaurant-tickets<sup>13</sup>, no holiday-cheques and there is hardly any help to find accomodation.

The proportion of women is higher than in bigger companies and they do not have the same functions as men: their jobs are less qualified and their wages in gross average are 18% lower than those of men.

There is a higher proportion of part-time workers: one third of the employees have a part-time contract.

A higher proportion of employees has a temporary work contract and SMEs have a bigger turnover of manpower than big firms.

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<sup>10</sup> DARES, First Synthesis, 08/1999, n°34-2

<sup>11</sup> Official data, ACEMO 1998, data collected exclusively from the employers' official declarations.

<sup>12</sup> The company pays for half of the price the meal of its workers (with a maximal amount).

<sup>13</sup> Same principle: the company pays 50% of the holidays' costs.

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There are twice as many work accidents in small firms as in big companies<sup>14</sup> : this seems to be due to the fact that SMEs are more and more often subcontractors to big firms. The latter have “white collars” whereas SMEs have more “blue collars”. Micro firms report few accidents.

80% of economical redundancies come from small companies.

These criteria describe small and micro-firms in rather a negative way.

However, employees do stay, which means that they find informal advantages in small and very small firms:

- relations are closer, less formal and go beyond work relations alone
- some people do not want to work in a “big machine”. They want to count for something in the company and to work in a bit an unorthodox way;
- employees have responsibilities, they are more independent and can make more decisions;
- there is a dynamic working atmosphere. In very small firms, it can even be a bit family-like;
- the relation with the manager is direct;
- there is a possibility of a series of small arrangements;
- employees subscribe to the company project;
- jobs offer more diversified tasks and people are more versatile;

## Conflicts

There is little room for conflicts in SMEs and even less so in small and very small firms because they would hinder the good running of the firm. Indeed, as it has been mentioned above, relations in small companies - and this is even truer in micro-firms - are personal and each person is key in the production process.

Moreover, there is no judicial instance for conflict settlement.

Therefore, personal conflicts can happen and develop but they remain latent:

- either the employee stays and an arrangement is found: this arrangement - if found - is the result of an individual negotiation rather than a collective one: the employee bargains by himself with his manager;
- or no arrangement is found, the conflict bursts out and the only solution is the employee leaving the company: she/he has neither the chance to change departments if there is some unease with her/his manager, nor the recourse to collective bargaining.

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<sup>14</sup> Enquête annuelle 1999 du Conseil Supérieur des Risques Professionnels - 1999 annual survey of the Council of Professional Risks.

Labour market and individual negotiation are closely linked: the more professional and personal qualities the employee has according to his employer, the stronger his position will be in the negotiation process. He can thus have a real weight in the negotiation with his employer and contribute to the building of social norms.

This has repercussions as well on social relations in the firms, which means that the small and very small firm social relations are partly determined by the labour market and by extension, by the market of the firm.

Small and very small firms are thus the first clients of the “Prud’Hommes”- special jurisdiction elected to resolve work conflicts. However the number of cases is relatively low: around 10,000 per year for 1.5 million micro-firms and 500,000 SMEs.

### **Size and sector considerations**

The size of the company matters in social relations in small and very small firms insofar the bigger the company is, the more representative institutions there will be in it.

The problem of social relations is thus more about their formalisation than their hardness. For instance, there is always a Human Resources Department in big companies and relations are formalised. This means that there is a possibility for workers to know their rights and duties and to appeal in conflict situations.

However the size criterion is not always that important. For instance:

- a small consultancy firm will have a similar organisation to that of a big company and work autonomy will be the same whether the company has 40 or 200 employees;
- in a strongly developing service activity work is linked to the autonomy of the person;
- in small industrial companies the delegation of work onto the staff is generally important. Employees are in co-production and rules are determined with the client (i.e. principal) as much as with the employer. Social relations within SMEs are more dispersed.

Size is thus not the first issue to be raised when speaking of social relations in small and micro-firms.:

- labour market also plays a role in the way relations will be in an eventual balance of power between both parties: if labour demand exceeds supply, the manager will take more consideration in keeping his employees;
- social relations will also - as it has been said in introductory remarks - be modified according to the dependence on a client or principal.

For instance, in a shoe shop, the shop assistant will stay longer and work until later if a client comes at the usual closing time of the shop. In case her/his relations with the manager are bad, she/he could refuse the client, which would be detrimental to the shop and there would be direct consequences. Therefore, both the manager and the salesperson are interested in having good relations.

This case is frequent in SMEs and even more in small and micro-firms.

Some other criteria<sup>15</sup> are specific for small and micro-firms, but are still valid for SMEs in general:

- The activity sector of the company is important for social relations: certain sectors are reputed to be harder than others. Moreover, hierarchy can vary as well according to the sector of activity.

Micro-firms are most often in the service sector.

- the status of the micro firm in the value-added chain: independent or integrated. As it has been pointed at in the preliminary remarks, integrated SMEs or very small firms are not taken into account in this study because their social relations are dependent on the Human Resources policy of the group.

In a more general way, the word “independent” is subject to controversies: can a SME or a very small firm be considered independent if 90% of its activity depends on one single client or principal? Indeed, social relations within the company will be completely modified because people in the team will tend to be closer to the client or principal than to others in the firm.

