The employment and training practices of SMEs. Examination of research in five EU Member States

Philippe Trouvé et al.

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The employment and training practices of SMEs Examination of research in five EU Member States

Philippe Trouvé

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Abstract

This contribution discusses the main driving forces of the employment and training behaviour of small and medium-sized enterprises in Germany, Spain, France, Italy and the UK. After an 'anatomy' of SMEs, the paper attempts to locate their place and evolution in the current changes of the production system: creation and substitution, determinants of the demography of SMEs, ambivalence of technological intensity and innovations. Investigations on entrepreneurship and its contribution to the economic dynamism and job creation are also discussed.

The second part deals with SMEs as actors on the labour market. Special attention is given to the utilisation of external labour force, to their recruitment behaviour and their role in the professional integration of young people.

The third part discusses the training behaviour of SMEs. Research dealing with the intervention of SMEs in the construction or development of professional competences and employability is presented. Experimentation of continuing vocational training in enterprise networks, at territorial level or in professional branches is also presented. The emergence of new more flexible training settings more adapted to SMEs and especially to small and micro-enterprises is tested. These settings contribute to dislocation of the traditional model of training based on the unity of time, place and action.

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1. General introduction

In a macroeconomic environment that has for some years been marked by the continuing contraction of employment and structural changes on labour markets, the EU's economic and political decision-makers have come to focus their attention on small and medium-sized enterprises (SMEs)[1]. SMEs have long been ignored or underestimated, with attention focusing on the large organisations that were believed to be the only ones capable of fostering growth and modernity; now, there is a fairly widespread consensus that SMEs are in fact the main source of economic dynamism, innovation and job creation.

1.1 SMEs make a comeback

This interest in SMEs is not new, and their value was highlighted in some early works (Marbach, the German who advanced the theory of the '*Mittelstand*', in 1942; and, more recently, the ideologist Schumacher in 1978, the pragmatist Birch in 1979, etc.)[2]. Of course, this trend has not returned overnight, nor in the same way in every country. What is striking about the most recent history of the phenomenon is its extent and intensity, which have, in most of the developed countries, led to SMEs becoming both a *central feature* of economic, social and employment policies and a *mythical being*, a paragon of virtue.

It was during the 1980s that SMEs really made their comeback. It was a comeback made possible by a whole range of factors that have been enumerated a thousand times: collapse of mass production, trend towards the decentralisation and fragmentation of major groups as a result of the discovery of new sources of competitiveness based on the adaptability and flexibility of small production structures (Piore and Sabel, 1984), the tertiarisation of society, etc. We should also mention the hopes raised by the burgeoning of enterprise creation that came in the tracks of Birch's work and observation of entrepreneurial dynamism in the United States, which it was felt might check unemployment and give a second wind to employment policies that had too often been limited to defensive measures.

Indeed, the figures leave little room for doubt about the significance of SMEs in our economies: in 1996, for example, the European Economic Area[3], plus Switzerland, had some nineteen million private, non-agricultural enterprises employing a total of more than 110 million people. Of these, 99.8% could be cat-

[1] In addition to SMEs for small and medium-sized enterprises, we shall also be using some other abbreviations in this document: SMIs for small and medium-sized industries, VSEs for very small enterprises with fewer than ten employees, SEs for small enterprises with fewer than 50 employees, and LEs for large enterprises with, unless otherwise stated, more than 250 employees.

[2] In this respect, it is difficult to better the monumental work conducted on the initiative of the International Commission of the History of Social Movements and Social Structures (attached to Unesco via the International Committee of Historical Sciences) and modestly called a 'survey' (International Commission of the History of Social Movements and Social Structures, 1981). This project included no fewer than 31 reports on 28 countries in the five continents, drawn up by (many) historians, economists (fewer than today) and highly respected sociologists and political economists. Most of these reports were based on research conducted by working parties set up in the countries being studied and drew on the work of more than 200 researchers. The reports are remarkable in their historical depth and scope, all including extensive bibliographies and all beautifully written. Just two regrets: that small traders and craftsmen are given greater coverage than the small industries of the time, and that coverage of Italy was cut short because of the author's ill health.

[3] Most of the statistics reproduced here are drawn from two major instruments: the series of reports produced by the European Network for SME Research [ENSR], the most recent of which (1997) covers 19 countries (the 15 EU Member States, plus Iceland, Liechtenstein, Norway and Switzerland); and the 'harmonised statistics' for the 15 Member States provided by Eurostat in its regular reports on *Enterprises in Europe*, of which we consulted the fourth and fifth (European Commission, 1996, 1998). In addition to these two major sources, we also consulted the European Commission document (1998).

Table 1.1: Breakdown of enterprises by country and number of employees, in percentages, and total number of enterprises by country, in thousands (1996)

	SMEs				LEs	Total	Total
	Very small enterprises	Small	Medium-sized	Sub-total			
				%			(1 000)
Austria	86.1	10.8	2.4	99.4	0.6	100.0	220
Belgium	96.5	2.9	0.5	99.8	0.2	100.0	800
Denmark	92.4	6.3	1.1	99.8	0.2	100.0	230
Finland	94.4	4.5	0.9	99.8	0.2	100.0	205
France	92.9	5.8	1.1	99.8	0.2	100.0	2 085
Germany	88.1	10.0	1.5	99.6	0.4	100.0	3 440
Greece	97.0	2.6	0.4	99.9	0.1	100.0	580
Ireland	89.8	8.0	1.6	99.4	0.6	100.0	80
Italy	94.4	5.1	0.5	99.9	0.1	100.0	3 345
Luxembourg	84.2	12.4	3.0	99.6	0.4	100.0	15
Netherlands	90.5	7.7	1.4	99.6	0.4	100.0	530
Portugal	93.8	5.3	0.9	99.9	0.1	100.0	690
Spain	94.9	4.4	0.6	99.9	0.1	100.0	2 335
Sweden	91.0	7.4	1.3	99.7	0.3	100.0	285
UK	94.5	4.7	0.7	99.8	0.2	100.0	3 760
EU	93.0	5.9	0.9	99.8	0.2	100.0	18 590

Source: ENSR, 1997. p. 326.

Table 1.2: Enterprises in the European Union in 1995: breakdown by country

	Number of enterprises (in thousands)	Number of people employed (in millions)	Proportion of total employment accounted for by SMEs (in %) (1)
EU - 15	18 049.53	111.76	65.7
B	594.64	3.68	72.6
DK	235.73	1.55	69.5
D	3 334.78	30.03	57.7
EL	746.86	1.73	86.5
E	2 349.67	10.93	79.4
F	2 116.24	15.34	65.9
IRL	70.86	0.74	67.0
I	3 251.88	13.98	79.9
L	17.99	0.18	71.6
NL	488.61	5.22	60.6
A	237.39	2.59	64.5
P	656.76	2.86	79.5
FIN	180.13	1.07	57.4
S	243.55	2.11	61.0
UK	3 355.01	20.12	56.9

1) SME: enterprises with 0-249 employees.
NB: 1994 figures in the cases of EL, I, NL and A.
Source: European Commission/Eurostat, 1998, p. 38.

egorised as SMEs (0-249 employees) and 93% as VSEs (0-9 employees), accounting respectively for 65% and 33% of total employment and 60% and 25% of total turnover (see Table 1.1). If we include non-commercial activities and agriculture, we can calculate that more than one person in two in the EU Member States is working in an SME, 45% in small enterprises (with fewer than 50 employees) and a third in enterprises with fewer than ten employees (European Commission, 1996, 1998).

Of course, the relative role of SMEs in the economy and on the labour market and the average size of enterprises vary from one sector to another and from one Member State to another (see Tables 1.2 and 1.3), and there are many possible ways of interpreting this 'comeback' of small production structures. Similarly, the breakdown of employment by staffing levels varies from one country to another (see Table 1.4). Indeed, the overall figures conceal significant complexity and SMEs still represent a landscape that it is difficult to map. This is why it is essential that further research be conducted to provide us with a clearer picture.

The world of research has not been immune to the developments mentioned above. Torrès (1997, 1998), tracing its recent history in the French-speaking countries in particular, identifies three major periods since the mid-1960s. During the first period (1965-1975), research followed the Aston school of thought (Pugh et al., 1968, 1969), focusing on the effects of enterprise size on organisation and functioning (Blau, 1970; Child and Mansfield, 1972; Minzberg, 1982; and Desreumaux, 1992). The second period (1975-1985) saw the coexistence of two distinct currents of research: one focusing on the *specificity* of SMEs and seeking to identify not only the diversity of possible forms but also the constants, permanences and common features; the other focusing on the *diversity* of SMEs and, by examining the many contingencies faced by them, attempting to construct typologies and thereby reduce their heterogeneity. Finally, the third period, which began in the mid-1980s, saw the world of research oscillating between a conception that, whilst developing the theory concerning the specificity of SMES, also focused on the many variations in the unique features of small firms (the 'synthesising' current), and an investigation of the processes of the 'denaturation' of the general model of SMEs, henceforth dependent upon or even dominated by large enterprises (loss of autonomy, rationalisation, etc.).

The Torrès theory is all the more attractive in that it accounts for a movement of thought that, despite some inevitable differences in the timing of its emergence caused by varying national situations, has become fairly widespread, not only in the French-speaking countries but in most EU Member States. This is, in any event, what emerges from an overview of research on SMEs in the five Member States we chose to study (D, E, F, I, UK).

1.2 Outline of this report

Following this brief introduction (*Part 1*), *Part 2* of this report provides a summary of the main research we consulted in studying employment and training practices in SMEs, specifically in the five countries mentioned above. It is prevailing trends and the cutting edge in each country that matter here more than the details, which we go into later in the report.

Part 3 focuses primarily on *definitional and demographic data* (enterprise formation/dissolution). The main difficulty lies in the ephemeral and diverse nature of our subject (see Section 3.1). What is the relationship between a very small enterprise [VSE] of the craft type and a medium-sized industrial enterprise? What is the relationship between an independent, privately owned enterprise and an SME that is part of a group or a franchise network? What is the relationship between an SME in the manufacturing sector and an SME in the service sector? This is why it is more appropriate to speak of SMEs in the plural rather than use a generalised singular.

We take a particularly close look at the methods of approach that researchers use to tackle this heterogeneity (Section 3.2). After studying its anatomy or morphology, we also aim to identify the main results of European research

Table 1.3: Structure of private enterprises (excluding the primary sector), by size of workforce and by country (1996)

	Number of enterprises (in thousands)	Average size	Dominant size category*
Austria	220	11	SME
Belgium	800	5	VSE
Denmark	230	7	SME
Finland	205	5	LE
France	2 085	7	LE
Germany	3 440	8	LE
Greece	580	3	VSE
Ireland	80	11	LE
Italy	3 345	4	VSE
Luxembourg	15	12	SME
Netherlands	530	10	LE
Portugal	690	4	SME
Spain	2 335	5	VSE
Sweden	285	7	LE
UK	3 760	5	LE
EU	18 590	6	LE

*A country is said to be 'dominated' by very small enterprises, small and medium-sized enterprises or large enterprises respectively if very small enterprises, small and medium-sized enterprises or large enterprises account for the majority of jobs.

Source: Calculations made by EIM Small Business Research and Consultancy on the basis of Eurostat/DG XXIII figures (European Commission, 1998).

Table 1.4: Breakdown of employment by size of workforce and by country in 1996

	SMEs				LEs	Total	Total
	Very small enterprises	Small	Medium-sized	Sub-total			
	% of employment						(1 000)
Austria	25	19	21	65	35	100	2 470
Belgium	48	14	11	73	27	100	3 835
Denmark	30	22	18	70	30	100	1 590
Finland	23	16	17	56	44	100	1 030
France	32	19	15	66	34	100	15 310
Germany	24	20	14	57	43	100	29 090
Greece	47	18	14	79	21	100	1 585
Ireland	18	16	14	49	51	100	840
Italy	48	21	11	80	20	100	14 040
Luxembourg	19	26	29	71	29	100	155
Netherlands	26	19	15	60	40	100	5 295
Portugal	38	23	18	79	21	100	2 800
Spain	47	19	12	79	21	100	10 910
Sweden	25	17	16	59	41	100	2 030
UK	31	16	12	59	41	100	20 420
EU	33	19	14	66	34	100	111 405

Source: ENSR, 1997: 327.

on entrepreneurship, that is, on enterprise-creation practices and their contribution to economic dynamism and job creation (Section 3.3). A final section looks at the demographics of SMEs in an attempt to clarify their role and development in the current reorganisation of production systems (Section 3.4).

Part 4 focuses on *SMEs as a player on labour markets*, that is, the specific effects they have in terms of structuring employment, on both the quantitative (Section 4.1) and qualitative (Section 4.4) levels, and, more generally, the main factors determining their practices (Section 4.2). Particular attention is also paid to methods of using external labour, recruitment practices and SMEs' role in the occupational integration of young people (Section 4.3). Finally, a fifth section looks at European research on the development of self-employment (Section 4.5), particularly as regards very small enterprises [VSEs].

The aim of *Part 5*, on *the training practices of SMEs*, is to identify research on the use of vocational training – both initial and continuing – by SMEs (Sections 5.1 and 5.2)[4]. The perspective we have chosen also enables us to maintain our focus on the training/employment relationship and to articulate this new field of research with the former. At the same time, bearing in mind the needs of policy-makers, it is an opportunity to present some research on the main factors determining the demand for training in SMEs.

Taking note of research that indicates SMEs' disadvantaged position in terms of accessing and using the more institutionalised and external forms of continuing vocational training, we look at the body of research that attempts to identify the *specific contribution that small establishments make in terms of informal, in-house or 'on-the-job' training*, the assumption being, for example, that individual skills are not acquired only through structured training provision but also as a result of experiences in which mobility between and within enterprises plays a considerable role (Section 5.3). From this point of view, examination of practices and views concerning training in SMEs is an opportunity to rethink the traditional models of the training/employment relationship and question the rules governing the recognition and certification of skills acquired in a working situation alongside, in addition to or instead of accredited training processes (validation of occupational skills, job classification, etc.).

Taking a step back, the final section (Section 5.4) attempts to identify the new types of regulations that are currently emerging in relation to (initial and continuing) vocational training in most European countries. It emerges, among other things, that the shift towards a 'skills-based approach', work on the validation of skills acquired informally and a number of innovations currently at play might in many respects be seen as an opening of the door to vocational training within SMEs.

Finally, our general conclusion (**Part 6**) aims to draw the main lessons from this careful examination of the European literature by identifying the most useful points for public policies.

2. European literature under review: a risky but enlightening venture

What we are trying to do here might seem presumptuous, particularly since no previous research has given rise to such an attempt. However we do have close on more than 500 references works in our bibliography and we are not making any claims about being exhaustive or, still less, doing the work of the historians. We are not interested in going into detail; on the contrary, what we want to do is to achieve an overview and identify the most salient points that emerge from the available body of work, and especially those works that have attempted to look at the relationships between SMEs, employment and / or training.

Our reading of the literature has been far from superficial. For each country, we have tried

[4] We shall be abbreviating the terms 'vocational training', 'continuing training' and 'continuing vocational training' to 'VT', 'CT' and 'CVT', respectively, in the remainder of this report.

to develop an overall picture by identifying the most common themes or issues and tracing the major trends affecting them. We shall offer some working hypotheses that could be studied in greater depth.

2.1 France: a national tradition which does not favour SMEs

First, we shall look at the situation in France – not because we see it in a particularly favourable light but because, on the contrary, it seems that, of the five countries we studied, France is furthest from answering the questions associated with SMEs. This is largely due to the traditional predominance of large enterprises, both in industrial policy and in academic research. Yet France does not have the greatest concentration of large enterprises. Although the concentration is higher than the average for Europe of 15, it is lower than the concentration in, for example, Finland, Belgium, Germany, the UK and Sweden; we also know that the imbalance between large and small enterprises has more to do with sectoral features than national differences (European Commission, 1996, p. 34). So, the reasons for France's indifference to SMEs needs to be sought in socially and historically constructed images. Without claiming to offer a fully detailed analysis of the situation, we should simply like to mention two aspects here: public policies and research developments.

2.1.1 The institutional and academic predominance of the large-enterprise model

As J. Saglio (1995) has commented, the major reference for French public policy until the late 1970s was virtually always the large enterprise. It is in fact around this predominant figure that major modernisation projects have been organised and planned. It can be argued that reciprocal ignorance or a 'mutual aversion', doubtless caused by contrasting sociological positions, has long reigned in France between SMEs and national institutions. 'Public institutions saw SMEs as an archaic industrial world inhabited by untamed capitalists who had little respect for their social and fiscal obligations' and, 'in SMEs' eyes, the world of the State was inhabited by useless, unproductive bureaucrats who knew nothing of the realities of economic life and its constraints' (Saglio, 1995, p. 22). Moreover, the majority of SME managers have tended to be extremely distrustful of large enterprises and the various monopolies, which are always suspected – often with good reason – of colluding with the State.

At the same time, in academic research, SMEs have long been perceived as a hangover from the past. Other than in research by historians on early industry and a few scant references in historical overviews of industry, SMEs have virtually always been defined negatively or in terms of their shortcomings in relation to large enterprises[5]: they did not adhere to the rules of the division of labour, they were run more 'simply' and in a less formalised way, they were backward in terms of development, etc. In brief, they were too small and their economic role was deemed to be too insignificant to merit researchers' attention. So, an interest in SMEs was for fanatics, militants or those with a love for the exotic.

This would explain (or at least, this is our hypothesis) why, after this long period of lack of interest, the first works on SMEs that appeared in the late 1970s initially took the literary form of 'the essay' and a fairly utopian ideological position. So, small structures appear as improbable, paradoxical, akin to the social experimentation in new spaces ('country factories', self-centred development, alternative enterprises, etc.), based on ideologies that challenged major systems and the all-powerfulness of the Fordist-Taylorist model (on this point, see, among others, Chavanes, 1975; Chevalier, 1977; Gorz, 1980; Mendras, 1979; Rosanvallon, 1976, 1980).

2.1.2 Obsession with the modernisation of SMEs

Despite its significance and specificity, it would be a mistake to reduce the turning point of the 1980s to an academic curiosity

[5] In other words, 'non-large enterprises', to use the term coined by J. Saglio (1995).

for, as in most other European countries, it was at the very time when mass production and the big industrial conglomerates went into crisis (restructuring), when unemployment was rising and the economy was becoming increasingly tertiarised, that the movement to rehabilitate SMEs really began in France.

However, the social components of the French conception of SMEs continued to hold sway throughout the last decade and, therefore, right up to now. This would, in our opinion, explain the shift in the thinking of all France's economic and political institutions, all coming to focus on one notion: SMEs need to be modernised and rationalised. Subtext: we need to guide them towards the large-enterprise model. This point of view can be illustrated in many ways – by, for example, stressing the development of public aid or stigmatising decision-makers' recurrent voluntarism and concern for small structures (setting up science parks, an inclination to create industrial districts '*à la française*', etc.).

Throughout the 1980s and, therefore, right up to today, the research community has failed to escape this strong social trend. Apart from a few scattered and sometimes isolated teams, particularly those researching the craft industry or small traders (Zarca, 1986; Auvolat, 1982; Auvolat et al., 1985; Gresle, 1981), and, as we shall see, with the exception of some economists and sociologists specialising in 'industrial districts' and working under the auspices of the *Centre d'Etudes de l'Emploi* [CEE] and the *Groupe Lyonnais de Sociologie Industrielle* [Glysi], this community has – whether we like it or not – largely gone along with an approach that sees technological development and innovation as an instrument of modernisation and competitiveness for SMEs (Jacot and Lajoinie, 1988; Rosanvallon, 1986; Hollard et al., 1987; D'Iribarne, 1986; Maurice et al., 1986). Even if not every researcher has succumbed to the dogma of technological determinism that the decision-makers are always so quick to propound; if they note in general the spread of flexible technologies in small enterprises, especially in the machine tools sector; if they are quick to look at the issue of new technologies in relation to their social and organisation appropriation; it nonetheless remains that the point of reference they use to assess changes in production systems is still the large enterprise and mass production.

2.1.3 From tangible technologies to intangible technologies

Indeed, in the late 1980s and early 1990s, there was already a very gradual shift away from tangible production technologies and towards the intangible technologies of management, training and organisation. It is in this context that we need to see, for example, the works of Le Bas and Clerc (1988). Studying SMEs' attitude to automation in the mechanical-engineering sector, these authors noted (and deplored) the fact that 'hypo-firms' (the smallest SMEs) were resistant to automation, while 'large' SMEs were more structured and more in favour of it. In addressing the former, they stress the importance of external consultancy and training as 'driving factors' (p. 105) in the rationalisation of SMEs. A little later (Le Bas, 1989), they are back again: automation projects have more chance of being successful in SMEs if they are both coordinated with industrial strategy and based on properly managed training processes. These processes must cover not only technical content but also new standards of management, organisational routines, the anticipation of economic changes, etc. This 'broadening of the field' and mobilisation of all the players are termed 'industrial apprenticeship' and conceived according to the standards of large enterprises, as they are in virtually every other work based, for example, on Ministry of Industry statistics showing that the main factors determining SMEs' attitude to training are size – SEs with fewer than 50 employees 'train less' than enterprises with more than 200 employees – the age of directors and managers – on average higher in SEs (Bucaille and Costa de Beauregard, 1989; Debrinay, 1990), etc. Recently, of course, a number of works on investment and modernisation in SMEs have focused on issues relating to employment (Heraud and Forte, 1995), but they are far from representing the majority of recent research.

2.1.4 The relationship between SMEs and employment: a relatively recent issue

Despite a few high-quality trailblazers that are already rather old (Greffe, 1984; Baroin and Fracheboud, 1983; Dalle and Bounine, 1987), it is reasonable to say that this area of research is relatively new in France, as compared with the UK, Germany and Italy. The research coordinated by Greffe, Baroin and Fracheboud certainly provides us with all the ingredients we need for debate, together with a number of equally weighty contributions and equally inspiring subtitles: 'SMEs – potential employment reservoir' (X. Greffe), 'SMEs and employment in France' (D. Baroin), 'SMEs and job creation in France' (F. Eymard-Duvernay and M. Delattre), 'social relations in SMEs in France' (J.-Y. Boulin, J.-P. Huiban et al.), 'the unemployed – creating or recreating occupational activity' (S. Pflieger and F. Tabourin), 'which policy for SMEs?' (X. Greffe). There are also some similarly in-depth international comparisons: Belgium (A. M. Kumps and R. Witterwuklghe), Italy (S. Brusco and P. Garonna), the Federal Republic of Germany (W. Steindle), the UK (G. Gudgin and then D. J. Storey), the European Community (J. Morley) and even Japan (E. Leclerc) and the USA (D. Baroin).

In the main, however, none of this work has been followed through and, although academic output on SMEs' role in the current transformation of production systems is particularly abundant (see Part 2), research on their impact on the number, structure and content of jobs is only in its infancy (Couraut, Trouvé, 1999). The same is true as regards the specific features of vocational training and the building up of professional skills and status in SMEs (see Part 5). Apart from the regular, annual comment on the lack of training, based on administrative statistics (Bentabet, Marion et al., 1999), and a few recent breakthroughs by a Céreq team as regards personnel management and training in very small enterprises (Bentabet et al., 1999), the field is essentially occupied by critical analyses of the 1971 law on continuing training and the difficulty of adapting it to the specific context of SMEs (on this point, see the works of E. Verdier, 1990b, c, 1991).

It is not for us to describe and explain these shortcomings in detail here. However, in addition to the chronic absence in France of ongoing relations between the world of research and occupational organisations (for the reasons mentioned earlier), one would very probably be able to identify some persistent divisions in the scientific community as regards SMEs. First and foremost, are SMEs really a subject for scientific research in France? Some researchers think not and are not afraid to say so, despite a logomachic work that argues to the contrary (Grasser et al., 1999).

2.1.5 Highly compartmentalised academic research

Evidently, in France more than in any other country, a considerable effort needs to be made if SMEs are not to be reduced either to a by-product of the development of major groups or to large enterprises 'in miniature' (Saglio, 1995). This is why it is difficult, in France, to break away from studying the major bodies of macrostatistics that define SMEs as residual forms of early industry by comparison with large enterprises, to recognise entrepreneurs' active role in the development of new managerial styles, and to move away from a definition that is too closely bound up with the traditional configuration of independent SMEs, and instead to focus on their inclusion and integration in various sectors, regions, networks or inter-enterprise competitive/co-operative relations, as in the case of the socioeconomic study of localised production systems. These three ways of distancing ourselves from the dominant models (of the large enterprise and the independent small enterprise) nevertheless derive from some relatively distinct currents of research.

On the one hand, it is certainly important to take account of Government documents that attempt to meet the need to know more about SMEs so that appropriate policies can be adopted. Examples are the regular reports on SMIs (small and medium sized industries) produced by SESSI *(Service des Statistiques Industrielles du Ministère de l'Industrie* [Industrial Statistics Service of the Ministry of Industry] 1995, 1999). By definition, however, these cover only enterprises in the industrial

sector with more than 20 employees. The same applies to INSEE's *Enquête sur les Petits Etablissements Industriels* [Survey of Small Industrial Establishments]. Researchers certainly do not make sufficient use of these major statistical sources. Mention might also be made of the recent implementation of a Dares[6] (*Ministère de l'Emploi et de la Solidarité* [Ministry of Employment and Solidarity]) programme focusing on SMEs (Dares, 1995).

On the other hand, with regard to academic research, we need to distinguish: *firstly*, teams of economists and sociologists (for example, the *Centre d'Etudes de l'Emploi* in Paris, Céreq and its research team on employment and training in SMEs, the 'Mutations des Territoires en Europe' Laboratory of the University of Montpellier, which focuses more particularly on SMEs' role in local development, and the *Groupe Lyonnais de Sociologie Industrielle*, part of whose remit is to study local SME systems), whose work could be analysed and cross-referenced to enable us to reconsider the enterprise model; *secondly*, the more openly management-centred approaches, associated in particular with the *Association Internationale de Recherche en PME* [AIREPME – International Association for Research on SMEs], of links between France (with a strong Montpellier/Metz-Nancy axis) and Quebec, the mainspring of an International French-Speaking Conference on SMEs[7]. However, the latter tend to concentrate more on identifying SMEs' microeconomic performance or on epistemological issues (Julien and Marchesnay, 1988; Marchesnay and Fourcade, 1997; Mahé de Boislandelle, 1998a, 1998b) than on SMEs' employment and training practices or, even less, on the effects of public policies on the development of SMEs. There is currently no interface between these two major groups (economists and sociologists on the one hand and managers on the other) (on this point, see Trouvé, 1999). The potential for the 'cross-fertilisation' of research on Very Small Enterprises has nevertheless already proved to be promising (Bentabet et al., 1999).

2.1.6 The various fields of research on initial and continuing vocational training

In the area of vocational training in France, we can distinguish various currents of scientific output. The first we are going to mention here are highly prolific but pay little or no attention to SMEs.

- First and foremost, there is an historical current (for example, Agulhon, 1994), whose major arguments all – or virtually all – point to chronic problems concerning the appropriate linking of 'technical', 'vocational', 'specialist' or 'skills-centred' training with the production system, because these forms of training have been socially devalued or perceived as routes to failure, because they have undergone massive decline over recent years (CAP-BEP)[8], because they lower standards (as in the case of 'Bac Pros')[9], because they generate new aspirations to pursue more general university studies (BTS-DUT)[10]. Like it or not, and despite recent attempts to rehabilitate these forms of initial training via systems of apprenticeship or combined training and work, this situation is the result of a sort of 'social pact' at national level (Trouvé, 1996b).

- Then there is a current that more or less comprises the works produced by Céreq and its associated centres[11] or offshoots,

[6] Dares: *Direction de l'Animation de la Recherche, des Etudes et des Statistiques* [Directorate for the Promotion of Research, Studies and Statistics].

[7] The fourth conference, organised by the Universities of Nancy and Metz, was held in October 1998.

[8] CAP: *Certificat d'Aptitude Professionnelle* [Certificate of Vocational Skills]; BEP: *Brevet d'Etudes Professionnelles* [Certificate of Vocational Studies].

[9] Bac Pro: *Baccalauréat Professionnel* [General Certificate of Vocational Education].

[10] BTS: *Brevet de Technicien Supérieur* [Higher Technician's Certificate]; DUT: *Diplôme Universitaire de Technologie* [University Diploma in Technology].

[11] Céreq: *Centre d'Etudes et de Recherches sur les Qualifications* [Centre for Studies and Research on Skills and Qualifications]. 10 place de la Joliette, 13 474 Marseille, Cedex 02.

comprising an immense reservoir of research on the relationship between training and employment and on occupational integration and transitions, linking them to the functioning of labour markets and in some cases taking account of issues concerning the transformation of organisations and production activities, from a national, regional and, more recently, a comparative and international perspective.

Some leading works mark out the first group, comprising mainly works produced by Céreq but also others, the common feature being their failure to take account of SMEs. We shall mention a few here, without any wish to be exhaustive and omitting the even more prolific editorial output of journals[12], collections, numerous articles, conference proceedings and sundry communications: Géhin and Méhaut (1993), Vernières (coordinator) (1997), Friot and Rose (directors) (1996), Rose (1998), Vernières (1997) and, particularly, Aventur and Möbus (1999), but also Tanguy L. (director) (1986), Coutrot and Dubar (1992), Nicole-Drancourt and Roulleau-Berger (1995).

- Three other fields seem worthy of mention and of being described in greater detail. These are Government publications, both in the field of initial training (particularly apprenticeships) and in the field of continuing training (particularly the figures regularly produced on the basis of '24-83' tax declarations); the rare but illuminating research on mismatches between the legal provisions covering continuing training and the situation of SMEs (works of E. Verdier); and finally, a recent spate of qualitative studies and case studies covering both practices and perceptions concerning continuing vocational training in SMEs and VSEs, and the relationship between training and employment.

[12] Particularly Céreq's *Formation Emploi* [Employment Training] and Dares' *Travail et Emploi* [Work and Employment].

2.1.7 Statistical data: consistent evidence of unequal access to continuing vocational training (CVT) organised by enterprises

The field of CVT is highly specific. In France, it functions as a compensatory device, a second opportunity for those who have been unable to obtain not only the *educational qualifications* that exercise such a 'tyranny' (M. Godet) throughout working life, but also the *skills* that, on a social level, determine the kind of jobs each individual might expect to get[13]. However, looked at from another angle, CVT is also a source of information on the ways in which enterprises make use of labour. It is in this latter aspect that government data cast particular light on SMEs' investment in CVT.

Among others, two major, complementary sources can be drawn on here: on the one hand, the general data published by the *Ministère de l'Emploi et de la Solidarité* (Dares, but also the *Délégation à la Formation Professionnelle* [Delegation responsible for Vocational Training]) and, on the other, Céreq's annual report on *La FPC financée par les entreprises* [CVT funded by enterprises].

- The former, which covers major 'aggregates', provides reference data on structures, changes in expenditure and financial transfers with regard to continuing training, either by type of expenditure (training in the strict sense, pay for trainees and relief on social security contributions, sundry capital investment) or by target group (young people joining the job market for the first time, jobseekers and groups with difficulties, people already in employment). In 1997, government figures showed that, in France, 'expenditure by

[13] We shall see later that the social and occupational functions of continuing training vary considerably from one country to another. For example, according to Vickerstaff (1992, p. 8), whereas it is typically seen as a response to the skills gap on the labour market in the UK, in other countries it seems to be vital to the effective use of labour (investment, prevention of wastage).

enterprises is equivalent to State expenditure (55 billion French francs)'. More than 80% of enterprises' expenditure is on *employee training* as part of a training plan or in the form of individual educational leave. The remaining 20% (10.4 billion French francs) goes on funding special employment and training contracts ('contrats de qualification', 'contrats d'adaptation' and 'contrats d'orientation'), and apprenticeships (Chanut and Baudequin-Gélard, 1999). Special training for *young people under the age of 26* 'accounts for 22% of overall expenditure, with more than half of this being spent on apprenticeships and a quarter on employment and training contracts' (or 'government-aided employment'). Finally, expenditure on training *jobseekers* and groups with difficulties accounts for 20% of overall expenditure on vocational training. The most recent figures indicate that, in very recent years, it is young people who have been the main beneficiaries of the increase in expenditure.

- The report produced regularly by Céreq is much more specific (see, for example, Bentabet E., Marion I., Zygmunt Ch., 1999) and enables us to compare training practices in Small Enterprises (with 10-50 employees) with those in larger ones. Of course, however, the data cover only 'official' training (that is, government-recognised training) organised by enterprises and therefore provide information mostly on more structured forms of CVT. This is why they have long indicated SME 'deficits' in this area, with the exception of 'length of training periods' (see Part 5, Table 5.4), in terms of level of financial commitment and rates of access to training by workers (8.3% for men and 10.4% for women in enterprises with 10-19 employees, compared with 56% and 49% respectively in enterprises with 2 000 or more employees).

Certainly, the past few years have seen a slight increase in SMEs' contribution to CVT. However, 'the category of Small Enterprises (10-50 employees) is having difficulty in rising above the legal minimum' (Bentabet, Marion, Zygmunt, 1999, p. 13) and the gap between this category and LEs remains constant. Finally, it is in sectors of activity in which SEs predominate that the indicators are weakest and training efforts least significant (BTP – building and public works, hotel and catering trade, agriculture, etc.). The official statistics thus regularly highlight inequalities of access to CVT, depending on size of enterprise.

2.1.8 The inappropriateness of legal provisions to SMEs

Verdier should be congratulated for having tackled this issue on numerous occasions and for linking it with consideration of the institutional conditions of CVT in France (Verdier, 1990a, b, c; 1991; 1999). He argues that the gaps in SMEs' contribution to CVT in France are largely due to the mismatch between the approaches supported by law and actual training practices in small establishments. His theory is nevertheless so central that we shall look at it again in more depth in Part 5 (Section 5.1).

2.1.9 The breakthrough of qualitative studies: SMEs between market and State

It would be unjust to end this rapid overview of training practices in SMEs in France without mentioning the new doors being opened by more qualitative analyses and case studies. Verdier blazed the trail with his works on the role of enterprise strategies in training practices in SMEs (1990b, 1991). Two more recent publications have followed in his footsteps: Bentabet et al. (1999) investigating the main factors determining training and personnel management practices in Very Small Enterprises in eight sectors of activity and proposing a model to reduce the extreme heterogeneity of the field, and Campinos-Dubernet (1999) following up a series of highly detailed reports on the relationship between training and employment in the metalworking and machinery industry, the plastics industry and the electrical and electronics sector.

Most of these works are amply commented upon in the rest of this report.

2.2 The UK: research on SMEs' contribution to employment and their place in the new model of vocational education and training (VET)

According to Atkinson and Storey (1994), most of the research during the 1980s on the relationships between small firms and employment in the UK focused on four main issues:

1. The first was to attempt to quantify job creation in small firms. Most of the research drew on the seminal work of David Birch in the USA (1979) on the relationship between the size of enterprises and their ability to create jobs. Numerous attempts were made to transfer Birch's methodology to the UK and other European countries and to verify whether similar results could be obtained.

   It is reasonable to say that this research focused on the total number of jobs, on *the quantity of employment*. According to Atkinson and Storey, it was usually based on the inferences that could be drawn from some very extensive but far from complete databases. Hence the many criticisms levelled at it, particularly as regards methodology (appropriateness of sampling techniques, variability of results depending on the point in the economic cycle, etc.).

2. A second category of research focused more on the *quality of employment* in small firms. For example, some authors continued to look at the nature of *industrial relations* in SMEs, trade union activity, the specific availability of employee training, pay and other benefits, and the application of legislation on employment and working hours. We need to remember that, during this period (1980s), majority politics aimed to free (or 'protect', according to Atkinson and Storey) small firms from trade union pressure and legislation on worker protection. The idea behind this was that more jobs would be created and unemployment levels would drop. This is why much research in the UK examined the influence of public policies on the changes affecting the structure, conditions and content of jobs.

3. A third focus of research was the spectacular increase in *self-employment*. In June 1979, there were 1.9 million people in the UK (7.5% of the working population) who could be deemed to be self-employed; by June 1990, this figure had already risen to 3.3 million, or 12.2% of the working population (Campbell and Daly, 1991).

4. In the late 1980s and early 1990s, research on employment in small firms began to be superseded. More and more researchers were examining the *interactions between small firms and local labour markets*. They looked at how small enterprises procured their workforce, how they were developing their management capacities, how they coped with the constraints of the labour market and, finally, how all of that might influence an enterprise's performance.

These are the four points we shall be examining mostly here, keeping as close as we can to Atkinson and Storey (1994).

2.2.1 The significance of small firms in creating new jobs

Most British research can be seen as an extension of Birch's work in the USA (1979) and the subsequent debate. We know that Birch always claimed that, during the 1970s, two thirds of the increase in job numbers in the USA could be attributed to small firms with fewer than 20 employees.

On the basis of the unprecedented boom in enterprise creation during the period 1986-1989, research in the UK also tried to demonstrate that small firms were a major source of job creation. For example, Gallagher and Steward (1986), Doyle and Gallagher (1987) and even Daly et al. (1991) claimed that very small enterprises (with fewer than ten employees) had created 500 000 jobs between 1987 and 1989. They added that this represented about half of net job growth over this period, even though enterprises of this size employed less than a fifth of the total labour force. Of course, they did not break this down by sector and their findings reflect a major concentration of small firms in the service

sector. They also noted that, in the case of employment in the manufacturing sector, small firms' contribution was probably less significant.

The first criticisms of Birch came from Armington and Odle (1982), who, using the same body of data, were unable to reproduce their predecessor's results. Their work was followed by many others, the best known being those of Storey and Johnson (1986), arguing that the overestimation of employment in SMEs had been caused by the poor quality of databases.

Johnson demonstrated on several occasions (1989, 1991) that the rise in the relative significance of SMEs in employment terms in the UK since the early 1970s was due more to the contraction of employment in large firms than to its growth in small ones: 'the increase in importance of small establishments may therefore reflect the decline in large firms, rather than the growth of small firms' (Atkinson and Storey, 1994, p. 6). Later, Brown et al. (1990) advanced the idea – taken up on numerous occasions since – that account had to be taken not only of gross job creation but also of new small enterprises going out of business and that the emphasis needed to be placed on whether or not the employment being created by small enterprises was durable.

Using some very different yet complementary lines of argument, all these authors agree that there is some doubt about the real contribution SMEs make to job creation. For most of them, SMEs' performance in terms of employment creation is dependent upon a small number of enterprises that experience rapid growth: these are Storey and Johnson's (1986) 'fast growers' or 'high-flying firms', which, although in the minority, have a considerable impact on results. This conclusion is now so widely accepted that, having been the champions of an overly generalising approach, Gallagher and Miller (1991) have been won round. In a comparative study of Scotland and South-East England, they were, for example, able to establish that the enterprises they described as 'flyers' represented 18% of their sample but accounted for 92% of jobs created. In their turn, Storey, Keasey et al. (1987) estimated that, for every 100 enterprises created in the early 1980s, by the end of the decade a quarter of them accounted for 50% of jobs created.

2.2.2 The controversial effects of government policies on employment growth in SMEs

These results are used by some researchers to feed the debate on policies concerning SMEs. Commenting on the Thatcherite policies of the 1980s, which gave indiscriminate support to small firms (reducing social security contributions, administrative constraints or trade union pressure in order to create an 'enterprise culture'), they show that these policies produced a very unequal development of employment among small enterprises. Some benefited, others did not. Furthermore, as Karlsson et al. (1993, pp. 7-8) incontestably argue: although the 'enterprise culture' supported by Mrs Thatcher in the UK 'was accompanied by a substantial increase in the total number of registrations of new enterprises (of the order of 30% between 1980 and 1990), similar growth also occurred in countries that did not follow the same vigorous policy (of removing State interference) [...] which would imply that policy incitements are not the only cause of the phenomenon [...] or that contradictory policies can lead to the same result'.

2.2.3 Research on the quality of employment in small firms

As we shall see later (Part 4), British researchers took an earlier and greater interest than their European colleagues in job quality and working conditions in SMEs. Like Brown et al. in the USA (1990), and using a number of objective indicators, they mostly focused on questioning the idyllic picture once depicted by the Bolton Committee ('in many respects the small firm provides a better environment for the employee than is possible in most large firms', 1971). Scott, Roberts and Holroyd (1989) argue, for example, that workers in small firms have terms and conditions of employment that are generally less favourable than those of workers in large enter-

prises, and it is now accepted that, although their level of job satisfaction might be higher, they have lower pay and earnings, less job security, less extensive trade union protection, more difficulty in accessing training and longer working hours.

