

Employment Relations in SMEs: The United States

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1. Definition and extent

1.1 Definition

The Office of Advocacy, a Department of the Small Business Administration (SBA) defines SMEs (small and medium-sized enterprises) as firms with fewer than 500 employees. Firms wishing to be designated small businesses for government programs such as contracting must meet size standards specified by the U.S. Small Business Administration (SBA) Office of Size Standards. More than half of all Americans work for these firms. SMEs have generated 60 to 80 percent of net new jobs annually over the last decade. However, wages at SMEs are lower than at larger firms, and the incidence of on-the-job injuries and fatalities is higher at SMEs than at their larger counterparts.

1.2 Extent and trends

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

In 2005, there were approximately 25.8 million businesses in the United States, according to Office of Advocacy estimates. Census data show that there were 5.8 million firms with

employees and 18.6 million without employees in 2003, the most recent year with data. Applying the sole proprietorship growth rates to the nonemployer figures and similar Department of Labor growth rates to the employer figures produces the 25.8 million figure. Small firms with fewer than 500 employees represent 99.9 percent of the 25.8 million businesses (including both employers and nonemployers), as the most recent data show there are nearly 17,000 large businesses.

The extent and significance of SMEs is to some extent reflected in these data. SMEs:

- Represent 99.7 percent of all employer firms.
- Employ half of all private sector employees.
- Pay more than 45 percent of total U.S. private payroll.
- Have generated 60 to 80 percent of net new jobs annually over the last decade.
- Create more than 50 percent of non-farm private gross domestic product (GDP).
- Supplied more than 23 percent of the total value of federal prime contracts in FY 2005.
- Produce 13 to 14 times more patents per employee than large patenting firms.
- Are employers of 41 percent of high tech workers (such as scientists, engineers, and computer workers).
- Are 53 percent home-based and 3 percent franchises.
- Made up 97 percent of all identified exporters and produced 28.6 percent of the known export value in FY 2004.

