



The Impact of Social Dialogue and Collective Bargaining on Working Conditions in SMEs

A Literature Review



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TABLE OF CONTENTS

LIST OF ACRONYMS	iv
LIST OF FIGURES, TABLES AND BOXES.....	v
FOREWORD.....	vi
1 INTRODUCTION	1
1.1 Context and background	1
1.2 Research objectives.....	2
1.3 Key terms.....	3
2. SOCIAL DIALOGUE IN SMEs.....	6
2.1 Specific characteristics of SMEs that influence social dialogue.....	6
2.2 Broader factors that influence social dialogue in SMEs.....	9
3 WORKING CONDITIONS IN SMES	15
3.1 Health and safety	15
3.2 Working time.....	15
3.3 Wages and remuneration	16
3.4 Social protection	16
3.5 Training and qualification.....	17
4 THE IMPACT OF SOCIAL DIALOGUE ON WORKINGCONDITIONS IN SMES.....	19
4.1 The impact of social dialogue on firm level working conditions in SMEs	20
4.2 Initiatives to strengthen social dialogue in SMEs	24
5 CONCLUSIONS	27
6 BIBLIOGRAPHY.....	30
7 FURTHER READING	36

LIST OF ACRONYMS

ACTEMP	ILO's Bureau for Employers' Activities ACTRAV ILO's Bureau for Workers' Activities
EIM	<i>Economisch Instituut voor het Midden en Kleinbedrijf</i> (Economic Institute for Small and Medium Enterprises, Netherlands)
EPZ	Export processing zone
EU	European Union
Eurofound	European Foundation for the Improvement of Living and Working Conditions IAB Institute for Employment Research
ILC	International Labour Conference
ILO	International Labour Organization/Office
ILS	International Labour Standards
INWORK	ILO's Inclusive Labour Markets, Labour Relations and Working Conditions Branch
OECD	Organisation for Economic Cooperation and Development OSH Occupational safety and health
SME	Small and medium-sized enterprises
UEAPME	<i>Union Européenne de l'Artisanat et des Petites et Moyennes Entreprises</i> (European Association of Craft, Small and Medium-Sized Enterprises)

LIST OF FIGURES, TABLES AND BOXES

Figure 1	Types of employer control in small firms
Figure 2	European company survey 2013: Level of employee involvement in decision- making in most important recent change, by establishment size (%)
Table 1	Exclusion of micro and small enterprises from labour law frameworks
Box 1	Thresholds limiting the right to freedom of association
Box 2	High threshold for unionisation also affects social protection of workers (India)
Box 3	The role of bargaining councils (South Africa)
Box 4	General impacts of social dialogue on working time at the firm level
Box 5	Extending bargaining council coverage to small businesses (South Africa)
Box 6	Improving the organisation of small businesses (Ghana)

FOREWORD

Social dialogue has been and remains at the heart of the work of the ILO. However, the varying circumstances at the workplace for many reasons has led to social dialogue being experienced at different levels and in some instances not at all.

This paper was produced as a follow-up to the discussion on Small and Medium Enterprises and Decent Work of the 2015 International Labour Conference. During the discussion the tripartite constituents of the ILO took note of the limited existing knowledge about working conditions in SMEs and the factors that influence them. Constituents subsequently identified gaps in the knowledge base with a particular view to the question of whether and how social dialogue might be a mechanism to improve working conditions in SMEs. This desk review constitutes a first attempt to collect the existing knowledge on social dialogue in SMEs and its effect on working conditions. The intention is to help ILO constituents to get an overview of the current knowledge base on the topic.

The paper has its own limitations. First, there is overall a very little data on social dialogue in SMEs and second the data available mostly comes from Europe. The paper crucially points to the importance of SMEs as key global job creators. Findings indicate that social dialogue can play a significant role in the improvement of working conditions. However, also due to a wide variety of national legal and governance frameworks that in some cases do not apply to SMEs, establishing actual causal linkages poses significant challenges.

The paper points to a variety of possible avenues for future research linking the topics of SME development, social dialogue and working conditions, and concludes that further research is required to develop a stronger knowledge base for ILO constituents looking to derive policy implications.

I trust that the report we are tabling will enable further constructive engagement on the topic



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Enterprises Department Geneva

1 INTRODUCTION

1.1 Context and background

Small and medium-sized enterprises (SMEs) are the biggest contributor to employment worldwide (De Kok et al., 2013). This is particularly the case in developing economies where the share of workers employed in SMEs and microenterprises is much higher than in larger firms. The International Labour Organization (ILO, 2015a) estimates there are 420-510 million SMEs globally of which only 36 to 44 million, i.e. less than nine per cent, are estimated to be 'formal' enterprises. A World Bank sample of nearly 50,000 formal firms in 104 countries, surveyed over the period 2006 to 2010, found that formal SMEs with between five and 100 employees account for 48 per cent of total permanent jobs (Ayyagari et al., 2011)¹. It is important to note that the total share of employment of SMEs overall (formal and informal) is much larger in most countries as by far the most numerous group of SMEs are microenterprises with less than ten employees (ILO, 2015a; World Bank, 2012). For Europe, Eurostat estimates the share of SMEs in total employment in Europe to be at 67 per cent². Between 2002 and 2010, 85 per cent of net new jobs in the European Union (EU) were created by SMEs (Economic Institute for Small and Medium Enterprises (EIM), 2011).

While SMEs are generating most new jobs around the world, there are concerns regarding the quality of these jobs. These concerns have grown with the increasing role SMEs play in global supply chains (ILO, 2017b). Overall, very little is known about the quality of employment and working conditions in SMEs (ILO, 2015a).

At the 104th session of the International Labour Conference (ILC), the tripartite constituents of the ILO expressed the concern that the limited data available indicates that 'decent work deficits are generally more significant in SMEs than they are in large establishments' (ILO, 2015d). To ensure that the ILO can effectively assist member States in formulating and implementing SME policies that create productive employment and decent work, the ILC conclusion emphasises the importance of data collection, evidence-based policy design, monitoring, and rigorous evaluation and impact measurement.

In this context, the International Labour Office (ILO) was tasked to 'provide evidence-based research on the impact of social dialogue and collective bargaining systems on working conditions in SMEs and information and consultation of workers in SMEs' (ILO, 2015d). In response to this task, the ILO has commissioned the elaboration of this report.

¹ The World Bank database covers formal enterprises only and as such has a focus on a small part of overall employment as in many developing countries the informal economy often represents 70-80% of total employment

² Eurostat: Statistics on small and medium-sized enterprises, available at http://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_small_and_medium-sized_enterprises

1.2 Research objectives

This report presents a review of secondary sources on SME employment, working conditions, and social dialogue. Specifically, the report sets out to examine the links between social dialogue and working conditions in SMEs.

The following questions have guided this research:

- Which factors characterise social dialogue in SMEs in contrast to larger firms?
- What factors support or hinder social dialogue processes in and related to SMEs?
- Are job quality and working conditions in SMEs generally characterised by lower quality than in larger firms?
- What evidence is there on the difference between SMEs that, for example, are covered by a collective agreement or that have a works council and those that don't?
- What evidence is there on the impact of various forms of social dialogue on working conditions in SMEs?

The research involved a literature review on the topics of job quality, working conditions, and social dialogue in SMEs, spanning evidence from developing and developed economies. While this is a broad topic, the focus was on the specific concerns regarding SME employment and the impact of social dialogue on working conditions. The relatively weak available knowledge on SME realities (ILO, 2015a), in particular concerning available statistical data, imposes considerable limitations to this paper and highlights the need for further research, as also suggested in the conclusion of this paper.

This report is organised as follows:

Chapter 1 introduces the objectives of the report and defines key terminology.

Chapter 2 examines social dialogue in SMEs and identifies a number of important external factors of influence.

Chapter 3 presents data on working conditions in SMEs, focusing on selected issues: health and safety, working time, wages and remuneration, social security and protection, training and qualification, and jobsecurity.

Chapter 4 elucidates the evidence on the impact of social dialogue on working conditions in SMEs. It focusses on how social dialogue practices and outcomes can affect working conditions in SMEs, finding that such outcomes are predominantly positive. As a result, the chapter also discusses ways to foster social dialogue in SMEs.