Drawing on a longitudinal study of a sample of small and medium-sized enterprises, North, Smallbone and Leigh (1994) develop another argument: contrary to what might be expected, the SMEs included in their large sample did not make more use of a non-core workforce (part-timers, temporary contracts or homeworking) during the 1980s. In all these aspects, the typical practices of the sector were maintained. Here, too, the authors claim that changes in the structure and quality of employment in SMEs were concentrated in a small number of enterprises.

Let us leave aside the research on the spectacular success of self-employment, which was particularly prominent in the UK. We shall be covering this in Part 4 (see Section 4.5). For the moment, we shall focus on two other strong areas of British research: a study of the interactions between SMEs and the labour market and the even more original work on the relationship between small firms' strategic behaviour on the products market and their employment practices.

2.2.4 Interactions between the labour market and small firms

It is only very recently that British research has begun to take an interest in the complex relations between small firms and the labour market. In doing so, it has tried to solve three types of problem: Firstly, what specific contribution do SMEs make to the functioning of the labour market? Secondly and conversely, how does the labour market respond to SMEs' needs? And thirdly, what role do local labour markets play in SMEs' employment management?

❏ The first two questions have been addressed, in particular, by Atkinson and Meager (1994). In general terms, these authors note that small firms' relationship with the external labour market is more discontinuous, more irregular, less predictable and less open to systemisation than large enterprises' relationship with it.

The main results they obtain cast doubt on the received notion whereby SMEs usually have difficulty in recruiting workers. In fact, according to these authors, not all SMEs experience this problem, which depends upon the sector (whether or not a specialist labour market is involved), the skills required and, most importantly, the size of the enterprise. It is in fact when they are growing that small firms have recruitment problems. Their relations with the labour market become more frequent and more difficult. They have to enter into competition and organise their internal market. Also, the more recruitment problems a firm has had, the more it will tend to use formal methods of selecting new employees ('the more a business has experienced recruitment difficulties, the less likely it is to stick with word of mouth and other informal methods, and the more likely to supplement them, or indeed replace them, with more formal ones' (p. 72)). Conversely, it is easier for VSEs (enterprises with fewer than ten employees) to draw on available labour within the extended family or neighbourhood, without using overly sophisticated methods of communication and selection. This is why they complain less than enterprises with more than ten employees about the shortage of formal skills and qualifications, with the exception, of course, of VSEs in the intellectual services sector or areas requiring state-of-the-art technical skills.

Another finding: difficulties in finding what they need on the labour market are probably more common in fast-growing small firms than in typical small firms, and also more common in firms run by managers than in those run by owner-managers, who are strongly attached to their autonomy and power of control. The latter are still in the majority (65% owner-managers in Atkinson and Meager's surveys).

❏ Furthermore, British research emphasises the importance of local labour markets, distinguishing, in particular, the urban, semi-urban and rural environments (North,

Smallbone and Leigh, 1994). However, the approach, like that of Scandinavian researchers, seems to be more 'regional' than 'local' (Johannison, 1993; Davidsson, Lindmark et al., 1993) and, in this respect, differs considerably from the analyses conducted in countries such as France and Italy.

2.2.5 Competitive strategies and employment practices

Finally, we cannot complete this rapid sketch of British research on SMEs without mentioning the particular importance of the work conducted within the 'small business' sector itself. Drawing on longitudinal empirical surveys, which sometimes combine quantitative and qualitative methods, this concerns, in particular, the relations between small firms' market strategies and their employment practices (Reid et al., 1993; Reid, 1993). Indeed, we should not forget that analysis of the structure and dynamics of an industry is a vital part of any analysis of enterprises' strategic practices. Similarly, we need to remember that there are differences in economic viability within a given sector (measured by performance gaps in relation to the sectoral average), which are often greater than intersectoral differences. One might also hypothesise that differences in the employment practices of SMEs in the same sector can largely be explained by the differing strategic choices made by competitors (see Part 4).

We shall discuss research on the subject of vocational training in SMEs later.

2.2.6 Reforms of the education and vocational training system[14]

As regards education and vocational training, no European country has experienced as great an upheaval as the UK over recent years. Over the past 20 years, a whole series of reforms have come one after the other, sometimes in such rapid succession that some critics have seen it as a symptom of a very short-term policy and a lack of institutionalisation[15]. This is not the place to describe the various phases and the numerous programmes that have marked the period. They are, in any event, regularly described, defined and discussed in textbooks on the subject (Creagh, 1999), because changes in the British VET system have in many ways served, if not as a model to follow, at least as an indispensable reference for all the EU Member States.

'The levy arrangements of the 1964 Act were unpopular with small firms and their opposition to the measure, voiced to a large extent through the Bolton Committee of Inquiry into Small Firms in 1971, helped to modify the arrangements to the levy exemption system. The Industrial Training Boards were also felt by some to be organised by the big firms for the big firms; they were criticised as fostering expensive off-the-job training and not appreciating the merits of more informal on-the-job methods characteristic of smaller firms' (Vickerstaff, 1992, p. 9).

Instead, we shall be looking at research that has emphasised SMEs' role in the reforms, raising two complementary questions: what are the merits of the new programmes that have been adopted as regards SMEs? How have they been analysed and evaluated by researchers? The first question could be divided into two and would strictly speaking have two points of entry, depending on 'whether SMEs are [considered as] 'customers' or 'providers' in the training market place' (Hyland and Matlay, 1997, p. 131). In other words, we have two subquestions: *firstly*, how have the TECs [Training Enterprise Councils] and LECs [Local Enterprise Companies] (see Box 2.2) met SMEs' train-

[14] This part of the report owes much to M. Creagh, Lecturer HRM/Enterprise Groups, of the Cranfield School of Management, who selected the literature and drafted a summary (Creagh, 1999).

[15] 'Rapid and frequent policy change has itself been a policy, consistent with the emerging British Model of placing maximum emphasis on short-term appraisal of an institution's performance. With this has come a concomitant downgrading of the role of experience and of stable institutions which were likely to be seen as sources of rigidity and resistance to rapid change' (Crouch et al., 1999, p. 129).

Box 2.1: Industrial Training Boards and the SMEs

'*Industrial Training Boards* were national statutory organisations for training based on industries or commercial sectors. They were established under the 1964 Industrial Training Act and could levy firms in their sector and then use these funds to pay for training' (Vickerstaff, 1998).

Box 2.2: Development and delivery of Modern Apprenticeships [MAS]

'In the last thirty years various remedies for Britain's training problems have been tried. These vary from the Training Levy of the 1964 Act and the *Industrial Training Boards*, through Manpower Services Commission/ Training Agency sponsored schemes such as TOPs, YOP, YTS, YT, etc., to the current development of the Training and Enterprise Councils [TECs] (in England and Wales) and of the Local Enterprise Company [LECs] (in Scotland). TECs are to operate as local networks for gathering information on labour market needs, managing government training schemes and providing training and enterprise advice and support' (Vickerstaff, 1992, p. 1).

'As part of government's policy to recreate a market-led training system, the *TECs and LECs* were established during 1990-1991' (Parker and Vickerstaff, 1996, p. 251).

'*The T/LECs* were conceived as locally-based employer-led organisations [...]. They are organised as limited guarantee companies; the majority of their board members are business leaders and they are responsible for a sizeable range of government unemployment, training and enterprise schemes. [...] They are geographical rather than industry or sector-based' (Vickerstaff and Parker, 1995, p. 58).

'The *Youth Opportunities Scheme* [YOPS] was launched in 1978. This evolved into the *Youth Training Scheme* [YTS], which was launched in 1983 and was the heart of the government's training programme. It was a scheme for 16 and 17 year olds. It began as a one-year scheme but in 1985 it became a two-year scheme. In 1990 it became *Youth Training* [YT]' (Creagh, 1999, p. 4).

'*National Vocational Qualifications* [NVQs] are qualifications based on work experience whose purpose is to accredit skills deriving essentially from experience in the workplace. They are designed to be very flexible, without any compulsory programme or method of study. There is no fixed rule on length or place of training. These qualifications are subdivided into five levels, from basic level 1 to advanced level 5.'

Source: European Commission, Eurostat, Cedefop, 1997.

ing needs (this is the most common option, chosen, for example, by Vickerstaff and Parker, 1995; Parker and Vickerstaff, 1996; and, more recently, Vickerstaff again, 1998)? *Secondly*, what are SMEs' specific training needs and what role might they play in VET policies and strategies (this is the approach taken by Vickerstaff, 1992; Matlay, 1997; and Hyland and Matlay, 1997)? On closer inspection, these two methods of approach are not interchangeable for, whereas the first concentrates mainly on the appropriateness of public policies and their development, placing the emphasis on integrating young people and combating unemployment, the second gives preference to enterprise logics and SMEs' specific way of investing in human capital.

Originally, SMEs were certainly not a central focus of the policies defined by decision-makers. In general, it is undoubtedly easier to argue the structural lack of qualifications among the labour force, particularly interme-

diate qualifications[16], which is seen as the UK's main handicap in terms of economic competitiveness, together with the political will exhibited by the Conservative Government to do away with corporatist conceptions and trade union influence on bodies such as the Industrial Training Boards [ITBs], which was considered to be excessive. In the 1960s and 1970s, the ITBs were based on a tripartite approach ('government, employers and trade unions') and certainly, before being dismantled in the 1980s, they had some power of control over labour markets via apprenticeships, coordinating the training needs of the production apparatus (see Box 2.1).

Many of the programmes that have emerged since the late 1980s, however, particularly via the TECs and LECs, have placed the emphasis more explicitly on meeting SMEs' needs and dealing with the issues of local economic development[17]. In any event, it is these two aspects combined that are highlighted by Parker and Vickerstaff (1996), both by quoting a self-congratulatory official document: 'Employer involvement in education and training is being secured through TECs. We have now, for the first time, given leadership of training to top business people and other key local people and the power and resources to apply local solutions to local needs' (DES/DE/WO, 1991, paragraph 2.14), and by stating that 'TECs and LECs are relatively new mechanisms for trying to forge a policy alliance on training and enterprise issues in the micropolitical context of local business communities. The 'local' employer-led basis of TEC or LEC organisations has been seen by many as their major benefit over industry-based organisations such as the Industrial Training Boards [ITBs] in the 1960s and 1970s (the Industry Training Organisations [ITOs] as they have become)' (1996, p. 252).

[16] In 1988, for example, only 33% of British workers had a recognised qualification, as against 66% in Germany and a little over 50% in France (OECD, 1989).

[17] Meanwhile, during the 1980s, 'it has been acknowledged that small firms have a vital role to play in the wider attempt to regenerate the UK economy' (Parker and Vickerstaff, 1996, p. 252).

This is why, although most researchers acknowledge that it is too early to assess the long-term impact of the new structure of VET, a feature of their most recent work is to endeavour to forge an explicit link between vocational training and the SME issue.

So, what conclusions can we draw from the wealth of literature? For purposes of clarity, we must distinguish between research on *the integration of young people*[18] and research on *SMEs*. They do not necessarily represent two periods, since the various types of reforms very often overlap, but they are at the least, two different approaches, two registers of application, or rather, two lines of interpretation. The former focus more on the *processes of occupational integration*, while the latter are oriented more towards *SMEs' needs* or the need to make the new system more likely 'to reach the SME sector' (Parker and Vickerstaff, 1996, p. 255).

2.2.7 Occupational integration and SMEs

According to Lefresne (1999, p. 198), the first group of measures, comprising the YTS programme that later became YT, should clearly be interpreted as an application of 'the policies to increase the flexibility of the labour market' that were conducted during the 1980s. It is marked by 'massive, unprecedented State intervention in the field of vocational training'. In her thesis, offering a European comparison of occupational integration systems and public employment policies, she concludes, in particular, with regard to the UK:

- that the various programmes concerning the integration of young people have achieved 'varying levels of performance': in 1996, only half of the participants completed a training scheme, whilst a third obtained a vocational qualification (*Labour Market Trends*, December 1997). According to Lefresne, there are three reasons for these mediocre results: the lack of legiti-

[18] ... Leaving aside programmes concerning adult jobseekers.

macy of the system, which is based on the will of the Government but in which the other players (particularly trade union organisations) are little involved or excluded; the counterproductive effects of Workfare[19], which pushes young people into registering for training schemes without having thought through their plan for the future; and the perverse effects of the method of managing programmes run by the TECs, which favours short-term results ('Output-related funding')[20];

- young people's general disillusionment with apprenticeships: whereas the old YTS still had 400 000 participants in 1989 and saw its apogee in 1986-1987, with 60% of young people aged 16-17 finding a place on the labour market, YT had no more than 276 000 participants in January 1992 and 230 000 in January 1997.

  As regards the issue of SMEs, Vickerstaff adds with irony that 'YTS has been attractive to small firms but not always for training reasons' (1992, p. 9) and, a few years later, that 'the legacy of Youth Training [YT] has for many had the combined effect of undermining the image of 'training' for young people and of 'scheme' for employers' (Vickerstaff, 1998, p. 218). And many other authors attribute the main gaps in the programme to policy failings (Hodkinson et al., 1995, 1996; Hyland, 1994, 1996).

- It was mainly in the late 1980s and early 1990s that the subject of SMEs appeared more explicitly in the new structure of training – or at least, that is what the literature suggests – particularly via the TECs and LECs, real 'institutional pillars of reform' (Lefresne, 1999, p. 207) and points of convergence between employment and vocational-training policies. The same period saw a new phase of regulation, marked by a wish for decentralisation, devolving powers and responsibilities to local level as a way of combating 'a tendency for small business owners to be generally sceptical of the benefits of government involvement in industry' (Vickerstaff, 1992, p. 1). Hence, 'the government wants employers to take the lead in improving the quantity and quality of training and seeks to devolve responsibility for the delivery of government-funded training schemes and enterprise initiatives, as far as possible, to local areas' (idem).

  At the same time, a whole series of Government reports emphasise the central role of SMEs in economic competitiveness (DTI, 1994 and, in particular, 1996). This is all the more significant in that, in the UK as in many other countries, recent interest in SMEs has focused mainly on their economic role and much less on their methods of human resources management or their training practices (Pettigrew et al., 1990; Hendry et al., 1991, p. 2).

2.2.8 The limitations of a market-based approach

In their empirical studies and critical analyses, which essential elements do researchers point out as regards the TECs and LECs?

- It was Vickerstaff (1992) who first noted, on the basis of some research conducted in Kent, that, despite the TECs, the vast majority of SMEs were still not aware of the programmes available to them. Also, they still thought of training solely in terms of external class-based tuition and not as a much broader activity. Finally, the author raises a formidable question about the use of skills in SMEs: 'whether many of the skills shortages reported by employers [in the SMEs] are amenable to training solu-

[19] That is, a mechanism whereby the granting of unemployment benefits is dependent upon participation – at whatever cost – in employment-policy programmes.

[20] 'The criteria of efficiency used are constructed on the basis of the number of candidates undergoing training, the number of NVQs awarded for every hundred trainees completing their course and the cost of training. This means that no account is taken of the nature of the training provided, or its level, or the type of training body involved.' This means that training tends to be of a low level, accentuating the segmentation of the labour market, and with marked differences from one TEC to another.

Box 2.3: ITOs and TECs: a disappointment for the smallest enterprises?

Of the many providers of training for SMEs, the ITOs and TECs have played a particular role over the past few years. The ITOs are agencies based on a sectoral approach. They are the successors of the Industrial Training Boards. Like the TECs, they subcontract training provision to a very large number of providers in the private and public sectors, which might be prejudicial to any real awareness of SMEs' training needs. According to a survey conducted by Curran et al. (1996), only a quarter off SMEs had made use of the ITOs' and TECs' training services and the amount of contact was clearly correlated to size of enterprise, with the smallest being least likely to use these services. The reasons the authors give for this discrepancy, together with SEs' distrust of external training, are cost and their inability to define their training needs or decide upon training strategies. As regards ITOs' and TECs' programmes, the authors point out that they have inadequate resources to reach a large number of enterprises and overcome the resistances of SME managers.

tions or whether in fact the problems lie elsewhere, namely in inflated or discriminatory selection criteria' (p. 8).

Vickerstaff and Parker (1995), looking at the 104 TECs and LECs then in existence, offered an initial assessment of their ability to meet the specific needs of SMEs. They found five major obstacles 'which could affect success in 'reaching SMEs", which is the main challenge for 40% of them: managers' traditional scepticism about government initiatives; the lack of human and financial resources; the varied needs of small firms; the isolation of SMEs (not belonging to business networks); and a system of aid for enterprises that is too fragmented and not very transparent.

- The same authors return to the subject a year later (Parker and Vickerstaff, 1996), listing and scientifically discussing one by one all the criticisms levelled against TECs and LECs during their first five years of existence (1990-1995): 'unelected and unaccountable' local bodies, overly dependent upon the government, without any leadership on the part of employers, ''dumping ground' for the government's unemployment policies', inefficient because they are too small or, on the contrary, too large and therefore too distant from the local communities they are supposed to serve, etc. It is organisational mechanisms, management methods and TECs' 'closeness to the customer' – that is, SMEs – that are particularly questioned.

These two authors, together with others (CLES, 1992; Vaughan, 1993; Abbott, 1994), note that small enterprises are virtually always under-represented[21] on the Administrative Boards of TECs and that industry tends to prevail over services. Among the factors favouring TECs' adjustment to SMEs' needs, they paradoxically note the significance of the networks they have been able to establish with ITOs [Industrial Training Organisations], which are sectoral structures that were reformed after the disappearance of the old ITBs [Industrial Training Boards], but also the extreme diversity of the historical and territorial conditions influencing their operation.

So, there are no end of diagnoses, all of which are also possible avenues of research for those interested in SMEs – right through to works on the difficulty of adjusting NVQs to small firms' needs (see Box 2.2). In our opinion, they are very important even if, at the moment, most of them end in failure (IES, 1995; Robinson, 1996). Some authors concentrate

[21] Vickerstaff (1992) notes that 'two-thirds of the Board must be private sector employers who are chairmen (sic!), chief executives or the top operational managers at local level of major companies' (Training Commission, 1989, p. 6).

on how their distribution in the SME world might be improved (Hyland and Matlay, 1997). Others condemn the rigidity of the system: 'the main problems are the high cost of training, the inflexibility of the NCVQ framework, and a mismatch between industrial training needs and officially endorsed VET policy' (Hodkinson et al., 1996). Finally, for Hales et al. (1996, p. 2), there is more chance of NVQs being adopted if enterprises already have a 'training culture' and he feels that NVQs' place in the reform should be reconsidered.

Despite the considerable national effort already invested in it, we can see, from systematic analysis, that the reform of the education and vocational training system in the UK still has a long way to go. In any event, it has still not managed to induce SMEs to commit themselves, clearly and definitively, to the path of training (see Box 2.3), and many researchers are close to feeling that a return to the 'levy system' or occupational regulations might ease the dysfunction of an approach that is totally market-oriented. But, of course, SMEs are not always victims: 'Is training on the small business owner/manager's agenda?' wonders Matlay (1997).

2.3 Italy[22]: the basic model of the district and vocational training as 'productive socialisation'

Without wishing to ignore the macrostatistical data, produced mainly by ISTAT[23], research on the specific issue of small enterprises in southern Italy (De Vivo, 1997) or systematic comparisons between large and small enterprises (Contino and Revelli, 1992), which are far less abundant in Italy than they are elsewhere, we have chosen to focus mainly on SMEs organised at district level, not only because their stylised nature (though still open to many interpretations) meets our purpose, but mostly because of the unique nature of their contribution to scientific analysis of SMEs, the labour market and training.

About thirty years ago (in the 1970s), a model of economic development that formed the basis for all later research on SMEs in Italy emerged in a number of Italian regions (Tuscany, Emilia Romagna and the Marches in central Italy; the Veneto in the north-east, etc.). During a period when the Fordist model reigned supreme in large industries, we find some effective forms of production organisation that owe nothing to this dominant model, nor to that of the traditional small enterprise, often perceived as a hangover from the past, nor even to the subcontracting model, whereby SMEs are constantly subjugated to large enterprises.

2.3.1 The SME theory is indissociable from the model of the district

The main figure of this alternative model is illustrated by the spread and concentration of a very dense fabric of SMEs in and around medium-sized towns away from major industrial centres, specialising in particular fields (textiles, ceramics, engineering, leather and footwear, etc.) and forming real production systems whose performance astonishes every commentator. This generic figure is defined variously in the literature, depending on the author, as the archetype of 'extensive industrialisation' or 'peripheral industrialisation', 'local production systems' or 'area systems' or 'SME systems' (Garofoli, 1983a, b), but it is the concept of 'industrial districts' that has been most widely adopted and has served as a common 'clue' and point of reference for most of the research conducted in Italy.

It was during the late 1970s and early 1980s that a series of authors from various disciplines, who might be seen as the founding fathers, established the main elements of the theoretical model. These included the economists Becattini (1975, 1978, 1979, 1987), Brusco (1982, 1986), Fuà (1983) and Garofoli (1981, 1983a, b), and the sociologists Bagnasco (1977, 1985, 1988), Trigilia (1986) and Paci

[22] This section owes much to the expertise of B. Courault of the Centre d'Etudes de l'Emploi and his 'selective, analytical bibliography' on *employment and vocational training in SMEs in Italy*, CEE, July 1999, 58 pp.

[23] *Istituto Nazionale di Statistica* [National Statistics Institute], via Cesare Balbo 16, Rome.

(1979, 1980). An initial ILO publication, coordinated by Pyke et al. (1990), later tried to give an account of this first wave of research.

2.3.2 The social structuring of markets as the basis of the model and its reproduction

To a greater or lesser degree, all these trailblazing researchers were inspired by the thinking of A. Marshall, particularly his theory of 'single markets' (1919), and believed that economic functioning and success do not simply obey the laws of competition but are also largely explained by forms of cooperation and solidarity set up at territorial level by SME managers. These substitute 'area effects' for traditional economies of scale. This means it is precisely these social and political conditions, which rest upon a whole collection of unwritten, shared standards, values and rules, which have to be identified to explain the functioning and overall performance of industrial districts.

We shall pass over the twin origin and reasons for the expansion of industrial districts, which undoubtedly lie, on the one hand, in some very ancient roots, going back to the first industry, that explain why the particular industrial economy of the district developed mainly in regions with a strong commercial, urban and craft industry tradition – itself strongly interlinked with family structures of agricultural origin – and, on the other hand, in the 'production decentralisation' movement led by Italian employers since the 1970s to counter the many crises facing the Taylorist organisation of labour. Since this latter period, which has served to accelerate the process, industrialists have been externalising an increasing proportion of their output, drawing on specialists and technicians in their own workshops, whom they have been encouraging to set up on their own account[24].

The former course of action makes it possible to account both for the social conditions of the collective mobilisation of players and skills, via the 'qualities of craft industry entrepreneurs', and for the extreme flexibility of the labour force in industrial districts. The latter, which might be seen as an economic redeployment operation, similarly liberates the entrepreneurial abilities of former skilled employees, who depend upon the local community in sharing out the various phases of production. What emerges is an interpretation of the industrial district as comprising two levels 'in osmosis' (Becattini): firstly, it is an economic network formed by relations among enterprises belonging to the same industry but specialising in complementary phases of production. At the same time, and perhaps more importantly, it is a social network of workers who are capable of shifting their position on the labour market very quickly and frequently, of setting themselves up in business and employing other workers, in short, of becoming heads of enterprises and, from one day to the next, becoming employees again and blending into the collective context of the market of skills that small enterprises draw on or reject, according to a constant flow within the region (Solinas, 1982).

This latter form is essential to an understanding of the SME system, since it shows that, in Italy, the economic regulation of localised systems is inseparable from the functioning of the labour and employment market, just as it is inseparable from forms of local social and political structuring (as pointed out on many occasions by Trigilia, 1986, 1988). Hence, although they might exist, issues concerning vocational training in SMEs tend not to be apparent, since, in the context of industrial districts, the occupational mobility (between enterprises or between different statuses) and job flows that are a part of the

[24] This historic shift did not herald the death of large industry, as Piore and Sabel (1984) had a little too naively predicted. Indeed, whilst maintaining its economic importance, 'it is not as powerful as it was in structuring society and determines the lives and futures of a smaller number of people' (Benko et al., 1998). At the same time, however, it needs a stable organisational base, which seems to be offered by the districts. "Have it done' became the password of large enterprises and replaced the old rule that said it was more economical for the phases and intermediate operations involved in manufacturing an end product to be conducted in-house' (Courault, 1999).

enterprise dynamic serve as a means of providing training and capitalising upon the skills of the labour force at local level (Solinas, 1982, 1996). In this respect, although the industrial district is a specific model of SME development[25], it is also a kind of total production combination whose coherence can be understood only if, in the same analysis, we combine elements that would normally be separate in other countries, such as SMEs, the regions, widespread industrialisation, local development, employment and training.

2.3.3 The 'three waves' of research on SMEs

Having established this theoretical base, we can, with Courault (1999), distinguish three waves of research that have dominated the Italian literature on SMEs over the past few decades:

- initially, the period of theoretical development that we have just described: this began in the late 1970s and continued throughout the 1980s (see, in particular, the works of Brusco and Bagnasco);

- then the 1980s saw the parallel emergence of a sort of second generation of researchers who produced a multitude of local case studies and served to test out the consistence of the general model. Thus, we have the works of the 'Florentine school', following in the footsteps of Becattini (Garofoli, Sforzi, Dei Ottati, Bellandi, etc.), the 'Modena school', following in Brusco's footsteps (Russo, Solinas), and the 'Turin school', comprising Bagnasco, Trigilia and all the rest (Fuà, Capecchi, Paci, etc.), not forgetting their many successors, or Piore and Sabel's work (1984), which brought the model of 'flexible specialisation' onto the international level;

- finally, since the early 1990s, we have been seeing the development of new works that are reinterpretations, rereadings and reassessments, either of the potential developments of the canonic model of the district in the face of today's major macroeconomic transformations – and particularly the processes of globalisation and deindustrialisation – or in the light of the district's internal capacity for regulation.

Three likely ways forward are usually mentioned: permanence of the model, despite changing forms (Varaldo and Ferrucci, 1997); the decline or even disappearance of an exceptional model that has now become obsolete (Bologna and Fumagalli, 1997); and, somewhere between the two, gradual integration of the model in an economy comprising networks that spread beyond the local area. The latter option is taken up, in particular, by Rullani and Romano (1998), who pose the question of the internationalisation of districts, applying the post-Fordist theory not only to large enterprises (like P. Veltz in France) but also to SMEs. In plain language, these authors believe the districts will open their doors to the outside world and that this process will be marked by, for example, the delocalisation of production, investment in distribution outside the region, and even, in some cases, takeovers by multinationals of all or some of a district's enterprises. These changes would, in turn, imply new forms of regulation in the internal functioning of districts, which it will be important to study (particularly hierarchisation, the emergence of leading firms, etc.).

On this question of current alternatives to the district, one concept seems to be more or less generally accepted: both the permanence and the transformation of the original paradigm of the district. Whereas most of the original elements will remain, they will be subject to constant reorganisation. For some authors, however, it is social values that are shifting the least in the reorganisation of the districts. Indeed, these values are linked to a set of 'basic institutions' that are capable of 'enduring a whole range of historical circumstances: the family, religious or political communities, school, informal groups' (G. Becattini, in Belfanti and Maccabelli, 1997).

At the same time, a number of research works are looking at individual issues in depth: those

[25] B. Courault (1999) notes that Italians speak interchangeably of the 'district model' or 'district-organised' SMEs.

of Bologna and Fumagalli (1997), for example, on the unique position of craft industry in entrepreneurial dynamics and the conditions for reproducing the model; or Paci (1999), taking another look at the sources of 'interpersonal trust' in localised SME systems; and not forgetting Capecchi's original contributions on training (1995), a domain that is still the poor relative in research on SMEs in Italy, outside the schema of the 'production socialisation' essentially linked to the processes of mobility, as we mentioned earlier. Demonstrating the effects of vocational training on the entrepreneurial dynamic and local development, this author in particular demystifies the notion of a chronic mismatching of vocational training with SMEs' needs[26]. Moreover, he emphasises the return effects of flexible specialisation on business apprenticeship.

At the end of this overview of the literature, we can conclude that Italian researchers' interest in SMEs has never waned since the late 1970s. Whatever their discipline (industrial or labour economics, history, sociology, etc.), it is continuity that predominates, based on an especially robust theoretical model that has been persistently reinterpreted or reanalysed, particularly in the light of a plethora of regional or local commentaries. Here, we are touching on the specific and unique nature of the Italian model of the SME.

2.3.4 Think industrial development before training policies

Yet, it would be wrong to believe that it has always been so. Capecchi (1995), whose aim was to rewrite the history of Italian sociology in the light of the process of industrial development and training, notes that she was initially influenced institutionally by the American research of the 1960s, which argued that there could be no industrialisation process without concentration and large enterprises. Whilst the model of the large enterprise and mass industrialisation predominated, a little as it did in the more resolutely Fordist France, the issue of vocational training remained secondary: '[indeed] from the viewpoint of the large enterprise, how is the relationship between industrial development and training policies interpreted? The answer is very simple: a sufficient condition for industrial development is the existence of a small number of specialists (highly specialised technical personnel and engineers) capable of coordinating the huge amount of work entrusted to workers solely responsible for performing tasks of execution' (Capecchi, 1995, p. 358).

In other ways, however, the approach adopted by the industrial districts has also long made it impossible to think of vocational training as a specific, priority issue or as an independent subject of research. Why? The answer is tackled in a number of works, such as those of Calza Bini (1995).

2.3.5 'Training' or the 'socialisation of knowledge'?

In integrating the education/employment relationship in research on and analyses of the labour market in Italy, Calza Bini acknowledges the thematic significance of territorial diversity and production decentralisation in research into the economics and sociology of work in Italy. However, he notes that 'the education/employment relationship is apparently not taken into consideration in the various models of development of the 'Three Italies' and is particularly underestimated in a number of analyses of the success of the 'Third Italy' and the failure of the Mezzogiorno' (1995, p. 379). In other words – and this comment could also be applied to French research on 'localised industrial systems' or 'SME systems' – whilst 'resources in terms of human capital' are seen as the basis for the social construction of the models, analysis in terms of jobs and training has long been neglected, with the emphasis being placed on analysis of production organisation and enterprise models (particularly of the small enterprise).

[26] On the basis of a study he conducted of Emilia Romagna in 1983, the author notes that 'the regions that have experienced very high levels of industrial development, which have been all the more astonishing in that they were unexpected, have succeeded in absorbing everyone leaving school with a certificate of secondary education, and also of proving that graduates can move out of paid employment and set up their own businesses' (1995, p. 360).

In the ideal/typical case of the industrial districts, we can see that the education/employment relationship in Italy has been neither a social issue nor a subject of specific research. Because the model implies evidence of socialisation and the acquisition of skills, both at work and in day-to-day relationships: 'in this situation, education for work takes place much more via the social environment of the community or the family environment, where the culture of experience and memory of know-how are shared, than via educational structures' (Calza Bini, 1995, p. 380). It is the deep sense of *professionalism à l'italienne*, that is, a form of employability that rests less on the institutional validation of skills (as in Germany or France) than on social recognition of the experiences accumulated by individuals, workers and small employers[27].

2.3.6 Regional differences in unemployment levels and the new challenge of the integration of young people

It is, of course, rising unemployment, particularly among young people[28], and growing awareness of regional disparities that are, somewhat belatedly, going to place the issue of the training/employment relationship at the centre of social concerns and scientific research. These are a result both of the crisis in the model of major Fordist concentrations in northern Italy and the opening up of regional economies (and particularly district economies). Going beyond a strictly quantitative reading of the problems on the labour market, a whole series of empirical works attempt to analyse not only the socio-territorial and family factors in the phenomenon of underemployment, but also the effects in terms of 'de-socialisation', leading to 'de-skilling' and the disappearance of traditional methods of apprenticeship (Pugliese and Altieri, 1990; Mingione, 1992; Calza Bini, Mingione and Pugliese, 1993; Pugliese, 1993). They distinguish, for example, the young people of the Mezzogiorno who have no access to employment, unless they can make use of networks of social relations or because of the lack of industrial production structures, from the overqualified young people in urban centres and northern Italy, whose new expectations are out of line with the supply of work.

So, a whole range of social mechanisms are coming into question, with the relationship between training and forms of occupational socialisation playing a central role. Hence, running parallel to these new advances in research, the social partners' recent commitment both to combating the extreme fragmentation of the vocational training system and to reforming the labour market, particularly via the introduction of special provisions for the integration of young people (greater flexibility of employment regulations and the adoption, in 1983, of the '*contratto di formazione lavoro*' [CFL – work training contract]). In this new shift, it is paradoxically (given their position in society) not SMEs that are the privileged beneficiaries of new policies (as is the case in, for example, the UK), but rather population groups with integration problems, that is, the unemployed or even 'young people, women and people from southern Italy' (Jobert, 1995, p. 275). However, we must not forget that, in Italy, the regional bases of vocational training are not being questioned and that, of the 500 000 or so young people who were employed under work training contracts every year in the late 1980s, nearly half were taken on as trainees in the industrial sector and 70% in small enterprises with fewer than 50 employees (Bulgrelli and Giovine, 1988).

2.4 Germany: the historic role of the '*Mittelstand*'[29] in regulation of the labour market and the training/employment relationship

If an SME theory (German: KMU = *kleine und mittlere Unternehmen*) is possible out-

[27] Most of the research stresses this weakness of institutional standards in the Italian model of vocational training (Campinos-Dubernet and Grando, 1988; Lefresne, 1999, pp. 239-256).

[28] In 1995, 74% of unemployed people in Italy were under the age of 30.

[29] References to the German body of scientific research were gathered by J. Reindl and M. Fecht (1999) and processed by H. Reineke, to whom we should like to express our thanks.

side Italy, it is in Germany that we need to look for it. We are unlikely to find one anywhere else, and certainly not in France, as we saw earlier. It derives from a very old conception of the SME as the basis of 'the social order'.

2.4.1 SMEs: an economic reality that is inseparable from social history

The term '*soziale Ordnung*' (the social order) used by many authors is particularly strong and needs to be retained, because it largely explains the historical importance of the '*Mittelstand*' (roughly: middle stratum[30]): with its origins in the pressure groups that had a decisive impact on public life during the 1930s and 1940s (Scheuch, 1976), and prolonged beyond 1945 by the creation of many institutes of research on small and medium-sized enterprises that have survived to this day, this tradition makes SMEs – and particularly medium-sized enterprises – a pillar of the macropolitical regulation that functions alongside or above market forces. Just as much as being an economic reality, the SMEs – or rather, the *Mittelstand* that is its highest expression – is an (internal and external) place of social integration, for which F. Marbach produced a theory long ago (1942). Contrary to Schumpeter's and Marx' predictions of the late nineteenth century that SMEs would purely and simply vanish, wiped out by large enterprises and monopolies, Marbach suggested that the development of society and the social balance are guaranteed precisely by these intermediate bodies (the '*Mittellagen*'; intermediate strata). The SME is, of course, a place of work (*Arbeitsplatz*), but it is also a privileged place of socialisation (Scheuch, 1976, p. 318).

Not one significant German publication on SMEs mentions this earlier work. Not one provides an overview of the ebb and flow of work dedicated to them. Less empirical than that of British researchers, the point of view taken by German researchers is virtually always connected with social history: up until the 1980s, they tell us, it was the model of the large enterprise that predominated in the works of economists and industrial sociologists still inspired by Marx' and Schumpeter's prophecies about the disappearance of small establishments. During this period, SMEs were seen as a residual and retrograde form of economic development (Scheuch, 1976); since the middle of the last decade, however, difficulties in getting out of economic crisis and the changes that are affecting production systems (particularly the growth of the tertiary sector) have turned SMEs into 'bearers of hope' ('*Hoffnungsträger*') or even the 'main driving force behind structural change' ('*Träger des Strukturwandels*') (Büchter, 1998). As well as examining SMEs' specific features, research simultaneously or successively focused on their economic prosperity and their ability to solve the problems of underemployment. In general, this second period of euphoria and idealisation is denounced in the most recent German literature, being replaced by a more moderate view of the real contribution SMEs are making to modern economies (Hilbert and Sperling, 1993).

2.4.2 ...but a neglected subject of research prior to the 1980s

Despite their deep roots in collective representations, or perhaps even because of these ideological origins, SMEs have not captured the attention of researchers in the social and economic sciences in Germany any more than they have in any other country, with the exception, perhaps, of the craft industry sector. More often than not, they have remained in the margins of the dominant model of the large rational organisation that was at the time considered to be the only path (*Schrittmacher*) to technical, economic and social modernisation. They were perceived as the outmoded production structures of a past era ('*Residuen einer vergangenen Epoche*').

This is why, during this period, when any research was done on SMEs, it could not help being somewhat mean-minded and condescending about their shortcomings. At least, that is the approach reported by Scheuch (1976), who goes on to denounce the '*Massengesellschaft*' (mass society) and to defend and celebrate SMEs. He tries, for example, to

[30] Self-employed and employers of SMEs

demonstrate that, compared with large enterprises, relative pay in small establishments is not much lower (but is he talking about real small enterprises or 'large SMEs' in the German style?), that the number of skilled workers (*Facharbeiter*) is higher and that SMEs are more innovative. In an astonishingly modern text, he also notes that the 'mixture of enterprises of different sizes in the economic structure is surprisingly consistent' ('*die Art der Mischung von Betriebsgrößen erweist sich als erstaunlich konstant*', p. 308), that in many areas there is no direct competition between SMEs and large enterprises, that the flexibility of small production lines makes up for any disadvantages in terms of costs, that the expected standardisation of tastes has not happened, and that what is actually happening is a 'parallel development of mass demand for a number of goods combined with growing differentiation' ('*eine parallele Entwicklung zwischen Massennachfrage für eine Anzahl Güterkategorien kombiniert mit zunehmender Differenzierung*'; Scheuch, 1976, p. 314).

2.4.3 From vindication to the identification and analysis of unique features

This way of thinking re-emerged in the mid 1980s, which saw a real rehabilitation of SMEs in the world of research. The many reasons for this rediscovery have been abundantly described and are in the main associated with changes in market conditions, the saturation of mass demand and 'the shift from sellers' markets to buyers' markets' ('*die Umwandlung von Verkäufer- in Käufermärkte*') (Hilbert and Sperling, 1993, p. 19), and a growing need for flexibility and adaptability, which gives SMEs a competitive advantage.

The 'new prosperity of SMEs' is, then, a reflection of their unique potential, which Leicht (1995) – like Sombart before him – explains in terms of their role as '*Marktspezialisten*' and '*Marktlokalisten*' (market specialists and market localists), enabling them to occupy a place in the market that large enterprises find difficult to access or of little interest. This is why small firms are particularly successful in craft or personal services and manufacturing, which require a high degree of specialisation, a high level of professionalism and an ability to solve clients' individual problems because of strong decentralisation. This is the *segmentationist* theory, to which we shall return later and which simultaneously explains the re-emergence of SMEs and the maintenance, or even strengthening, of structures devoted to mass production.

However, in the mid 1980s, under the influence and convergence of Piore and Sabel's theories (1984) on the one hand, and Kern and Schumann's (1984) on the other, German researchers, like their counterparts in most European countries, were pushed into adopting a more *generalist* position, linking the new rise of SMEs with the worldwide breakdown of the Fordist model and the virtually universal re-emergence of small production lines, and announcing the emergence of a production system that does away with Taylorist labour division.

Whatever the case, there is certainly a link between the paradigmatic shift in forms of production organisation and rationalisation and the renewed significance of small and medium-sized production units (Manz, 1993), and this turning point is a period of euphoria with regard to SMEs, mainly because of the employment potential they are assumed to have. They become paragons of virtue: tendentially closer to the market; more client-oriented; they are assumed to have considerable needs in terms of skills; they might promote a renaissance of continuing training or a reactivation of regional and local development policies; they might play a role in regenerating structurally disadvantaged regions; and might even be able to support a new conception of investment in human capital (Büchter, 1998). In brief, to use the title of a publication by K. Aiginger and G. Tichy (1984) 'the greatness of small firms ' ('*die Größe der Kleinen*') again

On the scientific level, researchers are trying to get away from the discourse of 'failure' and develop studies that are more clearly centred

on the *unique characteristics* of SMEs. Analyses, of course, focus on the microeconomic dimension. In addition and more importantly, however, we see a new interest in their role as social integrators. Although they apply different management criteria (Pfohl, Kellerwessel, 1990), they also represent 'another social world' (Kotthoff and Reindl, 1990) of which the categories of managerial theory (mostly drawn from the large enterprise model) fail to take sufficient account (Kotthoff, 1993). This same author also wonders: are SMEs really organisations? ('*sind Klein- und Mittelbetriebe überhaupt Organisationen*?') (Kotthoff, 1993, p. 234). Not necessarily.