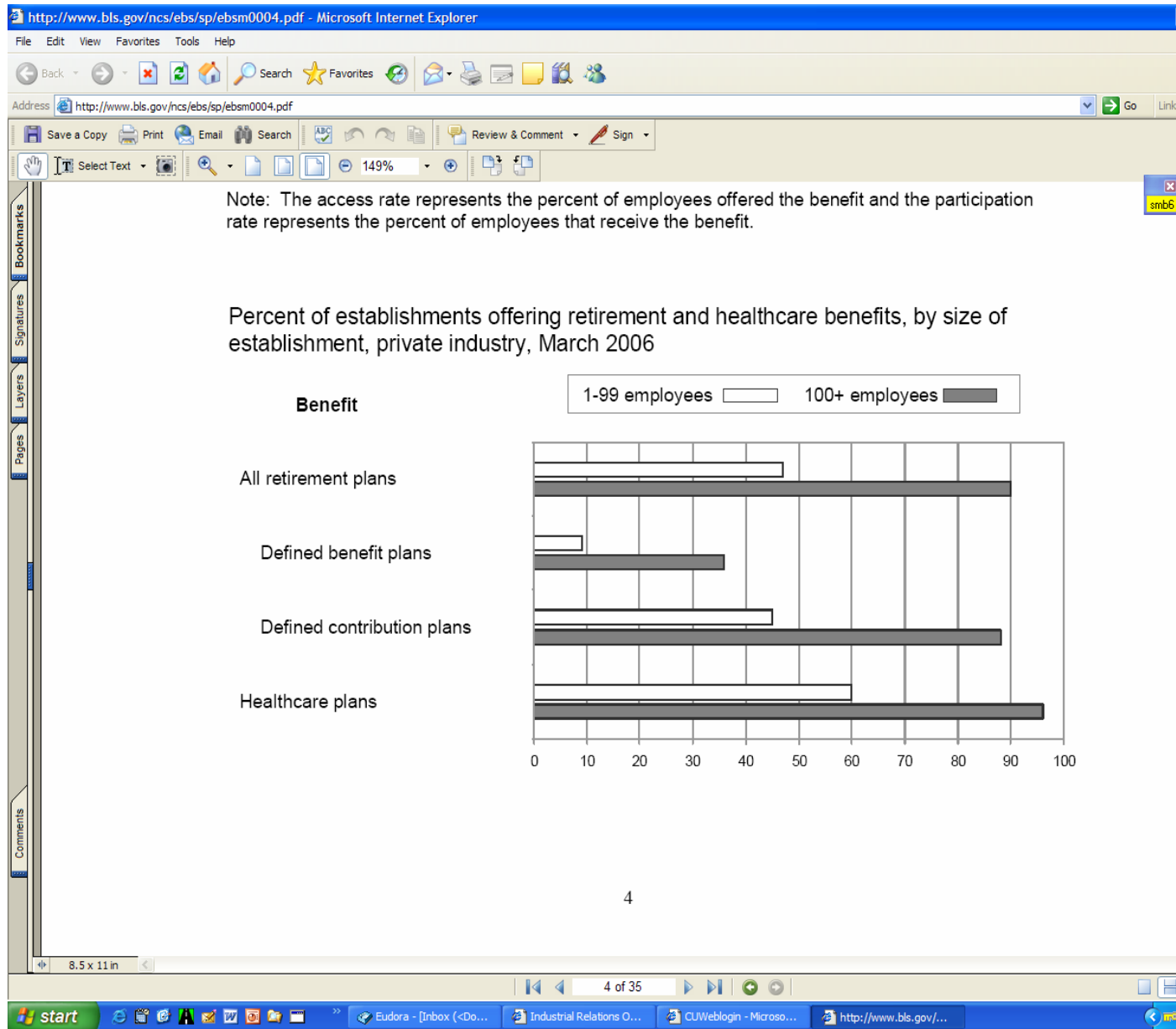
2. Employment and working conditions

2.1 Pay and employment conditions

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

Wages in SMEs are consistently lower than in larger firms. The wage gap is larger in

white-collar than in blue-collar occupations. It is larger for managers than for entry-level workers. Managers at businesses with more than 100 workers earn 27 percent more than managers at businesses with fewer than 25 workers, while entry-level workers at businesses with more than 100 workers earn 17 percent more than businesses with fewer than 25 workers. The wage gap also increases as workers age.



Workers employed by SMEs tend to have inferior health care coverage. Unlike many other industrialized nations, the United States does not provide government-funded health coverage to the majority of its citizens. Instead, working Americans receive health benefits through employer-funded coverage. The cost of providing health coverage is often more difficult for SMEs, which cannot take advantage of economies of scale. As the Kauffman-RAND research brief notes, “Some policymakers, interested in supporting small businesses and entrepreneurship, have argued that the burden of health, safety, and environmental regulations falls too heavily on small firms, which have less ability to keep up with the growing body of regulatory requirements.”

Similarly, SMEs appear to have more difficulty maintaining safe workplaces. The Kauffman-RAND brief reports that the workplace fatality rate declines consistently the larger a company is. This is partially though not entirely attributable to a higher rate of Occupational Safety and Health Administration (OSHA) violations at SMEs.

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

In their 2003 survey, Timothy L. Pett and James A. Wolff found that most SME owners feel that the export opportunities created by free trade agreements like the North American Free Trade Agreement (NAFTA) outweigh the risks such agreements pose. This may be because SMEs are more likely than larger firms to serve narrow niche markets and therefore face less competition from cheaper imports.