Chapter 5 summarises the key findings and proposes how further research can contribute to a more rigorous evidence base.

1.3 Key terms

1.3.1 Defining SMEs

Definitions of SMEs and microenterprises vary by country and are usually based on the number of employees, the annual turnover or the value of assets of enterprises³. This makes a cross-country comparison of SME data difficult. For the purposes of this research, the general definition presented below is applied. Details will be given where the evidence refers to a unique or different enterprise sizeclass.

Typically, microenterprises are defined as enterprises with up to ten employees, small enterprises as those with ten to 100 employees, and medium-sized enterprises as those with 100 to 250 employees. Unless otherwise specified, the definition of an SME that is used in this report is any enterprise with fewer than 250 employees. This includes all types of enterprises, irrespective of their legal form (e.g., family enterprises, sole proprietorships or cooperatives) and whether they are formal or informal enterprises⁴. For the sake of readability, the report uses the term SME throughout, unless a differentiation of sub-segments is needed.

1.3.2 Working conditions

The term ‘working conditions’ covers a broad range of topics and issues, which are directly related to the concept of decent work⁵, and varies nationally and regionally⁶.

For the purpose of this research, working conditions are taken to include:

- wages and remunerations;
- fundamental principles and rights at work, including freedom of association and collective bargaining rights;
- occupational health and safety;
- social protection;
- training opportunities and career development;

³ For further information see Berisha and Pula (2015). For different definitions by country see: <https://www.smefinanceforum.org/data-sites/msme-country-indicators>

⁴ This is consistent with ILO(2015a)

⁵ The ten substantive elements of decent work include working conditions characteristics such as earnings, working time, work-life balance, work stability and security, equal opportunities and equal treatment, safe work environment, social security as well as social dialogue.

⁶ See Broughton (2008) and Voss (2009). In addition, the European Foundation for the Improvement of Living and Working Conditions in Europe (Eurofound) conducts a regular European Working Conditions Survey that includes thematic areas such as employment status, working time duration and organisation, work organisation, learning and training, physical and psychosocial risk factors, health and safety, work-life balance, worker participation, earnings and financial security, as well as work and health.

- working hours, working time flexibility and work life balance; and
- job security.

Due to the limited evidence available, not all of the above listed issues are further analysed in chapter 3 and 4.

1.3.3 Social dialogue

Social dialogue is defined by the ILO as ‘all types of negotiation, consultation or information sharing among representatives of governments, employers and workers, or between those of employers and workers, on issues of common interest relating to economic and social policy’.

Thus, the term broadly encompasses all types of engagement between and among representatives of governments, employers and workers, and takes many different forms from the relatively informal to more formal and institutionalised structures and mechanisms. Bipartite dialogue involves the representatives of employers and of workers, while tripartite dialogue involves government representatives as well. Social dialogue may occur at different levels, from the micro-, firm level to the national, cross-border and global levels. Collective bargaining is one important form of social dialogue that occurs at various levels. The Collective Bargaining Convention, 1981 (No. 154) defines it as “all negotiations which take place between an employer, a group of employers or one or more employers' organisations, on the one hand, and one or more workers' organisations, on the other, for (a) determining working conditions and terms of employment; and/or (b) regulating relations between employers and workers; and/or (c) regulating relations between employers or their organisations and a workers' organisation or workers' organisations.” Under certain national legal frameworks, collective bargaining may be mandatory on specific employment issues. Workplace cooperation is another form of social dialogue that occurs exclusively at firm level. It is defined in the Co-operation at the Level of the Undertaking Recommendation, 1952 (No.94) as “consultation and co-operation between employers and workers at the level of the undertaking on matters of mutual concern not within the scope of collective bargaining machinery, or not normally dealt with by other machinery concerned with the determination of terms and conditions of employment”.

Social dialogue can be differentiated across three levels (Traxler et al., 2001). The micro level concerns dialogue at the workplace or firm level. Working conditions at this level are determined by either labour law or collective agreements, which regulate the rights and obligations of both the employer and the workers. Many national labour laws differentiate social dialogue requirements at this level according to firm size, so that obligations for SMEs may be quite different to those for large firms.

The meso level of social dialogue refers to dialogue within economic sectors or occupations where negotiations between workers’ and employers’ organisations prevail and collective agreements are concluded. The role and influence of the meso-level of social dialogue

depends on national social dialogue traditions and structures, as well as on the organisational strength of the social partners in terms of membership and coverage within a given sector.

Macro level social dialogue spans more than one sector or occupation, may occur at sub-national/provincial or national level, or involves multiple countries in the case of cross-border, (sub-) regional or global social dialogue mechanisms. It includes both bipartite and tripartite social dialogue. Here again, national traditions influence the forms that social dialogue takes. A formal institution or several specialised institutions for national tripartite social dialogue exist in most countries. In some countries, workers' and employers' organisations play an important role, for example, in the management of social security systems. They have also played an important role in managing economic or political crisis situations e.g., in South Africa, Tunisia or Latin American countries which have undergone transition to democracy.

Definitions from the International Labour Conference 2018

CONCEPT	DEFINITION
Tripartism	<p>Tripartism is defined in the ILO Thesaurus as “the interaction of government, employers and workers (through their representatives) as equal and independent partners to seek solutions to issues of common concern”.</p> <p>It refers to institutions, mechanisms and processes for consultation, negotiation and joint decision-making, depending on arrangements agreed between the parties involved. These arrangements may be ad hoc or institutionalized.</p> <p>Peak-level social dialogue involving governments and nationwide organizations of employers and workers can contribute to the formulation and adoption of social, economic and labour policies and can be applied to any decision-making that affects the workplace or the interests of employers and workers.</p>
Bipartite social dialogue	<p>Bipartite social dialogue involves two parties – employers and/or employers' organizations, and workers' organizations – that agree to exchange information, consult each other or negotiate together. It is often practiced through collective bargaining or workplace cooperation.</p>
Collective bargaining	<p>Collective bargaining is defined in the Collective Bargaining Convention 1981 (No. 154) as “all negotiations which take place between an employer, a group of employers or one or more employers' organizations, on the one hand, and one or more workers' organizations, on the other, for:</p> <ul style="list-style-type: none"> • Determining working conditions and terms of employment; and/or • Regulating relations between employers and workers; and/or • Regulating relations between employers or their organizations and a workers' organization or workers' organizations.”
Workplace cooperation	<p>Workplace cooperation is understood to mean, as set out in the Co-operation at the Level of the Undertaking Recommendation, 1952 (No. 94), “consultation and co-operation between employers and workers at the level of the undertaking on matters of mutual concern not within the scope of collective bargaining machinery, or not normally dealt with by other machinery concerned with the determination of terms and conditions of employment.”</p>

2. SOCIAL DIALOGUE IN SMEs

SMEs have distinctive characteristics that are likely to shape their ability to engage with social dialogue. This chapter therefore presents the most important firm and contextual characteristics that have been found to influence whether and how SMEs implement social dialogue mechanisms.

2.1 Specific characteristics of SMEs that influence social dialogue

Firm size influences social dialogue in various ways (Voss et al., 2014; European Foundation for the Improvement of Living and Working Conditions (Eurofound), 2001; Matlay, 1999). The following characteristics of SMEs are most relevant and common in this regard: (i) flat organisational and management structures, which blur the lines between employers and workers; (ii) the use of informal social dialogue practices; (iii) resistance by SME employers to formal mechanisms such as worker representation; and (iv) limited internal resources available to be deployed for social dialogue structures.