To begin with, contrary to the functioning of large organisations, SEs' functioning depends mainly upon the personality of the owner/manager of which it is 'a reflection of his person' ('*das Spiegelbild seiner Person*', according to Gantzel, quoted in Kotthoff, 1993, p. 235), hence a marked bent in German research for sociological typologies of SME managers. Also, they are more permeable to the environment and enjoy no great political or public power. Their existence is precarious and their life span relatively short. This means that, if SMEs are acting in a situation in which their market power is limited, they cannot organise the market in their favour, as the big monopolies can. They therefore need to *adapt* rather than *plan*: 'Small entrepreneurs' limited ability to influence and shape the market means they have to use approaches that are very different from strategic planning' ('*die geringe Fähigkeit der kleinen Unternehmer, den Markt nach ihrem Bilde zu beeinflussen und zu formen, zwingt sie zu einer vom strategischen Planen sehr verschiedenen Verhaltensdisposition…*') (Kotthoff, 1993, p. 238). Their unique strength lies in pragmatism, experimentation, improvisation, extremely rapid reaction to change, instead and in place of the 'intellectualising', analytical and abstract procedures that are common in LEs.

2.4.4 From euphoria to realism

The turn of the 1980s, therefore, saw a complete reversal of approach. Faced with the '*reflexive Modernisierung*' (reflexive modernisation; Manz, 1993), which imposes a slimming programme on large enterprises incapable of reacting quickly enough to new environmental conditions, the 'backwardness of SMEs' becomes an advantage, particularly because of the new importance of socio-organisational innovation. So, can SMEs be seen as a new 'path of industrial modernisation', a possible point of passage towards post-Fordism (Dohse, Jürgens, Malsch, 1985)?

In the early 1990s, however, this positive image of SMEs begins to crack and look more like a 'fantasy' (a '*Wunsch-Konzept*', according to Hilbert and Sperling, 1993, p. 192) than a genuine radical break with the dominant processes of industrialisation. This is what authors like, for example, Manz (1993) try to demonstrate, drawing on empirical research on the processes of technical and organisational innovation in SMEs in the machine tools sector. According to Manz, there is undoubtedly a very close link between the renaissance of SMEs as bearers of hope and the profound crisis in the Taylorist model of rationalisation in large organisations. This notwithstanding, however, SMEs are not mastering all the new requirements of modernisation, particularly at the 'socio-innovative' level.

Preindustrial structures of domination (patriarchy, authoritarianism, etc.) are still very present in SMEs, preventing the democratisation of social relations. With the exception of the socioeconomic configurations present in the well-known industrial districts '*à l'italienne*' (though they too are threatened by the new forms of capitalist accumulation), these structural and cultural shortcomings end by neutralising SMEs' competitive advantages. The 'people-centred' and 'return-to-work' production alternatives that had been hoped for (Brödner and Pekruhl, 1991) are thrown into question by the way in which markets actually work. For example, in seeking to identify the potential for technological and social modernisation of SMEs in the machine tools sector, an example of the '*Mittelstand*', Manz (1993) discovers some far more complex hybrids between the Taylorist workshops and those where group work and small

production lines confirm the reskilling theory so dear to Kern and Schuman. Moreover, in some cases, the use of new information and communication technologies [NICTs] is leading to a rise in the number of white-collar workers, accentuating the division between design, preparation and planning and execution of work. In brief, SMEs do not enjoy sufficiently unequivocal conditions for socio-organisational innovations that break with Taylorist rationalisation practices, even in the machine tools sector.

During this same period, this kind of disillusionment can also be seen in another series of works – for example, those of Hilbert and Sperling (1993). These authors, who studied 225 enterprises in four segments of the manufacturing sector (timber processing, textiles and clothing, machine tools, electrical and electronics industry), conclude that, quantitatively, it is, in the end, enterprises whose autonomy ('*Manövrierfähigkeit*') is the most limited and entrepreneurs who see collaborators more as a problem than a potential that are in the majority! Thus we come to a '*KMU-Realität*' (SME reality; Büchter, 1998).

2.4.5 A special way of dealing with the diversity of SMEs: the 'segmentationist' theory

Not all SMEs are in a favourable position to offer a credible, lasting alternative to mass production. This is the great relativist discovery of the 1990s, not only in Germany but also in other countries. Firstly, as Kotthoff (1993) comments, the challenges vary from one sector and industry to another. For example, although the number of enterprises in the service sector has increased, it has fallen in the industrial sector (Leicht and Stockmann, 1993; Sorge, 1996). In the timber-processing and furniture-manufacturing industries, for example, SMEs are often highly dependent on central purchasing organisations. This means their challenge is 'to become more autonomous within that dependence' (Kotthoff, 1993). Similarly, in the textiles and clothing industry, there is growing competition from countries with low-cost labour. Conversely, it has often been felt in Germany that the engineering and machine tools sector was a model for innovative and flexible SMEs.

Nevertheless, from another perspective, the fact of belonging to a particular sector neither inexorably condemns an enterprise to decline nor unequivocally guarantees its success, because the sector's influence is not totally deterministic. SMEs' situation also depends on their strategic position and orientation, in other words, on their managers' disposition. Their chances do not depend solely on 'hard facts' but also on 'business mentality', which is a decisive factor. For example, are they focusing on product innovation or increased productivity and economies of scale? Are they trying to maintain their closeness to the end client and their autonomy, or are they giving preference to subcontracting? Are they targeting niche markets or mass markets (Kotthoff, 1993, p. 238)?

This is why it is helpful to take an approach that we shall call 'segmentationist', like the one suggested by Leicht (1995), which shows that the success of small enterprises in the same sectoral environment varies depending on whether they are operating on a market on which they are in competition with large enterprises or whether, conversely, they are operating on segmented markets on which enterprises of varying sizes can coexist by working with a different efficiency potential.

Just like the organisational models of the large enterprise, there is no 'one best way' for SMEs, and SMEs are not necessarily a good example for large enterprises to follow. There are many possible paths of development, say Hilbert and Sperling (1993, p. 194). The regional environment is also vital, and SMEs that are established in the more industrialised regions have the best chance of success (Büchter, 1998). All these elements mean that, in the latter half of the 1990s, German researchers began to identify not so much SMEs' 'shortcomings' as their limitations – for example, their lack of human resources and capital (Simons, 1997) or their increasingly precarious position in subcontracting relationships, particularly in the automobile sector (Fieten, 1995; Koch and Strutynski, 1996).

2.4.6 The controversy around new information and communication technologies [NICTs]

This rapid overview of the German literature on SMEs would not be complete if we failed to mention an issue already raised in our discussion of the situation in France. Simultaneously with the new realism that marked research in the late 1980s and early 1990s, the literature changes direction and becomes marked by the question of the modernisation of SMEs in the face of, in particular, the pressure of foreign competition on costs and the globalisation that imposes new forms of rationalisation. Some approaches might be normative and focus on the organisation of production: '*Produktionsplanung*', '*Steuerungssystem*', '*Innovationsprozesse*' and, particularly, '*neue Technologien*' (production planning, regulation system, innovation processes, new technologies). Might these new technologies give rise to new non-Taylorist concepts? Are they a factor in the modernisation and emancipation of SMEs or, on the contrary, are SMEs – and especially those with fewer than 100 employees – being particularly sidelined by them?

Here again, we cannot talk in generalisations. Many researchers stress the *reality* of the deficit in financial and information resources (Modrow-Thiel, Rossmann, Wächter, 1993; Hilbert and Sperling, 1995), particularly for SEs with fewer than 100 employees, and they note that enterprises with more than 100 employees are more open to NICTs (Hilbert and Sperling, 1995; Wittstock, 1990). Once again, SMEs in industrialised regions are in a more favourable position because they can draw on local and regional provision of technological advice, since the level of technico-organisational penetration depends on the sector and manufacturing processes involved.

However, one result is fairly clearly established and is of very great significance here: the SME sectors in which employment growth is strongest are, in particular, the craft industry ('*Handwerk*'), construction, maintenance and repairs, and installation activities – precisely areas that are traditionally very difficult for new technologies to penetrate (Büchter, 1998). In brief, SMEs do not need to be 'high-tech' to succeed or to create a large number of jobs.

2.4.7 SMEs in the restructuring of the industrial apparatus of the new Länder

Finally, we shall focus on a unique feature of German research: in the updating of analyses concerning the need to increase the regionalisation of institutional support for SMEs, an especially important place is reserved for SMEs' role in the integration process of the new *Länder*. We know, in particular, that the dislocation of industrial combines ('*Kombinate*') in the former East Germany has given rise to the creation of a multitude of SMEs. Whereas, in the days of the GDR, 90% of workers worked in 270 combines, there are now 460 000 SMEs, employing 3.1 million workers (Semlinger, 1995).

Most of the research indicates that two processes have taken place, one after the other: first, a shift towards privatisation and the breaking-up of large conglomerates; and then the development of Government-aided enterprise creation. Enterprises that emerged as a result of the former process have survived better than those created under the latter and have provided more jobs. On the other hand, several works show that the failure of newly-created enterprises is no greater in the East than it is in the West (Hinz and Wilsdorf, 1998; Brixy and Kohaut, 1998); that sector is a powerful determinant; and that, with the gradual harmonisation of SME development in the East and West, it is regional differences that are the most important (Baunach and Schmude, 1998). Hence the idea of developing targeted aid to suit the individual regions. Also, managers' level of skills and occupational experience seem to be decisive. What emerges as a general rule, however, is that there are many possible strategies and paths to success. There is no prevailing model (Brussig, 1998).

2.4.8 Structural change and SMEs' role in constructing skills and qualifications

As in other countries, there is no shortage of macrostatistical data on vocational training,

both initial and continuing, in Germany. These data are regularly drawn up by the BIBB[31] and are mostly coordinated with the European FORCE programme. They cover initial vocational training ('*Berufsausbildung*'); the dual system of apprenticeship ('*das duale System*'); adult training ('*Weiterbildung*), both vocational and non-vocational ('*berufliche Weiterbildung*' and '*nichtberufliche Weiterbildung*'); and '*AFG-geförderte Weiterbildung*'[32], whether this is organised by the enterprise ('*Betriebliche Weiterbildung*') or in the form of individual continuing training ('*individuelle Weiterbildung*'), according to a particularly complex structure that is described and explained by, among others, Alt, Sauter and Tillmann (1994). Some very interesting data are also to be found in the *Berufsbildungsbericht* (annual report on vocational training) produced by the BMBW (*Bundesminister für Bildung und Wissenschaft* [Federal Office for Education and Science], 1992, 1998).

There are also works specifically devoted to SMEs' practices as regards vocational training. As part of their contribution to this report, Reindl and Fecht (1999) drew up a list that includes, in particular, the recent works of K.-H. Schmidt (1984a), Büchter (1998), Faulstich (1992), Leicht and Tur Castello (1998) and Mendis (1991), as well as numerous other research papers or theses. Generally, Reindl and Fecht believe that 'SMEs and, in particular, craft enterprises, have always provided above-average quantities of vocational training. They train far more young people than they need and can later employ' (1999, p. 15). This means their objective role is very often to supply large enterprises with skilled labour.

Despite all this, SMEs' practices are always severely criticised: 'SMEs tend to exploit young people instead of training them'. Moreover, 'nowadays people have doubts as to whether the training level is adequate to fulfil new technological and social requirements'. According to the authors, much of this criticism derives from excessive use of criteria drawn from the large enterprise model: 'training systems and planning, apprentice workshops, theoretical instruction, teaching staff trained in VET. The fact is, however, that SMEs do not necessarily train more badly, but that they train differently' (idem, p. 15). From this viewpoint, it should be possible to argue that training of human capital 'tends to be more highly skilled in SMEs than in large enterprises. The specific production models in small enterprises (small series, individual manufacture, rapidly changing production programmes, the need to respond flexibly to market fluctuations, etc.) necessitate skilled, versatile employees.'

In examining the contradiction between two conceptions of SMEs – one placing the accent on their inadequacies as regards the qualitative appropriateness of their staff and their unattractiveness to more highly skilled workers; the other perceiving them as the main driving force behind innovation and job creation – the works of Leicht and Tur Castello (1998) are an example of an entire German literature on this subject. One of their hypotheses (verified) is *that SMEs' needs in terms of skills* are closely dependent upon the industry in which they operate.

2.4.9 Skills and qualifications structures and globalisation

Generally speaking, the level of skills and qualifications (particularly formal qualifications) enjoyed by SMEs' workers has risen over recent years. Of course, SMEs still have fewer university graduates ('*Akademiker*') than large enterprises (p. 51), but there are some SMEs in which the recent rise in the level of skills and qualifications has been greater than in large enterprises: particularly in 'modern' sectors, among 'global players' (p. 13), in some small units that have become subcontractors to large enterprises undergoing reorganisation, in SMEs in the services sector that are highly intellectually intensive, and in self-employed activities or the liberal professions ('*Selbständige, Freie Berufe*'). By

[32] AFG: *Arbeitsförderungsgesetz* [Law on the promotion of work].

[31] BIBB: *Bundesinstitut für Berufsbildung* [Federal Institute for Vocational Training], Berlin and Bonn.

Table 2.1: Breakdown of trainees and training rates per size of enterprise – 1996 (National figures; old Länder)

Size of enterprise	Trainees (%)	Employees (%) (1)	Training rate (2)
1-4	11.1	8.8	6.9
5-19	27.7	18.3	8.3
20-49	13.1	13.2	5.9
50-199	17.8	21.6	4.5
200-499	10.8	13.5	4.4
> 500	18.5	24.7	4.1
Total	100	100	5.5

(1) Number of employees paying social security contributions.
(2) Percentage of trainees of the total number of employees.

Source: Bundesanstalt für Arbeit [Federal Employment Office]; own estimates, Ifm Mannheim.

contrast, there are still many SEs in sectors and markets that do not require high levels of skills or qualifications (hotel and catering trade, commerce, hairdressing, etc.) or which are slowing down (textiles, leather, etc.). However, we should not overemphasise the supposed effects of globalisation on skills structures, which is actually affecting only 2-12% of SEs, depending on the industry to which they belong. Also, the service industries and craft sector, in which small enterprises predominate, are less affected by globalisation than by new information and communication technologies, which are having a positive effect on the development of their human capital (Falk and Pfeiffer, 1998). It is moreover impossible to evaluate the quality of the labour factor in SEs simply from the point of view of technological modernisation, which would immediately relegate traditional craftsmanship to the status of 'a relic of ancient times' (p. 9).

Another significant conclusion emerges from the works of Leicht and Tur Castello (1998): in Germany, at the very moment when the dual apprenticeship system is experiencing a degree of disaffection[33], it is precisely initial vocational training *rather than continuing vocational training* that is being best adjusted to the needs of small enterprises (and particularly craft enterprises). At the same time, it is in small enterprises *rather than large enterprises* that the knowledge and know-how acquired through apprenticeships are proving to be most 'useful' ('*verwertbar*').

On the former point, in 1996, small enterprises – most of them craft enterprises – with fewer than 20 employees took on 39% of all apprentices, even though they accounted for only 27% of the total employed population. In addition to this, small enterprises train twice as many workers as they need (in 1992, they employed 30.8% of skilled workers and had taken on 57.8% as apprentices, whereas large industry, which accounted for 30.8% of skilled workers, had trained only 19% as apprentices)[34]. It might therefore be argued that, on the quantitative level, small enterprises' contribution to the initial training of young people outstrips their needs and that, in Germany, the intensity of training via apprenticeships lessens with the size of enterprise (see Table 2.1). Also, on the qualitative level, the knowledge and know-how acquired

[33] For example, in the old *Länder*, the demand for apprenticeships fell by 39% between 1984 and 1994 and supply fell by 31% (or 503 000 places) over the same period. This crisis is usually attributed, at least in part, to the tendency for young people to pursue general, university studies.

[34] According to a survey conducted by the *Institut für Arbeitsmarkt- und Berufsforschung* (IAB) [The Institute of Employment Research] of the *Bundesanstalt für Arbeit* [Federal Employment Service], cited by Kucera (1997, p. 66).

through apprenticeships seem to be more 'usable' in small enterprises than they are in large ones (Strohmeyer, 1998, quoted in Leicht and Tur Castello, 1998, p. 34, Schaubild 3). This is what emerges from a survey conducted by the BIBB and IAB[35] over two periods (1985-1986 and 1991-1992).

Leicht and Tur Castello summarise this point of view: 'while there has been a steady increase in the number of employees in SMEs with an apprenticeship or similar qualification since the 1970s, in large enterprises their numbers have greatly decreased again during the recession. (…) In many branches of the production industry in particular, SMEs remain the shrinking refuge for skilled workers' (1998, p. 80).

On the second point, there is no doubt that the acceleration of technological and economic change is causing a permanent devaluation of the human capital acquired by SE employees during their initial vocational training, which confirms the crucial importance of continuing vocational training. Indeed, over recent years, more and more employees have taken part in training programmes. By this criterion, however, the rate of participation in SEs is still lower than in LEs (p. 38, Figure 4). It is also lower in the craft industry and commerce than it is in industry, other services or the liberal professions. Finally, the smaller the enterprise, the greater the difference between the need identified and workforce participation in continuing training, in other words, the difference between needs and actual participation in continuing vocational training is always more marked in SEs than in LEs... and these differences are all the more marked in some industries (p. 41).

2.4.10 SMEs: stakeholders in the crisis and in the restructuring of the vocational training system

Of course, all these elements are the product of an historical social and institutional compromise. That compromise has however now entered a phase of disequilibrium, in which young people leaving the training system and SMEs themselves have become main stakeholders: *the former*, because of their growing inclination for long, full-time training courses and for disciplines that tend to take them into large enterprises (management, bank administration, insurance, marketing, etc.), but also because of their increasingly marked tendency to leave the enterprises in which they have done their apprenticeships – often SEs – to take jobs in larger enterprises and, finally, because of the difficulty more disadvantaged groups (unskilled, the '*Ungelernte*') have in accessing the system of apprenticeship; *the latter* (SMEs), because they are indirectly up against the increasingly selective attitude of large enterprises[36] as regards young people's skills and qualifications, which means they are left with the least skilled and qualified candidates. 'The integration vocation' of SMEs is not being questioned; it is being 'displaced'. Indeed, a definite split is appearing in the dual system, which was based on the potential continuity and mobility of trained, skilled workers' career paths in small enterprises. The risk is that this split will accentuate not only the inequalities between small and large enterprises but also the dualism of the labour market.

This is why, in Germany as in many other countries (see Part 5), the interaction between employment policies and the policies guiding vocational training is becoming increasingly evident (Schömann, 1995). It is in this context that we need to understand the adoption of the German law on the promotion of work ('*Arbeitsförderungsgesetz*') of 1985, whose purpose was to make the employment status of young people coming out of the apprenticeship system more flexible (use of fixed-term contracts, part-time working, disconnection between young people's initial training and jobs offered, 'exchange

[35] *Institut für Arbeitsmarkt- und Berufsforschung*.

[36] Indeed, large enterprises are increasingly trying to attract young people who have an '*Abitur*' or students from the '*Fachhochschulen*', to the detriment of young people with lesser qualifications.

programmes' that enable large enterprises undergoing restructuring to make former apprentices available to craft enterprises, etc.) and to prevent the occupational exclusion of young people least likely to gain access to apprenticeships. However, by contrast with the situation in other countries, these 'new employment regulations' linked to vocational training are still subject to heavy collective regulation, particularly via negotiated collective agreements, usually at industry level (Lefresne, 1999. p. 289).

2.5 Spain: lots of SMEs – little research

It is a known fact that Spain is one of the European countries with the highest density of SMEs ('PYMES'). However, short of taking a closer look and searching beyond a bibliography that is shorter than those for the other countries studied here (some fifty references, works and articles over the last decade), the least one can say is that research on the three issues of SMEs, employment and training is not very advanced. However, we need to note three salient features:

2.5.1 Works on the economic role of SMEs

There are many works on the place and function of SMEs in the Spanish economy and its integration in the European Community (Pérez Gonzalez C., 1997), or in the shift towards globalisation. However, it is virtually always their microeconomic performance that is examined (Camisón Zornoza, 1996a and b; Fernández et al., 1996; Montoya Sánchez, 1997). In this field, it is mainly strategic concerns that have held researchers' attention since the early 1990s (Churruca et al., 1995; Maqueda Lafuente, 1992; Lorenzo Gómez and Sánchez Pérez, 1997).

For example, several empirical studies seem to confirm that there are greater competitive differences between enterprises in the same sector (intra-sectoral differentiation) than between enterprises in different sectors (Fernández, 1993). It is moreover extraordinary to note that this dimension (strategic behaviour) is covered by major statistical works (Impi, 1995, pp. 59-113, see also, in particular, the use that can be made of the annual ESEE survey that has been conducted since 1990 – *Encuesta sobre Estrategías Empresariales* [Survey of Business Strategies]), as is the coordination of human resources management[37] and enterprise strategy. Most of the research constantly returns to the triple dimension of competitiveness: the general economic and institutional framework, the structure of the sector, and strategic choices at enterprise level (Serra Peris, 1996; Aragón Sánchez and Sánchez Marín, 1998). It is also by no means sure that the good results (profitability, operating margin, etc.) at micro level are reflected in a better competitive position at national level in Spain. In fact, the opposite seems to be true (Camisón Zornoza, 1996b).

2.5.2 SMEs at the centre of new labour market regulations?

Another unique feature: the (rare) studies on SMEs' contribution to employment virtually always cover both the kind of jobs involved (particularly the type of contracts of employment used – an important issue in Spain in recent years in terms of the flexibility and growing insecurity of jobs) and the characteristics of the workforce (age and length of service, level of training, etc.: Impi, 1995 and, in particular, Para et al., 1995). Mention should also be made of some recent research on human resources management and training as factors in SMEs' competitiveness (Aragón and Sanz, 1997; Ferrer Ortega, 1999), but researchers tend to have difficulties in finding points of anchorage in analytical models outside that of the large enterprise (Aragón Sánchez and Sánchez Marín, 1998). Finally, it is no surprise to find some regional studies, including, for example, García Ordóñez' study of Andalusia (1997). There are some interesting scenarios that are worth comparing with regionalised approaches in the UK and Scandinavia.

2.5.3 Government research

Our body of reference also includes many publications on national and regional (Autono-

[37] In the British sense.

mous Communities) policies applying to SMEs in Spain (Ipmi, 1995, pp. 115-168; Ice, 1998), and documents of a more administrative nature on provisions, financial instruments and advisory aids for SMEs[38].

Generally speaking, apart from these references, one might note and/or deplore the lack of major scientific studies on SMEs, and particularly medium-sized enterprises, in Spain (Clifford and Cavanagh, 1989). This is all the more striking in that Spain is one of the countries (together with Greece, Portugal and Italy) in which SMEs have the most important role in the production apparatus, representing close on 80% of total employment (European Commission, 1998).

3. The role of SMEs in the transformation of production systems: social and methodological diversity

What does research on SMEs do to reduce or deal with the extreme diversity of its subject? How does it account for the role and development of SMEs in the current reshaping of production systems? What are the main factors determining the demographic dynamics of SMEs? What are the main lessons to be drawn from the most recent research on enterprise?

These are the questions we shall be trying to answer in the first section of this part of our report.

3.1 A generic 'SME', or SMEs in the plural?

The first question that any discussion of SMEs comes up against is how to define its subject. Between the nominalist optimism adopted by the European Union (1996)[39], whereby SMEs are to be defined purely in terms of their size, that is, the size of their workforce, and a relativism that, by multiplying the other available variables ad infinitum, risks diluting the subject to such an extent that it becomes unrecognisable, the middle path is indeed narrow and full of difficulties. What we have to accept is that 'there is no standard, scientific, universally accepted definition of small and medium-sized enterprises' (Eurostat, 1996, p. 13).

3.1.1 A subject with unclear definitional boundaries

Although most of the statistics, and particularly comparative statistics, now adhere to the 'European standard' (with enterprises with fewer than 250 employees being deemed to be SMEs) and its segmentations[40] (as in the case of, for example, data from the European SME Observatory, ENSR, 1996, 1997), we know that the criterion of size is inadequate. However, even though this criterion has been criticised, especially by researchers, it can serve as a 'provisional concept', a 'preconception', which is a useful and definite tool for much research: inadequate, then, but essential.

In most cases, therefore, it is size that is taken into account because 'there is always a close

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[39] Strictly speaking, the recommendation published by the Commission in the Official Journal of the European Communities (L 107/6, 1996) on adopting a common definition of SMEs recommended including two other criteria: turnover (less than ECU 40 million) or balance sheet total (less than ECU 27 million) and economic independence. However, given the difficulties involved in obtaining sufficiently detailed, standardised statistical information on all the EU Member States, it is not always possible to take these latter two criteria into consideration (ENSR, 1997).

[40] That is, '*Very Small Enterprises* (hereinafter referred to as VSEs) with fewer than ten employees, including enterprises with no employees, that is self-employed people; *Small Enterprises* [SEs] with 10-49 employees; and *Medium-Sized Enterprises* [MEs], with 50-249 employees'. This means that, still according to the same definition, enterprises with 250 or more employees must be deemed to be *Large Enterprises* [LEs].

Table 3.1. Classification of firms by size (employment numbers) in several OECD countries

	Eurostat	F, D, Jap	N, CH	UK, DK, FIN	A	E	I	OECD
VSE	0-9	1-49	1-20	1-50		-	1-9	0-19
SE	10-49					0-49	10-99	20-99
ME	50-249	50-499	21-99	51-200	10-100	50-499	100-499	100-499
LE	250 +	500+	100+	201 +	101 +	500 +		500 +

link between enterprises' size and some of their practices' (Savoye, 1994), and it is, of course, the enterprise (and not the establishment that is part of a group) that is the statistical reference unit. However, the accepted size varies over time and space: in France, for example, until recently, statistics might have included as SMEs enterprises with as many as 499 employees (INSEE, 1994), like in the USA. Furthermore, whereas in France, Germany and Japan, enterprises are deemed to be small firms if they have 1-49 employees, the figure drops to 1-20 employees in Norway and Switzerland. Medium-sized firms have a workforce of 50-499 employees in France and Germany, but the figure drops to 51-200 employees in the UK, Denmark and Finland, 21-100 employees in Norway, and 10-100 in Austria.

It is, therefore, impossible to ignore the extreme diversity in the field. What is the relationship between a Very Small Enterprise [VSE] of the craft industry type and a medium-sized industrial enterprise? What is the relationship between an independent, privately-owned Small Enterprise [SE] and an SME that is part of a group or franchise network? What is the relationship between an SME in the manufacturing sector, which might well have a hundred employees, and an SME providing consultancy services for enterprises, which will only very rarely have more than 50 employees?

This diversity itself rests upon a whole range of criteria and dimensions that are revealed by most of the research (Cross, 1983; Dunne and Hughes, 1990), which, whilst deepening our knowledge of SMEs, paradoxically help to muddle the definition. For example, should we give a special place to craft enterprises, particularly as regards employment and training, by cross-referencing the size and purpose of the enterprise or its owner, as suggested by an examination of the German literature and the repeated investigations of the European SME Observatory?[41] Do we need to include the criterion of independence in the general definition of SME and should independence be defined in legal or financial terms (for an enterprise to be deemed to be an SME, the European Commission recommends that 'it may not be 25% or more owned by a large enterprise or jointly by several large enterprises')? This definition is used by, for example, Varyam and Kraybill (1992), with their notion of 'ownership', and by Duchéneaut, in his extensive case studies (1995, 1996). But then do we run the risk of ignoring the current dynamic, whereby SMEs (and especially SMIs) are being integrated, in various ways, in larger groups or networks of enterprises? For example, the 1980s saw an increase in the number of franchises (Stanworth, 1988; Stanworth and Purdy, 1994; Fried and Elard, 1997).

Then there is sectoral differentiation, which – as we shall see later – often proves to be the most pertinent; so pertinent, in fact, that authors like Curran et al. (1991) do not hesitate to include it in their basic definition of SMEs, together with size. In addition, of course, other criteria demand more subtle segmentations

[41] It should be noted that, in Germany, the craft industry is the subject of special national legislation ('*Handwerksordnung*' No 127 of 28 December 1965) and included 127 occupations in 1994, with 623 000 enterprises employing 5 138 000 workers, which is equivalent to 8.2 employees per enterprise, as against only 2.5 per enterprise in France and 2.3 in Italy (ENSR, 1996, p. 102 et seq).

and are mentioned by many researchers. For example, with regard to the industry concerned (Kotthoff and Reindl, 1990; Leicht and Stromeyer, 1995), the age of the enterprise (Evans, 1987), or its strategic position in relation to the products or services market (Bentabet et al., 1999; Trouvé, 1999). Finally, also 'the notion that the small firm sector was an homogeneous entity, suffering similar problems and experiencing similar opportunities, is fundamentally misguided' (Atkinson and Storey, 1994, p. 4).

3.1.2 The social components of the definition

From this perspective, we can see that international comparisons are especially risky, and all the more so in that the organisation and size of enterprises, as well as survey methods, are closely dependent not only on the nature of the economic fabric but also on institutional and social conditions within each country (tax and social security systems, availability of grant aid, etc.).

We have to get used to this idea: SMEs are a social institution, a product of unique national historical and social conditions. Is it by chance, for example, that Birch's work (1979, 1987; Birch, Haggerty, Parsons, 1997) emerged and was pursued in the USA and the UK, seeing SMEs as the main vehicle of the enterprise ideology and the basic unit of a market economy? Might it not be possible to interpret the vogue of research on SMEs in Quebec as an affirmation of French-speaking culture against the North American cult of gigantism? In Europe, is it not true that the view of SMEs as family enterprises actually had a solid anthropological basis for a very long time (hypotheses formulated by O. Torrès)? Furthermore, in a European area in search of unity, might it not also be possible to distinguish an SME culture '*à l'italienne*', deeply rooted in particular geographical areas, and a German conception of SMEs as guarantors of the continuing strength of the social fabric?

For all these reasons, with the exception of Italy and Germany, it would be difficult to establish a general theory for SMEs that would match the one developed, for example, by Alfred D. Chandler, for large enterprises. At the very most, we have to content ourselves with partial formalisations and constructions of 'average scope', whose richness and diversity correspond to the many facets of the subject under study.

3.2 The various methods of approach

Without aiming to be exhaustive, we can now distinguish several methods of approaching the subject of SMEs, which have gradually been developed alongside major econometric studies that are too exclusively based on 'size effects'. We shall focus on seven of these approaches that we feel have helped to enhance our knowledge of SMEs over recent years: *macrostatistical approaches*, *longitudinal approaches, approaches by branch, territorial approaches, manager typologies, ethnographic studies* and, finally, *international comparisons*. We shall leave aside the latter, because it potentially cuts across the six others and will be discussed on many occasions during this report. In its place, we shall offer a short commentary on recent ethnographic approaches.

It should be noted that these approaches are not mutually exclusive and can be combined in many ways, thus offering an abundance of new paths for future research. For example, macrostatistical approaches might be combined with typologies concerning 'local forms of organisation of the production apparatus', as in the recent works of Hecquet and Lainé in France (1998); similarly, there is often a continuum between territorial studies and longitudinal approaches, as illustrated by the syntheses produced by Atkinson and Storey (1994) or Karlsson et al. (1993), or the Italian case studies and 'revisitations' of a number of French researchers (Ganne, 1999; De Banville and Vennin, 1999); and comparative works can draw on quantitative data or be based on intensive, qualitative research, and so on.

The value of these various methods of approach is that they attempt to reduce the heterogeneity of the subject 'SME', particularly by using statistical or qualitative typologies,

and particularly to avoid a regressive, inadequate conception of SMEs, by emphasising their unique features and making the effort to demonstrate that small enterprises are not 'large enterprises in miniature'. In some cases, however, although it gives us a better understanding of SMEs' role in the current transformation of socio-production systems, the approach strictly focusing on enterprise movements does not always give rise to an analysis of the effects on the number and structure of jobs, and still less on SMEs' training practices. This, at least, is what emerges from a careful examination of the international literature on the subject (Courault, Trouvé, 1999).

3.2.1 Macrostatistical studies: rethinking SME/LE relations in new approaches to production

Macrostatistical studies have virtually always been conducted for administrative and descriptive purposes. This applies to databases built by institutions devoted to SMEs or SMIs, be they Government-commissioned (for example, the major works of SESSI in France), transnational (the publications of the European Commission, Eurostat or the OECD), or instigated by occupational organisations (for example, the works of IMPI in Spain, 1995). Their purpose is usually to identify SMEs' place and development in production systems, particularly by comparing their structures by size of workforce. This is why they tend to give preference to analyses by major aggregates based on the effects of size and sector rather than using other variables that are more difficult to process. Moreover, since 'panellised' data are only rarely available, most of them tend to use 'successive pictures', which give an inadequate account of the processes and dynamics of change over time. This description is, of course, highly simplified, but it does give a good idea of the methodological challenges being faced by macrostatistical research.

However, some good results are being achieved: for example, some current research is looking at the new relationships between SEs and LEs and the new production approaches being taken by SMEs.

Research on new relationships between SEs and LEs: power relations or productive interaction?

A memorable and somewhat artificial debate has traditionally run between the respective 'champions' of large enterprises and of SMEs. For the former (Harrison, 1994-a,b), in terms of rationalising production, streamlining organisation and returning to 'core competencies', large enterprises have characteristics similar to those of SMEs (flexibility, reactivity, ability to tackle small markets), sometimes incorporating NICTs: in brief, they have become capable of 'reconciling their large size with small-scale production', according to the theories of Davis, Haltiwanger and Schuh (1996). For the latter, such as Kirchhoff in the USA (1994), Davidsson in Sweden (Davidsson et al., 1996) and Baldwin and Picot in Canada (1995), it is a question of understanding how the production system works on the basis of unique coordination between SMEs and LEs, with, in particular, LEs' productivity being supported by SMEs' flexibility, especially as a means of reducing the weight of bureaucratic structures[42].

This debate is doubtless being continued today between, on the one hand, the partisans of the theory of domination or the 'repercussion' on SEs of the forms of rationalisation being used by large enterprises, particularly through the study of subcontracting relationships, for example, from a multi-industry viewpoint (Ardenti and Vrain, 1998) or in the automotive industry (Mathieu and Gorgeu, 1995), and, on the other hand, those who argue for the complementary nature of the two forms of enterprises, emphasising the margins for manoeuvre that can be taken by SMEs (Kotthoff and Reindl, 1990; Reid, 1993; Marchesnay and Fourcade, 1997). As we shall see later, these two approaches can, in

[42] 'The notion that large enterprises are no longer creating jobs because of their subcontracting strategies does not mean they are not playing a role in employment growth. Indeed, their search for flexibility in adapting production to demand is leading them to forge alliances with other enterprises and with a peripheral workforce' (Gass, 1996, p. 65).

our opinion, be combined: although large organisations undoubtedly have an impact on the structure of the production apparatus and although we cannot ignore the rise in subcontracting[43], some SMEs are able to develop strategic positions that give them some protection against too strong a dependence on dominant large enterprises[44]. It is nonetheless true that current changes in the apparatus of production are, if not calling into question, at least considerably confusing the 'pure' model of the private small enterprise (Bentabet et al., 1999), a phenomenon that some authors are quick to interpret as a symptom of the *disappearance of SMEs* (Curvalle, 1994; Dubost, 1995).

In any event, analysis of macrostatistical data indicates that it is impossible to dissociate SMEs' demographic dynamic and contribution to employment from the development of large enterprises and inter-enterprise relations in general (Baudry, 1995), even though many, sometimes contradictory, interpretations can be made of this: 'what happens therefore to the large-firm sector must inevitably influence smaller firms and vice versa. Hence it is essential to examine key developments amongst larger firms in order to better understand the small-firm sector' (Karlsson et al., 1993, p. 7). An excellent illustration is provided in France by a line of thought that runs from Delattre (1982) to Boccara (1998) via Parent (1995a, b): Boccara, in particular, shows that it is mainly in SMEs that either belong to groups or operate within their sphere ('circulating SMEs', that is, SMEs that enter and leave group control) that there is the most evident growth in employment (these SMEs created 300 000 jobs during the period 1984-1992).

On this basis, it would be possible to identify several areas of separate or combined investigation, depending on the chosen reading of the situation: either focusing on the fragmentation, decentralisation, externalisation, deconcentration or hiving-off of large groups, not forgetting the other forms of co-contracting, franchising, co-design or multiple partnerships[45], or concentrating on the current endogenous development of a new SME architecture, with the development of micro-groups (SESSI, 1995) or *networks* organised on geographical or other bases, which statistical methods are still having much difficulty in covering (INSEE, 1997). This means that it is mainly the relations of financial dependence that have been studied. Yet, in many cases, it is still too soon to give a breakdown of SMEs or LEs by the most value-creative segments (strategic aspects), particularly in value chains that run from industry to distribution. Also, forms of cooperation (legal, commercial) or the sharing of quantitative and qualitative human resources by SMEs and LEs are still relative strangers to statistical

[43] The special position of subcontracting SMEs is of vital significance. Apart from by the authors cited here, the issue was also covered by, in particular, Bonneau, Gardes et al. in the late 1980s (1989). On the basis of a questionnaire-based survey of 355 enterprises, of which two thirds have fewer than 50 employees, 80% are single establishments and 75% are independent subcontractors, they show that, depending on the sector, 7% of them have experienced a rise in the number of unskilled workers (26% in the smelting industry and 14% in the plastics sector) and that the smaller they are the less increase they are seeing in the number of skilled workers (28% of enterprises with 20-49 employees and 69% of enterprises with 200 or more employees). It is sectors in which the proportion of skilled workers was already greatest (boiler-making, electronics and engineering) that have continued to see a rise in skill levels. On the other hand, 49% of enterprises have improved their skills structure by increasing the proportion of professional and managerial employees and engineers and/or technicians. According to this criterion, and many others, it is again size and sector that are the determining factors. For example, although the use of temporary labour increases with size, either in intensity or frequency, it is in the smelting industry and the plastics sector that enterprises make most use of fixed-term contracts (9% and 7%, respectively). For the moment, it is the plastics sector and boiler-making industry that are the highest consumers.

[44] We shall see later that it is precisely these SMEs that retain their autonomy or 'market power' that are the highest performers in terms of the quantity and quality of employment they provide.

[45] A stronger typology of these many SME/LE relations can be found in F. Saget, in Commission of the European Communities (1989, pp. 49-65). See also the ENSR publication (1996, pp. 157-178).

observation. Apart from the methodological issues concerning the comparability of variables used in international comparisons, these are the two essential limitations of macrostatistical approaches, which are partly solved in research with a more qualitative or monographic bent, as well as in approaches focusing on a single industry (see later).

Research on new production approaches in SMEs (and especially SMIs)

Attempting to construct some typologies on the basis of a very considerable number of organisation variables for some extensive samples of French and German SMIs (small and medium sized industries), Moati, Pouquet et al. (1997) distinguish four major categories (and eight subcategories) of SMIs, depending on their production approaches (degree of openness to the environment, internal nature and organisation of the technical system and development, degree of specialisation, degree of consideration of human resources and the organisation of work, etc). The final breakdown is: 39.6% 'traditional SMIs', 31% 'cognitive SMIs', 16.5% 'Taylorist SMIs' and 12.9% 'lean commercial' SMIs. Whereas 'traditional SMIs' are a highly diversified group, which tend to operate in sectors that are not highly competitive and perceive their environment as safe and stable, 'cognitive SMIs' are usually to be found in medium to high-technology sectors, requiring increasingly high skill levels among workers and constant adjustments. 'Taylorist SMIs' tend to be in competitive, 'everyday' sectors, and 'lean commercials' are in sectors experiencing growing competitive pressure, leading to reduced performance and a need to reorganise to adapt to changes on the market. This is not the place to describe the content of each of these types, which would require considerable discussion. We shall simply mention two major aspects:

1. on the one hand, Moati, Pouquet et al. show that 'the sector to which an enterprise belongs does not necessarily indicate the type of production approach it will adopt' (p. 178). In other words, although some characteristics of the sectoral environment will be more or less favourable to their dissemination, 'different production approaches can coexist among SMIs in the same sector. The adoption of a particular production approach thus seems to be as much the product of a strategic choice as a standard response to a certain sectoral environment' (p. 119). Among traditional SMIs, for example, there may be both passive, closed enterprises and SMIs exploiting a 'technological niche';

2. on the other hand, looking at public aid for SMIs, the authors demonstrate that this aid is used very differently, depending on the production approach involved. Briefly, although 'Taylorist' SMIs, for example, are over-represented among SMIs receiving aid concerning production factors (capital investment, aid for recruitment and termination of contracts, etc), 'cognitive' SMIs are more highly subsidised by aid for innovation. Also, among the 'cognitives', we need to distinguish those that are 'close to science' (high-tech SMIs) and 'global technologists', which are relatively disconnected from production activity, work in networks that make more 'eclectic' use of aid. The former are certainly given greater preference in France than they are in Germany, where public aid – although used less – seems to be distributed more evenly. Combining recommendations with strict observation, the authors draw an inspiring conclusion from their empirical research: we need to encourage 'the maintenance of an aid system that is rich and diverse enough to provide appropriate support for each enterprise category, in accordance with the requirements of the relevant production approach' (p. 192). Nevertheless, they comment that 'in France and Germany, it is precisely the enterprises that are being most marginalized by major developments in the organisation of production – those that, overall, have the poorest economic results – that are benefiting least from public enterprise aid and criticising it most' (p. 166).