A related debate in the United States centers on immigration. The results of a survey by the National Federation of Independent Businesses (NFIB) appear on the surface to indicate that SME owners are strongly opposed to the rights of undocumented immigrants living in the United States. Ninety percent of the SME owners surveyed see illegal immigration as a serious problem. However, the details of the survey reveal a more complex dynamic. Forty-five percent of SBE owners support amnesty for undocumented

immigrants who are employed and not dependent on government services, and 63 percent support admitting foreign nationals to fill skilled jobs where government-certified shortages exist.

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

The North American Industry Classification System (NAICS) groups all clothing manufacture under subsector 315: apparel manufacturing. The small businesses in this sector have an average of 500 employees. The Department of Labor's Bureau of Labor Statistics (BLS) notes the following about subsector 315:

- 1 "Employment is expected to decline because of technological advances and imports of apparel and textiles from lower-wage countries
- 2 "Production workers account for almost 2 out of every 3 jobs"
- 3 SMEs do not constitute a significant part of this sector. Only 13 percent of workers employed in clothing manufacture work for companies with fewer than 20 persons.

Compared with their counterparts at larger plants, apparel manufacturing workers employed by SMEs are likelier to work in sweatshop like conditions. Sweatshop Watch reports that "67% of Los Angeles garment factories don't pay their workers minimum wage or overtime.

The NAAICS groups the hotel and restaurant industries under sector 72: hotel and restaurant accommodations... Unlike the garment industry, the hotel and restaurant industries are expected to grow at least until 2014. However, wages within this industry are quite low. BLS notes the following about sector 72:

Median hourly wage	Mean hourly wage	Mean annual income
\$7.83	\$9.18	\$19.090

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

No comparative sources on wages are available. Fox’s 2006 study explicitly excluded women, who make up the majority of clerical workers. However, Fox does note that the entry-level wage gap between SMEs and large firms is only 0.46. Many sources on the topic note that clerical workers at SMEs typically perform a wide range of tasks, while their counterparts at larger firms are engaged in more specialized labor. For example, at SMEs, “one bookkeeping clerk may handle all financial records and transactions as well as payroll and personnel duties while a large firm may employ specialized accounting clerks to work on each aspect of the balance sheet, as well as specialized payroll and personnel clerks.” This may be one reason for the lack of comparative studies.

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

The U.S. Department of Labor (DOL) mandates that full-time be defined as 40 per week for all non-farm jobs. However, the Regulatory Flexibility Act / Small Business Regulatory Enforcement Fairness Act (RFA/SBERFA) gives SMEs greater flexibility than large firms in complying with these regulations. In some instances it reduces or waives civil penalties when SMEs violate wage and hour laws. With respect to clothing manufacture workers, BLS notes that “Many operators work on rotating schedules, which can cause sleep disorders and other stress from constant changes in work hours. Overtime is common for these workers during periods of peak production. Managerial and

administrative support personnel typically work a 5-day, 40-hour week in an office setting, although some of these employees also may work significant overtime.” There is no data on working hours for sector 72 (hotel and restaurant accommodations) as a whole. However, the BLS does report on work hours for chefs, cooks, and food preparation workers and for hotels and other accommodations.

With respect to chefs, cooks, and food preparation workers:

Work hours in restaurants may include early mornings, late evenings, holidays, and weekends. Work schedules of chefs, cooks and other kitchen workers in factory and school cafeterias may be more regular. In 2004, about 40 percent of cooks and 46 percent of food preparation workers had part-time schedules, compared to 16 percent of workers throughout the economy. Work schedules in fine-dining restaurants, however, tend to be longer, because of the time required to prepare ingredients in advance. Many executive chefs regularly work 12-hour days because they oversee the delivery of foodstuffs early in the day, plan the menu, and start preparing those menu items that take the greatest amount of preparation time or skill.

With respect to hotels and other accommodations:

Because hotels are open around the clock, employees frequently work varying shifts or variable schedules.... Hotel managers and many department supervisors may work regularly assigned schedules, but they also routinely work longer hours than scheduled, especially during peak travel times or when multiple events are scheduled. Also, they may be called in to work on short notice in the event of an emergency or to cover a position. Those who are self-employed, often owner-operators, tend to work long hours and often live at the establishment.... Office and administrative workers generally work scheduled hours.