- The geographical area of the micro-firm: micro-firms are generally strongly anchored on their territory and in local networks.

In the same work basin (or in the same commercial centre for instance), people can have common interests, mutualise their strengths and thus change the balance of power in social relations.

Thus it can be said that social rules / relations do enter SME through their social network. How much these external elements influence SMEs will largely depend on the profile of the employer.

- The structuring degree of current professions in the micro-firm: traditions concerning collective mobilisation, professional identity and culture are also essential in order to determine social relationships. This is especially true in the industrial sector where some employees have a working class culture (that they have inherited from their family, school, previous experiences, etc.). These traditions are to be most often found in the industrial sector and less in services.

In such SMEs where working class culture is strong there will often be a historical unionist and collective representation and a habit of action.

In the same way, is there a professional identity for salespersons? For secretaries? In such non-structured professions collective representation is traditionally weak. On the previous example of the consultancy SME, employees come from different backgrounds and may not feel very united; there is no consultant trade union.

- The socio-professional path and profile of the manager, the management style and the representation the manager has of the company. The manager has:

- an economic capital: he can approach it as her/his<sup>16</sup> family / team / patrimony; she/he has become the manager of the firm through a taking back (30% of the managers), creation (50%), inheritance(20%);

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<sup>15</sup> About this subject, the study "the principal determinants of management & manpower formation practices in micro-firms", pp.99-101, considers that there are six principal factors determining management and manpower formation practices, which are here numerated into brackets.

We have considered these criteria - in regard to other writings - as deciding in social relations in small and micro-firms.

<sup>16</sup> Social Dialog in SMEs, Bertrand Duchéneaut, Euro-PME, 5th December 1997

- a cultural capital (scholarship, professional background, experience);
- a social capital (mobilisation of networks).

This will influence the type of social relations she/he will want to have with the employees.

- The strategic behaviour of the micro-firms manager: in SMEs, managers are in most cases “multi-faces”. Bauer (1993) speaks of the “three-headed manager”:
  - the “homo-economicus “ is interested in the economic and financial results of the firm;
  - the homo politicus seeks to reinforce his power in the company (or at least to conserve it);
  - the pater familias wants to help his children taking back his patrimony.

Social relations are neither inter-linked with innovation, technology, nor with development strategies.

## **Policy implications**

### **The State**

The State, through the 35h00 legislation, has taken small and very small firms into account since the legislation will come into effect in 2002 for firms employing less than 20 persons.

### **The employers**

Employers defend the auto-regulation, which means excluding any social partner.

### ***Main employers' organisations***

There are five employers' organisations that companies - and not persons - can join:

1. the MEDEF (Mouvement pour le Développement des Entreprises Françaises). It is the first interlocutor of public agents;
2. the CGPME (Confédération Générale des PME): General Confederation for SMEs;
3. the UPA (Union des Petits Artisans): Small Craftsmen Union;
4. the UNAPL for professional men;
5. the FNSEA for farmers.

These organisations have different strategies but do agree on having less State intervention and unionisation. They act on two levels: geographically (there are many local organisations) and professionally (they are “divided” per branch).

In most cases employers of small and micro-firms subscribe to a local union which is member at least of one of these three organisations.

### **The trade unions**

Trade unions structurally apply a wait-and-see-policy for SMEs, which have never been in the centre of their interests.

The 35h00 legislation has had an important effect on the interests of trade unions because they have seen numerous potential adherents through its application. There is still today little work made on this field.

In order to enter in SMEs, small and micro-firms, trade unions should get rid of the conflict image they have and get to be regarded as negotiation facilitators. For that they must be accepted by employers and employees at the same time.

### *Main trade unions*

1. the CGT (Confédération Générale du Travail) - General Work Confederation, is beginning to get interested in SMEs but without acting for the time being; 639,000 adherents in 1997<sup>17</sup>;
2. the CFDT (Confédération Française Du Travail) - the French Work Confederation, has had a SMEs delegation for roughly 15 years. They indeed intend to develop a SMEs-oriented strategy: they have set up experimental sites and published papers about social dialogue in SMEs. This is the only union in France to do so; 515,000 adherents in 1997;
3. the FO (Force Ouvrière) - Working Class Force, has an “anti-establishment” policy. It was originated from the CGT. It is against the mandate but has been active on the protection of mandated employees. It disagrees with the belief that trade unions must depend on politics; 37,000 adherents in 1997;
4. the CGC; 111,000 adherents in 1997;
5. the CFTC split from the CFDT; 93,000 adherents in 1997.

Nowadays less than 10% of workers are members of a union and the trend does not seem to be increasing.

With the introduction of the 35 hours legislation, trade unions enter companies to help them reaching agreements.

However,

- their weak presence on small and very small firms,
- their wait-and-see-policy rather than an active one,
- the ignorance or negative opinion small and micro-firms have towards trade unions,
- do not play in favour of a future development of unionisation in small and very small firms.

**Association pour la Promotion et le Développement Industriel, Aprodi**

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<sup>17</sup> Unions and adherents in France SINCE 1945? D. Labbé, L'Harmattan, 1997. Estimations established according to the number of monthly contributinos.