3.2.2 Longitudinal research: understanding processes

We have seen that the main problem facing macroeconomic research lay usually in the im-

possibility of giving an account of developments within a given enterprise population in two successive surveys. Now, we know that enterprise movements are not simply a question of quantity but also of quality. For example, the disappearance of an enterprise might be attributable to a cessation of trading or a change in legal status. Similarly, a new enterprise might be a genuine creation 'from scratch' or the result of a transfer of activities from one enterprise to another. If the instrument of observation is too distanced from the field or if the categories of analysis are too loose, there is a major risk of losing a vital part of the information. This type of difficulty is usually dealt with by replacing the examination of processes with a sequence of 'stills'. Longitudinal approaches serve precisely to avoid this problem.

A good example is provided by an important study conducted by North, Smallbone and Leigh (1994), which had the twin merits of looking at the contribution made to employment by mature rather than newly-formed SMEs and, at the same time, examining changes in work processes and their impact on jobs during the 1980s. The authors study a panel of 293 enterprises in existence in 1979, which was later expanded to a retrospective sample for the period 1979-1990. The SMEs chosen are all independent, employ fewer than 100 workers, and operate in eight sectors of manufacturing industry, ranging from labour-intensive sectors (clothing, furniture) to higher or medium-technology sectors (electronics, scientific instruments). Moreover, they cover three distinct geographical zones (urban, semi-urban and rural).

What is the value of this research on the methodological level and, particularly, what are its most important contributions? Firstly, it may be noted that the authors do not simply study SMEs' situation at the beginning and end of the reference period, but are able to describe how these enterprises have developed throughout the 1980s and, therefore, to comment upon the processes that have led some of them to survive and change (the 'survivors') and others to disappear (the 'non-survivors'). There are 124 non-survivors, causing the loss of 2 631 jobs, or 37% of the jobs provided at the beginning of the period. The survivors are responsible for employment growth of 18% in the panel, but this general trend conceals a difference between survivors whose workforce has increased (52%) and those who have seen a drop in the number of people they employ (36%).

This research is a 'concentrate' of many observations that are repeated again and again in English and European literature. Medium-term trends in the demographics of enterprises and jobs conceal a multitude of changes affecting SMEs which are very difficult to identify in the short term or in terms of dynamics. The 'non-survivors' are usually smaller than the 'survivors' and belong to specific sectors. Among the 'survivors', on the other hand, it is the largest enterprises (with more than 50 employees) that have lost the most jobs. Another discovery: it is SMEs in rural areas that perform best in terms of employment, with 50% job increases in most sectors, as against 6.7% in London and 23% in semi-urban areas. Finally, there is a statistically significant correlation between the economic development of the SMEs studied and the number of jobs they create, since 83% of jobs created are in enterprises that doubled their turnover during the 1980s. The authors use this to draw a useful conclusion: 'From a policy point of view, it suggests that focusing on job creation *per se* may be less successful in generating employment in the longer term than focusing on those firms which have the greatest growth potential' (1994, p. 222).

The authors thus confirm Storey's theory (1988), which is repeatedly cited in the literature: a substantial proportion of job creation in SMEs tends to be concentrated in a relatively small number of firms.

With regard to changes in the labour process[46], North, Smallbone and Leigh focus par-

[46] By 'labour process', the authors mean not only the status of employed workers (full-time/part-time, gender distribution, degree of contrast between core and peripheral workers), but also the proportion of skilled workers, the skills level required by production and the degrees of demarcation between the various skills levels.

ticularly on the likely increase in (numerical or functional) flexibility in SMEs. They follow Shutt and Whittington (1987) in demonstrating small firms' dependence on large firms' fragmentation strategies, but they do not find any significant increase in the number of part-time or 'peripheral' workers, which is an employment practice used by a minority of SMEs. Indeed, SMEs seem to prefer to use overtime as a way of adjusting the quantity of labour. As regards functional flexibility, although the authors note a slight increase in the number of skilled workers, they are struck by the great stability of the kinds of skills required by enterprise managers over the reference period. It is, of course, in the minority of SMEs working in technologically sensitive sectors that the most significant changes are taking place, but the trend is towards 'upskilling' or 'reskilling' rather than towards the 'deskilling' that is nonetheless evident in some firms manufacturing electronic products.

The conclusion the authors draw from this longitudinal study of SMEs over the period 1979-1990 and a study of SMEs' practices as regards employment and use of labour is that, during the 1980s, most adjustments in SMEs were marginal and few firms have introduced radical changes in their labour process. In most cases, there was no 'radical break' in the way SMEs manage the labour factor. It was very difficult to find SMEs with a clear strategy of human resources management: only 16% of the London panel could be considered as having an 'explicit labour strategy' and the structural adjustments they made concerned factors other than forms of labour: 'adjustments to other aspects of the firm, such as products, markets, and the organisational structure, were more common than labour process adjustments' (p. 253).

3.2.3 From sector to system: coordinating industrial economics and strategic management

It has been repeatedly argued that the sectoral variable is, together with size, undoubtedly the one that best explains the quantitative management of labour in SMEs. At the same time, we have seen that a breakdown into major sectoral aggregates is inadequate if we want to perceive the full complexity and diversity of behaviour patterns among SMEs in the same sector. For purely descriptive purposes, the notion of 'system' adds an *interpretative* and *dynamic* dimension to research on inter-enterprise relations. It also makes it possible to look at industrial economics and strategic management in combination, revealing that SMEs' economic performance and labour management are largely dependent on the position they occupy in 'chains of value' (Porter, 1990; Chevalier, 1997). The specific purpose is to understand how the characteristics of final demand structure and restructure new inter-relations between design, production and distribution and how they influence both the internal organisation of enterprises (technologies, ways of using capital and labour, etc.) and relations between enterprises (redefinition of enterprise boundaries, networks, partnerships, domination, etc.).

For example, are SMEs in a position to appropriate the most value-generating segments in a given system or, on the contrary, are they ghettoised in activities that keep them distanced from these segments, to the benefit of large groups? This is the major question that needs to be asked, though the notions of 'market power' or 'added value' in the micro and macroeconomic sense are not of very much help here. Some SMEs are indeed able to succeed without occupying a particularly large market, as in the case of 'niche' enterprises in particular; on the other hand, in an economy of diversity, it is precisely the 'priceless' value of a product or service, as judged by the end-client, that counts more than quantity or price. This is why a good knowledge of this end-client, acquired via direct contact, is always a distinct advantage of high-performance SMEs.

Of course, economists do not always look at enterprise strategies in this way, which is why they find it difficult to explain efficiency differences between SMEs in the same sector (Trouvé, 1999). It is nevertheless suggested by many recent works on the restructuring of some systems, such as agri-foodstuffs (Lamanthe, 1998), transport or logistics, tex-

tiles and clothing or even the automotive industry. In the textiles and clothing sector, though with some differences depending on the country concerned, SMEs are losing their once dominant role in production and moving into distribution. This is leading to a redistribution of jobs, whose impact is being felt both in former production areas and in SMEs, which are being forced to take up new positions either upstream (for example, in design or innovation) or downstream (for example, making use of new distribution circuits) or in new 'interface' service functions (Courault and Parat, 1998).

In the automotive sector (Gorgeu and Mathieu, 1995, 1998, 1999), we are seeing the hierarchisation of subcontracting levels, orchestrated by manufacturers or final assemblers, who are using just-in-time organisation methods and therefore forcing a reduction in the number and concentration of first-level suppliers, as well as their relocation (neighbourhood factories). So, what is the role of SMEs in the reorganisation of this system? The authors cited above show, in particular, that SMEs in the sector have some specific features in terms of their method of labour management, depending on their level in hierarchical subcontracting relations. For example, although manufacturers are losing jobs, equipment suppliers are gaining them; but this is less a quantitative labour transfer than a new distribution of skills and skills-management methods from one end of the system to the other. In this respect, it is possible to make two reasonable hypotheses: firstly, in systems including SMEs as players, it can be argued that their position is more decisive than their size and even that the former determines the latter; secondly, there is a link between the hierarchisation into subcontracting chains organised by the dominant enterprises in certain systems and the segmentation of the labour market, as B. Baudry confirms in a recent piece of research (1994). In the case of the automotive industry, one of the economic interpretations of the vertical disintegration of large groups is 'the potential and frequent cost differential between in-house production (in a large enterprise) and external supply (by SMEs), because of labour costs' (De Banville and Chanaron, 1991, p. 56).

3.2.4 Territorial approaches: in the shadow of the recurrent model of industrial districts 'à l'italienne'

It is a known fact that, more than anything else, SMEs' development depends on conditions associated with their local environment. This is why much of the research on them, particularly that inspired by Marshall (Marshall, 1906 and 1919; Marshall and Marshall, 1891)[47], has very quickly placed the emphasis on their inclusion in a specific economic, social and historical context. We have seen that, in some countries, such as Italy, research on SMEs has always taken this approach, whereas, in other countries (Germany, the UK, France), the crisis in mass production has led to its re-emergence (Piore and Sabel, 1984). Finally, it might be claimed that this approach remains a source of inspiration for analyses of the development of networked firms (Veltz, 1997; Rullani, 1998; Gastaldi, 1999).

Localised SMEs or the district model

An abundance of literature that cannot possibly be looked at in detail here serves as a basis for identifying some major focuses in the majority of works that have combined analysis of SME fabrics and their territorial organisation. Firstly, there are various paths for the formation and development of enterprises

[47] The issue of industrial districts is a long-standing subject of economic analysis identified and theorised by A. Marshall. 'Districts' are localised industrial systems of SMEs whose roots lie in the historical forms of the small semi-industrial, semi-artisanal workshops of early industry, described and analysed by Marshall in the form that existed locally and historically in and around Manchester in the early twentieth century (Industry and Trade, 1919). The market is not governed solely by the principle of competition, whereby only the best profit at the best price to the satisfaction of all; cooperation and solidarity are also principles that in exceptional cases replace the basic economic rules. Marshall has inspired research on large enterprises and SMEs, with each form being synonymous with a distinct organisation 'theorised' according to different principles: broad specialisation and integration for large enterprises and geographical concentration and narrow specialisation for SMEs grouped in districts (Courault, 1999).

that cannot be reduced either to the purely individual emergence of small firms or to the model of growth illustrated by a small enterprise that turns into a large one; one of these paths is represented by the recurring model of the 'districts *à l'italienne*' that we described earlier. According to the founding fathers, this model is conceived as a localised system of inter-enterprise organisation, usually comprising a myriad of craft and industrial SMEs concentrated in small or medium-sized urban areas around one or more specialised industrial production.

At economic level, this geographical proximity of a multitude of SMEs, sharing the entire production process on the basis of a very strict division of labour[48], generates 'area economies' that have advantages over economies of scale (Becattini, 1987). However, these 'localised systems of production and innovation' cannot be conceived without the substructure of the 'local community', which is the basis of their economic success. Because of the geographical proximity and, above all, the social intimacy of entrepreneurs, relations of cooperation and trust are built up alongside competition and market relations. These two dimensions are indissociable and essential to the formation of 'SME districts'. Becattini reiterates this: it is impossible to separate analysis of the production system from the social conditions underlying that system (in Pyke et al., 1990). According to Bagnasco (1988), like the market itself, the district is a 'social construct' that brings together a decentralised production system, unique ways of using labour and strong local cooperation mechanisms, as well as a self-regulating political system at local level (see the works of Trigilia), with socio-occupational groups being partners in local institutions guaranteeing the permanence and reproduction of the system.

It is because they have been unaware of the coexistence of all these elements in a single unit that a number of economic decision-makers have regularly toyed with the idea of importing the 'district' model into other national contexts (see the considerations of DATAR in France). This is also why a number of researchers have endlessly returned to the model, or to similar configurations, to refine its interpretation and compare it with current or earlier observations. For example, in France alone, we might mention the collective research coordinated by B. Ganne (1992). From an accumulation of research over the years, it finally emerges that the examples found elsewhere, in other national contexts, have remained exceptions that have never given rise to an Italian-style generalisation of the model. Simplifying somewhat, one might almost say that three schools of thought can be identified here: the most naive or most technocratic is the idea of trying to establish districts everywhere (DATAR); the one that one sees everywhere, from Italy to China, Taiwan to Peru, Brazil to India: works illustrating this school are cited in the survey of the literature by Benko et al. (1998); and finally, there is the school that sees the district as a socio-production model that is unique and highly specific to Italy: this is the line taken by Courault and Ganne, with the latter putting forward the very realistic notion that there is no need for peripheral areas to be integrated in 'localised production units' to guarantee the industrial success of some SMEs. He provides evidence of this in a forthcoming publication (1999) that combines the local and longitudinal approach to show that SMEs can develop alongside new types of geographical groupings (based, for example, on occupation-based approaches) that are very different from the 'localist' model of the Italian districts.

The notion of network: renewed analysis of relations between SMEs and large enterprises?

We shall now move from SME districts to 'systemised' or 'networked' SMEs. The former term focuses expressly on SMEs. Network or systems-based approaches look more particularly at relations between SMEs and large enterprises: some focus on the 'SME-isation' of groups in new production organisations at world level (Raveyre, 1988, 1999); others concentrate attention on the restructurings that are taking place as a result of SMEs' individual routes to internationalisation (Ganne,

[48] 'The district is a concrete example of the localised division of labour' (Becattini, 1992, p. 39).

1999); while still others put the emphasis on new forms of territorial structuring, based on new relationships between SMEs, between SMEs and markets, SMEs and groups, internal and external local relations (Rullani and Romano, 1998).

In any event, although there is no universal model of the SME, the network seems to prefigure some infinitely flexible and open extensive forms which, although they represent the continuation of district-based SME systems, might in the future become a favoured way of restructuring groups, bringing SMEs and large enterprises together. As regards methodology, however, it might be noted that these 'new forms of organisation' and interfirm relationships, particularly in the post-Fordist context, once again prove the need for improved integration of local and global analyses, qualitative research and macro-statistical studies. On this latter point, despite some recent inroads (see, in particular, the works of Hecquet and Lainé – 1998 – on industry in France), a statistical typology of networks has yet to be devised and is proving to be a highly complex task (INSEE, 1997).

3.2.5 The virtues of socioeconomic typologies: enterprise profiles, manager profiles

We have already seen the value of typologies, and typologies based on a multi-criteria, socioeconomic definition of SMEs are certainly the richest. Julien and GREPME (1997, pp. 1-16) attempt to draw up a relatively exhaustive bibliography before proposing a 'complex global typology' integrating several 'continuums': 'the material dimension (number of employees, assets, turnover), sector or branch of activity, type of market, centralisation or control and structure or organisation, level of independence, type of strategy followed, type of technology used and use or non-use of innovation' (idem, p. 10), and proposing a multidimensional definition of the concept of SME: small size, centralisation of management, little (internal) functional specialisation, an intuitive or relatively unformalised strategy, an internal information system that is relatively uncomplicated or not highly organised, and a simple external information system. Maqueda Lafuente in Spain has made similar proposals, including more qualitative criteria (1992, p. 16).

This is not the place to discuss these definitions, which we feel are flawed by many presuppositions, particularly the one concerning 'simplicity', which was a feature attributed to SMEs a long time ago by Mintzberg (1982). However, despite the good workability of quantitative variables, it has to be said that qualitative typologies have considerably enhanced knowledge of SMEs in recent years.

The multi-rationality of SME managers, according to M. Bauer

A very special place must be given here to typologies that combine analysis of *managers' sociological profiles* and analysis of *enterprise profiles*, for, as M. Bauer, expert on the subject, says – there can be no sociology of enterprise without a sociology of its managers, particularly when we are talking about SMEs (1990). In his examination of small business, Bauer (1993) proposes a model that he constructs in the form of a law on the multi-rationality of managers: 'an SME owner/manager works not only on the basis of an economic rationale, but also on the basis of a political rationale and a family rationale' (p. 12). Thus we have a 'tripod' based on *homo economicus* (selling), *homo politicus* (conserving) and *pater familias* (sharing). Whilst the rationality of *homo economicus* is socially valued, that of the two others is concealed by the skilful approach of managers and their firms – hidden, but no less effective for that, one might say.

However, there are also various different economic rationalities – that is, no fewer than five different figures, ordered in accordance with two dimensions: entrepreneurial and patrimonial, sometimes the two together. The same applies to *homo politicus*, whose various figures reflect the different ways of preparing succession, depending on whether there are potential successors in the enterprise, whether they belong to the family or not, whether there is just one successor or several. As for *pater familias*, his behaviour can be understood only with reference to his dynastic concerns. What is the degree of family/enterprise differentia-

tion (number of children working in the enterprise, number of children kept by the enterprise)? Bauer finishes by listing no fewer than 480 different SME management styles and, therefore, 480 different 'SMEs': according to him, this is the price we have to pay for moving away from the 'theoretical firm' invented by microeconomics and towards real enterprises. However, wary of too deterministic an interpretation of his theory, Bauer warns us that 'the role played by owner/managers in building 'their' enterprise explains why the typology of owner/managers is so similar to the typology of enterprises. Similar does not mean the same, however, and it would be ridiculous to confound analytically an enterprise and its owner/manager' (p. 225).

Kotthoff's sociology of small business

This same approach is taken by the works of Kotthoff (1993) in Germany: according to him, the paradigms and constructs that serve as reference frameworks or are used for organisational or management theories have nothing to do with the reality of SMEs. The difference between an SME and an LE begins with the basic notion of *organisation*. And, before all else, 'are small and medium-sized enterprises actually organisations?' (1993, p. 234). Nothing is less certain if organisation means: 'a permanent institution, which acquires relative independence by establishing a boundary between itself and its environment, which also renders itself largely independent, via membership roles, of the persons active within it, of their moods, personal fate and fluctuations, and which is public in nature and carries political weight owing to its size'. SMEs are, on the contrary, based on 'personality, with virtually no independence of their environment and no public character, and their permanence is more than a little precarious' (p. 234).

The personal and private nature of the family economy means its destiny is intimately bound up with that of the owner and his family because 'the entrepreneur is the focal point of the enterprise' (Gantzel, 1962). The entrepreneur is, then, the key to understanding the economics, organisation and management of SMEs. Certainly, not all SMEs are family businesses, but they can be 'familialist' without being patrimonial, as we have already shown (Bentabet et al., 1999). Of course, some new manager profiles are emerging (Ardenti and Vrain, 1995b, 1998), but, whatever their previous path and whatever their social and cultural capital, small entrepreneurs' limited ability to influence the market forces them into a pattern that is very different from the strategic planning that one is more likely to find in Les. 'Our investigation concludes that the "social breeding ground" for entrepreneurial success is the biographical constellation of the entrepreneur himself, whom I call the entrepreneurial social character' (p. 236). According to the reference publications, we find six or seven models of enterprises: 'the small family business, the "boss's" business; the dynamic/charismatic empire, the degenerate family enterprise; the manager-run enterprise deeply rooted in small-scale business, and the technocratic manager-run enterprise'.

We should be taking a risk if we were to enter into the richness of this nomenclature, which concerns not only managers' culture but also the culture shared by professional and managerial staff and employees. This subject is, in any case, covered in some depth elsewhere (Kotthoff and Reindl, 1990). We shall simply note three things: firstly, the typology is based on forms of social regulation ('*Sozialordnungen*'), including the background and role of the owner, the strength and nature of the hierarchy, working conditions, skills levels, methods of pay, nature of relations among workers, the strength of collective forms of representation (enterprise culture), and the surrounding social environment. Secondly, there are two possible forms of social order: the family-type 'pragmatic production community' and SMEs that are already subject to a bureaucratic, authoritarian order ('*seelenlose Arbeitshäuser*' or 'factories without soul'). The former is based on close, interdependent relationships between owner and employees ('*gemeinschaftliche Sozialordnung*'); the second is known as 'instrumental' ('*instrumentalistische Sozialordnung*').

A general feature of the world of SMEs is the predominance of the community-based social order, which applies in three-quarters of the cases studied. Thirdly, one might think there

Table 3.2: Typologies of entrepreneurs, according to various authors

Authors	**Boswell (1971)**	**Laufer (1975)**	**Lecointre (1977)**	**Marchesnay (1988)**	**Marmuse (1992)**
Typologies proposed	conservative rational	**manager and innovator**	**autonomous family production organisations**	PIG' entrepreneur (permanence-independence-growth)	craftsman
	expansionist	owner			entrepreneur
	craftsman	technician			manager
	entrepreneur	craftsman	**'survival enterprises'**	'GAP' entrepreneur (growth-autonomy-permanence)	
	manager		growth enterprises		

Source: Ivanaj and Géhin, 1997, p. 86.

would be a relationship, even some coherence, between enterprise policy, labour system and method of social regulation ('*soziale Ordnung*'), as argued by some French authors (Bentabet et al., 1999). According to Kotthoff and Reindl (1990), this is not the case: for example, SMEs in the machine tools sector, which are product-focused and have a very highly skilled labour system, might be based on the same 'social order' as small enterprises in the textiles and clothing industry, which, on the contrary, have their eye on economies of scale and operate in a highly Taylorist labour system. This literary debate merits further research.

Other authors, such as Ivanaj and Géhin (1997) in France, explore 'the relations between the manager's values, perceived as a value system, and strategic behaviour'. This covers, for example, aspects as diverse as sociocultural choices (religion, politics, the family, the individual, work, etc.) and entrepreneurial values (acceptance of risk, conception of growth, profit, security, etc.). Ivanaj and Géhin offer a relatively full survey of recent research in this field in the French-speaking countries and, for example, provide a table of the most commonly used typologies (see Table 3.2).

It is of this tradition that our own works are a part, seeking to identify the links between market strategies, labour management practices and training in very small enterprises (Bentabet et al., 1999, pp. 99-117). On the basis of qualitative research covering eight sectors of activity, we have identified six variables explaining VSEs' practices (sector/industry, legal status and place in the chain of value, territorial roots, degree of structuring of occupations exercised, strategic orientations and managers' career path and profile). This gives rise to a model constructed on the basis of the continuum and breaks between three stylised VSE types (traditional independent VSEs; managerial VSEs, that is, ones that are 'integrated' in large groups or 'modernised'; and entrepreneurial VSEs.

3.2.6 Ethnographic studies

Finally, we need to mention a number of works deriving explicitly from the ethnographic method, which tend either to be based on 'participatory observation', as in the case of Holliday (1995) or Ram (1994), or to be part of the current of action-research or 'interactive research' applied to management, as propounded by Plane (1998). In the former case, researchers study 'the real life of the organisation of production' and try to understand the players' behaviour patterns from their point of view. In the latter, researchers formulate scientific or operational knowledge on the basis of four principles: '- the knowledge formulated is based on fieldwork; – fieldwork is adapted to facts and situations that might influence it; – the players have an important role in the research process; – the researchers are responsible for interpreting the information and theoretical constructs deriving from the research'. Researchers should, in particular, focus on the relationships between

Table 3.3: The fate of newly-created or re-launched enterprises in France (by sector)

Survival rate after five years	1987-1992
Agri-foodstuffs industry	62 %
Hotel and catering trade	44 %
Household services	66 %
Industry	53 %
Enterprise services	54 %
Transport and tele-communications	53 %
Commerce	44 %
Construction and civil engineering	49 %

Source: D. Francoz and J. Bonneau (1994).

'the formal and the informal', 'the visible and the concealed', 'words and actions', 'what is implicit and what is explicit'. Furthermore, all of this research is based on intensive, qualitative methodologies that are highly appropriate to the formulation of theories, which can then be complemented by empirical methods of verification of a statistical nature.

3.3 From 'Schumpeterist' ('Schumpeterian') entrepreneur to socialised creator

As we shall see later, it is important not to confuse entrepreneurship with employment creation. The fact that a lot of new enterprises are being created does not necessarily mean that a lot of jobs are being created, too (Schmidt N., 1989). Nor should we confuse *entrepreneur profile* and *manager profile*: for, although an entrepreneur is capable of creating an enterprise by introducing 'new combinations of means of production' (Schumpeter, 1935), a manager will ensure its survival. Although entrepreneurship 'is not a profession' (idem, p. 325), a manager's realism is not always reflected in strong creativity or the expansion of activities. Yet these two figures represent two complementary aspects that are a major focus of attention for today's decision-makers (OECD, 1998a) and the subject of a particularly abundant literature, especially in the English-speaking countries: *creation* (what are the factors of success and failure on start-up?) and *growth*, *permanence* or *performance* (is it possible to identify in advance people who are capable of creating enterprises with strong potential for development?[49] How can we support them?)

3.3.1 Flourishing research that demystifies the image of the 'inspired' entrepreneur

On this point, following a euphoric phase during the 1980s, most research today offers a vision that is more 'lucid', 'more complex' and more measured with regard to enterprise creation and, first and foremost, its repercussions in terms of jobs (Saporta, 1994). We know, in particular, that no more than 50% of newly-created enterprises in Europe survive for more than five years. Of course, this survival rate varies from one sector to another, as is so clearly demonstrated by Francoz and Bonneau (1994, see Table 3.3), but it is usually lower for sole traders than it is for small enterprises involving more than one person. For example, Callies (1989a and b) shows that more than 60% of new enterprises still have no employees after four years. Also, 'most research shows that a rapid increase in employment by enterprise-creators is still a relatively rare occurrence, particularly if the creator began as a sole trader' (Saporta, 1994, p. 75). In France, a now rather old study that has served as a reference work (Brun and Mouriaux, 1993), which looked at 1 082 enterprises created in 1989, showed that only one of these enterprises had exceeded the threshold of 50 employees three years after start-up, and that only 12% employed more than five people. This latter percentage fell to 1% when the initial workforce comprised only the enterprise-creator.

In Germany, too, the 1980s saw a net increase in the number of small enterprises and jobs they had created (Paulini, 1997). However, Brüderl (1998) notes that there is plenty of room to feel pessimistic about the fact that a

[49] It should be noted that this category of entrepreneurship, known as 'continued entrepreneurship' because enterprise creation is followed by economic growth, jobs and investment, provides the continuum between *entrepreneur* and *manager*, as described earlier.

third of newly-created enterprises disappear during the first five years and that, of the survivors, only a quarter show a significant increase in jobs, meaning that only very few new enterprises actually manage to grow. There are nevertheless some positive aspects on the macroeconomic level since, according to Brüderl, the 4% of new enterprises that have a strong expansion dynamic are bearers of structural economic change. Even Marbach (1942) had noted that the value of SMEs lies not in their individual existence but in the aggregates they form. We therefore need to distinguish between the individual fragility of small enterprises and their strength as a group ('*Stärke des Aggregats*', Leicht and Strohmeyer, 1995, p. 7). This is a notion dear to Schumpeter: SMEs are a perfect illustration of the phenomenon of creative destruction and demographic turbulence (1934).

Nor should we have any misconceptions about recently-created innovative SEs: in Germany, their rate of creation is paradoxically slower than it was in the 1980s, with their proportion of new enterprises in manufacturing industry falling from 8% to 6.7% between 1990 and 1995 (Nerlinger, 1998). In the UK, Oakey (1991) obtained similar results in a piece of longitudinal research on the biotechnologies sector. These small 'high-tech' firms need regional university infrastructures and have little impact on enterprise and employment-creation dynamics at regional and national level. Of course, there are many aid programmes aimed at them, but these programmes tend to be fairly ineffectual because of lack of transparency. In France, Arnould and Abonnat (1999) identified no fewer than 37 different types of aid (at regional, national and European level) available in 1999 to small firms based on new information and communication technologies [NICTs]. Young innovative enterprises (particularly those using NICTs) need to be covered by some more in-depth research so that we can understand their medium and long-term development and their contribution both to the development of new industries and to employment. Work could also be done on international comparisons of their financing (Nerlinger, 1998). Generally speaking, however, virtually all the current research agrees that it is important not to overestimate the role that technology might play in generating employment.

3.3.2 Enterprise creation and the labour market

In order to understand the mechanisms of enterprise creation, many researchers have tried to identify the relationship between enterprise creation and the functioning of the labour market. On this point, everyone is aware of the unresolved controversy about 'push and pull factors' in the works of the prolific American researcher D. Audretsch (1993). On one side, the increase in enterprise creation is explained by a 'push' factor – an upsurge in the number of unemployed workers, who are, in some cases, being encouraged by public policy to create their own enterprises. On the other side, it is argued that enterprise creation is being 'pulled' by demand for additional goods and services or, in other words, by economic growth. In the USA, neither Audretsch himself, focusing on industry, nor other researchers taking a regional perspective (for example, Reynolds et al., 1993) have found any link between the rate of enterprise creation and the high level of unemployment. In fact, they have found quite the opposite, that is, that the number of new enterprises created is lowest in regions with high unemployment levels.

One might wonder whether these results can be generalised to cover Europe – either all or part of it. Indeed, a considerable amount of research has been done over the past few years in France and Germany on the phenomenon of enterprise creation by jobseekers. A distinction has even been drawn between 'entrepreneurial creations', which are the result of a project, calculation or rational forethought, and 'social-integration creations' by players whose objectives are more defensive and comprise exercising on their own account knowledge and know-how acquired during previous employment (Saporta, 1994). Several quite substantial works have shown the significance and effectiveness of public enterprise-creation aid for the unemployed (Aucouturier, 1997; Aucouturier et al., 1996).

However, the national and macrostatistical data in this field are both limited and uncon-

vincing. With one exception: Johannisson (1993) in Sweden imitates Reynolds in looking at the determinants of enterprise 'volatility', region by region. Having identified four conditions that affect enterprise creation (market for goods or services, availability of resources, start-up environment and the occupational backgrounds of those creating enterprises), he stresses the importance of the last two, which concern the spatial and sociological sources of creativity (presence of craft workers, local networks, availability and dissemination of role models, etc.), which are similar to the 'industrial atmosphere', 'the air that one breathes', as described by Marshall. Again in Sweden, Davidsson et al. (1993) examine 80 labour markets and focus on the qualitative factors that influence SME dynamics, such as enterprise networks, etc.

Now at last, apart from the difficulty of making international comparisons on this tricky issue, we realise that rates of enterprise creation (usually calculated in relation to 10 000 people aged 16-64) not only vary from country to country (OECD, 1998, p. 53), but that the most marked differences are within individual countries (Reynolds and Storey, 1993), with the rate varying, for example, from 1 to 4 in France or the USA, 1 to 3 in Italy and 1 to 2 in Germany.

We shall not be returning to the question of the value of studying the beneficial effects of the geographical concentration of enterprises and economic activities (Isard, 1956, cited by Bonnet). Instead, we shall concentrate on two other starting points mentioned repeatedly in the European literature: sectoral criteria and the characteristics of entrepreneurs. The former relate to an almost deterministic conception of enterprise creation; the latter are of a more sociological nature (and perhaps equally strong determinants), for they cannot be reduced to the simple psychological profiles or other 'cognitive maps' of enterprise-creators, which are often wrongly considered to be the ultimate explanatory factor.

3.3.3 Sectoral variables

On this first point, we can draw on the European Commission's fifth report on *Enterprises in Europe* (1998, pp. 65-80). Apart from mentioning the influence of economic cycles (which seem once again to contradict the theory concerning unemployment's 'push effect' on enterprise creation) and the fact that there are some economic sectors in which SMEs predominate (vehicle recovery, sales and repairs; personal services; hotel and catering trade, etc.) and others dominated by large enterprises (post and telecommunications, mining and energy, automotive industry, etc.), the aforementioned document distinguishes two major European areas in the mid-1990s: the South (Portugal, Spain, Italy and Greece), plus France, is characterised by a lower growth rate of enterprise creation in service activities (about one third of new enterprises) and by a very high rate of creation in commerce and the hotel and catering trade (ranging from 41.2% in Spain to 45% in Portugal); and the North (Denmark, the Netherlands, Finland, Sweden and the UK), where, on the contrary, the majority of enterprise creations are in the service sector (usually close on 50%), with every country in the North seeing more enterprise creation in services than in commerce and the hotel and catering trade. In these latter sectors, however, closures are exceeding creations in both North and South, whilst the service sector is experiencing more creations than closures (except in Sweden).

Yet, this approach, using aggregate figures, seems inadequate. Which services are we talking about? Services for private individuals, neighbourhood services or high-added-value services for enterprises? This is why attempts to produce a model based on intra-sectoral methods of regulating the demographics of establishments or enterprises, such as the one proposed by Bonnet (1998), seem useful. Using economic indicators, Bonnet suggests that we distinguish four methods of regulation – we leave it up to the reader to match the corresponding subsectors with each of the following definitions:

'❑ *competitive sectors that are slowing down*, where we are seeing a drop in the number of establishments and enterprises, though with the possibility of a strong revival if the barriers to entry (measured by average size of workforce) are weak;

- *growing competitive sectors*, where numbers of establishments and enterprises are rising, particularly in sectors with weak entry barriers, and where the number of enterprise closures (voluntary cessation of activity and bankruptcy) is increasing because of the high number of enterprise creations;

- *concentrated sectors*, which set up *strategic entry barriers* (price policies, commercial capacities, etc.) that obstruct enterprise creation. This means there is a low turnover in terms of the production fabric;

- finally, *concentrated sectors* which operate a more subtle regulation of enterprise flows, combining, on the one hand, *opportunities for entry into market niches* or technological niches (presence of markets that are dismissed by large enterprises because they require the use of highly specialised technologies which are dependent upon the knowledge of a few specialists who have decided to exploit some spheres on their own account) and, on the other, *restructurings*.'

3.3.4 The social determinants of 'enterprise spirit'

An imagery deriving from neoclassical thought continues to perceive the entrepreneur as an isolated player, free of all determination, spontaneous and endowed with exceptional personal faculties that set him apart. This is the simplistic reading commonly applied to Schumpeter's theories[50]. However, most current research on entrepreneurs is trying to prove the influence of their 'social capital', their ability to '*entreprendre*' [undertake] (Boutillier and Uzunidis, 1999). Far from necessarily being an initiator or pioneer in an area in which 'imitators' dominate (Paulini, 1997), entrepreneurs tend to come at the end of a long family line, often through several generations, and operate in a clearly defined sociocultural environment. This is why we need to study their socio-occupational backgrounds, the beliefs that result from that background, and the processes that have led them to create an enterprise, being careful not to confuse, as is too often the case, 'their moral and ethical value system' (Max Weber), which usually tends towards *individualism*, with the process of creation, which instead highlights the *interactions* between creators and their original or current social or occupational environment, institutional aid or partnership opportunities (enterprise/university), circles of innovators, etc.

Hence the many current categorisations that distinguish, for example, entrepreneurs 'from entrepreneurial environments' and 'constrained entrepreneurs' (Bonnet, 1998), 'emerging entrepreneurs', capable of seizing a market opportunity previously un- or underexploited by other enterprises, and 'adaptive entrepreneurs', who are reacting to unemployment and/or job insecurity (Marchesnay, 1986). Hence also the value of studies that cover the transitions between paid employment or unemployment and enterprise creation and self-employment (on this point, see the works of Caussat and Olier, 1997; Aucouturier, 1994, 1996, for France). In particular, Aucouturier shows that unemployed people in receipt of aid for enterprise creation usually create smaller enterprises than other entrepreneurs, that they are, in other words, not employers in the same way as other entrepreneurs (82% have no employees and three-quarters of them are sole traders, particularly in the craft sector and commerce).

Hence, finally, a recent focus on alternative forms of creation and enterprise: 'new socio-economic entrepreneurship' (OECD, 1998, pp. 125-139), 'integration enterprises', most of which are very small, 'associative' or 'intermediate' enterprises, etc., not forgetting research on 'interstitial' entrepreneurial crea-

[50] Indeed, it is at the price of a loose interpretation that the Schumpeterist entrepreneur appears to be an isolated player in full control of his intentions for, although for Schumpeter, an entrepreneur questions routines, he is nonetheless influenced by the socioeconomic system of which he is a part: 'economic and social phenomena are moved by an internal impulse and the resulting situations force individuals and groups to adopt, for better or for worse, specific patterns of behaviour: not, of course, because these situations deprive them of their freedom of choice, but because they shape their preferences and reduce the number of choices open to them' (1979, p. 17).

tivity in the urban environment (Roulleau-Berger et al., 1997) or in immigrant communities in many European countries.

In the end, it is the figure of the 'socialised' entrepreneur that emerges, whether researchers place the emphasis on family environment (Carrasco, 1997; Lafferrère, 1998; Boutiller and Uzunidis, 1999), sociocultural and political context (as in the case of the Italian industrial districts or 'regionalist' studies of the UK and Sweden), or on the individual occupational backgrounds of enterprise-creators, and especially that of the professional or managerial staff who leave large enterprises or consultancies to set up their own small enterprise (case studies by Ardenti and Vrain, 1998).

In the first case, there is abundant literature and it would be presumptuous to attempt to draw up an inventory. We shall, however, mention the work of Monchois and Bonneau (1996) who, on the basis of an extensive study of 81 000 newly-created enterprises in 1994, show that 42.1% of those creating or relaunching them had previously been in employment, 43.6% had been unemployed (61% for less than a year) and 14.3% had been occupationally inactive. Asked whether anybody in their family was an enterprise head or in self-employment, 72% said yes and 28% said no. Similar results have been obtained by a number of research projects at European level, both recently and in the past (Gollac and Laulhé, 1987; Viennet, 1988; Keeble and Walker, 1993). Kombou and Kochanski (1988) also demonstrate the influence of the enterprise-creator's social category on the sector and size of the enterprise created.

So, what is to be done about the difficulty of gaining access to credit, which is often said to prevent potential entrepreneurs from putting their ideas into action? Of course, the hypothesis of a connection between a person's inheritance and the likelihood of their setting up in business on their own account has been formulated and verified many times on the econometric level, particularly in the English-speaking countries. What emerges from the most recent research on entrepreneurship, however, is that policies to aid or encourage enterprise creation cannot be reduced to their financial dimension or replace the transmission of 'informal human capital' (Lafferrère, 1998)[51].

These results determine our understanding of the limitations of the most voluntarist public policies that seek either to promote enterprise creation by limiting unemployment benefits (leverage on the supply side of labour) or to arouse or reawaken 'the enterprise spirit' or 'entrepreneurial culture' by lowering the cost of labour, reducing administrative constraints and costs or neutralising trade union pressure (leverage on the demand side). The former ignore the fact that it is in the regions least affected by unemployment that enterprise creation is most dynamic, as shown by Meager (1992) in the cases of Germany and the UK; the latter, by doing nothing about the social factors that determine people's ability to become entrepreneurs and offering indiscriminate support to SMEs, fail both to stay the unequal development (on both the socio-

[51] Laferrère's research in France offers some very interesting findings: firstly, 64% of self-employed people have a self-employed father or father-in-law (and the figure is still 30% if we exclude farmers); self-employed people have few qualifications (51% did not progress beyond primary-school studies and 9% have a university qualification, as against 39% and 17% for all employees, excluding self-employed people in the liberal professions). Also, among self-employed people, qualifications (particularly beyond *baccalauréat* level) tend to have a negative effect on the probability of becoming an entrepreneur; in other words, the more qualified the son of a self-employed person is, the less likely he is to become a self-employed entrepreneur. These comments apply particularly to self-employed traders or craftspeople, as opposed to 'heads of enterprise', whose formal human capital is often similar to that of employed people. Finally, we should note a very important finding: using a variable of 'length of time between leaving the school or university system and entering paid work', Lafferrère (1998) finds this period to be twice as long in the case of self-employed sons of self-employed fathers as it is among employees (three years as against a year and a half). This means one might hypothesise that this period is a period of unpaid apprenticeship with the parent, which, though not leading to a recognised qualification, favours the informal transmission of entrepreneurial knowledge and know-how. An argument to remember for the third part of this report on vocational training.

logical and geographical levels) of this ability and, as we shall see, to create a significant number of jobs.