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

Workers at businesses with fewer than 25 employees remain at their jobs for an average of 4.4 years. By way of comparison, workers at larger firms have an average job tenure of 8.5 years.

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

There have been no large-scale studies to date of the use of progressive discipline policies (or lack thereof) at SMEs. The fact that SMEs are less likely to have human resources on staff (discussed below) suggests that these firms are less likely to have formal disciplinary procedures in place,

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

SMEs engage in fewer of these practices than larger businesses do. The smaller the business, the less likely it is to employ specialists such as human-resources managers. And, as Fox indicates, vertical hierarchies increase wages: a manager who oversees supervisors is paid more than a supervisor who oversees nonmanagement employees. By extension, SMEs offer fewer opportunities for advancement than larger firms do. Fox finds, too, that wages at SMEs are lower than at larger firms. The limited capital of many SMEs may contribute to an inability to offer merit- or performance-based wage increases.

2.2 Variation across SMEs

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

There are, of course, many different kinds of SMEs. A firm with 5 employees and one

with 245 for example may have little or nothing in common. An international law firm with a 30-strong staff is nothing like an industrial cleaning firm of the same size. Many SMEs in the building and civil engineering sector are actually parts of larger groups. Average statistics on SMEs are thus extremely inadequate because they are based on an abstract form of categorisation linked to size, which does not encompass all aspects.

On women employees of SMEs, SBA reports that:

Small and large firms hire women in about equal proportions.... Of the small firm work force (fewer than 500 employees) 45.1 percent were women, and of the large firm work force (500 employees or more) 47.5 percent were women. However, within small firm employment categories differences appear. Firms with fewer than 10 employees seem to employ women at a higher rate (48.3 percent) than firms with 25 to 99 employees (42.8 percent). Because small firms employ more of the private work force than large firms, small firms employed more women. Small firms employed 25.3 million women, and large firms employed 20.5 million women.

And with respect to minority employees:

Larger firms hire a higher ratio of black individuals than small firms.... One potential reason for this difference could be the greater resources of larger firms when implementing affirmative action efforts.... The race category of Asian / Pacific or American Indian / Aleut Eskimo had about equal employment rates in small and large firms.

The percent of Hispanic workers in a firm decreases as the employment size of the firm increases.... Very small firms (fewer than 10 employees) had a Hispanic worker ratio of 13.2 percent while very large firms (1,000 employees or more) had an 8.6 percent ratio (62 percent higher for very small firms). Hispanic individuals constituted 6.9 million of the 56.1 million small firm employees (12.3 percent), and 3.7 million of the 43.1 million large firm employees (8.6 percent).

3. Social partners and interest representation

3.1 Interest representation

(a). What proportion of SMEs are members of employers' organisations, and has this proportion changed since 1999?

The National Association of Manufacturers does not make public what percentage of its members are SMEs. It does report, however, that small and medium manufacturers “account for 40 percent of the total value of U.S. production.” The National Retail Federation (NRF) ranks its members in terms of sales rather than number of employees. If sales figures can be viewed as a rough proxy for number of employees, then it is worth noting that in 2005, 17 percent of NRF members had sales of up to \$1 million, 7 percent had sales of \$1 million to \$2 million, and 4 percent had sales of \$2 million to \$4 million. See also the discussion of the U.S. Chamber of Commerce below.