2.1.1 Flat organisational and management structures

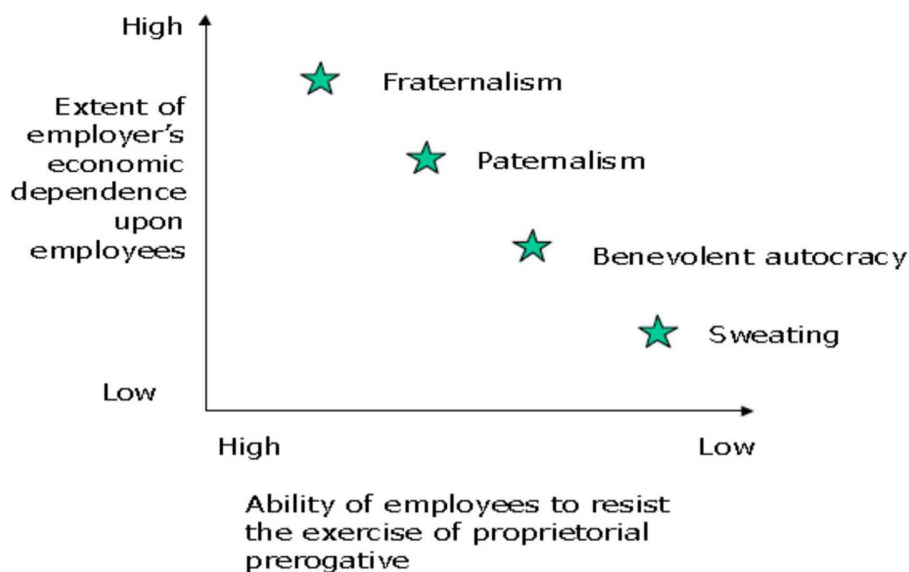
A number of studies stress the crucial role of SMEs owners in social dialogue (Wapshot and Mallett 2015; Scase, 2003; Gosse, 1991). SMEs tend to be characterised by the direct involvement of their owners in day-to-day business operations. As a result, SME owners are often directly involved in decisions on basic working conditions as well as a wide range of business management, taxation and registration decisions (EIM, 2011; McKenzie and Sakho, 2007). As a result, SMEs are less likely to have formal human resource management structures and practices when compared with larger enterprises (Verreynne and Parker, 2011).

Although these flat organisational and management structures within SMEs appear more common in developing economies than developed economies, the trends are observable in both. This leads to less formal or institutionalised business structures and practices. Barrett and Rainnie (2002) and Ram and Edwards (2003) find that employment relations in SMEs rely on informality and socially embedded networks, such as family ties or local communities. Indeed, local cultures and norms, such as loyalty, appear to have a strong influence on social relationships between owners, managers and workers (Holter and Crouch, 2014).

Atkinson (2008) highlights the strong role of the 'psychological contract' in small firms, by identifying certain obligations that do not exist in larger ones. For example, in northern Italy, Brusco and Fiorani (1992) find that informal 'social pacts' between employers and workers are common. Trust and participation are key elements of such pacts.

One interesting approach to the analysis of employment relations in small firms is a taxonomy (Goss, 1991) that combines the employer's dependence on the workforce, on the one hand, with the employees' ability to resist employer decisions, on the other, in order to illustrate categories of employer-employee relations. Four categories emerge: fraternalism, paternalism, benevolent autocracy and sweating (Figure 1).

Figure 1: Types of employer control in small firms



SOURCE: Eurofound (2001), based on Goss(1991).

The higher the dependence of the employer on employees, for example due to the need for highly skilled employees or a prevailing labour shortage, the higher is the ability of employees to resist the employer prerogative. This gives rise to a "fraternalistic" relationship. At the other extreme, for example when employees can be replaced easily and labour costs rather than skills are critical for competitiveness, a 'sweating' type of employment relationship may emerge where the employer is in a very dominant and powerful position. Between these two extremes lie "paternalism" and "benevolent autocracy".

2.1.2 Use of informal social dialogue practices

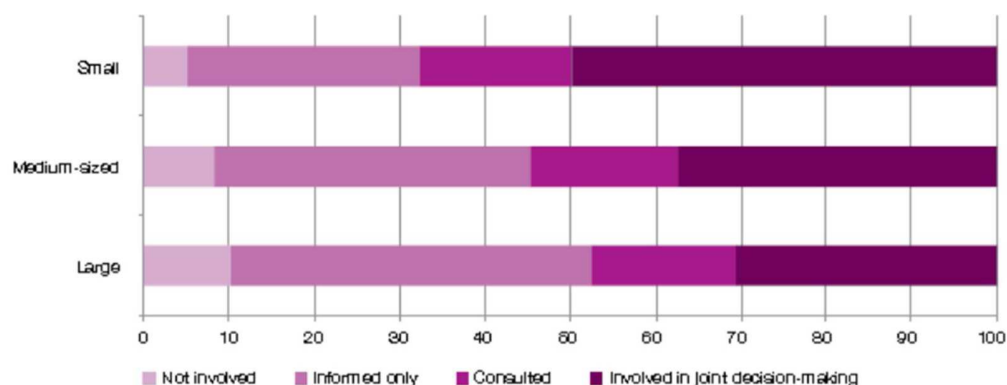
Social dialogue in smaller firms is more likely to be based on informal structures and practices than in larger firms. Fashoyin et al. (2006) examined labour relations in Botswana, Kenya, Nepal and the Philippines among firms with between 20 and 280 employees and found that the overwhelming majority had developed their own forms and practices of communication and cooperation. Highlighting the role of communication and trust, the authors describe how regular communication and interaction in which 'each side listens to the other's ideas, concerns and problems, helps to develop the trust which is needed for cooperation'. They identify four crucial aspects of productive cooperation: a commitment by

management to bilateral communication, workers' willingness to share information, management's willingness to delegate decision-making authority to workers, and workers' willingness and motivation to improve the performance of the firm.

Voss et al. (2014) present evidence from the Netherlands in which only 16 per cent of firms with ten to 49 employees had a works council in place, while another 16 per cent had a so-called 'mini works council', which is a lighter version with less administrative and financial costs for the employer. (Firms with at least 50 employees are legally obliged to set up work councils.) Furthermore, 53 per cent of respondents reported regular meetings between employees and management. Only nine per cent reported no form of social dialogue. Similar findings can be extracted from the European Company Survey which concludes that SME employers in Europe are more in favour of consulting directly with their employees than managers of larger firms. However, also in this context, social dialogue has been found to take the form of ad-hoc joint bodies and the use of an employee spokesperson and round tables rather than institutionalised forms such as works councils or trade union committees (Eurofound, 2010a).

There are both positive and negative aspects to the use of informal structures and practices in SMEs. Informal structures and practices are typically more flexible, quicker and more effective for decision-making, with greater flexibility of procedures and action. There is also evidence to show that workers in small enterprises are more likely to be involved in crucial management decisions than those in larger enterprises (Figure 2) (Eurofound, 2015). However, there are concerns that authority and responsibility are often too loosely defined, with blurred decision-making hierarchies, conflict spill-overs and actors who lack the appropriate qualifications (Kets de Vries, 1993; Pollack, 1985).

Figure 2: European company survey 2013: Level of employee involvement in decision-making in most important recent change, by establishment size (%)



SOURCE: Eurofound (2015): *Third European Company Survey – Overview report: Workplace practices– Patterns, performance and well-being*, p.88.

2.1.3 Challenges towards worker representation

Kirton and Read (2007) and Wilkinson (1999) have described adversarial attitudes of many SME owners towards formal, collective forms of representation such as Workers' Organisation and collective bargaining. Wright (1995) describes how employers' attitudes toward Workers' Organisations influence the attitudes of employees. These findings are confirmed by Debrah and Mmieh (2009), Fashoyin, et al. (2006) and Voss, et al. (2014).

Fashoyin, et al. (2006) find that SME owners in Africa and Asia are less likely to become members of Employers' Organisations because they don't want to be bound by sectoral collective agreements, which they believe would restrict their ability to develop their own working conditions and labour policies.

Workers in small firms in Ghana are much more likely than those in larger firms to face employer hostility to trade union membership. Inadequate protection against anti-union discrimination contributes to the reluctance of workers to join a union. Similarly, micro and small enterprise workers in Kenya are reluctant to join a union because business owners are often opposed to trade union activities (Bekko and Muchai, 2002).