3.4 For a demography of SMEs nonetheless...

Despite the relativism that is a feature of their definition (see earlier in this report), we still need a demography of SMEs. In an economic context marked by significant change, it is as important to study their physiological dynamics as it is to study their anatomy or morphology. We therefore need to pay attention to their *metabolism* when they are simply cruising along nicely, their *catabolism* when they are going through a period of decline and their *anabolism* when they are going through a period of development[52]. And why not a genetics of SMEs, or even an embryology, capable of identifying the forms and movements that precede their administrative birth?

3.4.1 From anatomy to physiology

With the demography of SMEs, we shift from anatomy to physiology, since it involves studying the creation and disappearance of enterprises or, more precisely, three aspects of their dynamics: 'their entry into, growth in and exit from' the production system (Moati et al., 1997, p. 5). We shall not dwell here on the formidable methodological and practical problems posed by measuring and observing these variables, particularly from a comparative viewpoint at European level. The European SME Observatory makes regular mention of it and demonstrates that there is no standard definition of the creation and disappearance of enterprises, that the breadth of the definition varies from one country to another (ENSR, 1996, pp. 131-136). Although, for example, Germany and Austria have high rates of creation, this is largely because these countries use a *broad definition* of the notion of creation. Conversely, although Denmark, Spain and Portugal have low creation rates, this is a reflection of the *narrow definitions* and sources adopted in these countries.

It is therefore important not to forget the extreme diversity of *entry* methods (creations from scratch, re-launches, takeovers and acquisitions)[53]. *Growth* also implies several independent or associated methods: internal, external, contractual (assignment, cooperation, alliance), and, of course, *exits* might imply redeployment (moving out of one sector into another), cessations of activity, voluntary changes in legal status (re-launch, takeover), or involuntary exits caused by failure or bankruptcy[54]. What sources do we use? What unit of investigation (establishment, enterprise, group)? What level of aggregation do we choose? These are the questions most commonly put forward, but we shall not be examining them here; instead, we shall be concentrating on the main themes and results that seem to be most certain in European research on the demography of SMEs.

Four main issues are usually covered in the literature: 1. Who are the new entrants and what processes underlie the emergence of new enterprises? 2. What are the main factors determining entries? 3. When the focus is on entry and exit flows, it is the phenomenon of volatility that holds the attention; 4. Finally, what interpretations can we make of the movements of SMEs as a whole in the economic system? We shall examine these questions one by one.

[52] Particularly the specific 'turbulence' of the SME environment. Birch, for example, commented that enterprises that develop harmoniously during their first five years then come up against difficulties and often disappear, whereas those that have reached maturity and show all the signs of good health have, by contrast, usually had a difficult beginning. Is it not possible that the metabolism so typical of young SMEs has an *educational purpose*, via trial and error and the gradual discovery of the most effective production combinations? (Dalle et Bounine, 1987).

[53] According to Bonneau and Monchois (1996), the breakdown of entry methods in the case of France in 1994 was as follows: 7.9% pure creation; 2.6% reactivation; 2.1% relaunch, or a total creation rate of 12.7% for the entire economy, excluding agriculture and financial services.

[54] In France, although 210 000-240 000 enterprises, or about 10% of all enterprises (excluding takeovers), cease trading every year, there are on average four times more cessations without liquidation than there are bankruptcies (Francoz, 1996).

Box 3.1. Enterprise creation and job creation: a few determining factors[56]

The size of the enterprise when it is created: enterprises that have no employees at the outset create fewer jobs (Dunne and Hughes, 1994; Saporta, 1994; Mouriaux, 1994).

Legal status: sole traders create fewer jobs than small structures taking the form of limited companies (Brun and Mouriaux, 1993).

Methods of creation: although pure creations are in the majority, they create fewer jobs than re-launches or acquisitions (Bonneau and Francoz, 1995).

Regional or local environment: spread of role models in the environment (Büchter, 1998; Johannisson, 1993); effects of geographical concentration (Italian industrial districts).

Trading strategy adopted by the enterprise-creator: independence from distribution circuits (or direct contact with the end client) promotes job creation, as do differentiation or niche strategies as opposed to price competition (Trouvé, 1999); subcontracting SMEs also tend to be less secure (Fieten, 1995; Koch and Strutynski, 1996).

Sector and/or branch of activity: services tend to create more jobs than industry (Leicht and Stockmann, 1993; Sorge, 1996), but intra-sectoral manoeuvres are more decisive than sectoral factors (Kotthoff and Reindl, 1990). There is some uncertainty about the number and quality of jobs created by small 'high-tech' firms (Oakey, 1991; Nerlinger, 1998).

Occupational background of enterprise-creators and self-employment: the former unemployed create more small enterprises than other groups (82% have no employees when they set up their enterprise); unemployed people in receipt of aid provide less employment than any other group of enterprise-creators and the enterprises they set up tend to be one-man businesses (three-quarters of enterprises, as against one enterprise in two created in the form of a company by a person previously in employment; the former unemployed usually set themselves up as craftspeople or salesmen (Aucouturier, 1997).

3.4.2 More pure creations than transfers[55], but fewer jobs than in existing or re-launched SMEs.

With regard to *new entrants* and despite the various definitions (broad or narrow), the majority of studies indicate that most entry flows are accounted for by very small structures that emerge from nothing. In France, in 1994, pure creations accounted for 57% of enterprise creations, and 73% involved enterprises with no employees (nearly 60% in industry alone). We shall see later, moreover, that these figures are vital if we are to understand the link between enterprise creation and job creation, since, combining case studies and national macrostatistical analyses, many authors succeed in demonstrating not only that recently-created enterprises make a lesser contribution to employment than creations involving the transfer of activities, but also that the more employees they have at the outset, the stronger their chances of creating jobs (Mouriaux, 1994; Bonneau, 1994; Bonneau and Francoz, 1995).

[55] These are forms of creation involving the total or partial transfer of existing activities (Mouriaux, 1994), that is, the creation of new subsidiaries, takeovers and mergers, delocations and changes of activity.

[56] Our concern here is less the factors determining enterprise creation than the factors that influence job creation via enterprise creation.

In other words, although one might rejoice at the fact that creations from nothing account for the large majority of new enterprises (57%, according to Bonneau, 1994), enterprise creation does not necessarily mean the creation of a new activity, since 'externalisation, virtual employment and also re-launches or the creation of subsidiaries are all parameters that limit the field of genuinely new enterprises'. Nor is it synonymous with 'job creation', since, during their first five years of existence, pure creations generate about half as many jobs as re-launches and acquisitions (Bonneau and Francoz, 1995). For example, in the early 1990s, just 1.1% of enterprises created and re-launched in France had more than 190 employees on start-up. In the UK, 74% of enterprises created between 1987 and 1989 employed fewer than five people in 1989 (Daly et al., cited by Love, 1996), but it might also be noted that the percentage of newly created enterprises whose initial workforce comprised 1-4 employees varied from 10% in Denmark and Sweden to 48% in the UK, 36% in the Netherlands, 21% in France and 26% in Italy (European Commission, 1998, p. 73). Generally speaking, however, enterprises entering the production system as a result of acquisition or the setting-up of a subsidiary are, on average, smaller than those resulting from pure creations, though they are also less numerous in most countries.

3.4.3 The main determinants of the demography of SMEs

Many works tackle this decisive issue, but without obtaining any definitive results. The factors determining the dynamics of SMEs, taken as meaning the development 'from birth to death, through all the changes they undergo in the interim', are both multiple and in complex interaction (Karlsson, Johannisson and Storey, 1993). This is why we have to appreciate and admire the systematic survey conducted by Moati et al. (1997) of the international literature – multidisciplinary, both theoretical and empirical, on the microeconomic and sectoral determinants of enterprise demography. This is why we shall pursue this point. In the case of microeconomic determinants, there is an abundant harvest leading to some unquestionable results, but they are insufficient to 'reveal the full complexity of the phenomena under study'. In the case of sectoral determinants, research is focusing increasingly on segmentations, the purpose being to demonstrate the intra-sectoral efficiency differentials between enterprises, as strategic variables (Trouvé, 1999).

It is becoming apparent, in the case of enterprises being created from scratch, that, in addition to sectoral variables and the 'technological regimes' (Audretsch, 1995) that are a feature of such enterprises (attractiveness, extent of entry barriers, etc.), the weight of the creator/manager's personal characteristics is vital (ability to seize opportunities, mobilisation of networks, personal background, etc.). This aspect is covered by all the research on 'entrepreneurship' that we mentioned earlier. We shall concentrate here on the factors determining growth and 'exit'.

As regards the growth of enterprises, the superiority of VSEs (fewer than 10 employees) with the largest number of employees at the time of creation is once again confirmed (Moati et al., 1997, p. 34; Dunne and Hughes, 1994, on British figures; Dunne et al., 1988, on the USA).

With respect to the microeconomic factors determining exit, it is mainly the size and age of enterprises that have been studied. We know that the survival rate of newly-created enterprises five years after start-up is 49% in France and that it is surprisingly similar and stable in most other European countries: 49-53% in the UK, 58% in Ireland, 45% in Italy, 60% in the Netherlands, 50% in Portugal, etc. (Moati et al., 1997, p. 41). Drawing on a study of establishments in the American manufacturing industry, Audretsch (1995) has shown, for example, that 57% of exits involve establishments that have been in operation for fewer than 10 years (of which 19% involve establishments that have been in operation for one or two years), as against 23% involving enterprises that have been in operation for more than 20 years.

Birch (1979, 1987) had already pointed to this: newly-created small enterprises are faced more than anything else by a serious selec-

tion process during their first few years of existence. It is also during this period that they can best test their relative efficiency level (Jovanovic, 1982), and those that survive for more than five years are not the ones that have experienced the fewest problems – quite the contrary (Dalle and Bounine, 1987). This means that, from a strictly empirical viewpoint, there is a link between the size and age of enterprises and the likelihood of them leaving the production system: in France, in 1996, 90% of failed enterprises had fewer than 10 employees. It might be argued that, whilst large enterprises (or establishments) are slimming down but have a greater chance of survival, the smallest, youngest SEs are more likely to disappear than in the past.

However, there are other factors determining exit, that is, the disappearance or transformation of small enterprises. This is paradoxically the case of 'entry methods', that is, their creation: in France, SINE data (INSEE) show, first and foremost, that, during SEs' first few years of existence, the mortality rate of pure creations is higher than that of re-launches. Then, size on entry, which should certainly be a decisive variable guiding public policy, is once again highlighted: still in France, the survival rate after five years for one-man businesses set up in 1987 was only 45%; the percentage rose in line with size, reaching 65% for enterprises with 6-9 employees and 10 employees or more (Bonneau and Thirion, 1997). The American and German figures are identical. Of course, accounting ratios (debts/own funds) are not ignored by management-centred research. For example, ability to access external funding: an enterprise that benefits from bank support has a stronger chance of survival. Similarly, more and more research is emphasising the importance of 'intangible' support networks (advice, training and information) in improving SEs' survival rates and chances of consolidation during periods of growth.

The profile of enterprise-creators is also used to explain SEs' likelihood of survival, particularly their age and the significance of their cultural capital (qualifications, occupational experience): examples are Brüderl et al. (1992) in Germany, Storey (1994) and Cressy (1996) on British firms, Bonneau and Francoz in France (1995), etc. In this case, as in the case of factors explaining growth, chances of survival are positively affected if the enterprise-creator is a former professional or managerial employee or was previously self-employed and has had access to advice during the start-up phase. Works on the strategic positioning of enterprises are both scarce and in their infancy because of economists' and sociologists' reluctance to acquire and apply the knowledge specific to management disciplines (Trouvé, 1999).

3.4.4 The ambivalence of technological intensity and innovation

One might also cite technological intensity and capacity for innovation, which EU decision-makers have often seen as an essential vector of the creation, development and survival of SMEs. However, these variables, which cannot be taken for granted, prove to be particularly ambivalent according to several pieces of research. As regards the technological intensity on which considerable expectations tend to be based (small 'high-tech' firms), it is by no means certain that it automatically guarantees SMEs' success or the generation of a significant number of jobs. It would be worth assessing the growing significance of 'investments of form', intangible investments (training, organisation, human-resource-management technologies, mobilisation of networks) in the new operational regimes being adopted by SMEs (De Banville and Vennin, 1999; Ganne, 1999).

Similarly, as regards innovation, it would be wrong to believe that SMEs are by nature more innovative than large enterprises or that those that develop the most strongly and rapidly have higher levels of productivity and innovative activity, as is a little too naively thought by a number of commentators (such as Geroski and Pomroy, 1990; Geroski, 1995), following on from Audretsch (1991). The reverse sometimes proves to be true, that is, that product and process innovation is positively correlated to increase in size (Hughes, 1997, Figure 4), and, here too, the most recent research tends not to exaggerate the importance of technological innovation, since there is no question of determinism (Baldwin, 1995), even if there is sometimes noted to be

a very positive relationship between innovation during one period and chances of survival during a later period (Cosh, Hughes and Wood, 1996a, b). What are we talking about? Breakaway innovations or incremental innovations (that is, marginal and progressive)? Product innovation, process innovation or organisational innovation, which it is increasingly difficult to separate? Not to mention the great variety of effects these different types of innovation might have on employment.

In many cases, it is neither technology nor innovation that are in themselves a distinct advantage for SMEs, but rather their place on the market and in the value chain or their geographical consolidation – which brings us back to research on sector, industry or system (Courault, Trouvé, 1999), even regional differences (see, on this point, Davidsson et al., 1993; research on 'innovative environments', Aydalot, 1986; Julien and Marchesnay, 1996, pp. 89-102; and virtually all the Italian researchers), when it is not a question of more subtle intra-sectoral differences (Kotthoff, 1993; Fernández, 1993) or strategic positioning (Trouvé, 1999).

As we shall see when we come to look at employment, SMEs tend to operate on interstitial markets. Where, despite everything, they enter a sector that is highly capital-intensive or characterised by substantial economies of scale – except in the case of an acquisition rather than a pure creation – SMEs' survival becomes more difficult and their independence is at risk. 'Grow rapidly or disappear', this is the dilemma these SMEs face when they come up against what Audretsch (1995) calls 'the barriers to survival'. The significance of these barriers, together with 'barriers to entry', means that the sectors concerned tend to contain a fringe of ephemeral small enterprises, which explains the high level of constant entry and exit flows and, therefore, SEs' volatility, at both sectoral and macroeconomic level (see, in particular, Dunne et al., 1988; Geroski, 1991).

It is clear that, provided we distinguish clearly, as advised by Evans and Siegfried (1992), between the influence of sectoral features on the demography of firms created from nothing and their influence on the demography of units created by firms *in situ*, the significance of the sector is confirmed. However, it is to be regretted that, on this point, most of the research currently available focuses almost exclusively on industrial sectors, when all the statistics show that service activities are more volatile. Also, sectoral analyses are too superficial and incapable of giving an account of the more subtle intrasectoral segmentations that alone can both explain some of the efficiency differences between enterprises in the same sector and demonstrate that SMEs and large enterprises in the same sector are not necessarily in competition with each other.

It is moreover this relationship between SMEs and large enterprises which forms the basis for the analyses of the current evolution of systems of production.

4. SMEs as players on the labour markets

What real contribution do SMEs currently make to employment? What characterises those SMEs that create the most jobs (key variables: size, sector, strategies)? Is it true, as is often said, that SMEs are the best places for getting young people into work, or older workers back into work? What is the current place of self-employment? These are the questions we shall try to answer here as we look in particular at the formative role of SMEs in labour market dynamics.

Most of the research published in the developed countries over the last 20 years has shown that small firms play the greatest role in creating new jobs. With unemployment rising, these findings clearly affected political and economic strategies, which therefore sought to encourage SMEs. Apparently simple statements nevertheless hide a large number of questions.

4.1 The quantitative contribution of SMEs to employment: an open question

For example, is it not too easy to confuse the demographic growth in the number of SMEs with the increase in jobs they provide? It is true that in the case of SMEs there is a close correlation between the creation or final clo-

sure of enterprises and the creation or gross destruction of jobs. This varies from one country to another, but it is always more evident for SMEs than for LEs. In Spain, in the period 1991-1995, the creation of new firms accounted on average for 38.5% of new jobs created in small firms (less than 200 employees) compared with 13% in large firms (more than 200); in terms of job losses, 22.7% were due to closures of small enterprises and only 16% to closures of large ones. Moreover, recently created enterprises show on average a 15% higher amount of gross job creation than other enterprises (Ruano, 1997).

On the other hand, international comparisons show that while SMEs are increasing as a proportion of all enterprises in most countries, in some employment is rising at the same time, while in others it is constant. Moreover, while, in any given country, there may be a net increase in the number of SMEs as a whole, this does not necessarily result in an increase in employment in all sections of the workforce. In the United Kingdom, for example, only Very Small Enterprises (VSEs) are experiencing net growth in both their number and the number of people they employ. Likewise in Germany, a lot of research has shown that it is firms with 1 to 19 employees in particular that are showing the clearest net employment growth[57].

At the same time, not all small enterprises, especially the smallest of them (VSEs), are likely to be in a transitional stage towards larger units. In the typology adopted by Madinier in 1986, he distinguished roughly between structurally *'dynamic'* small enterprises, which had been expanding steadily for several years, especially those in the tertiary sector with an average of 30 employees, then enterprises *in decline*, mostly with more than 60 employees, especially in the industrial sector, and finally mostly *stagnant* very small enterprises in the commerce and service sectors, which would remain very small or small. This typology is still valid in part today.

Another potential source of confusion is whether people speak of the general contribution made by SMEs to employment or to the *net creation of new jobs*. Are they talking about job creation by existing SMEs or by new ones? On this point, Birch himself had already made the distinction between 'new firms' and 'small firms expansion' (1979). Just as the creation of a firm does not necessarily mean the creation of new activity (see Part I), job creation does not mean the creation of new jobs.

Also, while some SMEs create a lot of jobs, others also destroy a lot. There are even some that create and destroy jobs simultaneously. More than that, those that create the most jobs are sometimes the ones that also destroy the most, as the French Employment Ministry's DMMO/EMMO surveys regularly show[58]! Hence the need for a clear distinction between stocks and flows of jobs (like stocks and flows of enterprises) and gross creations and destructions and net creations of jobs.

Finally, when speaking of the contribution made by SMEs to employment, we should always distinguish their endogenous growth from the flows of exogenous creations and destructions resulting from the dynamics of the productive apparatus (Bonneau, 1994)[59].

[57] In Japan, on the other hand, all sizes are growing in number, but their workforces are relatively constant (Doi and Cowling, 1998).

[58] Monthly Returns of Labour Movements and Monthly Surveys of Labour Movements. The first relate to firms with 50 employees or more, the second to those with between 10 and 49 employees.

[59] According to this author, if we define SMEs as all enterprises with a workforce of 10 to 499, we shall find that the change in their stock is in theory the result of five factors combined: VSEs (Very Small Enterprises) growing and crossing the 10-employee threshold, direct creations of enterprises with at least 10 employees from the outset, terminations of business, SME staff reductions that make them VSEs (again), and staff reductions or the reorganisation of production in large enterprises of 500 employees or more. Loveman and Sengenberger (1991) proposed five reasons for the rise in the proportion of total employment provided by enterprises in the developed economies: an increase in the creation of new enterprises; a fall in the mortality of small enterprises; an increase in the stock of small enterprises ('births minus deaths'); net job creation in existing small firms; and a fall in the number of jobs in existing large enterprises, making them, in the course of time, small firms (again).

All the questions raised bring us back first of all to a methodological debate from which we shall try to draw the main lessons. This debate is dealt with in particular in two OECD publications (1996-a; 1998: pp. 49-52). In most countries, macrostatistical corpuses are used to detect not only the relative performance of SMEs in job creation (gross, net) but also the main variables in the creation, destruction and simultaneous rotation of jobs.

4.1.1 The seminal work of D. Birch on the volume of employment

As we have already mentioned, it was David Birch (1979) who initiated a cycle of research on the relationship between enterprise size and job creation (see introduction) that has continued unbroken. He found that 82% of the new jobs created in the American economy between 1969 and 1976 were created by SMEs with less than 100 employees. He repeated the work (Birch et al., 1997) for the period 1992 to 1996 (86% of net job creations).

After Birch, a lot of studies claimed to reach similar findings, and for a long time these fed through into the official pronouncements of politicians and economic decision-makers. We saw earlier that the Anglo-Saxon tradition is particularly prolific, with, for example, Gallagher and Steward (1986), Doyle and Gallagher (1987), Daly et al. (1991); but if A.-G. Schmidt (1996) is to be believed, German researchers have not been outdone in the matter (Bade, 1985; Bock, 1985; Dahremöller, 1985; Irsch, 1985; Fritsch, 1984; Hull, 1984; Steinle, 1984). All these studies used longitudinal panel data and took more or less the same approach: they looked at the number of new jobs created by growing establishments or enterprises and the number of jobs destroyed by establishments or enterprises losing jobs and established the difference between the two, that is the net creation or destruction of employment. When the rates of job creation, job destruction and the net employment trend (job creations less destructions) were calculated by size of enterprise, small establishments or enterprises then generally seemed to have the highest rate of creation and destruction. Also, the net trend seemed greater for SMEs than in large enterprises.

4.1.2 An unquestionable contribution to the stock of jobs ...

No one denies that SMEs are 'providers' of jobs. In the EU alone, we have in fact seen that they now account for more than one job in two and, in particular, among them, VSEs (less than 10 employees) employ as many people as large enterprises (employing over 250), that is 33% as against 34%.

Neither is there any doubt that this proportion of jobs in SMEs (regardless of the statistical definition adopted) has grown steadily over the last twenty years (Sengenberger et al., 1990; Robson and Gallagher, 1994; Storey, 1994). This is a powerful and more or less general trend going hand in hand with the general reduction in the average size of enterprises and establishments, especially in manufacturing industry.

Finally, in the period 1988 to 1998, Very Small Enterprises seem to have stood up the best between 1990 and 1993, when all sizes of workforce were affected by the decline in employment (ENSR, 1996: p. 69, 1997: p. 62).

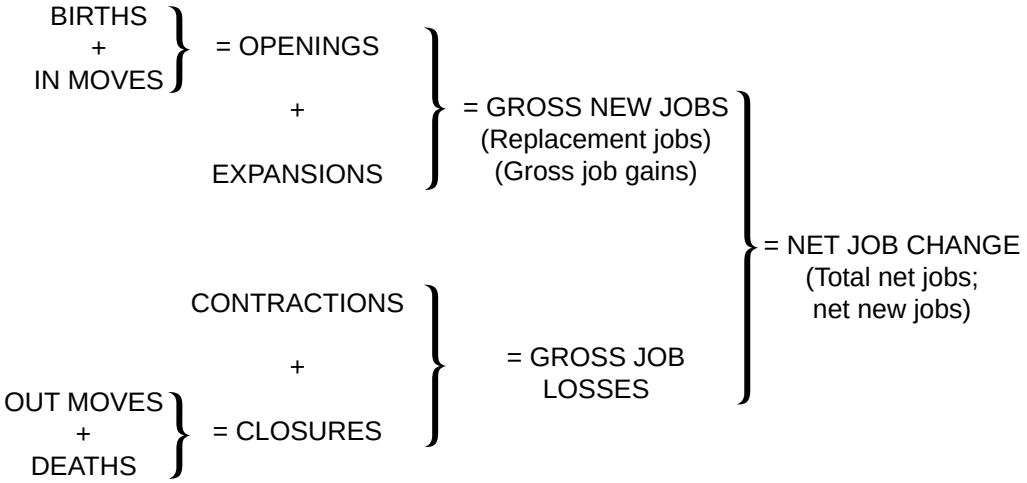
4.1.3 ... but questions regarding their role in net job creation

These are therefore all established facts, but if we look beyond excessive generalisations, a number of questions arise which, while not raising fundamental objections, do seriously put into perspective or clarify excessively blunt opinions. Apart from the national, regional and sectoral differences (Steinle, 1984) that must always be taken into account, we shall now briefly review the questions raised.

Methodological difficulties

In the most recent work on the contribution made by SMEs to the volume of employment, all or nearly all researchers have begun by stressing the methodological inadequacies and unsuitability of the databases used by Birch and his successors. For example, by using other techniques considered more reliable and subject to a strict distinction between 'gross creations' and 'net creations' of jobs according to a scheme repeated many times

Figure 4.1 The job generation process



Source: Storey and Johnson (1987a).
NB.: terms in parentheses are synonyms.

in the literature (Figure 2.1), some have arrived at very different results. Such is the case, for example, of Hughes (1997)[60], or Davis, Haltiwanger and Schuh (1996), who are probably the most critical of what they call the 'conventional wisdom'. Using new calculation techniques, these authors in fact show that while SMEs show larger gross job gains and losses than large enterprises, 'we find no strong or systematic relationship between net job growth rates and either firm or plant size' (1996: p. 312). They also pave the way for a more qualitative approach, claiming that large enterprises and existing jobs show greater security and 'durability' than small enterprises and new jobs.

In general, the literature contains two arguments and two caveats that have to do with the selection bias of the reference samples. They are set out in highly pedagogical fashion by Baldwin and Picot (1995: p. 319):

1. First, there is the 'size distribution fallacy', which fails to distinguish between stocks and flows of jobs (Maurin, 1995) and overlooks the threshold crossing phenomena between surveys (Story, 1994): a positive employment balance in one size category is just as likely to be the result of an increase in that particular category as of a reduction or increase in size categories immediately above or below. It is in fact difficult for successive interval panel studies to take account of such exogenous job movements. The very concept of a process is glossed over, and what makes matters even worse is that production systems are always being reconstructed and the size of establishments is tending to fall. Longitudinal data would therefore be needed allowing individual establishments to be identified. Even this approach however is not immune to error and no doubt requires considerable resources.

[60] 'Net job 'creation' is the difference between gross job 'creation' and gross job 'destruction'' (1997: 5).

2. Then there is the 'regression-to-the-mean fallacy' caused by temporary deviations between employment and the optimum size of enterprises in the long term. The ones that regress are those that have just grown in size, and those that increase have had to cut back their workforce temporarily (Hughes, 1997). By using different techniques to correct the effects of this bias, Baldwin and Picot (1995) nevertheless manage to show that the net creation of jobs is still higher in the smallest establishments than in the large ones.

It could also be pointed out that all this research was conducted in the main in the manufacturing sector and in the context of North America. The inclusion of service activities could change the picture radically. Moreover, what it tends to call into question is not the general contribution made by SMEs to employment but the overestimating of it.

Endogenous or exogenous creation?

Another question arises concerning the interpretation of the statistical data. Is the role played by SMEs in job creation strictly *endogenous* or is it derived from *exogenous effects*, in particular the process of slimming down or externalising the categories of larger enterprises?

This question is in particular very much to the fore in German literature starting from the mid-1980s. Reviewing most of the relevant work, A.-G. Schmidt (1996) notes for example that a large proportion of the jobs created in SMEs are the result either of strategic reorganisation by large enterprises seeking to focus on their core business (downsizing, outsourcing, development of subcontracting), or of the creation of subsidiaries or franchises: in a number of databases, for example, the opening of a new shop by a retailing group may appear as the creation of a new enterprise. In all these cases, even if there is a marked trend towards smaller and smaller production units, this is not sufficient reason to describe them as '*mittelständische Unternehmen*' [small and medium firms] in the qualitative sense (A.-G. Schmidt, 1996: p. 550).

The author draws from these findings a conclusion concerning public policy: 'if relevant statistical data are missing, then there is no sound empirical basis for economic policy decisions' (p. 551). In this, he is supported by a number of Anglo-Saxon authors who hold that, even if small firms are a major source of job creation, there is no sound evidence that public expenditure on job creation has a greater impact when concentrated exclusively on small firms rather than anywhere else (Brown, Hamilton and Medoff, 1990). And unless we are sticking to a traditional, restrictive definition of an SME as a strictly independent unit, why should SMEs forming part of a group, a chain, a district or a network not be described as SMEs? As Hilbert and Sperling stress, 'there is only so much that SMEs can do' [...] (1993: p. 194). From their study of small firms in the Paderborn area, they show that they are not in themselves capable of eliminating mass unemployment. They are, as it were, in the slipstream of Nixdorf, which provides them with an efficient infrastructure, especially for vocational training for their staff.

SMEs create a lot of jobs, but they also destroy a lot ...

Another thing highlighted in research attacking an over generalising view of SMEs as job-creators is that while small firms do create a lot of jobs, they also destroy a lot, which means that they are also and especially involved in *animating the labour market* with constant ebbs and flows and a redistribution of jobs. This was demonstrated at the time by Berthier and Parent (1994) or E. Maurin (1995) for France. Maurin, for example, showed that while small firms (less than 50 employees) made up 98% of the total and accounted for about 55% of jobs (including 26% in VSE alone, i.e. those employing less than 10), in order to obtain 'an annual net change in jobs whose amplitude rarely exceeds 1%, ten to fifteen times as many jobs are gained and lost, and the smaller the firms are, the more they are caught up in this job redistribution' (1995: p. 30). In similar vein, the work done by Birch, which is still quoted in admiration of 'the American job-creation machine', itself stressed the necessary turbulence of environments favourable to the spread and

even the growth of SMEs (Dalle and Bounine, 1987).

The same idea comes out in a lot of other research, including that by Davis and Haltiwanger (1996: p. 301) and by Oulton and Hart (1996): SMEs play a key role in the dynamics (creation and abolition, 'creative destruction': Kirchhoff, 1994) and regulation of labour markets. For many of them, the important thing is not to survive but to change. It is nevertheless true that this (liberal) business logic makes little of job instability and the employees who are caught up in these Brownian movements. This is the question we shall tackle in paragraphs 2.3 and 2.4.

... and of those that create jobs, only a few create a lot

Another thing that has an indirect bearing on public policy is that it has been known for a long time that not all small firms are net job-creators and that only a small number of 'fast growers' contribute to the category's overall performance. This is the common theme of a lot of empirical research that has been done in the United Kingdom in particular based on the work of Storey and Johnson (1986, 1987-a). Even if the findings do not always agree one hundred percent[61], the general idea has been confirmed many times over, in particular by Hughes (1997) and also by Gallagher and Miller (1991) who, after many doubts, ultimately come out in its support. In a comparison of Scotland and South East England, they find that the firms they describe as 'flyers' represent 18% of their sample but contribute 92% of the jobs created. Therefore, 'in essence, any apparent rapid rate of job creation amongst small firms as a whole is strongly influenced amongst small firms, the performance of the group is significantly influenced by only a few fast growers' (Atkinson and Strorey, 1994: p. 8).

Hence the question: what are the characteristics of the SMEs that create the most jobs?

Two questions follow, rather than one. What are the distinguishing characteristics (or 'features') of the minority of small firms that create the most jobs in their category (North, Smallbone and Leigh, 1994, and Westhead and Birley, 1995, for a remarkable analytical text)? What are the constraints, if any, preventing most small firms from growing and which are not experienced by small 'high-flying firms' or 'fast growers'? We shall try to answer these two questions in the section below (4.2), where we consider the main *determinants of SMEs' employment practice*.

Before doing so, however, let us draw two main conclusions from our scrutiny of this vast ocean of research into the relationship between the size of enterprises and their quantitative contribution to employment.

1. From a scientific point of view, first of all, we would point out the contradiction between the extreme sophistication of the measurements used to assess the precise place of SMEs in job creation[62] and the uncertain nature of the results finally obtained. We have to acknowledge the facts: 'the procedure for quantifying the precise contribution made by small firms to job creation is not wholly satisfactorily resolved in current times' (Cowling and Story, 1998: p. 8). In fact, they depend on the tools used, the quantity, nature and size of the enterprises included in different countries' databases, the period covered by the study, the stage in the economic cycle, etc.

2. Hence the tortuous formulations and extreme caution recommended by the European Commission in this field (European Commission, 1998). True, SMEs make an appreciable contribution to the stock of jobs in the countries of the EU and their place

[61] Thus, while Storey, Keam et al. consider that for every 100 enterprises created at the start of the 1980s, at the end of the decade a good quarter contribute 50% of the jobs created (1987), the same Storey notes (in 1994) that only 4% of enterprises created ten years earlier created 50% of the jobs in the surviving enterprises.

[62] According to Kirchhoff and Greene (1998: p. 167), authors such as Picot, Baldwin and Dupuy, for example, have detected no less than 18 methods of calculating the respective contributions of SMEs and LEs to job creation!

> in employment has been growing for several years. But while SMEs tend to create more jobs than large enterprises, they also destroy more. So much so that 'the net flow, that is the difference between job creation and job destruction, seems to be virtually constant irrespective of the size of the enterprise' and 'only the smallest enterprises seem to have a greater net flow', that is, they 'create more jobs than large enterprises'. We should add that this applies only to 'survivors', which are generally young and subject to a very harsh selection process. However, this does not mean that, among the survivors, 'all very small enterprises grow more rapidly than all large enterprises', since 'the rate of growth of enterprises belonging to the same workforce size class, or even the same sector of activity, varies greatly' and so on. In other words, there are other factors (than size) that determine growth in employment (ENSR, 1997: p. 148).

There are therefore two possible ways out of this conundrum. One would be *theoretical or methodological* and would involve examining in more depth and discussing both the data collected, the methods of statistical processing, and the interpretations. This is the path suggested by the OECD (1996), among others. On this point we must note that most of the critical studies made are far from being unanimous. Most of them were made in the United States and in the industrial sector (whereas most SMEs are found in services), and they need to be pursued in greater depth from both the theoretical and methodological point of view and from that of the still very limited international comparisons (European Commission, 1998). They should look at sectors most likely to show the greatest expansion in employment: business services, personal services, leisure, hotels and catering, health and education. Moreover, the studies referred to say nothing about the effect on job creation of the financial and strategic links between SEs and LEs.

Another possible way out is that despite the many uncertainties still surrounding the research mentioned, a few of the best substantiated findings could still be used to try to shed some light on public policies in spite of everything. This is what a large number of UK authors try to do in their discussions of the soundness of the Thatcherite policies of the 1980s. We have already seen that some consider that aids specifically targeted at SMEs could be a problem given the increasing interaction between them and large enterprises and that, secondly, an undifferentiated ('widespread') reduction in administrative and tax constraints could exacerbate the unequal growth in employment among SMEs, some (the 'growers') profiting from this windfall effect while others are left by the roadside because of their poor profitability. One could however, for the same reasons, question aids targeted exclusively at small firms with high potential.

Neither should we forget that the main interest of economic policy should not be the number of jobs but their quality that is their stability, durability and intrinsic quality. Davis and Haltiwanger (1996) have already stressed this, as has Ruano (1997) in Spain. They have nevertheless also drawn our attention to a possible new perverse effect: if public policies are more concerned with the durability and quality of jobs as an objective than with numbers, this destroys the argument that aid should by preference be directed at SMEs, since job quality generally increases with the size of the enterprise.

Finally, as Hughes remarks, the admirable exercises in measuring job creation tell us nothing about 'the direction of causation': 'finally, and perhaps most importantly, whatever may be claimed for job generation studies in terms of numbers of jobs created by size class, they are themselves merely accounting exercises and tell us nothing about the direction of causation' (1997: p. 8). This lack of causal analysis or 'analysis of causation' is moreover just as harmful to the scientific approach as it is to the needs of policy guidance: 'Why so few succeed in sustaining growth?'. The important thing in the latter is to be able to analyse and understand the factors that act in favour of the spectacular or discrete growth of some SMEs at the same time as those that prevent the others from expanding. Why should we not therefore be inter-

ested in the youngest SMEs, as advocated by Serra Peris (they grow more quickly, true, but they are more unstable and their development more risky)? On the other hand, why not promote the oldest SMEs, which are stable and survive, as Robson and Gallagher (1994) propose?

This causal relationship is the subject of a number of pieces of research which we shall now examine.

4.2 The main factors determining SME employment practice

Providing we can reconcile two literatures that are traditionally and inexorably separate (the one concerned with growth factors and the other focusing on job creation)[63], one might in general terms distinguish between two series of factors that have been the subject of particular study with a view to explaining how SMEs behave on the labour market.

4.2.1 The traditional variables

❑ The first 'package' would contain the work that has shown the effect of the major sociodemographic variables available in the crudest databases and which are easily objectified. We shall not return to these, since they have been amply commented on earlier in this paper. They are the *size* of the firm, of course, its *sector*, its *life cycle* (i.e. its age), and its legal *status*: independent (self-employed), integrated, in company form or family. On this latter point, it will be noted that most work shows that family SMEs ('family businesses') perform better economically and in terms of jobs than do non-family businesses (see an international survey of such research in Trouvé, 1999: pp. 31-44).

In his analysis of the specific behaviour and development of family businesses in the industrial sector in Spain during 1994 (drawing on the ESEE survey), Juan Casado (1996), after indicating that the skill structures and wages of family businesses are inferior to those of non-family businesses, shows that when the economic cycle was in a 'recovery' phase after the 1993 depression, family businesses (with less than 200 employees) created more jobs than non-family businesses (with less than 200 employees), with +3% growth compared to -0.2%, and more than family businesses with more than 200 employees, which remained stable, while non-family firms with more than 200 employees continued to shed jobs (p. 92). Nevertheless, it is true that today, in Spain as elsewhere, we are witnessing a substantial shift from the core of family funding to outside partners and capital and also an increase in foreign capital (Camisón, 1996-b, figures 18 and 19).

There are however a number of other factors, such as *the mode of production* or *innovation capacity*. According to Atkinson and Meager, who see size as the determining factor but not the only one ('employment size is clearly not the sole determinant of typical small business practices') (1994: p. 32), account must also be taken of four characteristics of the environment: the balance and tensions of supply and demand on the *external labour market*, the characteristics of *other competitors* (are they small or large enterprises? are the products they sell everyday products or not?), the *political and institutional regime* (favourable to SMEs or not?) and the *territorial physical environment* (see figure 4.3)[64].

❑ The second group might include work that is based either on frankly qualitative monographs or on the mobilisation of statistical classifications complemented by supplementary

[63] Hughes is in fact right to make a strict distinction between 'business growth' and 'job generation' (1997: p. 4), since the growth of enterprises (measured by their profitability, productivity or market share) does not necessarily result in a growth in their workforce. It is nevertheless true that prosperous enterprises tend to increase in size (Baldwin, 1995), although the relationship is not automatic, since there are firms whose growth is poor in terms of jobs.

[64] Apart from the Italian work already referred to, which sees the local system as a space for professional mobility (Solinas, 1982, 1996), the decentralisation taking place in most EU countries has, for example, resulted in certain institutional publications developing a regional or even subregional aspect in the light of structural fund programmes (European Commission, 1998: pp. 139-181).

segmentations that can be built only a posteriori from qualitative empirical studies[65]. We believe that over the last few years this second corpus has made the greatest contribution to our knowledge of SME behaviour on the labour market. Although it is part of this kind of approach, we shall not be returning to the effect of the *profile*, the *sociological trajectory* or the *career path* of SME managers. This is known to be a key variable that has given rise to a number of typologies which Ivanaj and Géhin (1997) have recently tried to review for the French-speaking countries. We have already looked at that several times above.

4.2.2 The strategic behaviour variable and SME models

We are more interested in looking at what seems to us to be a new breakthrough in a field that is all the more fertile because it requires a multidisciplinary approach. We are referring here to work on the effect of *competition strategies* on the employment practices of SMEs. We have referred elsewhere to this as yet not very systematised approach based on a survey of the international literature (Trouvé, 1999). We shall discuss it below on the basis of three series of publications: German, British and French.

The work of Leicht and the segmentationist theories

Most German work constantly stresses that, over all, the greatest net job gains observed since the mid-1970s are found in small firms with between 5 and 19 employees (Leicht, 1995; p. 85; Leicht, Strohmeyer, 1995: chart p. 20) and this expansion took place even in the manufacturing sector, which means that, in Germany at least, it is not due only to the development of services, as is too often believed. According to the *Statistisches Bundesamt* [German Federal Statistical Office], between 1970 and 1987 the growth in the rate of employment and enterprises was greatest in those with up to 49 employees, while all the sizes above that stagnated or declined. On the other hand, some sources say that VSEs with 1-4 employees and SEs with 20 to 49 experienced only a modest increase (Leicht and Stockmann, 1993).