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

The National Federation of Independent Businesses (NFIB; www.nfib.com) is the leading organization representing SME owners. It does not release figures on the total number of NFIB members. The NFIB maintains an active presence in Washington, DC, and in all 50 state capitals. On the legislative front, the NFIB takes positions:

- 1 In favor of affordable health insurance policies for SMEs
- 2 Against efforts to increase the minimum wage
- 3 Against mandatory ergonomics regulations
- 4 Against the Fair Labor Standards Act (FLSA), which mandates overtime (150% wages) for time worked beyond 40 hours per week

- 5 Against the Family Medical Leave Act (FMLA), which allows workers to return to their jobs after up to a year's unpaid leave to care for a new child or sick family member

While not devoted exclusively to the interests of SMEs, the U.S. Chamber of Commerce (www.uschamber.com) functions as an active voice for SMEs at the national, state, and local levels. Like the NFIB, the Chamber of Commerce also advocates for affordable health insurance policies for SMEs. In addition, the Chamber of Commerce lobbies:

- 1 For additional education spending (to create “workforce ready” graduates)
- 2 Against strong environmental regulations
- 3 Against legislation that limits the number of immigrants entering the United States (documented and undocumented)
- 4 For “narrow, pro-employer [labor] positions

3.2 Unionisation

(a). What is the level of union membership in SMEs, and how has this changed since 1999?

No data are available.

(b). What are the sectors of relative union strength and weakness?

No data are available with respect to SMEs. Anecdotal evidence suggests that unions tend to shy away from trying to organize small companies. The resources expended to organize a small workplace and administer the contract seldom ever returned in the form of dues payments. However, most unions would regard a 100-person workplace as a target worth considering.

3.3 Social partner activities

What examples are there of social partner activities directed at SMEs? This might include

recruitment campaigns by trade unions or attempts by employers' organisations to target models of innovation and good employment practice at SMEs.

Social partnership as understood in the European industrial relations context is rare in the case of the United States and almost nonexistent in the specific area of SMEs. However, the NFIB does encourage its members to participate in Occupational Safety and Health (OSHA) programs and provides an employee safety checklist.

3.4 Public agencies

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

The Small Business Administration (SBA; www.sba.gov) provides support to SMEs at the federal and state levels. Through its publications and through its Service Corps of Retired Executives (SCORE), it provides education on employment law, distinguishing an employee from an independent contractor, etc.

4. Collective bargaining, representation and impact of legal regulation

4.1 Collective bargaining

(a). To what extent are SMEs covered by collective agreements, and how has this changed since 1999?

There are industry-wide agreements (or master labor agreements) in place in the trucking industry and in the building services (janitorial) industry. Both include SMEs, but no information is available on the number or percentage of SBEs, or SBE employees, covered. Unite-Here, the largest union representing hotel and restaurant employees, is seeking a similar agreement for hotel workers, but most of the union's organizing efforts have focused on large chains.

(b). Has there been any change in arrangements whereby agreements reached by mainstream bodies are extended to SMEs?

(c). Is there any information on the usage of company agreements by SMEs, and whether such usage has changed since 1999 (e.g. by SMEs leaving or joining multi-employer bargaining)?

No data found

4.2 Representative structures

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

A number of companies, such as the food cooperatives, have been known to operate in ways that are more collaborative and consultative in terms of worker involvement, but there are no formal structures such as works councils in the U.S.

4.3 Terms and conditions without representative structures

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

Pay is generally determined in one-on-one negotiations between employers and employees. Employers organizations representing SMEs fiercely defend the right to and the need for “flexibility” in these matters (see response to 3b). Aside from labor laws like the minimum wage and FLSA, the other factor governing pay and employment conditions at SMEs is market forces: workers with specialized skills that are in demand are able to command a higher rate of pay. In spite of these forces, as Fox notes, pay at SMEs is consistently lower than at larger firms.

4.4 Legal regulation

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

Employer's organizations are unanimous in inveighing against red tape. The NFIB states:

NFIB is fighting to reduce the disproportionate burden placed on small business by federal regulations. Small businesses with fewer than 20 employees face regulatory costs of almost \$7,000 per employee per year. To help fight this unfair burden, NFIB has created a Regulatory Reduction Advisory Council to get our members' input on creating a strategy for meaningful regulatory reform. NFIB is committed to carrying out this strategy and reducing the unfair regulatory burden on small businesses.