2.1.4 Limited internal resources

Firm size affects the way enterprises are able to compete and develop their business strategy, and thus also impacts all aspects of a firm's operations from supplier management to human resources and working conditions. Comparative studies identify key elements that distinguish SMEs from large firms with respect to their market position and competitiveness (EU Commission, 2003; OECD, 2002). These characteristics include the stronger link SMEs have to local markets and local communities, SMEs' lack of resources to innovate and change, their higher burden of compliance and regulation costs (e.g., taxation, environmental protection, labour standards), and their higher labour-intensity, which lowers labour productivity and increases labour costs (EU Commission, 2003).

Limited internal resources may also have an influence on the ability of employers and workers to take part in social dialogue related bodies as both employers and workers will usually have less resources (financially and often time-wise) to attend meetings and making their voice heard in a larger context. As Brown et al. (2000) note in their study of the UK, small firms tend to lack the resources to keep "their employment paperwork up to legally required standards" (p.622).

2.2 Broader factors that influence social dialogue in SMEs

There are also a considerable number of broader, largely external, factors that influence SMEs' capacity to engage in social dialogue. The following factors are discussed in the remainder of this chapter:

- Coverage, implementation and respect of fundamental principles and rights at work and other labour standards;
- SMEs' membership in trade unions and employer organisations; and
- High levels of informality.

2.2.1 Coverage of SMEs by fundamental principles and rights at work and other labour standards

A study into the application of labour and labour-related laws in micro and small enterprises in 14 countries found that the whole body of labour law covers small firms only in very few countries (Table 1) (Fenwick et al., 2007). Coverage ranges from full application of labour laws to complete exclusion of micro and small enterprises. Most countries exclude microenterprises from at least some elements of their labour law. This can leave workers with little or no protection of their fundamental and other rights at work. The rationale behind the exclusion of SMEs from particular provisions of the labour law directly relate to considerations regarding SMEs' ability to bear the costs associated with certain aspects of labour law compliance such as consultation structures. . And the thresholds for inclusion or exclusion are continuously discussed at national and global level. In this context however, it is important to reiterate that despite exclusion from coverage of national labour laws, most International Labour Standards (ILS) - including fundamental conventions - apply to SMEs (Faundez, 2008).

Table 1: Exclusion of micro and small enterprises from labour law frameworks

FUNDAMENTAL PRINCIPLES AND RIGHTS AT WORK	STIPULATIONS FOR SMES AT THE NATIONAL LEVEL
Collective bargaining and freedom of association	Vietnam (enterprises with less than 10 workers not obliged to sign a collective labour agreement)
Employee consultation	Brazil, Chile, Namibia, Peru, Thailand (varies according to enterprise size); Hungary (less than 15 workers), Indonesia (less than 50 workers), Nepal (less than 10 workers), South Africa (less than 100 workers)
Anti-discrimination/equal employment opportunity	Nepal (varies according to enterprise size)
Minimum wage	Namibia, South Africa (varies according to enterprise size), Philippines (micro firms)
Paid time off (sick leave)	Nepal (micro firms), Philippines (micro firms in certain sectors)
Unemployment insurance	Indonesia, Viet Nam (micro firms), Nepal, Peru (varies according to enterprise size)
Workers' compensation	South Africa (enterprises with less than 10 workers exempted from workers' compensation insurance scheme)
Protection against unjust dismissal	Nepal (enterprises with less than 10 workers)

Occupational health and safety standards	Chile, Namibia, Philippines, South Africa, Viet Nam (obligations vary according to enterprisesize)
Advance notice and consultation (for large scale layoffs)	Hungary, Nepal, Peru, South Africa (varies according to enterprise size)
Parental/family leave	Nepal (less than 10 workers)
Protection of rights and entitlements on transfer of undertaking	Brazil, Chile, China, Namibia, Nepal, Peru, Philippines (varies according to enterprisesize)

SOURCE: Own compilation, based on Fenwick et al. (2007; 115)

In many countries, legal frameworks for the registration of trade unions and the process of collective bargaining typically contain provisions specifying that a union must have a minimum membership to engage in collective bargaining. In those countries in which unions are formed and registered at the level of the enterprise, these requirements can prove to be a significant obstacle to workers exercising their right of association (Fenwick et al., 2007)

Box 1: Thresholds limiting the right to freedom of association

In Kenya, employees working in enterprises with at least seven employees have the right to form or join unions of their choice. In Thailand, the Labour Relations Act 1975 specifies workers' rights in relation to the establishment of trade unions and does not apply to workers in enterprises with fewer than ten employees. Chile, Indonesia, and Nepal all require a minimum number of employees in order to form an enterprise-level trade union: In Chile, the minimum is eight members for the formation of a trade union and in Indonesia and Nepal, the minimum threshold is ten workers. The minimum membership requirement may determine whether or not a union may be registered as well as whether or not it is empowered to engage in collective bargaining. In Peru, for example, a union must represent at least 20 workers before it can be recognised as an official agent for collective bargaining purposes.

SOURCE: Fenwick et al. (2007)

While there are typically a high number of SMEs located in export processing zones (EPZs) labour law coverage is not usually extended to workers in these zones. Many EPZs are legally exempted from certain rights such as the freedom of association or collective bargaining (see Milberg and Amengual, 2008). Research in EPZs and the apparel industry in Pakistan, Mongolia and Sri Lanka and the processed fish sector of the Philippines found widespread restrictions on fundamental labour rights. However, only in Pakistan EPZs are there formal legal exemptions from the rights guaranteeing freedom of association and collective bargaining (Richardson et al., 2017)⁷.

⁷ Freedom of association, the right to collective bargaining or the right to strike are consistently seen as areas in which corporate social responsibility initiatives have not made real progress in improving compliance with labour standards (Gopalakrishnan 2007).

2.2.2 Workplace cooperation and collective bargaining frameworks

There are many diverse forms and practices of workplace cooperation between SME employers and workers ranging from information sharing, consultation and joint decision-making (Arrigo and Casale, 2010).

Europe has seen significant institutional developments in the past decade, triggered by the adoption of the 2002 EU Information and Consultation of Employees Directive (2002/14/EC). While most European countries follow the standards established by the EU Directive and have introduced a threshold of 50 employees for the legal right to establish an information and consultation body, some countries have introduced lower thresholds or other regulations designed to guarantee the coverage of smaller firms. Makó et al. (2006:109), in a comparative study on European labour relations, report that: 'In the smaller firms, and especially in those with fewer than 20 employees, collective agreements are the exception'.

In Asia, workplace cooperation varies by country. In Japan and South Korea, voluntary joint labour–management consultation committees are well established and are more likely in unionised and in larger enterprises. Indonesia and the Philippines also pursue workplace cooperation (ILO, 2013), while successive governments in India have tried to introduce employee participation schemes with limited success (Sen, 2012).

Also, with regard to coverage of SME workers by collective bargaining agreements, the picture is far from uniform (Voss, 2016; ILO, 2015b; Marginson and Welz, 2014). In general, union membership and bargaining coverage rates vary across countries, irrespective of firm size (ILO, 2015b). Whereas in most countries, high coverage is the result of a consensus among the social partners to apply the terms and conditions of employment as laid down in a collective agreement, in some countries, high collective bargaining coverage rates correspond with low trade union membership (e.g., Austria, Brazil, France, Uruguay) and in others, the *erga omnes* principle⁸ is stipulated by law (e.g., Belgium, Indonesia, Japan, the Netherlands, Paraguay).

Pertaining to SMEs, very limited comparable data is therefore available on bargaining coverage. According to the European Company Survey 2009, which covers firms with more than ten employees, 69 per cent of all workers were covered by some form of wage agreement at the firm or higher level. The coverage rate varies from over 90 per cent in countries such as Finland, Italy, Slovenia, and Spain to less than 20 per cent in Bulgaria, Estonia and Lithuania (Eurofound, 2010a).

Weak unions are often cited as the main cause of low collective bargaining coverage among SMEs. This is particularly so when collective bargaining only takes place at the enterprise level. Moreover, pay and terms and conditions of employment in SMEs are predominantly decided

⁸ *Erga omnes* is a Latin phrase which means 'towards all'. In legal terminology, *erga omnes* rights or obligations are owed toward all.

unilaterally by employers or through direct discussions between employers and individual employees (Eurofound, 1999).