What is the reason for SEs with 5 to 19 employees being so prosperous? That is the question that these authors tackle here. They point out first of all that these small enterprises operate in quite specific *branches*[66]: '*Expansion der Kleinbetriebe kommt nur in einer bestimmten 'Branchenumwelt*'' (Leicht, 1995: p. 178) and more particularly on markets not dominated by LEs. We are therefore back with the very old intuitions of W. Sombart, who believed that SMEs essentially occupy three specific areas: 'the area of **individualised** work, in which adaptation to the individual case is required (…); the area of **localised** work, i.e. work that must be carried out in a particular place, and in which a sales area of limited size serves as natural protection for the craft; the area of **repair work**, which is of little interest to capitalism' (Sombart, 1929: p. 27).

The specific potential of SMEs would therefore be explained by their roles as market specialists ('*Marktspezialisten*') and market localists ('*Marktlokalisten*') which enable them to retain in the long term ground that is difficult for LEs to access and which is of little interest to them. Leicht also argues that the *sector* is not enough to explain the expansion or decline of certain sizes of enterprises, since the true potential of SEs lies more than anything in their control of particular intra-sectoral segments that include types of production (series or to order, for example) and market. For example, in the small retailers sector we can see both the disappearance

[65] This is the case referred to below of the German works by Leicht; Leicht, Strohmeyer; Hilbert and Sperling.

[66] The authors referred to sometimes use the terms 'branch' and 'sector' without distinction, but we consider the former to be the more suitable because it specifically defines the activity (or activities) of those enterprises which, further on, we shall call the product/effective market pair(s). It is therefore closer to the enterprises' microeconomic operation than the term 'sector', a statistical category that embraces at macroeconomic level 'all enterprises with the same principal activity' (on this point, cf. INSEE, 1997-98 or Morvan, 1985: pp. 345-347).

of '*Tante-Emma-Läden*' (corner shops) and the new expansion of advanced technology centres, organic food shops, video rental shops, etc. For this reason, he proposes an approach that we shall call segmentationalist ('*ein segmentspezifisches Modell*') capable of differentiating SEs according to their ability to manoeuvre on the market.

He argues that the most prosperous SEs and the ones that generate the most employment occupy in particular segments where they are very close to the final customer, producing goods or services for which there is little demand or for which demand fluctuates greatly, at all events where SEs and LEs are not really in competition with each other. They also require a great deal of decentralisation and a high level of professionalism that most of the time is not conducive to rationalisation, internationalisation or standardisation. Such is the case, for example, of the building craft trades, material services ('*stoffliche Dienste*'), design, construction, installation, repair or maintenance activities, or technologically more modern activities (precision engineering, optics, computer assembly) and professional services to business (accountancy, consultancy) or to individuals (social and health services) that involve an ability to find tailor-made solutions to individual problems (Leicht and Strohmeyer, 1998).

Conversely, where there is direct (actual or potential) competition between SEs and LEs, the former are always under threat. Certain craft activities, for example, or branches covering inflexible basic needs (leather, clothing, food) have gradually been replaced by mass production or delocalised. SEs are therefore expanding in all activities that are remote from mass production and where Taylorist/Fordist concepts cannot apply. Contrary to the thesis put forward by Piore and Sabel (1984), however, the expansion of SEs and their production model does not, according to Leicht, presage the end of mass production, since they are not really in direct competition with LE methods of organisation. Rather, the specific nature of their field of activity makes them structural elements complementary to the production process of large organisations (Leicht, 1995: p. 179).

Alongside the work done by Leicht, we must also mention that done by Hilbert and Sperling (1993). In our opinion, these two authors go further in that they explain the strategic manoeuvres of prosperous, job-creating SEs and try to articulate them firstly with the career paths and profiles of their managers (by distinguishing between, for example, 'technical entrepreneurs' and 'managerial entrepreneurs') and, secondly, with the skill structures of their labour force. They therefore show that there is a great variety of possible developments open to SMEs. They could lie anywhere on a spectrum ranging from an 'offensive productive concept' to a 'defensive productive concept', depending on their degree of dependence on the market.

- In the first concept, the SEs representing about one third of their sample practise a *flexible specialisation* that protects them from dependency or from competing too much with LEs. They are found mainly in the mechanical engineering, machine tools and computer industry sectors. They survive because they specialise in one market (they are '*Markt-Spezialisten*'), because they are able to offer technical backup services and in particular because they have direct commercial access to the final consumer. These SEs develop a policy of having highly skilled staff, recruiting in particular young people from whom they demand a high level of commitment and flexibility. They are generally recent (appearing in the 1970s and 80s) and managed by 'technical entrepreneurs' (*technischer Entrepreneur*), frequently engineers with several years' professional experience in their sector. This offensive production system may of course benefit from a particularly favourable regional labour market, sometimes structured by the presence of large enterprises that play a supporting role: continuing training infrastructure, availability of skilled personnel, etc.

- At the other end of the spectrum, which represents around 40% of the enterprises studied, SEs are obliged to apply a *defensive concept of production*, often accompanied by economic retrenchment and staff cut-backs. Most of them are small firms in

the timber or textiles/clothing industries. Mainly subcontractors (they are '*Markt-Zulieferer*') dominated by their contractors and therefore insecure, one way or another they apply traditional rationalisation models: minimising costs and increasing productivity. Their flexibility is based more on a deregulation of labour relations than on new forms of organisation. They are found especially in the motor industry, mechanical engineering or furniture manufacture.

- Between these two extremes, Hilbert and Sperling identify two other types of SE (1993: pp. 20 et seq.): the 'Markt-Newcomer', that is new entrants, like those that explain the American employment miracle, especially in services. A smaller number are however also found in the manufacturing trades, especially in the creation of craft businesses (Weitzel, 1986); then the 'Markt-Lokalisten' who satisfy everyday needs for goods or personal or repair services in a limited area.

SMEs may therefore move in a broad spectrum ranging from the 'poverty economy' to 'niche production' ('*Zwischen Armutsökonomie und Nischenproduktion*') (Hilbert and Sperling, 1993: p. 130). Like Leicht, however, Hilbert and Sperling show there is no sectoral determinism. For example, in the motor industry, where dependent subcontracting SEs predominate, we can find a '*Produktstrategie der diversifierten Qualitätsproduktion*' (production strategy of diversified quality production) (Streeck, 1986). Likewise, we can find '*Markt-Spezialisten*' (market specialists) in textiles/clothing. These, it is true, are chiefly medium-sized firms that have the resources to give themselves direct access to distribution and the final consumer or to take control of design and innovation higher up the value chain.

For these authors, therefore, the business policy adopted by managers always predominates over the sectoral determinants which, for their part, do no more than define the room for manoeuvre open to the managers' strategic inspiration. This is more or less what Kotthoff and Reindl (1990) also find from their own qualitative empirical material. By focusing particularly on the machine-tool sector, which scientists often use as a model for an innovative and flexible KMU, they manage to distinguish no less than three major types of generic market strategy, analysing their links with work systems and labour relations. Thus, there are both *strategic-conceptual enterprise strategies* ('*strategisch-konzeptionelle Unternehmenspolitik*'), enterprises *shifting to markets* with *economies of scale* ('*auf Massenmärkte und Skalenerträge ausweichende Unternehmenspolitik*') and *traditional reactive strategies* ('*konventionnell orientierte reaktive Unternehmenspolitik*'), each with very different modes of organisation, production and labour mobilisation (1990: pp. 53-72). The same also applies in the furniture industry and in textiles/clothing, where SEs whose operation is based on a great variety of competitive advantages and handicaps may exist side by side.

The competitive variables

Hence the need to pursue further the recent research into the links between competition strategies and forms of employment and labour management in SMEs. There are serious obstacles to such an approach, which by implication involves bringing together the disciplines of industrial and labour economics, the sociology of enterprises and their managers, and management, which are normally institutionally separate, even though they have in common that they have all favoured the large enterprise model. Some studies are today showing the way, however. Of these, one might mention the work by Reid (1993) and Reid et al. (1993) in Great Britain, based on surveys that are already quite old (1985-1988) of recent enterprises (average three years old) employing between 8 and 15 people. They also try to combine quantitative and qualitative methods, field approaches and statistical data, while drawing on the 'competitive advantages' model inspired by M. Porter (1980, 1985).

This train of thought developed later and more sporadically in France owing to a persistent lack of interest in employment matters on the part of managers and no less chronic disdain by sociologists and economists for categories of analysis derived from stra-

tegic management (Julien and Marchesnay, 1988; Mahé de Boislandelle, 1998, 1st ed. 1988; Bentabet et al., 1999; or even Moati and Pouquet, 1996). Unlike G. Reid, most of these researchers are not interested solely in SEs in the start-up phase.

For example, Julien and Marchesnay formulated 'the strong hypothesis of a causal relationship between the firm's strategic management and the practices it adopts for taking on staff and, more generally, in labour management [...]. The policies adopted in labour management may vary according to the competitive advantage sought by the firm ['manager's objectives]' (1988: pp. 242 and 251). Mahé de Boislandelle related the employment variable to the 'basis of competitiveness adopted'. Bentabet et al. ventured to study micro-firms (very often neglected, even in research on SMEs) from intersectoral monographs, trying to model the links between market strategies and labour management and training behaviour. Finally, Moati and Pouquet used an extensive database of 233 industrial sectors to show that '80% of employment flows are intra-sectoral by nature', which means that they are caused mainly by differences in performance between enterprises in the same sector. According to these authors, two factors facilitate job creation: a favourable environment (growth sector, low intensity of competition, etc.) and 'a strategic positioning conducive to differentiation or focalisation, that is non-price competitiveness, which shields them from the imperative of chasing productivity'.

Lastly, we should note a recent compilation of international literature on competitive strategies and employment practices in SMEs (Trouvé, 1999). It is concerned in particular with enterprises in a 'front-line situation', that is fast growing and job-rich SEs, world class SMEs and SMEs based on new technologies. This systematic search comes to the same conclusions: even though the variables of size and sector still seem very significant, they do not go far enough in explaining the employment practices of the SMEs considered. They have to be linked to finer segmentations – through more qualitative approaches, for example – such as the profile and career path of the managers and their positioning strategy (intentional or 'emerging') on specialised or highly differentiated segments. On the other hand, the qualitative analysis of the forms of labour management they adopt would be worth looking at in more detail, as we shall now try to suggest.

4.3 Recourse to the external market and forms of labour management

By dint of studying the contribution made by SMEs to employment on the basis of creations/destructions of enterprises, we might forget that they grow, develop and reach a cruising speed at which they interact with the labour market in a specific way. However, it is only very recently that researchers have taken an interest in this. It is true that the articulation or engaging of small firms with the external labour market, what Atkinson and Meager call 'small business engagement with the external labour market' (1994: p. 38) are very different to those of a large firm. In particular, 'for the small business ... the process is likely to be irregular, less predictable and less capable of systematisation' (idem: p. 39).

In most countries, macrostatistical corpuses are likely to tell us first of all about small firms' *recruitment practices*, especially of young persons being absorbed into employment, from the characteristics of the young people and the jobs they are offered. Exploitations of this kind are nevertheless not yet very widespread, especially when it comes to international, sectoral or intrasectoral comparisons. While a programme of this kind could prove very fruitful, it is still very ambitious, especially since the role of SMEs in regulating employment cannot be considered independently of the schemes that exist in most European countries for introducing people into working life and questions of initial training and the related forms of social recognition of qualifications (Lefresne, 1998, 1999).

Faced with the destabilisation of the internal markets of large enterprises and, at the same time, the proliferation of new forms of employment on the periphery of what was hitherto the dominant model (temporary, part-time or fixed-term jobs, employment-un-

employment and training-employment transitions, insecure status, etc.), might not SMEs act like a 'transitional market' (Gazier, 1998; Schmid, 1998), like an area of 'intermediate positions' between the external market and the internal market (Lefresne, 1998, p. 111) for young persons looking for a way into working life? Looking beyond young people, might not small firms play a role in transition and mobility throughout working life, becoming the preferred way back into work for 'older workers'[67] who have been expelled from large organisations? On the other hand, up to what point is the labour market not nowadays segmented or polarised, with an unbridgeable gap between a relatively stable 'primary' sector of jobs and labour in the internal markets of large enterprises and a less stable, more externalised 'secondary' segment typical of small enterprises?

One thing is certain: the countless surveys of SMEs' supposed skills needs (as of their training 'needs') have shown their limits. Most often commissioned by economic and political decision-makers in a hurry, most of them have resulted only in false certainties ... and in measuring the gaps between the avowed intentions and actual practices of SME managers. Conversely, the more general research into *manpower management practices* in small firms (including job and training management practices) have often proved to be much more illuminating (see in particular Bentabet et al., 1999).

4.3.1 A privileged role in finding young people their first jobs ... and helping 'older' workers back into work

Most European statistics stress the fact that there is always a higher proportion of young workers (aged 15-24) in small enterprises (with less than 50 employees), especially in commerce and hotels and catering (European Commission, 1998: pp. 102-103). For the EU countries as a whole, this would in fact represent about 26% of the persons employed (or around 13% in VSEs and the same in enterprises employing between 11 and 49 persons), compared with only 10% in enterprises employing more than fifty.

In France, even though the DMMO-EMMO[68] surveys have not so far been used very much for this purpose and even though micro-firms (under 10 employees) remain outside their scope, they do provide a good picture of the flows of labour and jobs (entries and exits) by size of enterprise. They again show that it is the smallest establishments in the service, commerce, education/health and social sectors and in personal services that absorb the most entrants, with 18.8%, 18.4%, 13.5% and 11.7% respectively (i.e. 62.4% of entries for all these sectors together). These are however also the sectors with the most exits.

If we take SMEs to be enterprises with fewer than 200 employees, we find that they absorb nearly three-quarters of young people under the age of 25 (73.5%) and even more older workers (77%), 42.7% of them in SEs with fewer than 50 employees alone (Table 4.1)[69].

Looking at the levels of training shown in the Employment Survey data, we find that 42.2% of young people completing vocational training of levels V and V bis are taken on by VSEs, compared with 28% for levels III, II and I, most of whom (51%) are recruited by large enterprises with over 500 employees. There seems therefore to be quite a clear break between the two groups of beginners and of enterprises: there is a larger proportion of the

[67] According to the INSEE definition, 'older workers' are those over the age of 50.

[68] The Monthly Return of Labour Movements (DMMO) for establishments of 50 employees and over and the Survey of Labour Movements (EMMO) for establishments of 10 to 49 employees allow us to establish, among other things, both the number and the type of contracts concluded and the reasons for cancellation or leaving by occupational categories during each month or each quarter preceding the survey.

[69] The data in Table 4.1 and the figures that follow concerning the Employment Survey (Trouvé, 1996) are taken from personal processings of the DARES files (*Direction de l'Animation de la Recherche, des Etudes et des Statistiques* [Directorate for the Promotion of Research, Studies and Statistics], Ministry of Employment).

Table 4.1: Breakdown of entrants by age and size of enterprise in France

	Size of enterprise				
Age groups	**10-49 employees**	**50-99 employees**	**100-199 employees**	**200 employees and more**	**Total**
14-25 years	36.5 %	18.5 %	18.2 %	26.8 %	100 %
51 years and over	42.7 %	17.1 %	17.1 %	23.1 %	100 %

Source: Dares, DMMO, EMMO surveys, 1996.

less well qualified (levels V and below, i.e. V bis and VI) in SEs, while persons with higher education (especially vocational qualifications: levels III and above, i.e. II and I) are more easily absorbed by SMEs with more than 50 employees and especially by large enterprises employing more than 500. Young entrants of level IV (that is, leaving secondary education with the equivalent of ISCED 3 (International Standard Classification of Education in the European nomenclature) are more or less equally divided between enterprises of less than 50 employees and those with more than 50, but while this level seems to be a 'floor' for the larger enterprises, it looks more like a 'ceiling' for the smaller ones.

4.3.2 Internal markets and dualisation of labour in SMEs

The opposition between large enterprises and SMEs has all too often been superimposed on the dualist segmentation of internal market and external market and, even more, associated with the primary market – secondary market split. To simplify a little, we could therefore distinguish between large enterprises providing internal stability and mobility, high wages, good working conditions and career prospects and where the organisation would contribute to training for recognised qualifications ('primary market') and small enterprises where the opposite characteristics prevail, that is making much use of the external market, paying low wages, individualising the wage relationship and neglecting working conditions and the lever of continuing training ('secondary market').

This is without counting the fact that, in theory, internal markets are not confined to the administrative unit of the enterprise (there are trade or sector internal markets in which SMEs are involved and which allow employees to pass from one establishment to another without leaving their trade or profession, as in hotels and catering or building and civil engineering) or the physical boundaries of the establishment (e.g. establishments belonging to a network or forming part of a group). True, the alternative: renewal of the workforce / internal mobility is still statistically relevant for contrasting SMEs and large enterprises at least in part (Podevin, 1990; 1994), but an over-stylised reading of dualism fails to take proper account of a number of empirical observations that reveal an internal market and indeed a dualism of labour even within SMEs (Trouvé, 1995: pp. 148-150). Thus, it is not rare, even in very small enterprises, to see the coexistence of, on the one hand, a relatively stable and generally old market segment (employees of 10 to 15 years' standing), loyal and well trained, the hard core of the workforce, and, on the other, a segment of rather young workers moving on the periphery and whom Ses have a lot of difficulty in retaining (Bentabet et al., 1999: pp. 78-79) and it is no doubt in this light that the famous 'skills needs' of SMEs ought to be examined.

This is the 'mixed market' concept advanced by Gambier and Vernières (1991) and which would seem in the end to be the most appropriate for understanding that several forms of market may exist side by side in the same SME. Thus, 'the enterprise's employment practices would be the articulation of two aspects – internalisation and externalisation – that could at any given moment predominate to a greater or lesser extent'. Considering 'human

resources management' to be a border function on the intersection between the external and internal market, Hendry et al. (1991: pp. 37-39) are saying nothing different when they state: 'many of the SMEs possess a variety of skill groups and operate simultaneously within a number of labour markets', concluding by identifying no less than seven categories of market in their nevertheless small sample of SMEs (idem: pp. 28-36). If they are to be believed, there would be even more if a greater number of units were studied.

4.3.3 The hypothesis of SMEs as a 'transitional market'

Note also that while 22.6% of the young persons starting in VSEs in France are apprentices, no more than 3.4% are in large enterprises with more than 500 employees (Trouvé, 1996), which is also confirmed by the annual German panel surveys conducted by the IAB (*jährliche Betriebsbefragung des Instituts für Arbeitsmarkt- und Berufsforschung der Bundesanstalt für Arbeit*): small craft enterprises currently take on twice as many apprentices as large enterprises.

We should of course distinguish here the SMEs that take on the greatest number of young people according to the former's sector of activity and the level of qualification of the latter. We know, for example, that vast numbers of young unskilled building and construction workers join VSEs (54.8%) or enterprises with fewer than 50 employees (74.6%). Similarly, 48% of unskilled engineering workers start out in VSEs and 61% in Ses with less than 50 employees. On the other hand, unskilled handling workers tend to join firms with more than 50 employees (68%), especially medium-sized enterprises (employing 50-499), which themselves take on 46% of unskilled handling workers. Moreover, it is SMEs that take on the most new young sales staff (69.5%), especially VSEs (47.6%), while enterprises with more than 500 employees take only 17.4%. New young hotel workers are taken on by SEs (74%) and especially VSEs (44.7%).

However, if we add the not insignificant role of SMEs in re-employing jobseekers (Leicht points out, for example, that three-quarters of unemployed persons recruited in Germany in 1994 were taken on by enterprises with less than 50 employees – 1997: p. 50), and especially that much use is made of them in employment policy (Gubian, Holcblat, 1999), that would be enough to allow us to consider SMEs a real 'transitional market' (Schmid, 1998: p. 12; Schmid and Gazier, 1999) between training and employment (including the use of assistance schemes to get young people into work), between unemployment and employment (as we have just seen), between employment and withdrawal from working life (as we saw earlier), and between domestic work and employment (see the status of home helps in the configuration of one-person businesses). Such a hypothesis would, among other things, involve articulating analysis of SMEs' behaviour on the labour market with that of their role in individuals' career paths, not only when they first start work, but throughout their working lives.

Other French observations deserve to be mentioned and checked out for European comparison purposes. Among these one might single out that by Bruand (1991) based on Céreq career pattern surveys during the 1980s, according to which a significant proportion of young people starting out in the smallest enterprises (one third) move to a larger establishment in the first five years of their working lives. This would be in line with the DMMO and EMMO surveys already mentioned, which showed that the 'reasons for leaving' given by young persons under 25 included 18.5% 'resignations' in small enterprises compared with 8.5% in enterprises employing over 200 people, or with the comparison of first job stability rates arrived at by Céreq: 17% for VSEs and 47% for large enterprises. Which means that while SMEs play a considerable part in providing young people with their first jobs, the posts that they offer are far from being the most stable and therefore the most 'desirable' from their point of view. That is why many still regard them as 'staging posts', and the SMEs have a lot of difficulty in retaining staff. Other sources also confirm this kind of drift of young workers from small enterprises to medium-sized and large enterprises as they go through working life (Bruand, 1991).

Another finding could be stressed: despite their greater capacity to accommodate young persons with low skill levels, the pivotal role of SMEs and VSEs in particular in introducing young people to work has for some years now tended to extend to all young people, regardless of their initial level of training. Thus, Céreq's *Observatoire des Entrées dans la Vie Active* [Observatory of Entries into Working Life] showed that 30% of young people leaving higher education in 1992 were in 1994 working in enterprises with between 1 and 49 employees, and 13% in VSEs alone (Bentabet et al., 1999: pp. 45-46). Could this trend towards higher levels be connected with sectoral effects (development of high-value-added services), the shifting of Ses in the value chain, with, for example, the development of VSEs as part of large groups (franchising, retail chains, division into subsidiaries), the arrival of a new entrepreneurial class, or the greater loss of status of young graduates on the labour market? The work done by Dares and the Céreq's Generation 92 Survey should enable us to give a better answer to questions of this kind, but it is unfortunately not yet available.

4.3.4 The question of 'crossing thresholds'

The statistical data on the labour market and on the integration of young people into working life are not however enough to explain totally the recruitment practices observed in SMEs. If we are to understand them better, we must reintegrate them into a more general understanding of the methods of labour management in small structures. This is what we said in a recent publication (Bentabet et al., 1999) and it is supported by a number of Anglo-Saxon authors who consider the most important fields of human resources management in small enterprises still to be 'the selection and retention of staff' (Hornsby and Kuratko, 1990). That is why they are particularly interested in the required manpower characteristics, the sources used for recruitment, and the selection tools deployed by SMEs, most often comparing them with Les (Golhar, Deshpande, 1997), without for all that overlooking the 'motives', that is the representations underlying the behaviour of their managers.

A good example is given in a particularly thorough study by Atkinson and Meager (1994). Taking up an hypothesis formulated in their earlier work (Atkinson, Meager and Wilson), the two authors state that, in the course of their development, small enterprises have to cross four successive thresholds, each representing things that have to be taken into account in policies of assistance to SMEs, for example:

- *The 'entry threshold'*, which corresponds to the decision to take on an employee, especially for a self-employed person who crosses the threshold when he engages his first employee. Most of the time, he then uses casual workers, members of the family, or works long hours. This threshold is situated at zero employees.

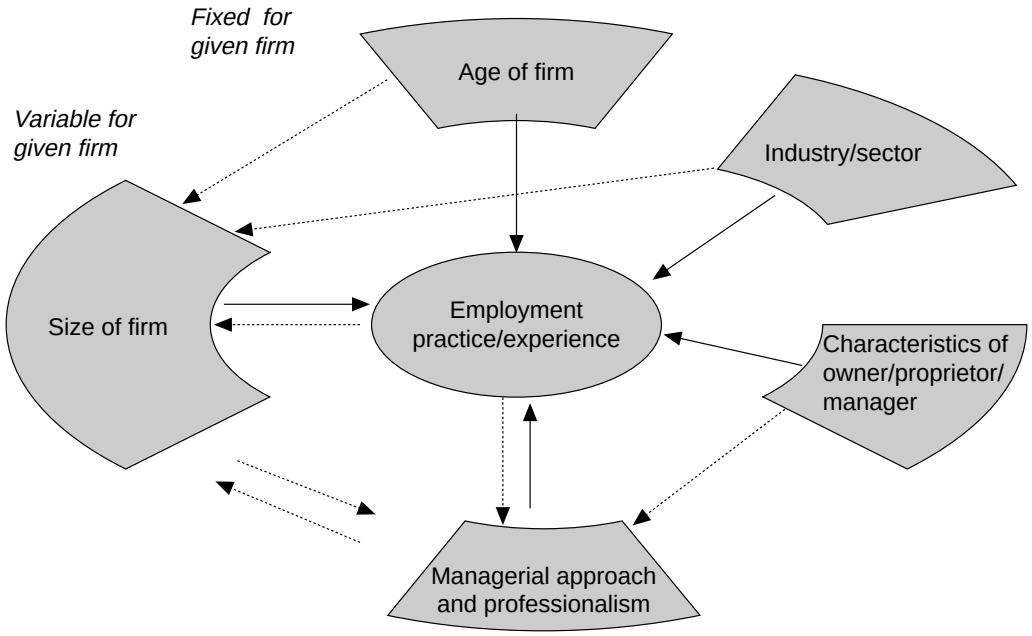
- *The 'delegation threshold'*, which represents the moment when the owner-manager (the 'one man band') is no longer self-sufficient and leaves production or direct sales, for example, to concern himself with management. This threshold does not lie at a particular level of workforce, but at the time when the small firm's quantitative growth is accompanied by a qualitative change in its method of organisation.

- *The 'formalisation threshold'*, which is the point where the organisation's complexity demands systematisation, both in order to organise the internal labour market and to have recourse to the external market. It is, for example, the moment when planned recruitment procedures appear.

- Finally, *the 'functional threshold'*, where the activity's development demands a personnel policy based on professionals and specialists and the emergence of specialist functions. In particular, we see the appearance of formal and ongoing relations with the labour market.

According to the two authors, while the SME's workforce is the 'inescapable' variable of its specific 'labour market behaviour', it is not the only one. That is why they propose an empirical analysis grid including four other key factors (Figure 4.2).

Figure 4.2: Characteristics of firm



Source: Atkinson and Meager, 1994: p. 35

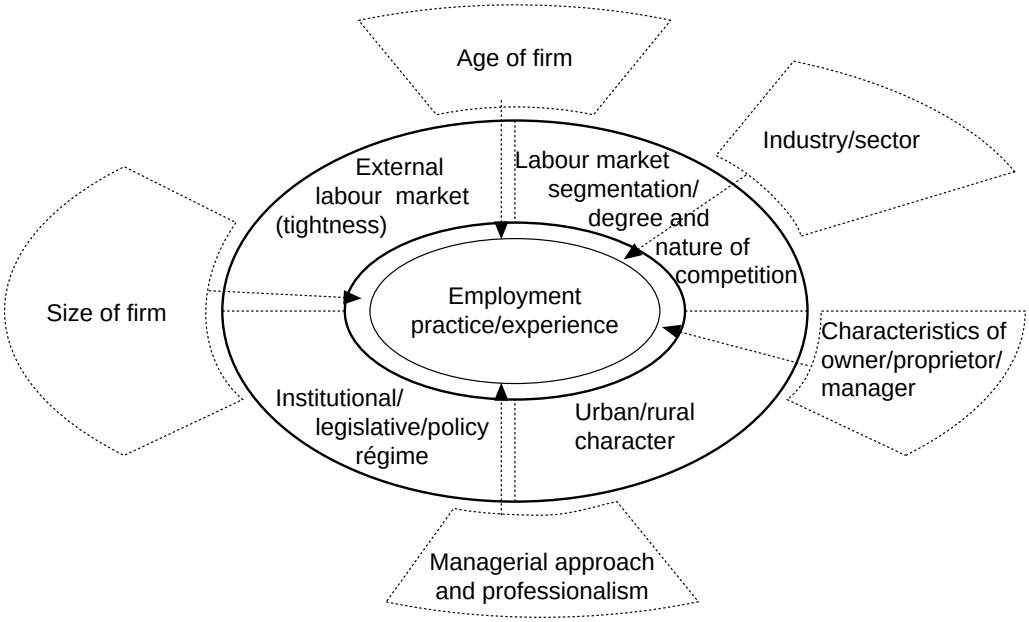
The influence of the foregoing five variables on the behaviour of small firms is also affected by many factors reflecting the characteristics of the environment in which the enterprise moves, according to the following scheme, which is self-explanatory:

The two authors state that, contrary to what is generally believed and unlike the financial problems that remain predominant regardless of their size, the recruitment problems encountered by small firms increase regularly with their size. Thus, Very Small Enterprises have fewer difficulties on this point (since they can take on family members or relations) than firms with 10 to 50 employees, for which recruitment is the second cause of problems with the environment.

As for the players who take the recruitment decision and the procedures they follow, they are closely dependent on the 'managerial structure and practices' current in SMEs. In a survey covering 2 836 units, the intervention of the one owner-manager, who is always the majority shareholder, can nevertheless increase from 50% to 83%, depending on the size of the enterprise, its location (rural/urban) or sector. However, the demand for labour is generally quite far removed from the conventional deterministic models derived from large organisations: apart from the powerful inertia of small structures to preserve their autonomy, we note in particular the lack of planning, the predominance of short-term influences over employment decisions and the use of more informal local selection procedures in the smallest SMEs or for the least skilled manpower needs. Thus, for manual workers access to the workforce 'by word of mouth' is still going strong in large enterprises (Atkinson and Meager, 1994: p. 70) and the area of the labour market explored depends closely on the occupation of the persons recruited: whereas managers tend to be recruited from a distance[70], three-quarters of

[70] *Small rapidly growing firms* are more willing to recruit managers from outside with experience of large enterprises; '*typical small firms*' tend to recruit internally, but when they do have recourse to the external market, they tend to recruit people who have worked or are working in small firms; finally, *small slowly growing enterprises* tend to recruit managers from within their sector because they are less likely 'to rock the boat'! On this point see also Ardenti and Vrain (1999).

Figure 4.3: Environmental characteristics



Source: Atkinson and Meager, 1994: p. 37

manual workers are contacted within a radius of 5 miles.

4.3.5 Extending the analysis to forms of labour management

More widely, we could look at work analysing the specific forms of labour management in SMEs[71] and including the employment (and training) practices found in them. Some authors have made this their speciality, such as Mahé de Boislandelle in France (1998 a and b), McEvoy in the United States (1984) or Pettigrew, Arthur and Hendry (1990) and again Hendry, Jones, Arthur and Pettigrew (1991) in Great Britain. In what is in the end quite a small stock of publications (at least in the opinion of Julien, 1997: p. 260), we might, with Mahé de Boislandelle (1998 b), pick out two other directions: firstly, the empirical analyses of the practices and representations of 'human resources management' (hereinafter HRM) in SMEs; and secondly, the attempts to formalise and construct theoretical concepts and frames of reference. Let us briefly look at these two groups.

Empirical studies: results tending to contradict the specificity theory

Most conventional research into HRM practices in small enterprises is essentially *evolutionist*, since most of the time it makes them into a smaller and incomplete model of the large enterprise. The conclusion then drawn is that there is some backwardness in their functional structure (only very rarely do they have a dedicated 'personnel management' section), inadequate planning and a failure to integrate human resources into the enterprise's strategy. A number of older authors have attributed the inefficiency or even the failure of certain SMEs to these failings (McEvoy, 1984).

Closer to our own position, on the other hand, some authors have argued for the *specificity theory* and have shown that there was far from being a consensus on the link between the

[71] We prefer to use this term here rather than 'Human Resources Management' (HRM) used by many authors, since the latter seems to have more overtones of the rational technologies of the large enterprise.

degree of formalisation, professionalisation or differentiation of HRM and the success of SMEs (Julien, 1997)[72], since the labour characteristics and needs of small enterprises are very different from those of the large enterprises (Deshpande and Golhar, 1994). And while some researchers (e.g. Hornsby and Kuratko, 1990) have sometimes highlighted a recent coming together of personnel practices between the two types of enterprise, SMEs are likely to owe this less to their internal progression than to their increasing integration into groups, the emergence of new managers (Ardenti and Vrain, 1999) or the spread of new forms of organisation like just-in-time and Total Quality Management (Deshpande and Golhar, 1994).

The theoretical models: convergence towards a contingency model

The theoretical models are geared towards approaches of the quota type, which in the end are the only ones able to take account of the extreme diversity of forms of labour management and their present dynamics in SMEs (Fabi, Garand et al., 1994). An almost impossible multitude of factors (internal and external) are involved in their organisation, activities and HRM practices, and Julien attempts a fairly exhaustive compilation of them from the literature (1997: pp. 293-299). He mentions: organisational size; field of activity; the enterprise's financial and material resources; organisational strategies; the sociodemographic profile of the entrepreneur, the managers and the employees; the entrepreneurial vision; the presence of trade unions and the SME's production system (idem: p. 300).

More or less the same idea is developed by Mahé de Boislandelle in France; he includes in his 'social mix' model (1998-a: pp. 113-114) *personal variables* concerning the manager, *contextual variables* (internal) of the organisation and *environmental variables* determining 'the SME's HRM system' and which are all pointers for future empirical research (idem: p. 72).

According to all these authors, like Julien and Marchesnay (1988: pp. 70 et seq.) who already distinguished between entrepreneurs whom they designated by the letters P.I.G. (perenniality, independence, growth) or G.A.P. (growth, autonomy, perenniality), the managers' vision and their system of representation play a particularly determining role in the nature, complexity, diversity and degree of formalisation of HRM (Garand, 1993, and Figure 4.4). Moreover, the *degree of formalisation* of HRM practices seems to be a key indicator of SME development. On this point, we should not, of course, overlook '*imported practices*' (resulting, for example, from the use of outside consultants or the subcontracting of certain HRM activities such as payroll management, employer training, the use of payroll software or training management) or '*induced practices*' for the purpose of contractual cooperation with other SMEs, such as franchising, relations with prime contractors, or ISO 9000 certification. These are very important dynamics capable of transforming HRM practices radically (on this point see Ardenti and Vrain, 1998). This is what makes Bentabet et al. (1999) say that all the conditions are now present for the emergence, even in a VSE context, of a managerial model of rationalised or 'modernised' human resources management.

Like these last authors, Hendry et al. (1991) consider it essential to locate the practices of HR development in SMEs in relation to their market and competitiveness strategies. They stress the importance of these strategies and of the process of organisational development, that is the life cycle and age of the enterprises,

[72] If Aragón Sánchez and Sánchez Marín (1998) are to be believed, nothing can be taken completely for granted about the relationship between methods of HRM and competitiveness, either. In an empirical study of 602 industrial SMEs in the Murcia region, they ask whether the SMEs that are the most competitive according to the resources and skills theory (technological capital, reputation, quality, size, internationalisation) have HRM practices that are significantly different from the less competitive enterprises. While some findings confirm what was expected (the most competitive SMEs are the ones that give the most training and have put in place a system of staff appraisal), others appear more paradoxical: for example, the most competitive enterprises are the ones with the highest proportion of jobs on fixed-term contracts, they do not particularly value independent working or job security, etc. This deserves to be examined in greater depth.

Figure 4.4: Manager profiling axes

Action	Operation	<---------->	Development
Involvement	Low personal risk	<---------->	High personal risk
Methodology	Logical analysis	<---------->	Intuitive approach
Representations	Immediate tools	<---------->	Long-term vision
Values	Collective ideology	<---------->	Individual ideology
Relations	A priori trust	<---------->	A priori distrust
Ownership	Willingness to share	<---------->	Refusal to share
Continuity	Short-term gain	<---------->	Quest for perenniality

The arrows (<----->) indicate that the position on each axis lies on a continuum stretching from one extreme to the other.
Source: Mahé de Boislandelle, 1998: p. 20.

for understanding their skill needs. That is without a doubt an extremely fruitful avenue of research for the future if we are to gain a better understanding of the articulations between strategic behaviour, performance and methods of human resources management in SMEs.

4.4 The current outbreak of work on job quality

So far, we have looked at the contribution that SMEs make to employment only from a quantitative point of view and it must be said that most research in Europe and elsewhere has given particular precedence to this point of view. However, we have for some years now been witnessing the opening of new areas of investigation into *the quality of jobs and of working conditions* that are radically changing the reading of the specific contributions made by SMEs to employment. These have grown particularly in Germany, the United States, Canada and the United Kingdom, as well as in Spain, where, as we have already seen, the most 'weighty' statistical studies (concerning the economic and financial performance of SMEs in particular) seldom overlook the data on the structure of their jobs and the skills of their workforce.

4.4.1 Comparison between small and large enterprises

We have to begin with a first set of works that try to compare the quality of jobs in small and large enterprises and that most frequently show the former at a disadvantage. Their wages are generally lower, their use of continuing training less frequent, their level of unionisation and therefore of employee protection lower, the security of the jobs they offer less evident. This was found in the United States by Brown, Hamilton and Medoff (1990), for whom 'workers in large firms have a superior employment package'.

In the case of Great Britain, Scott et al. (1989) stressed the effects of enterprise size on wage differences, and Curran and Stanworth (1981) argued with many others that job satisfaction, often presented as compensating for the lower level of wages in SMEs, in fact depends more on the sector of activity, and the age or qualifications of the workers than on the size of the enterprises. Rainnie (1989) concluded in the matter of labour relations that 'small isn't beautiful'.

In Spain, Camisón Zornoza (1996-b) has underlined the higher percentage of temporary workers ('*eventuales*') in SMEs, and the Impi for its part regularly notes a greater number of hours worked, lower wages and an overall lower skill level than in LEs (1995: p. 63). Another salient feature of SMEs that contributes directly to making employment contracts less stable is the lower seniority of the workforce. In 1995, 59.7% of workers had been there for less than 2 years and only 10.7% longer than 8 years (Para et al., 1995: pp. 29 and 64). This would seem to confirm the existence of a hard core and a periphery for jobs and labour within SMEs.

In Germany, with the exception of the work by Scheuch (1976), a great scientific defender of SMEs who, basing himself on *Bundesministerium für Arbeit* [Federal Ministry of Employment] surveys (1973), claimed that out of a set of 11 variables, only wages and working hours were more favourable in LEs than in SMEs, most research confirms the same findings. For example, the research by Wagner (1997) shows the 'effects of size' on wages, other benefits (end-of-year bonus, 13th month, profit-sharing), job security, opportunities to improve qualifications/skills, continuing training, participation, etc. Considering that most enterprises in Germany are SMEs employing a large proportion of the workforce while remaining outside the conventional joint management system, she recommends the adoption of a minimum wage and administrative barriers to dismissal rather than directly gearing public policies to improving the quality of jobs in SMEs.

4.4.2 The hypothesis of a link between job creation and job quality: 'do more jobs mean worse jobs?'

Today, studies are tending to converge towards the idea that working conditions in SEs and large enterprises cannot be compared and that the accent should be placed on the relationship between the growth of employment in SMEs and the process of deregulating the labour markets and making them more flexible in the developed countries. This theory is supported in particular by Sengenberger (1988) and by Baldwin (1998).

Sengenberger asks whether the trend for jobs to move towards SMEs is not closely linked to the reduction in the quality of working conditions and jobs and in wages. He notes that the abolition of protection against dismissal ('*kollektiver Kündigungsschutz*') for SE employees since 1985 is likely to have perverse effects: it will now be more difficult for SMEs to find skilled staff. Another possible counterproductive effect of Government policies is that the strategy of reducing wage costs may result in lower productivity in SMEs and encourage LEs to use them as 'cost absorbers'. This is because deregulation is built on short-term market efficiency, but neglects longer-term productive efficiency. Overall, the author does not find the policies of encouraging SMEs by making the labour market more flexible very convincing. On the other hand, a renewed efficiency in SMEs could come from improving their manpower skills and from strategies of inter-enterprise cooperation as in the example of 'third Italy'.

Baldwin, for his part, uses a study of the manufacturing sector in Canada between 1973 and 1992 to maintain that if SMEs have absorbed most jobs in recent years, it is because the changes that have taken place in relative factor costs are more favourable to them and because they traditionally use the labour factor more than the capital factor (1998: p. 363). He then formulates the strong hypothesis that 'to some extent, growth in the small plant segment has probably been the result of wage flexibility in this sector' (idem: p. 363). In other words, if SMEs make such a big contribution to job creation, it is because the jobs they create are of poorer quality than in large enterprises. From the research point of view, this means that we need to articulate the quantity and quality of jobs in SMEs conceptually and empirically and to pay greater attention to industrial relations in SMEs than European work has done hitherto.