Similarly, the U.S. Chamber of Commerce "applauded President Bush's executive order further requiring agencies to consider small business' concerns in the promulgation of federal rules." And the SBA, which is not per se an employer organization but which advocates for the interests of SME owners, advocated for the Small Business Regulatory Enforcement, also known as the Red Tape Reduction Act.

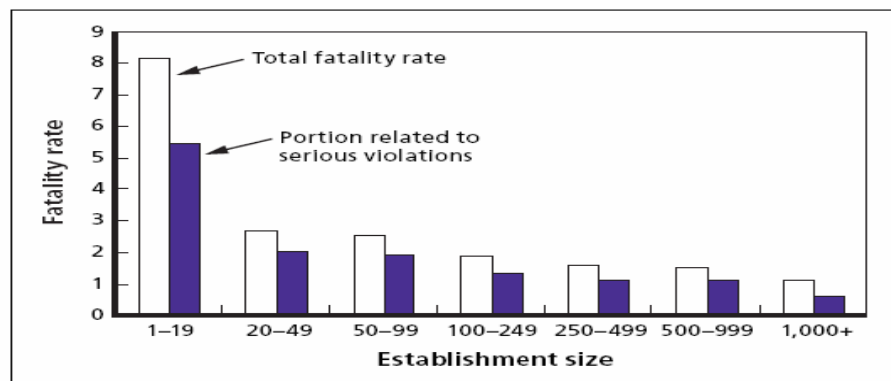
Very small firms with fewer than 20 employees spend 45 percent more per employee than larger firms to comply with federal regulations. These very small firms spend 4½ times as much per employee to comply with environmental regulations and 67 percent more per employee on tax compliance than their larger counterparts. For data broken down by industry, see www.sba.gov/advo/research/rs264tot.pdf

5. National centre views

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

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

Figure 2
Total Fatality Rate Per 100,000 Workers (Manufacturing), 1992–2001, Compared with the Fatality Rate for Deaths Related to Serious Violations



Conclusions and Policy Options

Although the study shows that, within a given firm, smaller establishments are riskier than larger establishments, the research also indicates that small, single-establishment firms are among

were significantly higher and largest firm-size establishments in these firms. Establishments in the these deaths would be

These findings point in developing policy at small establishments

OSHA Inspection risk, and the study for OSHA standards at small be difficult to justify in general because at these establishments costs associated with required to inspect firm would be much more establishment with 100 workers

Targeting Small Firms Rather than focusing also focus on medium establishments (1-19) because high fatality rates. If this size, it might be



Compared with larger firms, employees of SMEs tend to suffer more danger on the job.

As shown above, the portion of total fatalities related to OSHA violations was fairly similar across establishment categories. Because small establishments with fewer than 20 workers had a higher fatality rate to begin with, they also had a higher rate of fatalities due to serious violations. This finding indicates that most of the difference in death rates

can be explained by greater noncompliance at small workplaces.

Perhaps the most significant change since 1999 has been the shuttering of a number of high-tech SMEs that offered good pay and benefits. The net result, then, has been the loss of some of the best-paying positions within SMEs with little improvement in base pay or working conditions. In contrast, sweatshops (which are normally small businesses in inner-city areas) are thought to have proliferated in recent years with the influx of illegal immigrants and weaker enforcements of

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

Public policy has largely been focused on the quantity rather than the quality of new jobs created. Politicians routinely refer to small businesses as the engine of both economic growth and job creation. Unions tend to praise the “mom and pop” company when they wish to highlight the negative impact of Wal Mart and other box retailers on small towns and communities.

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

Social dialogue does not really exist in this sector, but the outlines of a dialogue between unions and small businesses is sometimes detectable around such things as health care reform and immigrant rights—and often expresses itself in opposition to large companies.