2.2.3 Membership in Workers' and Employers' Organisations

While there is very little data on trade union membership among SME workers, it is generally reported that unionisation declines with decreasing firm size (see Ander et al., 2015 and ILO, 2015a). However, there are exceptions to this pattern. For example, in Denmark and Sweden, union membership rates across all company size groups are very similar and high. This is also the case in northern Italy, due to the specific nature of social relations in the region and its political culture. In addition, sectors like construction and agriculture are covered by forms of voluntary and mutual employment insurance, which provide an incentive for union membership (Voss et al., 2014).

On the SME owner side, the picture at a global level is more mixed. For Africa, Alby et al. (2005) report a strong positive correlation between employers' organization membership rates and enterprise size in a study of labour market actors. Limited firm resources tend to impede SMEs' ability to join employers' organizations (European Association of Craft, Small and Medium-Sized Enterprises and Academy Avignon, 2004). Across OECD countries, in contrast, small and medium-sized enterprises are well-represented in employers' organizations (OECD, 2017). Although the share of employees affiliated to employer organizations generally remains lower among SMEs compared to large firms, employer organizations have been focusing on improving their reach to SMEs by offering services and functions of interest to them, particularly in South East Asia (ILO, 2018).

2.2.4 High levels of informality

Many SMEs in developing economies, especially micro- and small businesses, operate in the informal economy. The ILO (2015a) presents non-agricultural employment data from 40 countries and finds approximately 375 million people working in the informal economy, 29 per cent of whom are women. Of these, 156 million are working as own account workers, 34 per cent of whom are women. Despite a lack of detailed data and variations in the definitions of informality, it is clear that the number of informal enterprises is high. In most developing economies, SMEs in the informal sector far outnumber those in the formal sector of the same size. In India, Kushnir et al. (2010) report that there are 17 unregistered SMEs for every registered SME. This means that the largest part of the working population in most developing countries is not part of formalized social dialogue structures.

As the ILO (2013) reports, enterprises often remain informal due to onerous requirements for business registration, fiscal obligations and costly social security premiums. The growth prospects of informal enterprises can be hindered by regressive tax regimes, trade policies that discriminate against their products, investment policies that favour large enterprises, and

financial policies that discourage banks from lending to small businesses. In addition, infrastructure and communication facilities are often inadequate, institutions for defending property rights or pursuing contract obligations are insufficient, and training policies and institutions are geared towards technologies used in larger firms.

Informal firms are generally considered to be operating outside of the legal framework. But while they may not comply with the official requirements for social dialogue, they may still engage in informal dialogue and workplace collaboration practices. To date, evidence on these practices is too scarce to contribute to the conclusions of this review.

3 WORKING CONDITIONS IN SMES

When compared to larger firms in the same country and sector, SMEs generally have poorer working conditions. For example, wage levels, working time conditions and training opportunities are not as good in SMEs as in larger firms (Eurofound, 2010b). Studies have also shown that employees in smaller firms are more likely to suffer severe accidents (Champoux and Brun, 2003) and to be exposed to physical and chemical hazards (Eakin et al., 2000) than those in larger firms. However, this general picture is not universal. Eurofound (1999) report few, if any, size-based distinctions in working conditions in Norway or Sweden, while the EU Commission (1997) found that accident and disease rates do not vary according to firm size. There are also anomalies on particular issues that need to be better understood. According to De Kok et al. (2011), European SMEs score higher than large enterprises in providing opportunities for part-time work.

This chapter summarizes key evidence about working conditions in SMEs without claiming comprehensiveness, and while recognizing the heterogeneity of enterprises denoted by the term ‘SME’ as well as the multitude of cultural and legal frameworks within which they operate.

3.1 Health and safety

Health and safety in the workplace is a growing problem around the world. Work-related fatal injuries and diseases have increased from 2.3 to 2.78 million per year (ILO, 2017a). This problem is exacerbated in SMEs. According to the European Agency for Safety and Health at Work (2009) the work environment is more hazardous in small enterprises than in large ones. In Belgium accidents at work occur 50 per cent more frequently in SMEs than in larger firms, while employees in SMEs in the chemicals, metalworking and assembly industries are three times more likely to suffer a work-related accident than their counterparts in larger enterprises in the same sector. Furthermore, accidents in SMEs are likely to be more severe. In Spain, the accident rate is higher in SMEs than in large firms, but not in microenterprises (Eurofound, 2010b).

While many countries have legal and regulatory provisions to enforce workplace health and safety in enterprises of all sizes, the problem is with implementation. Debrah and Mmieh (2009) report that labour inspections in many African countries have been on the decline in the past decade.

3.2 Working time

SME workers typically work longer hours. This has been reported in Brazil and India (ILO, 2015a), as well as in many other countries. For instance, the average per-capita work schedule in

Italy tends to be higher in small firms than in large ones; overtime and weekend work are common in small firms. While SME workers in Ireland also work longer hours, these firms are less likely to provide job-sharing, flexible working time and other atypical work practices, such as the use of non-standard contracts. Overtime is widespread among SMEs in France and Spain (Eurofound, 1999).

Turkey is an unexplained anomaly. Sak and Taymaz (2004) present qualitative data that suggests small manufacturing firms have a lower average daily working times compared to larger firms. Indeed, the share of overtime payments in the total wage bill for production workers is much higher in larger firms, which is in part because larger firms pay more for overtime.

3.3 Wages and remuneration

Several studies show that workers in SMEs tend to receive lower wages than workers in large enterprises. EIM (2011) explain the gaps in wages between enterprise size classes by describing variations in enterprise characteristics across industry sectors, occupation groups and levels of qualification. Nevertheless, average wages vary between size classes because smaller enterprises pay lower wages for similar employees in similar jobs than larger enterprises do.

According to the most recent ILO *Global Wage Report* (ILO, 2016), a larger number of higher wage earners work for larger enterprises and more low-paid workers work in smaller firms. In Europe, 40 per cent of workers in the bottom decile work for firms with fewer than 50 employees, whereas only 20 per cent of those in the top one per cent work in smaller firms. This 'size wage premium' is explained by factors such as labour productivity, available financial resources and firm ownership. However, the lack of coverage of micro and small enterprises by collective wage agreements and the implementation of minimum wage regulation is also a key factor when explaining these wage gaps (ILO, 2016; Voss et al., 2014).

McKenzie and Sakho (2007) argue that the wage gap and pay conditions in developing economies are much worse than in developed economies because of the high number of microenterprises, especially informal enterprises. Case study evidence from Ghana shows that private SMEs in the education sector pay only half of the wage level that is paid in public education institutions (Debrah and Mmieh, 2009).

3.4 Social protection

Research directly relevant to social protection in SMEs is very limited. Where evidence exists, it shows that the smaller the enterprise, the less likely workers enjoy social protection.

An analysis of social protection among workers in SMEs in Brazil, Cambodia, Ghana, India, Indonesia, Kenya, Nigeria, the Philippines, Senegal, Tanzania, Uganda and Vietnam found that SME owners are often reluctant to comply with social protection regulation because they

consider the time and costs involved as a competitive disadvantage (Scheil-Adlung, 2014). This is particularly cited by formal firms competing in the informal economy. Formal firms consider their costs of doing business are greater than for informal firms, which makes them less competitive. Scheil-Adlung (2014) posit that a key factor to expanding the coverage of SMEs protection regulation in fields such as health, safety and social security is the need for suitable policies and regulations that take into account the requirements of SMEs in both the formal and informal economies. The study highlights the case of India where, despite the breadth of legislated social protection coverage, significant gaps remain in both statutory coverage and effective access to benefits for large parts of the population, including workers in informal SMEs. The main causes were found to include the absence of legislative reference to SMEs and poor enforcement. Coverage of SME workers was also found to be affected by the high threshold requirement for unionisation (Box 3).

Box 2: High threshold for unionisation also affects social protection of workers (India)

SMEs with more than 100 employees are able to unionise under the Trade Unions Act. This excludes employees from SMEs, which form the majority of workers in India. Under Indian labour law, trade unions are vital for access to most administrative recourse mechanisms designed to provide social health protection coverage. Without the ability to unionise, SME workers cannot access the mechanisms to ensure social health protection rights.