In France, authors like Grasser, Lhotel and Sacher (1999) have come close to this hypothesis. In fact, according to these authors, a parallel should be drawn between SMEs' current success and the changes on the labour market and the increasing fragility of the wage relationship, which is more widespread in SMEs than in large enterprises, where there is still a strong internal market.

In reality, the somewhat hasty nature of these hypotheses (or rather of the interpretations we give them) overlooks a whole series of questions surrounding the methodological difficulty of precisely defining the concept of *job quality*, and international comparisons could be very useful for making them operational. It is these two elements that a study by Cowling and Storey (1998) attempts to tackle on behalf of the Dublin

Foundation[73]. According to these authors, *job quality* cannot in fact be grasped one-dimensionally. It is in fact a composite concept, constructed empirically from a number of indicators, some of which reveal the deficiencies and others the superiority of SMEs. The question is not therefore a simple one and it no doubt calls for further investigation. They also note that international comparisons (European ones especially) are at present more of a research programme for the future than a present-day reality.

4.4.3 The work of the Dublin Foundation

It was in 1998 that the Dublin Foundation embarked on a programme of research into 'job quality' in SMEs. In this connection, it has already held two workshops (17-18 September 1998 and 22-23 April 1999) with the aim of reviewing European research in the field.

The subjects of the workshops were 'Employment conditions in EU micro-firms' and 'Jobs in EU micro-firms: a trade-off between quantity and quality?'. Still very much articulated around the debate about job creation in small enterprises, these sessions sought to define the research priorities and the instruments for collecting data (key variables) on employment conditions in SEs. Among the workshop's conclusions and recommendations, we can note:

- the urgent need for particular examination of the micro-enterprises segment of SMEs, since these account for 1/3 of jobs and 93% of establishments in the EU (including firms with no employees);
- that decision-makers often put the emphasis on pay and the length of contracts, although these two variables are not among the priorities expressed by either employees or employers;
- that in micro-firms, the employer is also a 'worker' or one of the workers. His own working and employment conditions therefore probably have an effect on the success of his business and on how he sees his employees' working conditions;
- that information on total employment and especially on net job creation is very hard to obtain because of the high staff turnover in micro-enterprises;
- that international comparisons are even more difficult because there is no harmonisation of the indicators and concepts used in the socioeconomic approach to labour and employment problems;
- that the nature (or absence) of contracts in micro-enterprises (whether or not family firms) requires specific approach methodologies for studying employment conditions. Researchers will therefore have to make a clearer link between quantitative and qualitative methods and use their imagination to identify new indicators and go beyond the limits of the databases hitherto available;
- that multidisciplinary approaches are also essential.

4.4.4 The Cowling and Storey report (1998): from the elaboration of indicators to the difficulties of international comparison

In their report to the Dublin Foundation, Cowling and Storey note first of all that there is at present no database capable of providing full comparative information on all the job quality variables in the 15 European countries that they analysed. The Foundation for its part tried to create a European corpus in 1996, but this does not contain any information on the wages and remuneration variable, which is probably one of the most important.

Choosing to confine their exploratory analysis to the case of Portugal, using the database compiled by the Dublin Foundation, they look in turn at the registers of the macroeconomy and labour market dynamics, the demography and composition of the workforce in the market sector (by sex, age, sector of

[73] European Foundation for the Improvement of Living and Working Conditions (Dublin).

activity, degrees of job stability, wages and methods of remuneration, quantities of hours worked, the relationship between training and employment, training levels, working conditions, job satisfaction, etc.), and the study of 20 job quality indicators (dependent variables) by size of enterprise.

It emerges very clearly from this study focused on one country that while SEs are at a disadvantage compared with large ones in four job quality variables, they are capable of doing better than them in four other variables. For the remainder of the 20 other variables used, however, there seems to be no significant difference between large enterprises and SMEs. It is, however, sometimes necessary to make a clear distinction between enterprises with no employees ('self-employed'), micro-enterprises (1 to 9 employees) and small firms (10 to 49 employees). Likewise, other independent variables may play a not insignificant role alongside that of size: for example, the sector of activity, the job characteristics, the personal characteristics of the employees (sex, age, level of training) and their occupational category.

In the final part of their report, Cowling and Storey nevertheless review the principal dimensions or factors that should be taken into account when measuring job quality:

- ❏ wages and other benefits: 'no doubt the most indisputable factor in measuring job quality' according to the authors;
- ❏ the ability to acquire training;
- ❏ pay structure (the measurement of performance and productivity has an effect on the variability of the compensation of employees);
- ❏ type of contract (fixed-term contracts increase employee uncertainty);
- ❏ working hours;
- ❏ job security and permanence;
- ❏ working conditions (health, safety, autonomy, involvement in decision-making, subjective well-being).

After proposing a conceptual analysis framework for examining the relations between job creation and job quality in detail (pp. 69-73), they suggest focusing on SMEs, calling for future studies of all sectors of activity (not just industry), using the series of 20 variables identified in their own work and drawing on the Dublin European Foundation's databases, the gaps in which could be plugged by national monographs, especially for the study of wages.

4.5 The galaxy of self-employment: alternative to unemployment or optical illusion?

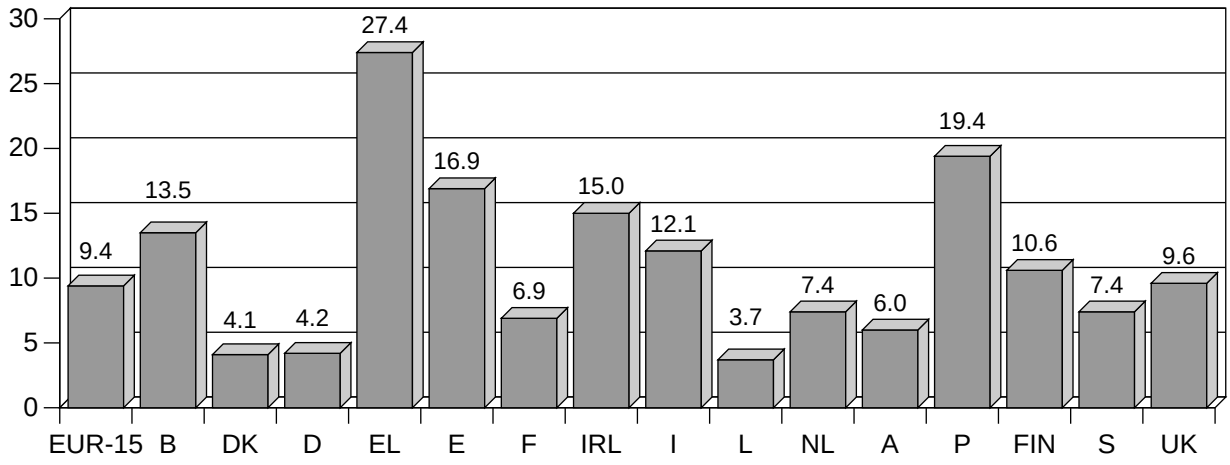
Our approach to SME behaviour on the labour market would not be complete without giving special place to 'self-employment'. The interest shown in this phenomenon by both labour market policies and academic research is the result of its considerable growth over the last 20 years in many developed economies (OECD, 1998-a). Today, especially, it is considered an important source of new jobs and an alternative to paid employment. Self-employment is also seen as a possible solution both for new entrants to the labour market and for the jobless. Finally, we find that in a number of countries (France, UK, Spain) self-employment has been encouraged by policies of providing financial support and advice aimed particularly at the unemployed or persons at risk of losing their jobs.

4.5.1 The contribution of international comparisons

The self-employed are generally considered to make up about 9.5% of the workforce in Europe today (that is, the number of self-employed relative to the total number of persons with a job), but with the figure differing greatly from one country to another. Thus, although the various sources do not come up with the same figures[74], we can distinguish between Northern Europe, where the percentage of self-employed is relatively small (Denmark, Germany, France, Netherlands, etc.) and Southern Europe (with Spain, Italy, Portugal, etc.) where it often exceeds 15%, reaching as high as 30% in Greece (see Figure 4.5). However, it must be said that the criteria for

[74] The differences may in fact result either from the different definitions adopted by the various sources used, or quite simply from the difficulty of marking out the reality of self-employment statistically.

Figure 4.5: Self-employed with no employees as a percentage of all persons with a job, 1995



Source: EUROSTAT, Labour Force Survey.

defining self-employment differ from one country to another.

The proportion of self-employed was calculated by dividing the number of self-employed by the total number of persons with a job.

This distribution is held to reflect the enterprise size structure, and the high level of self-employment in the southern countries would be explained by the high proportion of both VSEs and agricultural activities in their economies. Moreover, the breakdown of self-employed by sector is not the same in the South and North of Europe. In the former case (Italy, Spain, Portugal), commerce, hotels and catering predominate to the extent of representing as much as 50% of the self-employed, compared with no more than one third in France and the Netherlands, one quarter in Great Britain and the United States and only one fifth in Germany (Luber, Gangl and Leicht, 1997: p. 4, Table 1).

4.5.2 Structural trends in self-employment

It is nevertheless true that in most countries the internal structure of self-employment is changing. For example, Germany has for several years now been witnessing a relative growth in 'modern services', knowledge services, and liberal professions (Luber, Gangl and Leicht, 1997). This internal structural trend is also noted by Granato and Leicht (1996), who stress the growth of human capital in self-employment. They say in fact that while the proportion of employees having completed university education rose from 7% to 13% of the working population between 1970 and 1993, it rose from 12% to 21% among the self-employed. They also point out that the presence of the self-employed in services (especially business services) rose from 8% to 16% between 1970 and 1993, that it remained constant in the manufacturing sector (from 24.7% to 24.1%), and that the number of female self-employed has increased, as has that of self-employed persons of foreign origin (from 2% to 7%)[75].

In England, the growth in self-employment has often been seen in parallel with the drift

[75] Bogenhold and Schmidt draw particular attention to the creation of businesses by foreigners on German territory: around 245 000 self-employed today offer nearly 800 000 jobs (1998). For their part, Jones, McEvoy and Barrett show that self-employment varies considerably according to ethnic group. Whereas 13% of whites could be considered self-employed in the period 1989 to 1991, the figure was 7.2% for the Guyanan working population with a job and 20% for Pakistanis and Indians.

from industry to service activities, technological progress, the break-up of large enterprises, and Government efforts to promote an enterprise culture. Between 1981 and 1991, there was also faster growth (in the region of over 80%) in the number of self-employed among the youngest population groups (aged 16 to 24) than in any other age group (Campbell and Daly, 1991).

4.5.3 Forced self-employment and 'entrepreneurial culture'

Most research also points out that the rate of self-employment has increased in the majority of OECD countries (with the exception of Japan, Luxembourg and Denmark), especially since the mid-1970s (OECD, 1992). This is more especially the case in Great Britain, Spain and Sweden, but also in Germany. Could this be the sign of the emergence of a new 'entrepreneurial spirit' bearing with it the hope of many new jobs? Not necessarily, because a high number of self-employed does not necessarily imply a greater taste for risk, or greater creativity or commitment. It could just as much be the result of the state of the labour market, processes of 'downsizing' in large enterprises and rising unemployment, all of which have magnified the phenomenon of 'forced self-employment' over recent years (Granato and Leicht, 1996). Not necessarily, either, since a person going self-employed is not necessarily accompanied by the creation of a lot of extra jobs. From this point of view, Germany and Denmark are still a case apart, since in those countries half the self-employed have been able to create other jobs, compared with only a third or even a quarter in the other Western countries. In Great Britain, there has actually been a very sharp decline in the proportion of self-employed employing other wage earners, since between 1981 and 1991 the proportion of self-employed with employees fell from 40% to 31% (Campbell and Daly, 1991).

Hence the interest of work looking at the many transitions between paid work, unemployment and self-employment. One example is Carrasco for Spain (1997). Taking as his source the *Encuesta Continua de Presupuestos Familiares* (Instituto Nacional de Estadística), he compares 37 000 observations of a population of men aged 21 to 65 between 1985 and 1991 and tries to see what are the factors influencing the decision to become self-employed. Is it possible to estimate the effect of unemployment on the probability of embarking on self-employment for the long term? Is it possible to distinguish between self-employment with and without employees? What reasons can be found for moving from self-employment to paid employment or from self-employment to unemployment? Two sets of interacting variables then emerge from his study: the state of the labour market (and especially job rationing) and the personal characteristics of the individuals (family situation, age, level of training, previous experience of self-employment and former status, i.e. employee or unemployed). Like Evans and Leighton (1989), he finds that an unfavourable macroeconomic situation increases the probability that low-skilled waged individuals will become self-employed. He also finds that the enterprises created by the unemployed encounter more difficulties (high percentage of failures) than those created by persons coming from a job.

Finally, and this is no doubt a crucial result, Carrasco shows that when individuals have recently experienced unemployment, if they are driven to become self-employed, especially by the withdrawal of benefits, they are more likely to abandon self-employment after a few months to return to unemployment than are self-employed persons who were previously wage earners (Carrasco, 1997: p. 29). This seems to imply that employment policies designed to encourage self-employment among the unemployed would do well to think twice before simplifying extremely complex questions.

This problem is also addressed in much recent German literature opening a very closely argued debate, both theoretical and empirical, on the culture of self-employment ('*Kultur der Selbständigkeit*'), which might be translated and extended to mean 'entrepreneurial culture' (Bögenhold and Schmidt, 1999). It shows that independence cannot be reduced to its legal or statistical aspects and that 'the enterprise spirit' also has a cultural dimen-

sion that ought to be worked on in the context of general vocational or university training, especially by involving intermediate institutions at regional level. In this connection, Frick (1998: p. 36) considers the British culture of entrepreneurship to be inappropriate for Germany because of its ideological content and the predominance it gives to the fight for capital at the expense of dependent jobs. In other cultural contexts, the spread of the enterprise spirit would have to be a long-term social project rather than a set of defensive measures seeking only to curb unemployment.

4.5.4 Increasingly fluid boundaries between employees and the self-employed

In France, the recent work of O. Marchand (1998) also tends towards caution and tempers the enthusiasm surrounding the growth in self-employment[76]. The author begins by establishing that, with the exception of the United Kingdom and Sweden, employees have never been such a high proportion of the working population, approaching as much as 90% in the main industrialised countries (idem: p. 8, table 2). However much we may debate the methods of constructing the statistics, he observes in particular that the place currently held by self-employment is part of the qualitative changes affecting the structure of paid employment in the long term. From this point of view, what we are witnessing today is a blurring of the traditional split between the status of paid work and self-employment, especially with the externalisation of activities on the periphery of enterprises, subcontracting and hiving off: 'work on the margins of the paid workforce is growing, either in the form of jobs with the weakest of links with employee status... or in the form of bogus self-employment or bogus subcontracting. In the building industry, for example, firms have been very successful in encouraging certain workers to set up on their own, which may enable them to save on wage overheads by getting around the regulations; but these new self-employed workers are in most cases completely tied to their former employer who is their only source of work' (Marchand, 1998: p. 9). On the other hand, 'some paid activities may consist of the provision of services where, conversely, certain tasks can be externalised to persons not on the payroll, while nevertheless maintaining ties of subordination between the two parties'. In other words, at the same time as the wage link is being loosened, we are seeing the appearance of new forms of dependence based on commercial contracts. Is this not the case, for example, of integrated or franchised small businesses whose wage 'independence' is paid for by economic dependence (Bentabet et al., 1999)?

[76] The self-employed are initially defined negatively here as 'those who do not draw a wage or who pay it to themselves'.

5. The role of SMEs in training and in generating professional skills and status

National and European literature on initial and continuing vocational training is particularly prolific. This third section will be concerned less with mobilising this immense source than with focusing more particularly on work highlighting the relationship SMEs maintain with vocational training, either as users or as a specific forum for generating manpower skills. Special attention will be paid to examining the quantitative defining data that have recently been trying to make international comparisons, to the main factors determining SME training practices and, finally, to the main changes taking place in most European countries to make vocational training the foremost source of SME competitiveness.

We have just looked at the research into SMEs' contribution to employment and human capital formation, which is a crucial factor in competitiveness for the developed countries (Ridinger, 1997). However, we now know that the quantity of manpower alone is not the only important factor in determining the process of growth and competitiveness in an economy, but the skill level of its workers. From this point of view, as Kucera (1997: 57) notes, entrepreneurship and skilled labour

('*Qualifiziertheit der Arbeit*') go together. That is why it has become necessary to examine the role of SMEs, not only in job creation but also in the mobilisation and development of labour qualities.

The question is not new. As early as in 1986, a seminar organised by Cedefop and coordinated by I. Drexel sought to take stock of training in SMEs, and in many respects, this constitutes an excellent point of reference. The question has undoubtedly become more complex, however, given the pressing nature of the underlying issues (see the European Commission's *White Paper*: *Enseigner et apprendre – vers la société cognitive* [Teaching and learning: towards a cognitive society]) and the many national initiatives to which this has given rise in most EU countries over recent years (Aventur and Möbus, 1999).

The field of scientific research is not exempt from this complexity. First, as A. D'Iribarne (1993) points out, there are many areas of knowledge. They may, for example, be concerned with 'initial training for young people, continuing training for people of working age, whether or not in work, work itself, which allows us to relate questions of 'qualifications' and skills to those of training, staff selection by enterprises and the place of the diploma, training techniques and the cognitive processes of apprenticeship [..] and how all the above should be seen in the light of the general operation of the labour market (occupational integration, exclusion from activity, etc.).'

Moreover, when the researcher takes a transnational interest in all these phenomena, he comes up against familiar but particularly stubborn difficulties: how, for example, to achieve sufficiently reliable comparability between analytical categories that are highly marked by national contexts. What is there in common, for example, between the concept of apprenticeship in Germany and that in France? What relationship is there between a skilled worker in Italy, France or Germany when the basis of training, methods of selection, or their place in labour organisation and in career prospects or social status are not the same? How should we respond to the present instability of our main points of reference resulting from the reconfiguration of the institutional edifices of vocational training in most European countries? While it is true that statistical sources like the *Labour Force Survey* or the *Community survey of continuing vocational training in enterprises (CVTS)* have enabled tremendous progress to be made, they are still recent and in need of further development. At least, that is what emerges from the publications that deal with them.

We propose here to begin by using this corpus to distinguish between SME behaviour in the matter of initial vocational training (5.1) and then of CVT (5.2). In fact, despite the present 'easing of the separation between initial training and continuing training' noted by Aventur, Campo and Möbus (1999: 2)[77], the distinction between these two registers, 'which *together* help to produce the qualifications and skills of the working population', is maintained in most of the work consulted.

Then, building on a critique of the statistical tools, we shall investigate the specifics of SME training practices (5.3). Finally, by looking at the biggest trends at work in the new forms of regulating vocational training systems in most EU countries, we shall try to interpret them as opportunities to be grasped to enable SMEs to develop their training potential in the future (5.4).

The first two sections will describe the most striking studies on the demand for vocational

[77] It will in fact be noted that this tendency to overlapping of the initial and continuing vocational training systems is shared almost unanimously in all the countries of the EU. For example, alternating training arrangements (sandwich courses) have been available to adults in Denmark ('recurrent training') since 1992; in other countries, like Finland and the Netherlands, training systems including apprenticeship are accessible to adults. Similarly, in the new *Länder* of Germany, 'conventional' apprenticeship has been extended to young adults over the age of 27. In France, combined work and training contracts are financed by the Continuing Vocational Training funds, while new forms of skill validation are available both to young people and to adults in the course of their working lives (Aventur and Möbus, 1999).

training by SMEs and the use they make of it, either on the basis of their skill needs in their recruitment practices (especially relating to young people) or in terms of initiatives for the development of their existing workforce. The resulting table shows a wide variation.

It is true that in most EU countries small structures play a key role in getting young people into work and are very much involved in apprenticeship schemes. However, they are finding it increasingly difficult both to absorb and retain the most highly qualified of them and to complete their initial training. Moreover, in the southern countries in particular there is a gap between the specific skills they demand and the qualifications produced by the vocational or technical training structures (as in France, Spain and Italy, for example). Their use of Continuing Vocational Training, if not always characterised by an 'inertia' that leads Verdier (1991: p. 42) to describe them as 'extras' rather than 'players', at least shows a kind of deficit or withdrawal as compared to the largest enterprises when observed at European level. Behind this overall analysis, however, most research work encourages us to measure national, sectoral or size category differences very carefully, paying particular attention to the factors explaining the (small) use made of training by SMEs.

As we said earlier, from a statistical point of view comparative European research into vocational training has made some important breakthroughs in recent years. One might mention, for example, the Report by the European Commission (DG XXII), Eurostat and Cedefop (1997) concerned both with initial vocational training from an analysis of 167 programmes in 15 Member States (VET-Eurostat) and the survey of continuing vocational training within the firm, which collected information from a representative sample of 50 000 enterprises (CVTS – Eurostat). See also the supplementary dossiers of the European Commission (1999) or the University of Sheffield's Centre for Training Policy Studies (European Commission, 1999) and the study produced by Céreq (Aventur and Möbus, 1999), which is exemplary in its depth and exhaustiveness. It is however much to be regretted that these databases, which tell us about both the structure of the initial training system in each country and enterprises' in-house training practices, cover only enterprises with 10 or more employees and at present disregard training for jobseekers. The result is that Very Small Enterprises (VSEs), which account for the greatest number of establishments in Europe, are once again excluded from the official statistics for technical reasons.

5.1 SMEs and initial training: providing a job and/or training?

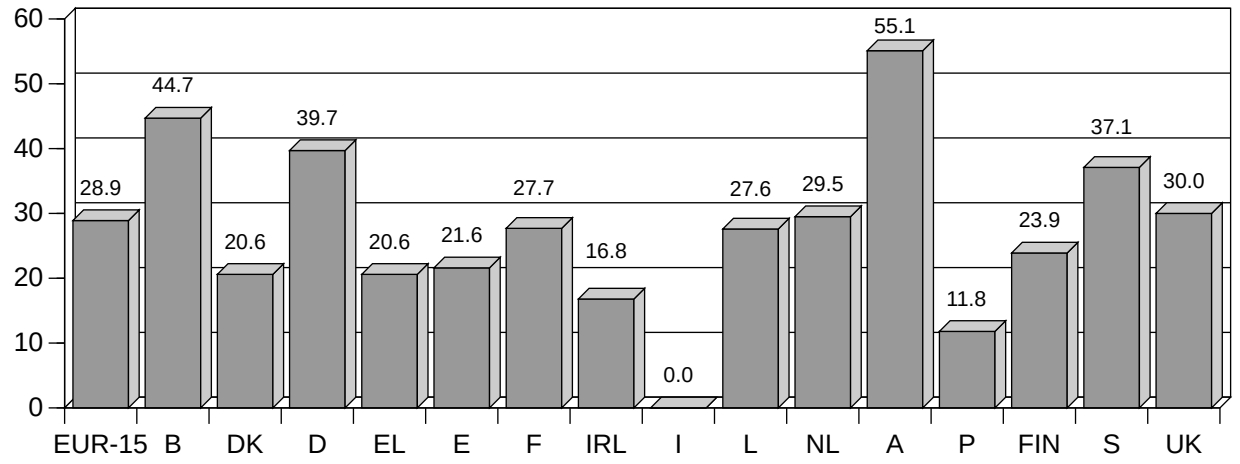
Political and economic decision-makers have for many years striven to make vocational training a major axis of the fight against unemployment among young people and to upgrade the average skills that service and craft SMEs more particularly need. If the statistical data produced on the subject at European level are to be believed, this kind of training seems in fact to be a form of protection against the difficulties of occupational integration.

5.1.1 The general effectiveness of vocational training on the labour market

In the countries of the EU, almost one third (29%) of young Europeans between the ages of 15 and 19 are today enrolled on an initial vocational training programme. This encouraging figure, however, masks major disparities between countries, since participation is very high in Austria (55%) and Belgium (45%) but less so in Ireland (17%) and Portugal (12%), the situation of young persons in the other Member States being between 20% and 40% (Figure 5.1).

Like the proportion of young persons involved in initial vocational training, the combination of general and vocational training varies enormously from one country to another. While in some countries vocational education predominates over general education (as in Germany or Austria, where 78% of pupils are engaged in vocational education at ISCED 3 level, in Italy with 73% and the Netherlands with 70%), in others it tends to be general training that prevails over vocational with the lat-

Figure 5.1: Rate of participation in initial vocational training among the population aged 15-19 years. 1993/1994, %



Source: European Commission, Eurostat, Cedefop (1997)

Box 5.1: The International Standard Classification of Education (ISCED)[78]

Isced 0 (Pre-primary)
Isced 1 (Primary): begins between 4 and 7 years, is always compulsory and normally lasts 5 or 6 years;
Isced 2 (Lower secondary): forms part of compulsory schooling in all EU countries. The end of this level often corresponds to the end of full-time compulsory schooling;
Isced 3 (Higher secondary): begins around the age of 14 or 15 and is either a general, a vocational or a technical education. Level required for access to higher education or end of schooling;
Isced 5, 6, 7 (Higher education):
- **without university degree (5)**
- **first university degree (6)**
- **programmes leading to a post-graduate qualification (7)**

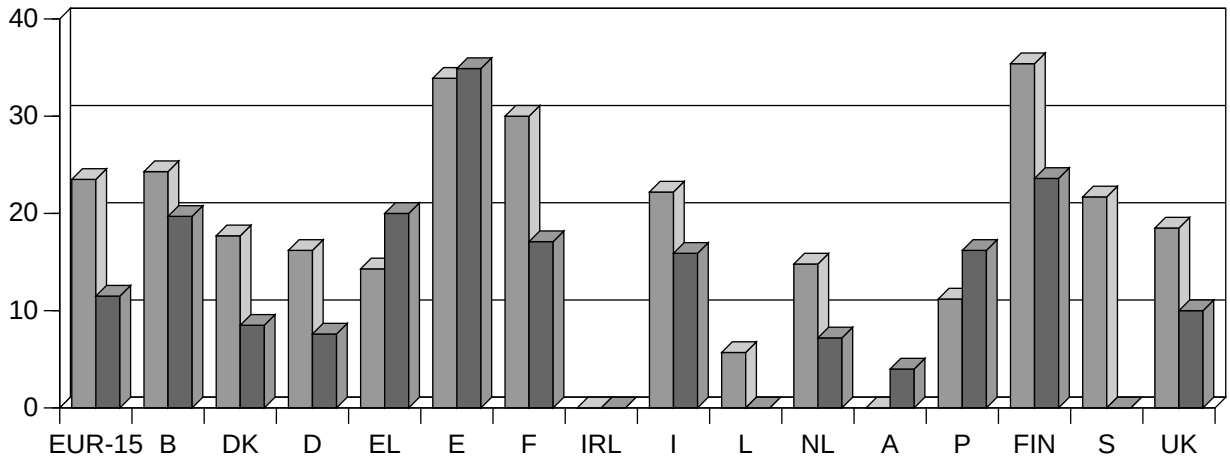
ter engaging for example no more than 41% of young persons at ISCED 3 level in Spain, 33% in Greece and 23% in Ireland and Portugal. Between these two extremes we find France (with 53%), Denmark and Finland (with 54%) and the United Kingdom with 58%.

In the same publication (European Commission, Eurostat, Cedefop, 1997), we also find that, for an equal level of initial training, vocational training is more effective on the labour market than general training alone[79]. In Europe, in fact, while 23.5% of young persons are unemployed after undergoing only general training corresponding to ISCED 0, 1 and 2, only 11.5% (one half the number) of those who also have some vocational training are jobseekers (Figure 5.2). Vocational training therefore seems to speed up integration into working life, especially for young people with

[78] This nomenclature used in international comparisons at present has a few imperfections and is to be revised in the near future (European Commission et al., 1997).

[79] With the exception of Sweden, however, where vocational training is institutionally independent of the production system. In this case, the school system alone is responsible for getting young people into the right jobs.

Figure 5.1: Rate of unemployment among young persons aged 20-29 having only a basic education and among those with further vocational education – 1995 – %



	EUR-15	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK
ISCED 0,1,2 General	23,5	24,3	17,7	16,2	14,3	33,9	30	0	22,2	5,7	14,8	0	11,2	35,4	21,7	18,5
ISCED 0,1,2 + Vocational	11,5	19,7	8,5	7,6	20	34,9	17,1	0	15,9	0	7,2	4	16,2	23,6	0	10

Source: Labour force survey, Eurostat

low levels of qualification. It also offers them better prospects of being taken on and greater job security, except in Greece, Portugal or Spain, where the proportion of young persons with a general education predominates at ISCED 3, that is the level immediately above compulsory schooling (Box 5.1).

5.1.2 Growing interplay between training policies and employment policies

Strictly speaking, analysis of SME behaviour in relation to the education and initial vocational training structures would involve a close articulation not only between the problems of training and occupational integration but also between training and employment and labour market policies, firstly because the absence of an internal market in SMEs means they have greater recourse to the external market than do large enterprises; and secondly because the imbalances observed on the labour market have in most EU countries resulted in the adoption of policies designed to make employment standards more flexible, especially for young people experiencing difficulties in finding work and to encourage firms to recruit them. There are generally two aspects to this 'structural adjustment', and they are particularly well analysed by Lefresne in a recent thesis (1999):

- firstly, *the employment status is made more flexible* and/or financial incentives are introduced to encourage the integration of young persons, which are of particular advantage to SMEs;

- at the same time, vocational training needs to be developed or upgraded with the introduction of *new ways of bringing school and enterprise closer together*, that is of managing the training-employment transition, with particular use made of apprenticeship and alternate training.

There is no shortage of examples on both these fronts:

- for the first one might, for example, quote the case of Spain, where they have for several years been relaxing the recruitment rules by making greater use of temporary

employment contracts for getting young people into work. There is also the United Kingdom, where wage costs have been reduced by breaking the link between the wages of young persons and adults, especially through the Youth Training Scheme (cf. Box 2.2) adopted in 1982, which has enabled many enterprises, especially the smallest ones, to take on juvenile labour at lower costs. We should also mention Italy, where new rules have introduced a 'starting wage' below the collectively agreed rate of pay for new entrants to the labour market and where there are now financial incentives for enterprises to recruit young persons on a part-time basis. Or even Germany, considered exemplary so far as the training-employment transition is concerned, where, given the growing number of young people without jobs on completing their apprenticeship, the *Employment Promotion Act* (1985) allowed enterprises to use fixed-term employment contracts (18 months) or to offer young persons completing their apprenticeship jobs unrelated to their training specialisation. Not to mention the introduction of 'exchange programmes' allowing large enterprises, which are increasingly unwilling to retain apprentices even though they helped to train them, to make them available to craft trade enterprises (Zedler, 1994).

- In the matter of bringing the educational system closer to the production system, we could highlight the development of apprenticeship and alternate training courses: in Italy with the *training and employment contract (CFL)* introduced by the Law of 1983; in the United Kingdom with the *Youth Training* scheme; in Sweden with the vocational integration courses; in Spain with the introduction of *training contracts* for graduate students or of the (reformed) *apprenticeship* proper. In all these cases, training strategies overlap with strategies for the vocational integration of young people; reforms of the education and training system go hand in hand with reforms of the labour market. Specifically, in exchange for financial assistance, enterprises agree – in theory, at least – to contribute to the training of young people. We find however that in most European countries SMEs have been expected to play a key role in these arrangements. We could go further, and say that just as training has increasingly found a place in active employment policies (as Join-Lambert et al., 1997, show for France), so the greater attention being paid to getting people into or back into work has more clearly shaped the initial or continuing training programmes for which SMEs have been the preferred vehicle.

5.1.3 The contribution of SMEs to the occupational socialisation of young people: between tradition and new deal

Despite the great diversity of national traditions, SMEs have long been making an established contribution to the occupational socialisation of young people coming out of education. Whether their contribution has formed the basis of a highly institutionalised system of career organisation (as in Germany and Austria), has been taken over and strengthened by occupational structures (as in the United Kingdom), has served to pick up those who have fallen by the wayside in a social system dominated by educational qualifications (as in Spain and especially in France), or the ground SMEs occupy has been neglected by the public player (as in Italy).

Apart from the disparities between countries (Aventur and Möbus, 1999), research reveals the importance of sectors (Curran, 1990; Curran et al., 1996; Dti, 1995), territories and local labour markets (Sperling, 1993) and the recent changes in production systems (Christe, 1998; Leicht, 1995; Campinos-Dubernet, 1999). In the rest of this chapter we shall try to show how all these factors work together.

In simple terms there could be said to be two types of national tradition in Europe as regards initial vocational training: countries where it has historically been socially discredited (as in France, the United Kingdom and also Italy and Spain) and countries where it has been highly structured and has become the centrepiece of the training system as a whole (Germany, Austria, Netherlands). A few examples will suffice:

Box 5.2: The place of apprenticeship in French small enterprises

In France, small units are the main enterprises making use of apprenticeship contracts (72% in 1996). The rise in hirings on assisted contracts since 1987 plays an important part in raising the level of qualifications within small enterprises. Apprenticeship in particular may be a 'Trojan Horse' of the first order (Bentabet et al., 1999). Already, 24% of young persons taken on by such firms are engaged as apprentices but, in particular, this method of training under a contract of employment alternating periods of schooling with periods in the enterprise, is no longer the preserve of young persons preparing for a CAP certificate. It is also open to persons wishing to take a vocational '*baccalauréat*' or a higher technical certificate (*brevet de technicien supérieur* - BTS) and now even for some future engineers (Pérot and Simon-Zarca, 1998). Finally, apprenticeship contracts are a crucial factor in the hiring of young unskilled workers in small firms in France. Having recruited them, however, do those firms nevertheless help to train them or help them to complete their training?

❑ In *France*, for example, vocational training has traditionally helped to provide workers for craft trades and large industrial firms. The modern form of apprenticeship, based on the law of 1971, recognises this as a type of initial training 'marked by a school-type diploma (issued by the Ministry of Education) and which sets all the base rules: employment contract, work in the enterprise alternating with training at the apprentice training centre (CFA)' (Aventur and Möbus, 1999: p. 195). It operated in parallel with the technical branches, which have become much more developed in recent years and which have frequently proved more appropriate for continuing studies.

Because it recruited from the lowest levels of education, vocational apprenticeship was in France long considered the 'way of failure'. For that reason, it still occupies a minority position by comparison with general education, which is considered the 'royal route' if not to social success then at least to a secure job and, above all else, to avoiding unemployment (Box 5.2).

Despite the many attempts to upgrade this type of training in recent years, we have seen a rapid growth in numbers pursuing studies beyond *baccalauréat* level (especially technical) and short vocational courses (DUT-BTS)[80] which were originally intended as a fast route to vocational integration for young people. In other words, with the exception of long-term higher education, whenever training became vocationalised it failed in its initial task (Trouvé, 1996). At the same time, we see a rapid structural change in the populations taking apprenticeships: whilst training in preparation for the basic levels of qualification (CAP: *Certificat d'Aptitude Professionnelle*) is on the decline, that leading to the highest level diplomas (Bac + 2 and beyond) is growing rapidly. This trend is highly significant for our subject: while the former – sometimes after a few adjustments – was relevant to SME needs and more especially to those of the smallest among them, the latter, which may now lead to qualification as an engineer, are probably more suitable for large enterprises.

However, this SME / LE distinction is not perhaps the most relevant today, because another split – along sector lines – has appeared within the SME category. It is true that small, even very small, establishments (hotels & catering, building, small retailers, agri-food industry and car repairs) continue to dominate the sectors that take the most starters with the lowest level of initial training. There are however also small enterprise sectors that are growing and demanding higher and higher skills acquired during initial training, such as business, legal and management services, computer engineering, social work & health, tourism & leisure, education, etc.

[80] Equivalent to ISCED 6 at European level.

There is therefore a great danger that we will see a dualism developing at the 'young' end of the labour market, not necessarily involving a distinction according to enterprise size (the smallest always taking young people with the lowest level of training), but according to their position in the production system, which would allow some SMEs in innovative growth sectors to recruit the best-qualified young people coming out of the training system. This point remains to be further considered and explored in the future on the basis of Céreq's 'Generation 92' career pattern survey of 1992-leavers polled in 1997.

❑ In *Italy*, attention has only recently been paid to initial vocational training. Here, too, the young people engaging in national (at vocational institutes) or regional vocational education from the age of 14 are the ones who have failed to gain access to the general or technological streams. Vocational training course attendance rates nevertheless vary enormously from one region to another.

The alternate training system available to young people offers *apprenticeship* and *the work-training contract* ('*Contratto di Formazione-Lavoro*'). The former scheme is provided directly and in the majority of cases by enterprises[81] and is 'concerned almost exclusively with training manual and non-manual workers' for SEs in the industrial sector (Margirier, 1999: p. 275): in 1994, 57.7% of apprentices were in fact in manufacturing industry, compared with 17.9% in commerce and tourism and 13.4% in construction. The latter was created in October 1984 to combat youth unemployment and offer a qualification to academic failures. It therefore acts as a 'safety net'. In most cases, training is dispensed by enterprises internally and a certificate is issued by the employer at the end, which is endorsed by the local employment agency, but it is not really a qualification. Despite its usefulness, this formula, like apprenticeship, is in decline, since 220 000 young persons were involved in 1994 compared with 530 000 in 1989. It must however be said that it is used mainly by 19-24 year olds most of whom have no more than the compulsory level of schooling and 73.3% of whom are taken on by SEs with fewer than 50 on the payroll.

❑ At the other end of the scale from the above two countries, in *Germany* the apprenticeship model seems to have stood up better as a vector of vocational socialisation for young people, and SMEs have not always been 'condemned' to accepting the least-qualified young persons. It is nevertheless true that the dual system is at present undergoing a crisis because of a drop in the number of training places available and especially because young people are finding it more attractive to continue their studies (Möbus, 1999: p. 24). As in Italy, there are more young people in industry than elsewhere, but numbers are no doubt declining by comparison with the craft trades and especially the liberal professions, which are gaining ground[82]. In this country, too, there is therefore, alongside the changes in volume, a structural change in the subjects taken, by sector.

On this point, however, it would seem that many sectors dominated by SEs are still marked by a great need for training and for highly skilled workers (*Facharbeiter*). Thus, all sectors taken together, Leicht (1995) notes an increase in the proportion of skilled workers as well as in the proportion of enterprises employing 50 or less. Above that, the proportion stabilises at around 26%. The proportion of unskilled workers increases in line with size, from 7.8% in SEs of 1-4 employees to 32.4% for enterprises employing more than 500 (Table 5.1).

Also, according to the same author, it is SEs with between 5 and 19 employees (which have the greatest employment growth) that contribute the most to young persons' apprenticeship (10.7% of apprentices, compared to 4.8% in the over-500s). The author states that the manpower with the highest skills in relative

[81] Whereas the *State Vocational Institutes* and the *Regional Vocational Training Centres* serve only a small proportion of the 14-18 and 19-25 age groups.

[82] Unlike Austria, another mecca of apprenticeship, where the craft trades predominate (55%), compared with 17% in commerce and 'only' 13% in industry and 11% in tourism and transport.

Table 5.1: Distribution of occupational statuses by size class in West Germany - 1987* national economy / %

	Total (employees)		By class size 1987 (employees)					
Occupational status	**1970**	**1987**	**1-4**	**5-19**	**20-49**	**50-199**	**200-499**	**> 500**
Active proprietors	9.6	9.2	43.5	9.9	1.9	0.5	0.1	0.0
Assisting family members	3.0	2.2	10.4	2.4	0.2	0.0	0.0	0.0
White collar workers/ officials	30.0	38.1	28.8	41.1	41.0	40.8	39.8	36.4
Skilled workers	22.1	20.9	5.9	19.5	26.1	24.7	22.7	26.4
Unskilled workers	29.7	22.9	7.8	16.4	22.3	27.7	32.0	32.4
Trainees	5.6	6.8	3.6	10.7	8.4	6.2	5.4	4.8
Total (million) 100%	21.259	22.055	3.304	5.295	2.576	3.766	2.469	4.645

Source: *Statistisches Bundesamt* [Federal Statistical Office], own calculations.
* In workplaces; not including local and regional authorities, social security and PNPIs.

terms is found in an environment characterised by growing employment (craft trades, investment goods, material services). On the other hand, SEs in sectors dominated by LEs have a higher proportion of unskilled workers, which, according to him, means that the extraordinary growth of SEs is neither due entirely to a relatively lower skill level than LEs nor attributable to a 'shift' in unskilled activities from LEs to SEs (1995: p. 232). In some cases, therefore, the professionalism of highly skilled workers and craftsmen is indeed a prosperity potential even and especially in small enterprises, since their level of adaptability is a precondition for non-Taylorist concepts of flexible work organisation.