SOURCE: Scheil-Adlung (2014)

In Vietnam, Lee and Torm (2015) show that less than 50 per cent of all registered private enterprises of all sizes contributed to the Vietnam Social Security Fund, despite government's strong commitment to promoting social protection. One reason for this is the highly competitive environment in which SMEs operate and the short-term strategies managers typically employ. In many countries, SMEs are reluctant to participate in these schemes because they perceive them to be ineffective and tend to prefer the cash up front rather than investing in a scheme where better returns are unlikely. However, in a number of other countries, including Brazil, China, Jordan, Lesotho, Mongolia, Rwanda, South Africa, and Thailand, measures to extend social protection coverage through non-contributory and contributory systems have enhanced social protection coverage for large groups of the population, including SME workers (ILO 2014b; ILO, 2011).

3.5 Training and qualification

A number of studies show how training and skills development in smaller firms follows different patterns and is implemented differently compared with larger firms.

The most common training methods within small firms are on-the-job training and self-directed learning (Farvaque and Voss, 2009a). Less common are enterprise-provided

training courses and activities, such as mentoring programmes, job rotation, learning cycles, study visits, or exchanges (EU Commission, 2011).

Cedefop (2011) show that the use of training activities is related to various workforce and enterprise characteristics. Enterprises with a higher share of full-time employees, or more highly educated employees or young employees are more likely to invest in training activities. Training is also more likely to be found among larger enterprises and more innovative enterprises. Debrah and Mmieh (2009) and Fashoyin et al. (2006) report that SME owners typically regard training and skills development as important sources of competitiveness, which improve workers' motivation and retention.

4 THE IMPACT OF SOCIAL DIALOGUE ON WORKING CONDITIONS IN SMES

The previous sections have established that social dialogue in SMEs is shaped by distinctive SME firm and contextual characteristics and that working conditions in SMEs tend to be marked by labour standards distinctive to those generally found in larger firms. This section elucidates the evidence on how even light forms of social dialogue may affect working conditions in SMEs. However, it is important to note that evidence on the link between social dialogue and working conditions in firms of any size is limited although descriptive data is increasingly available (ILC, 2018). Broughton (2008) assesses the impact of social dialogue on working conditions at national, sectoral, establishment, and workplace levels with a specific focus on occupational safety and health (OSH). She finds that while a number of quantitative studies have attempted to show a link between the presence of social dialogue and improvements in a range of working conditions, 'it is often difficult to determine the exact contribution that social dialogue has made to improvements in working conditions' (p.38).

Voss (2009) confirms these difficulties, but cites national studies that demonstrate a correlation yet make no claims on causality between social dialogue institutions and working conditions. He highlights the role of work councils and employee representation at the firm level and collective bargaining at sectoral level. These mechanisms have been found to contribute to improving working conditions such as pay, training schemes for older workers, and OSH coverage.

Neither of the above studies deals with firm size and both are based on research in developed economies. However, Serrano, et al. (2010) and Webster, et al. (2008) present evidence from a survey of 191 workers in micro and small enterprises in 11 countries, which examines the obstacles and positive experiences in achieving better protection and representation for workers. Worker representation at the firm level was found to be positively correlated with job tenure, job security, the use of written contracts, the provision of training, the implementation of safety at work rules, contributions to the social security system, and paying taxes⁹. Existing evidence appears to broadly acknowledge the generally positive impact of social dialogue on working conditions, mainly in regard to institutional forms of social dialogue (e.g., trade unions or worker councils).

⁹ Survey of 191 workers in micro and small enterprises in 11 countries: Philippines, South Korea, Brazil, Columbia, Turkey, Japan, Ukraine, Albania, Nigeria, Barbados, and India.

This chapter presents extant evidence on whether and how social dialogue impacts working conditions in SMEs. The knowledge base, albeit limited, supports the hypothesis that social dialogue mechanisms improve working conditions in SMEs. The second part of this chapter therefore discusses initiatives to further strengthen social dialogue in SMEs.

4.1 The impact of social dialogue on firm level working conditions in SMEs

4.1.1 Wages and remuneration

The impact of social dialogue on wages has been extensively studied and the role of social dialogue, especially collective bargaining, in reducing wage inequality within and between larger firms is quite robust (see ILO, 2016 and ILO, 2015c). However, little research has been conducted on the impact of social dialogue on wages and remuneration in SMEs.

Alby et al. (2005) draw on survey data from Africa to show that the lack of inclusive collective bargaining practices creates wage differentials between unionised and non-unionised workers across all firms, with the effect becoming more pronounced with increasing firm size. Unionisation and coverage by collective agreements was found to also contribute positively to the reduction of wage inequalities between women and men and people with different ethnic backgrounds.

In Ghana, surveys have shown that wage inequality favouring male over female workers was widespread in the non-unionised sector, but virtually absent in the unionised sector. Further, surveys identified that women employed in a unionized sector have a higher relative wage (about 5 per cent) than women employed in a non-unionized sector (Blunch and Verner, 2001). In South Africa, Bennett (2012) presents evidence on the positive impacts of collective bargaining coverage on wage levels. Workers in small South African enterprises in the clothing sector that are covered by agreements achieved by the sectoral bargaining council earn significantly more than those workers in companies not covered by the sectoral bargaining councils.

Box 3: The role of bargaining councils (South Africa)

Bargaining Councils are statutory centralized bargaining forums, many of which have been in existence since the late 1920s. Bargaining Councils are established in terms of the Labour Relations Act of 1995. Registered employer organisations and registered trade unions may request to establish a Council for a defined geographic area and sector. The registration of a Bargaining Council is contingent on the conditions that the parties to the Bargaining Councils are 'sufficiently representative' in the geographic area and product sector concerned, and that the constitution of the Bargaining Council makes provisions for the representation of small- and medium-sized enterprises.

Bargaining Councils have a wide range of powers including the ability to conclude, and then enforce collective agreements; to prevent and resolve of labour disputes; and to promote education and training schemes. Furthermore, Bargaining Councils establish and administer retirement and sickness funds for one or more of the parties to the Council or their members; and develop proposals for submission to the National Economic Development and Labour Council or any other appropriate forum on policy and legislation that may affect the geographic area and sector. However, the most important function of a Bargaining Council is the negotiation of collective agreements that cover wages and other working conditions. This is usually done when employer organisations and trade unions that are parties to the Council meet to negotiate amendments to the agreements that regulate workers' conditions of service. Once the agreement is finalized it is applied to all workers who are union members at the manufacturing establishments of the members of the employer organisation.

Under the Bargaining Council system, the negotiating parties have the right to request the Minister of Labour to extend the agreement reached to all employers and employees that fall within the scope of the Bargaining Council, even if they are not members of the employer organisation or the trade union. However, the Minister of Labour can only extend the agreement to non-parties if satisfied that a pre-determined representativeness threshold exists. This threshold is matched either in case of a majority of the employees that fall within the scope of the Bargaining Council are members of the trade union or in case the members of the employer organisation employ the majority of the employees who fall within the registered scope of the Bargaining Council.

Should the Minister of Labour decide not to extend the agreement reached to non-parties, it would present major challenges for trade unions. First, the unions would then have to negotiate improvements to non-members' conditions of service on a plant-by-plant basis- a huge task given the considerable number of these enterprises. Should the unions not be able to accomplish this task successfully, it would place enormous pressure on the primary agreement, as many employers may opt to resign from the employer organisation so that they can pay their employees lower wages. Once an agreement has been extended, it becomes illegal for any employer within the Bargaining Council's scope to offer wages, benefits and working conditions less favourable than those agreed. Flexibility is built into the system by allowing enterprises that wish to deviate from the set minimum conditions, to apply to the Bargaining Council for exemption from certain provisions of Council agreements.

SOURCE: Bennett (2012)

4.1.2 Working time

Significant differences exist between SMEs and larger enterprises when it comes to working time (e.g., number of overtime hours, working time flexibility or part-time work). See section 3.3 for more details. Working time issues have been extensively researched in the European Union and are among the topics covered by the European Working Conditions Survey. There is also

quite a significant body of evidence on the impacts of social dialogue on working time at the firm level (Box 4). However, enterprise size as a factor is often neglected.

Box 4: General impacts of social dialogue on working time at the firm level

For the EU level, quantitative surveys have found a link between the existence of work councils and fewer working hours or lower levels of overtime. In Germany, for instance, a survey conducted in 2005 by the Institute for Employment Research (IAB) compared establishments with more than five employees both with and without works councils. The survey found that, the weekly working hours of establishments with works councils were on average lower than those without works council. Similarly, an Austrian working climate survey, which looked at differences between companies with and without a works council, found that regular overtime working was between 18 and 24 per cent less frequent in companies with a works council than in those without a works council. In both countries, this difference has been mainly explained by the fact that companies with a works council are much more likely to apply a collective bargaining agreement than those without a works council.

SOURCE: Voss (2009)

4.1.3 Occupational safety and health

Social dialogue and the presence of a trade union appear to be important determinants for safety and health in the workplace, regardless of firm size.

A range of national surveys in Europe have examined the link between the presence of social dialogue and OSH. For example, a Belgian survey covering some 3,000 employees working in SMEs found a correlation between the presence of trade unions and the influence of workers on managerial decisions relating to OSH (De Weerd et al., 2005). The flow of information on OSH matters to workers was found to be better where a trade union was present. In Bulgaria, Rice and Repo (2000) found a positive impact of social dialogue on OSH, specifically on issues such as access to OSH training and trade union participation in the development of OSH policy and regulations. In the Netherlands, Broughton (2008) found a positive impact of social dialogue on the management of stress at work. This study focused on the hotels and restaurants sector, which is dominated by SMEs. Studies outside Europe also highlight the positive impacts of formalised social dialogue in SMEs on OSH (Eakin et al., 2010, Eakin et al., 2000).

4.1.4 Skills development and provision of training

A number of studies show a link between the presence of employee representation bodies and access to training and skills development. However, these studies do not focus specifically on SMEs. In the UK, Eurofound (2008) reports that trade union recognition has a consistently positive effect on the extent to which employees receive training. Workplaces are more likely to offer higher levels of employee training, defined as ten or more training days a year when they

recognise trade unions, have some form of representative structure and where trade unions directly negotiate with management on training matters.

For SMEs, there are further positive effects of social dialogue. Farvaque and Voss (2009b) compile good practice case studies of firm-based training initiatives in SMEs and show how Workers' and Employers' Organisations are the most important drivers to initiating further training and skills development that match the specific requirements of small firms.

4.1.5 Equal opportunities and gender equality

There is some general evidence to suggest that social dialogue can improve gender equality in the workplace, however the specific effects in SMEs are thus far unknown.

In the UK, the 2004 Small and Medium-Sized Enterprises Report from the Workplace Employment Relations Survey found that firms with a trade union presence and social dialogue structures were also more likely to have an equal opportunities policy in place and to have enhanced leave arrangements for employees with caring responsibilities than those without a trade union. The survey results also showed that family-friendly company practices are strongly associated with trade union recognition. Employees that are least likely to enjoy equal opportunities and family-friendly policies worked in firms that do not recognise trade unions and do not use formal human resource management practices. Similar positive effects of social dialogue on gender equality at the workplace were found in Spain (Broughton, 2008).

4.1.6 Collective bargaining in SMEs

In terms of collective bargaining and agreements, in addition to wages and remuneration, common topics include, but are not limited to, job definitions and job classification, entitlement to sick and parental leave, entitlement to training, conditions for promotion, transfer and dismissal, provision of personal protective equipment, access to grievance procedures, the provision of company housing, and the provision of health care (ILO, 2015c). For SMEs, collective bargaining and the support provided by Workers' Organisations can be particularly relevant as workers are often unaware of their statutory rights (Brown et al., 2000).

The positive role of collective bargaining for integrating workers, irrespective of firm size, into frameworks of social security (e.g., sickness pay, pensions, unemployment benefits or redundancy payments) has also been regarded as very effective in countries such as Belgium, Denmark and Sweden. However, outside Europe, there are only few countries (e.g., Uruguay, South Africa) where collective agreements play a strong regulatory role in enterprises of any size, with the effect being more pronounced in SMEs (e.g. see Brown et al., 2000). Overall, collective bargaining arrangements in SMEs therefore seem to be generally weaker than in larger organizations although they would be of particular importance in SMEs to ensure workers' understanding of their rights.

4.2 Initiatives to strengthen social dialogue in SMEs

4.2.1 Extending collective agreements and improving the coverage of SMEs

One of the traditional approaches to reaching out to non-union members is the extension of all or part of the collective agreements concluded between single employers or their representative organisations and Workers' Organisations. Given the low affiliation rates of SME employers and the low membership of SME workers in trade unions, the extension of collective agreements is particularly relevant for SMEs.

How negotiated outcomes are extended in practice varies. For example, extension can be legally prescribed or voluntary. Legal procedures for extending collective agreements exist in a number of EU countries (Eurofound, 2011). Japan, Mauritius, Namibia, and South Africa also have similar provisions, though the degree and manner of extension varies (Ebisui, 2012).

Box 5: Extending bargaining council coverage to small businesses (South Africa)

The system of bargaining councils in South Africa has proved quite successful in guaranteeing a high coverage of workers, at least in those sectors where Workers' and Employers' Organisations are strong. During the 1980s, small business began to vociferously oppose labour market regulations, arguing that the regulations threatened the viability of many small firms because they did not take account of the circumstances and problems faced by such businesses. In response to criticism from small businesses that collective bargaining favours large enterprises and hampers the economic potential of SMEs, the Labour Relations Act in 1995 sought to make the system more suitable also for small firms.

The approach was not to exclude small businesses, but to persuade them to participate in the system. Thus, the new act provided that all bargaining councils would have to include SMEs. Furthermore, the act sought to tighten up the requirements to be met by the parties to bargaining councils before an agreement could be extended. The Basic Conditions of Employment Act of 1997 also accommodates SME concerns. It provides for more variation among bargaining councils, collective agreements and individual agreements, and allows firms with fewer than ten employees to participate.

SOURCE: Godfrey, et al. (2017, 2007)

Apart from the legal possibilities for extending collective agreements, there are also cases where agreements are extended by 'soft methods' such as informal agreements, habits, customs, or other voluntary practices. In Japan, for instance, a collective agreement applies only to workers who are members of the trade union that is party to the collective agreement. However, some Workers' Organisations, which organise both regular and non-regular workers, negotiate better working conditions and, with employers' consent, extend part of the negotiated outcomes to unorganised, non-standard workers. Special rules have been introduced in France for bargaining in SMEs, while in Germany, a number of branch-level collective agreements have

paid special attention to small enterprises through the use of ‘opening clauses’ to allow these firms to deviate from collective agreements (Voss et al., 2014).

4.2.2 Bipartite and tripartite funds and institutions

Bipartite bodies for social dialogue have been established through public funds to provide welfare and other benefits to workers (e.g., retirement pensions, sickness benefits), usually to offset the effects of economic shocks and downturn on workers. These can be effective mechanisms to guarantee a universal coverage of firms and their workers. In Italy, a wage guarantee fund managed by the National Social Security Institute offers wage supplements to enterprises with more than 15 employees, whereas a second fund specifically targets small enterprises offering subsidies to workers in the event of working hour reductions or suspension (Eurofound, 2010c). These bodies also deliver services to workers and organise training, while providing for social dialogue (Leonardi, 2005). Moreover, for example in Belgium and the Netherlands, there is a strong tradition of bipartite bodies established and administered by business associations and trade unions of SMEs in the crafts sector.

Tripartite partnerships have also been established to provide positive incentives for improving working conditions in SMEs. For example, a tripartite partnership is used in Singapore to address issues affecting the increasing number of contract and casual workers, largely related to the expansion in outsourcing services. The Tripartite Advisory on Responsible Outsourcing Practices was issued in 2008 to encourage end-user firms, awarding outsourcing contracts, to demand that their service suppliers or contractors help raise employment terms and benefits (Ebisui, 2012)¹⁰.

4.2.3 Improving the representation of SMEs by Employers’ Organisations

Employers’ Organisations have sought to engage with small firms that have not typically been represented in their membership. The ILO (2013) provides a guide for Employers’ Organisations that seek to respond to the needs of small enterprises. Examples include the National Employers’ Federation in Singapore, which sits on government committees where it also represents the needs of small enterprises. The federation also has a standing committee to study the impact of SME policies and to provide recommendations based on feedback from its members.

In Bulgaria, Singapore and the Philippines, Employers’ Organisations have used their constitution and membership policies to ensure inclusion, equity and effectiveness as they expand their reach to small enterprises. Governing councils, fee structures, and voting privileges have been revised accordingly. The biggest Employers’ Organisation in Bulgaria, the

¹⁰ More specifically, firms are encouraged to consider: (a) making compliance with Singapore’s employment laws a condition in service contracts with their suppliers; (b) encouraging written employment contracts between service suppliers and their contract workers; (c) monitoring the financial standing of service suppliers; (d) awarding performance-based contracts to service suppliers; (e) retaining experienced workers; and (f) helping workers to qualify for employment benefits under the Employment Act (Ebisui, 2012:239).

Bulgarian Industrial Association, provides a range of practical support services to small enterprises to help them comply with newly adopted labour and social security legislation.

In Ghana, small enterprises form or join SME associations, which affiliate themselves with the national Employers' Organisation, the Ghana Employers' Association.

Box 6: Improving the organisation of small businesses (Ghana)

The Ghana Employers' Association was established to represent private business on matters of industrial relations and was dominated by large firms. However, since most workers in Ghana are not covered by collective agreements and a significant portion of business activity takes place in micro and small enterprises and the informal economy, the association had to face the challenge of expanding its representation to smaller enterprises while also maintaining its core mandate of industrial relations. Associations of small enterprises in Ghana are generally included under an umbrella organisation called the Associations of Small-Scale Industries. Thus, the Ghana Employers' Association opted to work through this organisation while emphasising formalisation, labour standards and health and safety. In line with this objective, the Ghana Employers' Association strengthened the representation of small enterprises in its governing council by assigning a seat to the Associations of Small-Scale Industries. Small enterprises are represented by their respective sectors and in addition by the Associations of Small-Scale Industries. The small enterprise representatives are expected to analyse the needs of their constituency and to make proposals on how to assist informal enterprises to formalise.

SOURCE: ILO (2013)

5 CONCLUSIONS

Very few robust studies exist on working conditions or social dialogue in SMEs in general, and even fewer have addressed the links between social dialogue and working conditions in SMEs. While there is some evidence on the role and impact of social dialogue on SME working conditions in developed economies, and in particular in Europe, research on developing economies, where SME employment is highest, is extremely limited.

Quantitative studies indicate correlations between social dialogue and improvements in a range of working conditions: higher wages and remuneration, better implementation of health and safety requirements, reduced working time, working time flexibility that suits employees' needs, access to and participation in training, the existence of equal opportunities policies, and job security measures. However, most of this evidence does not deal specifically with SMEs. Furthermore, there is a problem of attribution: it is often difficult to determine the exact contribution that social dialogue has made to improvements in working conditions as compared to other factors. There is some qualitative research on this topic, but this mostly addresses good practice and is anecdotal.

Drawing from the evidence presented in this report, the research questions outlined in Chapter 1 are considered.

Which factors characterise social dialogue in SMEs in contrast to larger firms?

The heterogeneity of micro, small and medium sized enterprises is key in understanding the role of social dialogue. Medium sized enterprises often share more similarities with large companies than with micro and small enterprises. This is largely a result of many national policy and legal frameworks that incorporate size thresholds that include medium and large enterprises, while excluding or overlooking, either in part or in full, micro and small enterprises.

Moreover, there are internal and external factors affecting social dialogue in SMEs. Internal factors include the flat organisational structure of many SMEs, the frequent use of informal dialogue structures and practices, the resistance of SME owners towards formal representative structures, and the limited resources available to the firm. The external factors include the exemption of SMEs from certain requirements of national labour laws as well as the membership thresholds for trade union registration and participation in collective bargaining. In addition, low levels of unionisation and of affiliation to employers' organizations in SMEs and high levels of informality reduce the opportunities for social dialogue in SMEs. However, SMEs are found to exhibit informal social dialogue practices, which may be less visible but nonetheless powerful mechanisms to ensure social dialogue.

What external factors support or hinder social dialogue processes in and related to SMEs?

The presence of Employers' and Workers' Organisations is essential for the establishment and effective use of social dialogue structures and processes in firms of all sizes, including SMEs. However, these actors are sometimes more able and willing to service the needs of larger enterprises and are less sensitive to the specific dynamics and needs of the SME sector, especially within the informal economy. A sound policy, legal and regulatory framework that includes SMEs is important, as are social traditions and norms that underpin social dialogue structures and practices.

In addition, policy, legal and regulatory reform that involves tripartite dialogue can contribute to a better business environment in which SMEs are more fully integrated into national employment policy frameworks and labour laws. Though not explicitly addressed by this study, there is evidence to show that certain social and political traditions are more conducive to social dialogue. Governments can capitalise on these assets to create an environment that encourages more and better dialogue between SME owners and workers and that ensures the voices of SME employers and workers are heard in national level social dialogue institutions and processes.

What evidence is there on the differences between SMEs that, for example, are covered by a collective agreement or have a works council and those that are not?

In many countries, particularly developing countries, there are legal and institutional obstacles to collective bargaining in SMEs. However, there are some distinctions within the broad category of SMEs: micro and small enterprises are less likely and medium-sized enterprises more likely to have collective bargaining agreements. This, of course, is typically the case when collective bargaining occurs at the enterprise level. But, there are also a number of interesting examples where sectoral or occupational agreements have been extended, either in full or in part, to cover small enterprises operating in that sector or occupation.

What evidence is there on the impact of various forms of social dialogue on working conditions in SMEs?

The evidence is weak and fragmented. SME working conditions are influenced by many factors and it is difficult to isolate the contribution made by social dialogue.

However, it is important to note that the lower incidence of formal social dialogue structures and practices in SMEs does not necessarily imply a total absence of social dialogue. The evidence reviewed has identified a number of specific characteristics of social dialogue in SMEs. These include a prevalence of informal dialogue and direct communication between the employer and the workers, over interaction that is channelled through representative bodies. Thus, it may be useful to reassess the concept and nature of social dialogue in small firms.

Indeed, the differentiation of social dialogue across three levels (micro, meso and macro) deserves further attention. While the body of evidence overall is limited, there is comparatively more research on enterprise (or micro-level) social dialogue than on the other levels. However,

social dialogue at the meso and macro-levels seems also to offer significant potential for improving working conditions and other aspects of SME performance. Social dialogue at these levels has been found to have the potential to support systemic changes that can contribute positively to addressing SME challenges, including those associated with formalising the informal economy, increasing the coverage of SME workers by social security or guaranteeing respect of fundamental labour rights in SMEs.

As this report also illustrates, the evidence base on the relationship between social dialogue and working conditions in SME is extremely limited and more research is needed to better understand how social dialogue can be fostered in SMEs:

- A better understanding of the unique characteristics of SMEs and the ways social dialogue is used in practice. This could include a more detailed examination of existing social dialogue practices, including informal structures and practices, by primary research in specific sectors.
- A systemic analysis of rules, regulations, and the internal functioning of specific value and supply chains in relation to social dialogue in micro and small enterprises.
- Research on how SME owners and workers embrace and/or resist more formal representative structures and formal social dialogue.
- More robust evidence to establish what causal links exist in micro and small enterprises between social dialogue, improved working conditions and firm performance. This requires careful research design across a wide range of variables other than enterprise size. These may include industry sectors and sub-sectors, skilled and unskilled occupational categories, and levels of formality.
- A better understanding of how social dialogue at meso and macro levels influences working conditions and firm performance in SMEs. This would generate a better understanding of how policy, legal and regulatory reform, and at what level, can contribute to changing governance to improve labour compliance, working conditions and firm performance in micro and small enterprises and facilitate effective and sustainable social dialogue.

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