Like Christe (1998), Leicht puts particular stress on the sectoral and regional heterogeneity of SME situations. Hilbert and Sperling (1993), like Mendius (1988), say precisely that from their study of a sample of enterprises in the Paderborn area of Germany, noting that in Germany craft enterprises and highly structured large enterprises make the biggest contributions to apprenticeship (Table 5.2). This would mean there are sectors that do more than is strictly sufficient to meet their own needs (engineering, metal structures) and others that do less (wood, plastics, clothing). Moreover, the reason why nearly 60% of SMEs in the area studied do not train apprentices would quite simply be that they have no need for skilled labour or that they can easily recruit apprentices trained by other enterprises.

In Germany, as elsewhere, however, it is worth taking note of recent work presented by other authors. Kucera (1997), for example, comments that the craft trades are finding it increasingly difficult to get skilled manpower, because young people are abandoning apprenticeship for higher university studies. We are therefore seeing a kind of 'negative selection' (p. 69), now reinforced by a trend among skilled workers trained by apprenticeship to change trades (40% according to Henninges, 1994) and to move from the traditional craft trades and small firms to larger enterprises.

Table 5.2: Average rate of apprenticeship* by establishment size category in Germany, 1994

	%
1-9 employees	7.9
10-49 employees	6.6
50-499 employees	4.6
500 employees and over	4.5
Total	5.6

* Rate of apprenticeship: number of apprentices/total workforce
Source: *Schaubilder zur Berufsbildung*, 1996 edition, Vol 1: Training, BIBB (Former West Germany).

This calls into question the efficiency of the apprenticeship system as a whole, which is apparently confirmed by three BIBB and IAB surveys quoted by Kucera (1997: p. 71) showing that the use of initial vocational training has declined in the working population and that the gap between the content of apprenticeship and the demands of working life is widening.

It is clear from a reading of all these studies that the apprenticeship system is today facing difficulties of adjustment where the place of SMEs seems to be very much weakened, if not called into question. There are two main, convergent, reasons for this:

1. firstly, the general raising of the level of education over recent years in most EU countries, with 66% of the population aged 30-34 having in 1995 reached a level of studies equivalent to at least the second cycle of secondary education, that is ISCED 3 or above (Box 5.1). This is accompanied by a sociological change in the aspirations of young people, who are choosing either to continue their studies or to join large enterprises where working conditions are more favourable over all (on this point see Modrow-Thiel, Roßmann and Wächter, 1993).

2. Secondly, the crisis in the traditional forms of apprenticeship or, rather, in apprenticeship preparing for traditional trades, resulting from the effects of structural changes in the economy on the skills/qualifications required.

In the former case, it is to be feared that SEs will, for the best qualified young people leaving the training system, become at best a *stepping stone* to larger enterprises (as a number of surveys of early career paths in France have shown: Mansuy et al., 1999), or, at worst, *something better than nothing* and, possibly, an 'escape hatch' for the most resourceless among them. Such alternatives may be formulated differently depending on the national context, either, for example, because the stress is on the extreme inertia affecting recruitment in the smallest enterprises (as in Spain, for example, where they still discriminate against young people leaving vocational training, since this is not highly valued), or because of the weakness of the institutional frameworks (as in Italy, where the certificate on completion of apprenticeship is issued by the enterprise alone and there is no legal requirement governing the precise breakdown between time spent on training and on work), or as a result of the far-reaching sociological changes affecting the mentality of young people, who are increasingly being attracted to longer and more prestigious forms of training. Such is the case in Germany, for example, but also in France, where recent changes in the structure of 'user' enterprises and *apprenticeship* populations or in *'assisted places'* in the market sector[83], clearly illustrate this problem. In the case of *apprenticeship*, for example, while very small enterprises in the traditional user sectors are tending to decline in number, enterprises with more than 50 employees are growing the most. This must also be seen in

[83] Apart from apprenticeship the French combined training and work system includes the *contrat de qualification, contrat d'adaptation* and *contrat d'orientation*. Only the first two are of interest here, being based on the conclusion of a contract between the employers and a public or private-sector educational establishment setting out how the sandwich course will be organised. While the first type are fixed-term contracts (6-24 months) for young people aged 16-25 who have been unable to acquire a qualification during their schooling or whose qualifications do not provide access to employment, the second type are fixed-term or permanent contracts (6-12 months) for young persons aged 16-25 leaving the education system after completing a full cycle of initial training that needs to be complemented by general, vocational and technological education.

the light of the trend in the educational attainment of apprentices: while the lowest levels of training are static, the higher levels of education are growing (Sanchez, 1999-a). As for *combined training and work*, that is so-called 'assisted' jobs in the market sector in the French terminology, they seem to be going the same way. While in 1998 most such contracts were still being signed in establishments with less than 50 employees (72% of *contrats de qualification* and 49% of *contrats d'adaptation*)[84], they are making particular headway in units with more than 50 employees and are of interest to populations of increasingly skilled young people (Sanchez, 1999-b).

The analysis of the structural changes to systems of production in turn leads to a variety of possible developments, almost all of which may exist side by side. It explains, for example, the increasing difficulties encountered by SMEs in continuing to play a preferential role in training and vocational integration and an increasingly evident *dualisation* between small enterprises in the traditional sectors (sometimes condemned to be the only place where the least qualified young people can find their first jobs or where people in difficulty can get (back) into work) and small enterprises in high-technology sectors or intellectually sophisticated services with the highest skill needs. On the first point, the detailed investigations made by Campinos-Dubernet in France (1999) are highly illuminating: while SMEs take 80% of young secondary-school leavers (Levels V and IV)[85], they are less and less able to provide the additional training in practical skills in some sectors of activity (mechanical engineering, plastics technology) where know-how is inductive, that is building on in-depth theoretical knowledge already obtained. According to this author, the *incompleteness of the professionalisation profiles* produced by the school system obliges some SMEs to take responsibility for completing young people's education. However, the constraints of competition and the growth of subcontracting are now making them less able to do so, especially given the risk that the young people they train will then be recruited by other enterprises. Hence the development of the use of intermediate formulae to test young people's abilities before taking them on (interim, apprenticeship, assisted contracts with the cost of the vocational apprenticeship recovered from the public authorities).

5.2 SME use of CVT: low use of formalised training

The greatest paradoxes of SMEs are well known: while characterised by less favourable skill structures than LEs, they seem to make less use than LEs of structured continuing vocational training programmes. While they apparently play a key role in getting young people into work, especially those with low skill levels (see above), most of them seem to be incapable of developing their skills and improving their long-term employability. 'Although owner / manager attitudes to vocational education and training are largely positive, its actual provision fails significantly to keep pace with the perceived needs of small firms' (Matlay, 1997: p. 587)[86]. We have already seen that most present-day research seeks to complicate the most unequivocal opinions about initial vocational training. So what about continuing vocational training? Can any useful conclusions be drawn, not only from national studies but also from those on a European scale?

According to D'Iribarne (1988), the basic 'ingredients' of continuing training systems are similar from one country to another (players with their roles and objectives, intervention structures, operational structures, instruments and levels of intervention), but they are

[84] It is interesting to note that in addition to training/employment schemes, some measures taken to help jobseekers aged over 25, such as Employment Initiative Contracts, have also been used on a massive scale by VSEs with 1-5 employees (44.4% of persons recruited in 1995) and SEs with less than 50 employees (83% of persons in the same period) (Charpail and Zilberman, 1999).

[85] That is the equivalent if ISCED 2 and 3 at European level (cf. Box 5.1).

[86] At least, this is what appears from a survey conducted by the author of over 2 000 SMEs.

Figure 5.3: The employer's role in initial vocational training and continuing training

Employers role		In continuing training		
		Weak	*Medium*	*Strong*
In initial vocational training	*Little weight*	Spain	Belgium	Finland Sweden
	Not very formalised	Italy Greece Portugal		United Kingdom
	Minority and institutionalised		Ireland Luxembourg Netherlands	**France**
	Dominant and institutionalised		Germany Austria	Denmark

Source: 'Initial and continuing vocational training in Europe', March 1999.

often very strangely combined, with strong coherences peculiar to each country, since they are generally 'heavy social constructs'. For example, the articulation between initial training and continuing training at the employer's initiative often proves highly discriminating.

5.2.1 The articulation between initial and continuing training: great differences between countries

The use made of CT is in fact the result not only of the extent to which it is institutionalised in each country, but also of the links between CT and the initial education system and the labour market. In other words, the practices of continuing training at the employer's instigation have to be placed in the context of how initial vocational training is organised in the country concerned. That, at least, is the hypothesis advanced by Aventur, Campo and Möbus (1999).

Several situations can then be distinguished (Figure 5.3). Roughly speaking, the first case is where *enterprises invest heavily* in continuing training in addition to initial vocational training focused on apprenticeships and academic qualifications. Here, CT is seen as a way of 'catching up' or a 'second chance'. That is the route taken by France, and also by Sweden, where, for other reasons (there being no apprenticeship), employers need to initiate the individual into the specific knowledge/skills of an enterprise or branch.

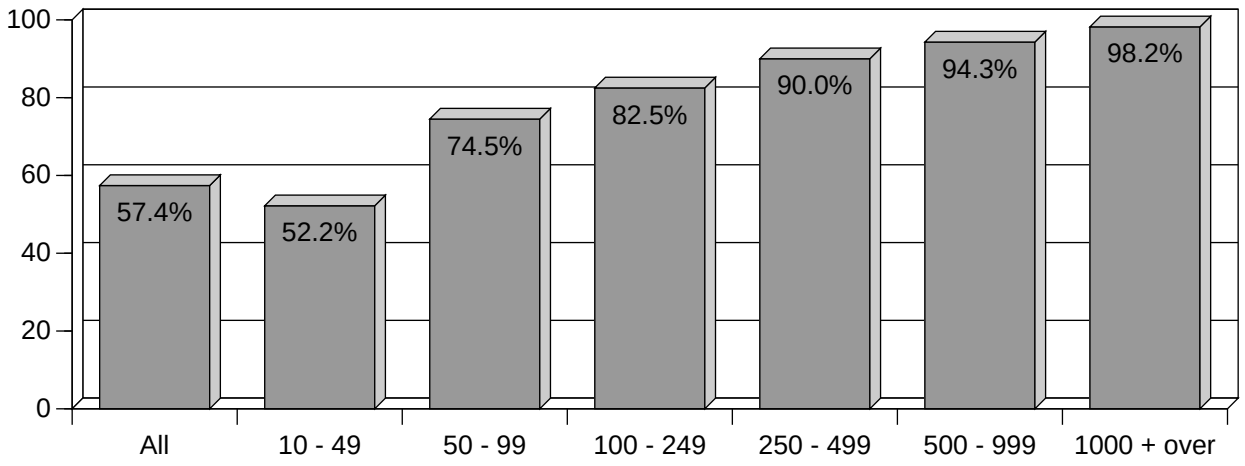
The second case is that of Germany. Here, enterprises are very much involved in initial training (by way of apprenticeship) and *invest less* in continuing vocational training (on this point see also Gehin and Méhaut, 1993). The picture is much the same in Austria and, to a lesser extent, the Netherlands.

The third situation is that found in Italy, Spain, Portugal and Greece. In these countries there is a *progressive complementarity* between the efforts to structure initial vocational training and the emergence of rules for the organisation of continuing training.

Looked at in this light, Denmark's position seems unique, since apprenticeship and employer's initiative continuing training exist on an equal footing, the two types of training being considered very much complementary.

Other work, however, (see in particular European Commission et al., 1997 or European Commission, 1999), based on the findings of the Continuing Vocational Training Survey (CVTS) covering 12 Member States of the EU, stresses the inequalities of access to continuing vocational training between different sizes of enterprise.

Figure 5.4: Enterprises offering continuing vocational training by size of enterprise – EUR 12 – 1993 – %



5.2.2 European work on inequalities of access to CVT

According to this research, while more than one half (57%) of enterprises with more than 10 employees organise continuing vocational training courses for their employees (representing a participation rate of about one third: 28%), this figure masks great differences between enterprises according to their size (Figure 5.4). In fact, in those with more than 1 000 employees, almost one in two employees has the benefit of a vocational training course during the year. On the other hand, in the smallest enterprises (between 10 and 50 employees), only one in ten has that opportunity.

Of course, the use made of CVT also varies considerably from one sector to another. Thus, the rate of staff participation is approaching 60% in enterprises in sectors that have experienced rapid organisational and technological change over recent years (energy, posts and telecommunications, banking and insurance). In hotels and catering, construction, retailing and repairs, on the other hand, sectors where small enterprises predominate, the participation rates are only 23%, 14.7% and 27% respectively.

We shall see below that courses are the preferred type of CVT offered by enterprises, even in the smallest of them (Table 5.3). But it is worth asking whether the survey methods used (administrative survey, questionnaires, etc.) do not favour this configuration. It is true that training 'in work situation' accounts for a significant proportion and that the use enterprises make of training increases with their size, regardless of its type. In other words, contrary to what is commonly believed, apprenticeship on the job operates less as a substitute than as a complement to formalised training in all enterprise categories.

Moreover, there is a marked distinction between the rate of participation (volume of training received by employees) in enterprises offering CT courses and in enterprises as a whole. For this reason, not only are employees of small enterprises less likely to be employed by one that offers training, but even where training is provided, they have less chance of taking part than do employees of large enterprises.

On a qualitative level, finally, SEs make less effort than LEs to assess their manpower and skill needs (European Commission, 1999: p. 53) and fewer of them have staff specialising in training management (only 15% of enterprises with 10 to 499 employees against 93% for enterprises with more than 2 000 employ-

Table 5.3: Enterprises offering different types of training by size of enterprise (per cent)

Size	Courses	Training in work situation	Conferences, workshops, seminars	Job rotation, etc.	Self training
10-49	36	34	29	10	10
50-99	63	50	49	21	21
100-249	76	58	63	30	28
259-499	85	69	71	38	38
500-999	93	74	76	47	43
1 000 +	92	85	80	50	52
Total	43	38	34	14	13

Source: European Commission, 1999.

Table 5.4: General data on enterprise-funded continuing vocational training by size of enterprise in France, 1996

	10-19 employees	20-49 employees	50-499 employees	500-1 999 employees	2 000 + employees	Total
Number of enterprises	30 673	53037	26 774	2 001	390	112 875
Expenditure (in millions of FRF)	892	3 826	11 735	9 619	19 404	45 476
Rate of financial participation (%) (3)	1.73	1.87	2.52	3 .48	4.87	3.25
Employees	449 822	1 710 817	3 501 814	1 862 244	2 511 718	10 036 415
% of enterprises providing training (1)	26.9	43.8	76.2	96.6	98.2	48.0
Rate of access (%) (2)	8.7	12.9	29.9	47.3	52.8	35.0

(1) Having had at least one person on a course
(2) Not including combined training and work
(3) Total training expenditure x 100 / total payroll

Source: Exploitation of tax return No 24.83, Céreq.

ees). Moreover, they are less likely to have a training plan or a training budget (idem: p. 55). However, where they do have a training plan, SEs (10-49) have almost the same participation rate as large enterprises (44% compared with 49%). There is therefore probably a link of cause and effect between the existence of a training plan and the level of development of CT practices (idem: p. 60).

The French data, which are quite precise on the subject, complete the picture of CVT 'deficits' in SEs. They show in particular that the two national objectives set by the 1971 law for equalising opportunities for both enterprises and individuals have not been met. The two registers are moreover closely linked, and the size of the enterprise in fact plays an important part in the disparities in training access between occupational categories.

1. On the one hand, SEs have difficulty in raising themselves above the statutory threshold (1.5% of the payroll) and participation by enterprises with 2 000 employees and over is three times greater than by those employing 10-19 (Table 5.4); the gap between the proportion of employees with access to VT in small enterprises and in the largest ones has tended to grow despite a higher growth in the rate of financial participation of the smallest enter-

Table 5.5: Trend in enterprises' (10+ employees) rate of financial participation in funding of continuing vocational training in France

Number of employees	1975	1985	1996	Growth 95/75	Growth 96-94
10-49	0.70	1.14	1.73	+ 140 %	+ 7.5 %
20-49	0.89	1.20	1.87	+ 103 %	+ 1.1 %
50-499	1.17	1.51	2.52	+ 117 %	+ 1.6 %
500-1 999	1.49	2.12	3.48	+ 135 %	- 0.9 %
2 000+	2.53	3.62	4.87	+ 94 %	- 3.8 %
Total	1.63	2.24	3.25	+ 100 %	- 1.2 %

Source: Exploitation of tax return No 24.83, Céreq.

prises by comparison with the largest in the long term (Table 5.5).

2. On the other hand, not only does enterprise size affect the disparity between socioprofessional categories (for example, an unskilled manual worker in an enterprise of 2 000+ employees has in fact twice as much chance of access to training as an executive in a small enterprise), but in particular, socioprofessional inequalities in the end appear greater in small enterprises than in large ones: for example, the difference between the rates of access of executives and unskilled manual workers was 5.6 in 1993 for enterprises with 10-19 employees, as against 1.9 for enterprises with 2 000+ employees (Bentabet et al., 1999). In other words, in the French context, SEs are more elitist than LEs.

There seems therefore to be a broad consensus at European level around two findings based on statistical data: overall, SMEs make *less* and different use of continuing training than do large enterprises for developing or renewing their employees' skills. While the latter tend to favour organised training, the former prefer on the job training and make greater use of new staff recruitment. Over all, they recruit more than they train (Aventur et al., 1998).

5.2.3 Two interpretations of the deficiencies of formalised training in SMEs

Two interpretative approaches are generally encountered to these two findings: the one tries to put the emphasis on the inadequacy of *the supply of continuing training* in the respective national context; the other gives more priority to the specific nature of the *demand for training* in SMEs and the more or less spontaneous adjustments of which they are capable. We shall now look at these two aspects and try to stylise them.

1. The first interpretation harks back to *the failure of normative models*: SMEs' deficiencies in continuing training are explained by the chronic inadequacy of the institutional structures. This is the problem discussed by such authors as Verdier in France or the British analysts, who on this point have voiced the same criticism of both the old system of vocational training (corporatist regulation) and the new institutional framework of VET (see Chapter 2.2 of this paper, which is devoted to this point).

In the case of France, whether the law of 16 July 1971 is seen as 'a statist institutional edifice' (Santelmann, 1999) or the product of a 'negotiated legislative' path (Verdier, 1999: p. 11), most authors agree that in its excessive formalism it is far removed from the specific needs of SMEs. It is a common thread throughout Verdier's successive studies: there is a contradiction between the formalised nature of the law, whose model remains the course disconnected from production and work, and the specific characteristics of SMEs. By introducing an obligation to spend money on continuing training for all enterprises employing 10 persons or more without distinction, it has merely reproduced the gap

between enterprises that already trained their employees and those that were clearly lagging behind. It has also proved incapable of dismantling the structural inequalities between SMEs and LEs, most of which are nowadays almost always above the statutory minimum (Verdier, 1991).

The same author also highlights 'the relative failure of the intermediate institutions' responsible for mutualising the funding intended for CT (joint bodies or employers' trade associations) that were initially supposed to act as interfaces 'between the central norms' and the specific needs of enterprises. In most cases, they were unable to avoid transfers benefiting larger enterprises. Bentabet et al. (1999) reiterated this diagnosis, focusing more particularly on the extension of the norms to very small enterprises (law of December 1991). Despite the statistical data being less precise than for enterprises with more than 10 employees and covering a smaller field, they showed that mutualisation was of particular benefit to VSEs in certain sectors, such as business services, because of their greater ability to decipher a supply system that had become increasingly opaque and complex as time went on.

There is another possible interpretation: faced with the deficiencies in the official schemes or in parallel with them, SMEs may be capable of generating dynamic adaptive behaviour like any player on the labour market. If that is the case, *they do not necessarily train less than large enterprises, but they do train differently*, preferring in particular apprenticeships in the work situation. Before examining this thesis in more detail (cf. 5.2), it must be understood that it has been supported by a large number of Italian authors, especially those interested in the processes of constructing vocational qualifications and acquiring skills, not only by way of formal, codified apprenticeships, but in their articulations with the activity of work and social experience (on this point see Meghnani, 1992, 1995). Thus, Capecchi (1993, 1995) cites the case of local communities with a strong technical tradition that have been able to train generations of craftsmen or technicians in Emilia Romagna. We also saw earlier that in local systems of the Italian type the career paths of both workers and employers could in many respects be seen as apprenticeships, something all the more relevant because in Italy VT, like the rest of the state-run educational system, does not inspire much confidence. Devolved to the regions since the law of 1992, some believe it has got even worse (Giorgetti, 1995). Hence the massive differences within that country and the divisions of which the North-South divide is just one example, with SMEs in the South lacking an adequate system of training (Bernardi and Trivellato, 1994).

This thesis of *SME adaptability* is also developed by some German researchers, however. Büchter (1998), for example, believes that, contrary to what is said in public, few SMEs are complaining of skill problems. The only ones to do so are those that need and already have a highly skilled workforce, especially in the high-tech sectors. But, he argues, most have shown a remarkable adaptability thanks to 'muddling through' and to existing skill reserves built up piecemeal over a long period. In an institutionally and socially stable context, moreover, they are able to 'count on their employees' to adapt ('learning by doing') and on cooperation between suppliers and manufacturers.

5.2.4 The main factors determining demand for training

More generally, a lot of European research tries to answer the question of the main factors determining training practice in SMEs. A few examples will be mentioned here.

5.2.4.1 The key variables

Curran et al. (1996) stress the importance of *size, sector*, *market conditions* and the *legal and institutional framework*. The size of the enterprise is certainly important in that it determines the material resources available and the likelihood that the training effort will pay for itself (the enterprise's 'internal market'). The effect is not the same in every country, however. In Denmark, for example, the link between enterprise size and the amount of use made of continuing training is not as clear as elsewhere and this 'atypical' situa-

tion deserves further analysis. Also, while the split between small and large enterprises is particularly acute in the south of Europe (France, Italy, Spain, Greece and Portugal), the same does not apply in the northern countries.

Looking at VSEs, other authors (Bentabet et al., 1999) add to the list the *legal status of the enterprises* (independent, company form, subsidiary) or their *place in the value chains*, the *methods of access to the profession* (closed / open)[87] and the *sociological profile* of their managers, not to mention the *local or territorial contexts* in which small firms operate, and their *strategic behaviour* (that is the product-service/market pairs). The researchers mentioned consider this a key variable, e.g. Verdier (1990-b: p. 299), for whom 'recourse to continuing training is linked to the enterprises' position and that of their activities in the production chain. It also depends on the characteristics of the resources deployed in the productive combination'. Drawing on a study of professional electronics, this author in fact notes with Grando that the *capital intensity*, the *technical nature of the products* and the *job structures*, which favour the best qualified levels, entail a massive use of continuing training (Grando and Verdier, 1988). Therefore, taking into account the heterogeneous nature of production structures in the French context, it is not so much the prescriptive nature of the statutory provisions that makes them particularly difficult to apply to SMEs as their excessively homogeneous nature (Box 5.3).

On the basis of a consultation of experts, Gil S., Allesch J., Preiß-Allesch D. (1993) for their part make a systematic analysis of the barriers separating heads of small firms from the world of training. They identify no less than 70 factors most commonly mentioned in specialist literature, dividing them into three categories: factors relating to *demand* (like the lack of training infrastructures in sector associations, the small entrepreneur's rejection of 'traditional' training), those concerned with the *supply* (excessive cost of training, inappropriate training methods, lack of pedagogical skills and especially insufficient knowledge of SMEs on the part of trainers), and, lastly, those connected with the *environment* (excessive red tape involved when SMEs apply for official assistance, lack of LE/SME cooperation for training heads of SMEs, etc.)[88]. All these factors are inextricably linked. The authors describe them as a 'jigsaw puzzle' and they try to complete it on the basis of 36 examples of 'good practice' and 11 sets of recommendations.

Looking more specifically at the obstacles to the use of formalised training in SMEs, Grasser et al. (1999: p. 26) summarise in this way the obstacles 'tirelessly recorded and repeated' in the literature: 'inadequate own resources for training their employees themselves; a relatively limited temporal economic perspective preventing SMEs from implementing a proper training policy; difficulties in 'releasing' staff because they cannot be replaced temporarily; the impossibility of offering career prospects and internal promotion and the fear that, once trained, staff will leave, making it difficult to encourage training or to get employees to value it'. The authors say that financial incentives have no effect on these last points.

Inadequate supply ... and the impasse of needs analysis

Inadequacy of supply has also been suggested as a barrier to the development of CT in SMEs and an ignorance of SMEs' true needs has often been blamed for this. Hence, enterprises have for some years now been the subject of a growing number of studies seeking to clarify their 'skill needs' and to give decision-makers concrete answers. However, most of these analyses have proved extremely disappointing in use. One reason for this has been methodological difficulties following the necessary

[87] In some branches of the craft trades, for example, the possession of a certificate of competency is *for the manager* both an operating permit and a protected way in for exercising his profession.

[88] This factor should not be underrated. In France it has in fact been the subject of a position paper containing 37 administrative simplification measures recommended by the State Secretary for SMEs.

Box 5.3: Market constraint, industrial strategies, type of qualification requiredand training practices in SMEs
The example of professional electronics

- subcontractors dependent on short-term orders from their clients are not able to make long-term investments in training:
➨ Enterprises of this kind are often involved in bottom-of-the-range products and prefer qualities like 'dexterity or tenacity' which have little to do with formalised training;
- a subcontractor who becomes his backers' 'partner' has to meet quality standards that result in formalising and/or raising the enterprise's skill levels:
➨ Less dependent on prices and with a longer-term outlook, he is also able to invest in training, making it part of an industrial strategy;
- a designer of specific products meeting his clients' particular demands combines great technical knowledge with skills built up over a period of time, often on the job:
➨ Use of courses will be only ad hoc, motivated by the desire to familiarise his employees with a new process, for example; these will then pass the knowledge on to their colleagues;
- designers who themselves place orders with subcontractors in order to concentrate use of their high skills on product design, assembly techniques and marketing. The corresponding technicians, engineers and sales staff are however often active on an inter-enterprise job market and their employer is exposed to periodic external mobility:
➨ The return on training is not therefore guaranteed, and these enterprises sometimes confine themselves to ad hoc training; building staff loyalty or constructing an internal market determine the enterprise's reliability in the medium term.

Source: After Grando and Verdier (1988) and Verdier (1991: p. 44).

abandonment of normative models based on the large enterprise (on this point see a whole gamut of German literature, including: Stockman and V. Bardeleben, 1993, Kailer, 1992; Paulsen 1992, Kramer, 1995), and they have also proved disappointing when it comes to implementing new training practices more tailored to the needs expressed.

Some empirical research in Germany has shown that, unlike the technocratic concept developed in regional, national or European institutions, SMEs seldom consider skills an essential part of their strategy (Höfkes and Beyer, 1995). A simple cost-benefit calculation is enough to make them reject formal, planned CT as not applicable and in the end to prefer ad hoc adjustments that are closer to the needs of a small enterprise. According to the authors, this has been encouraged by the lack of a law on CVT in Germany.

As for the famous and countless 'needs analyses', either the information collected is too vague and too general to be of any practical use, introspection in the matter of skill and training needs not being an SME speciality, especially for the smallest of them (Lehmann, Speckmann, 1993), or the demands expressed are so specific that they would require tailor-made training, of necessity expensive, for every enterprise or group of enterprises with identical interests. Finally, even if the CT available were highly adjusted and differentiated according to the enterprises or regions concerned, that would not mean that it became a strategic part of enterprises' consideration of their future reorganisation (Modrow-Thiel, Roßmann, Wächter, 1993). Hence, some researchers say it would be better to stop looking at needs that are often artificially wrung out of SME managers and instead to use empirical studies to look more closely at how they manage their manpower (Bentabet et al., 1999).

Another point of view is taken by Hyland and Matlay (1997), who use an extensive survey of 2 000 independent small enterprises in five different sectors of activity in the West Mid-

lands as a basis for in-depth interviews with 246 of their managers. We find here a mixture of internal and external factors like *the enterprise's stance on the market* of products or services, the *prevailing economic and institutional climate*, which are described as the most important at the same time as 'the lack of training schemes relevant to their specific needs' (87% and 81% for respondents from industry and services respectively), while the availability and cost of training and the 'inevitable time constraints' are mentioned only half as often. As to the more 'personal' or 'secondary' factors affecting SME bosses' attitudes to training, the authors consider that 'by far the most important was the previous education and training experiences of the individuals concerned' (1997: p. 133). That is why it is interesting to think about manager training.

5.2.5 The importance of manager training

Special attention has always been paid to 'management resources' (Manz, 1993) as a factor explaining SMEs' continuing training practices. In general, two registers can be distinguished concerning either the initial training of the managers themselves or their continuing training. The first has been studied especially from a sociological point of view and concerns significant determinants over which decision-makers have little control. We looked at them ourselves in the context of a localised production system, examining 'the social construction of entrepreneurial behaviours' (Trouvé, 1989). The second may either be linked to the experience of the managers – by way of concepts of *self-examination* as developed by Le Meur (1993), of *sociology of action* as in Perrien (1994), or of previous *career paths* as in Ardenti and Vrain (1998, 1999) -, or be considered a preferred lever of policies to stimulate training in SMEs by way of formal training for their managers or for enterprise creators (Education Permanente, 1993; Melis et al., 1993).

In this latter field, some international literature does indeed look at the links between 'management training' for managers and owner-managers and SME performance in terms of survival, profitability and turnover and employment growth (e.g. Bell et al., 1992; Hewitt, 1993; Kinsella et al., 1994). Nevertheless, it is 'rather sparse' according to Westhead and Storey (1996), or fails to take direct account of access to training as an explained variable. In every case it tends to be the SMEs' economic performance that is examined and the findings seem fairly inconclusive. For example, while Cosh, Duncan and Hughes (1998) do find a correlation between formal manager training and growth in turnover and employment from a survey of 1 640 SMEs employing less than 500 people over two different periods in the United Kingdom (1987-90 and 1990-95), they fail to check it against the profit level. At the same time, they develop a finely shaded opinion, suggesting that formal training affects the survival and performance of SMEs of a particular size or during some periods but not others. Kitching (1998) comments: 'in itself, this constitutes an advance over previous thinking that training necessarily leads to increased chances of survival or improved business performance for small enterprise owner-managers and suggests that policy-makers may better employ public resources by targeting training at specific kinds of small enterprise'.

Westhead and Storey (1996) go further. In a remarkably well-documented article that sets out to examine the European and non-European literature on the subject (Canada, US, Australia), they show that the link between management training for managers and the economic performance of SMEs is very 'weak' and that training in management is less relevant in SMEs than in LEs. They take up the argument adduced by Baldwin et al. (1994) for Canada, according to whom 'business success was not associated with training alone'. In an earlier publication, they had already found this to be due primarily to the methodological failings of the studies claiming to establish a relationship (Storey and Westhead, 1994). Considering on the one hand that the main characteristic of SMEs in relation to LEs is the 'external' uncertainty to which they are subject and which causes them to take a short-term view incompatible with investment in training, even in management, they think the same reason explains the low

demand from managers who are not owners and consider there to be an urgent need for 'additional carefully conducted research' in the field.

Here we have findings (or rather a lack of them) that contradict the certainties of those who defend training and HRM and that ought to be seriously considered by future research. What should we say, then, of the empirical work of Baldwin et al. (1994), who show, in general terms, that 'the most successful businesses tended to train fewer workers than a less successful group of firms. In addition, the more successful firms were more likely to provide formal training and less likely to undertake informal training'? True, these authors add that 'The results for training might disappoint the advocates of the importance of training. This should not be so. The results do not mean that training is counter-productive. They only indicate that the more successful do no more training than the less-successful firms' (1998: p. 78). Clearly, a distinction would have to be made according to the extent of the training (generalised to all staff or targeted on a subpopulation) and the differences between the formal and informal nature of training better identified. Most of the European research that we shall look at now has in fact been concerned with this latter opposition.

5.3 The ambiguities of 'Training on the Job'

As we have seen, for most of the research concerned with statistical data, SMEs make less use of training than do large organisations, especially in the most structured form, and they make inadequate use of the skills available in their environment. This is what causes Perrien (1994) to say that 'the trainer remains on the SME's doorstep'. Most of the time, therefore, it remains for qualitative monographs to show that, in small firms, the deficit would be offset by a wider use of informal or implicit training in the work situation.

Care should however be taken with this overworked argument. While it would be absurd to deny that large enterprises have any ability to provide on-the-job apprenticeships, neither can SMEs be held to be definitely unsuitable for formalised training. This would explain why taking account of the relative importance of informal practices does not necessarily narrow the gap between SEs and LEs, as is shown by the work by Serfaty and Delame (1991) for France or the European data presented in Table 5.3. True, for the former, on-the-job training always carries more weight than official training in SEs (about three times more), but it still represents about 1/3 of the financial effort of large enterprises with more than 1 000 employees and the importance of undeclared courses increases with size. So what is the real picture?

5.3.1 The inadequacy of the tools for measuring SME involvement in vocational training

Firstly, it should be pointed out that the deficit thesis is concerned at least in part with the inadequacy of today's tools for measuring, observing and comparing continuing vocational training practices, either for comparing SMEs with LEs or for international comparison purposes.

To begin with, most national statistical systems use a restrictive definition of training[89] and find it hard to record the informal training practices that predominate in SMEs. However, the same applies to the theories on human capital formation, which more often than not look only at the number of years' schooling or the completion of a level of education as capital-forming activities (OECD, 1998: p. 88). Among the many studies that all come to this conclusion, one might mention those by Hendry et al., 1991, Goss and Jones, 1992, Vickerstaff, 1992, Nove et al., 1995 and Bentabet et al., 1999. That is why a lot of the research is given over to a criticism of the statistical sources and to defining the concept and the various types of training (Box 5.4).

[89] On the other hand, Curran et al. (1996) note that 'a wide definition of 'training' covers both in-house and informal training as well as external training including that leading to formal qualifications' (p. 17).

Box 5.4: Training typologies

1. *Formal Off-the-job Training*: all forms of instruction that take place away from the workplace and which are designed to increase knowledge and skills in relation to the job. Such training may be provided by public-sector institutions (i.e. colleges of further education) or private-sector bodies. Such training may - but not necessarily - lead to a recognised qualification.

2. *Formal On-the-Job Training*: training geared directly to the acquisition of a level of qualification necessary for the job held but which takes place separately from production activities. This training is often provided by private-sector bodies, such as equipment suppliers, to ensure that employees know how to use the equipment better.

3. *Informal On-the-Job Training*: any activity that increases the knowledge and skills of individuals in relation to the tasks they have to perform, but not requiring more than very short periods of time away from production activities. For example, new employees or the less skilled may be 'mentored' by more experienced or better-trained ones who advise them if they encounter problems.

4. *Informal Off-the-Job Training*: Activities that develop individual skills but which are intermittent and of limited duration and do not necessarily lead to clearly defined qualifications. It may mean, for example, attending trade shows, taking part in seminars or workshops, visiting suppliers or other enterprises in the sector, studying work-related documents in their own time.

We can also distinguish:

- *initial training* (formal or informal) accompanying 'induction into the job role' or for new or recently promoted employees starting their jobs.
- *continuing training* (formal or informal) designed to enable the firm's present employees to maintain or enhance their skills or acquire new ones.

Finally, the training process may be described in terms of three dimensions:

- *duration*: may vary from less than an hour to several years, be continuous or broken down into several periods, sometimes planned in advance according to precise objectives.
- *intensity*: may vary regardless of the degree of formalisation of the training. The length, complexity and stratification of the training required depends on the standard of competence defined and required by the employers (cf. the national system of vocational qualifications - NVQs in England and SVQs in Scotland). Similar distinctions may also operate in some informal training.
- *scope*: this may be divided on the basis of whether the skills acquired are easy or difficult to measure. The 'informal' label is generally applied in the latter case. However, the least well-defined and least measurable training may be of prime importance, as in the case of economic activities involving the production and handling of intangible goods.

Source: After Curran et al., 1996: pp. 2-3.

Comparative data on the subject at European level are even more difficult to come by. Felstead et al. (1998) warn us that 'the interpretation of statistics on training at European level is full of pitfalls and must be undertaken with the utmost care'. The issue here is not only the divergent national concepts of training (Campanelli et al., 1994) but also the data collection techniques and the breaks in time series that occur despite the 'harmonisation and synchronisation' work done by Eurostat in particular since 1960 (1992: p. 53).

5.3.2 Uses and limitations of the cottage industry paradigm

The on-the-job training argument is very often used to relativise or qualify the apparently irrevocable verdict on SME handicaps in the matter of training. Such is the case of the many qualitative analyses of practices, which have at least shown all the complexity of apprenticeships in the work situation. The upshot of such investigations is most often that SMEs not only contribute less to skills formation, be it because of their different arrangements more integrated into daily production activity or by concentrating their training in particular moments in their development, such as on their creation, when making new investments, when they change hands, or when quality policies are introduced. Moreover, the skills that they create or maintain are not the same as those acquired by formal, codified apprenticeship, either. From this point of view, they are more suited to passing on initial or 'elementary knowledge and skills', just as they are 'a more favourable landscape for practical apprenticeships', or at least less abstract than large enterprises (Drexel et al., 1986).

What we are marking out here is the paradigm of the craft trades, whose advantages many researchers are trying to identify in order to see whether they might be extended to all small enterprises, whether the accent is on the particular forms of socialisation to which they give rise (Zarca, 1986; Combes, 1988; Bentabet et al., 1999), or they are trying to think in terms of their contribution to general human capital formation. This is what Kucera (1997) does in particular, drawing on the German example which shows that apprenticeship and continuing vocational training in a craft trade situation have significant advantages: on the one hand, they allow the product and the skills of the apprentice ('*Auszubildende*') to be produced simultaneously ('*Kuppelproduktion*') for a net cost (that is, the gross cost less the advantages brought by the apprentice) that increases with size; on the other, they offer a proximity to working practice that college apprenticeships cannot provide; finally, their integration into production activities makes for greater versatility.

The positive external effects of on-the-job apprenticeships are therefore considerable, and all the more so since a major proportion of the individuals trained by apprenticeship, especially in the craft trades, are able either to create their own enterprises or to go for a complete change of career, often moving to larger enterprises. Such is the case, for example, in France (Bruand, ...) and Germany, where nearly 40% of craft workers change their trade (Henninges, 1994). Should we see these processes of mobility, especially at the start of a career, as an imperfection in the training-employment relationship and a poor use of the initial vocational training, or should we, as we did above (cf. Chapter 4.3), consider VSEs to be acting as a place of transition on the labour market?

Nevertheless, it would be wrong to reduce the SME training model to that of informal apprenticeships, contrasting it without qualification with the essentially more formalised model of the large enterprise (Verdier 1990-b: p. 303), because, for one thing, large enterprises are not unaware of the processes by which skills are passed on at the workplace and, for another, small enterprises are not chronically unsuited to formal external training. What needs to be rethought are the ways in which different forms of training are articulated, so as to avoid 'courses' becoming so disconnected from the actual performance of work as to be far removed from the realities of SMEs, while at the same time preventing apprenticeship from becoming so closely adapted to the job in hand as to preclude any kind of inter-enterprise transfer or mobility.

5.3.3 SEs are not unsuited to codified training or to using outside training

Several situations are adduced in the literature to explain that the prospects for developing structured external training in SMEs are not zero, even in the smallest of them.

❑ *First of all because of the heterogeneity of the field of SMEs*: highlighting three major configurations of SMEs / VSEs, Bentabet et al. (1999) stress their greater or lesser reservations about institutionalised arrangements for training. Represented in the first of these

by the most widespread traditional small firms, 'family firms' and the self-employed, where the employment relationship between the head of the enterprise and the employee is the most personalised and where the building of skills depends very little on formal qualifications and formal continuing training, enterprises find it most difficult to provide training in the form of 'courses' outside the work situation. The second configuration, described as 'ideal-typical', involves 'managerial, integrated or modernised VSEs/SMEs' at the opposite end of the spectrum. They are extremely sensitive to the market through their involvement in various networks (franchise, branch, part of a group) and the methods of human resources management are much more formalised than before with vocational diplomas being required and significant use made of external formal continuing training. Employees can be assumed to have wide access to training in this situation. The third configuration is indicative of practices half way between the previous two. It embraces 'entrepreneurial VSEs/SMEs' where the pattern of activity is marked by breaks and innovations enabling the enterprise to differentiate its products or services, where employment relationships are in the process of being formalised and where the skills required are both the product of a technical culture and the result of experience in a particular field. Here, continuing training is marked rather by a hybridisation between the two previous models: both external and formal, but also 'on the job' and most often provided by other employees through a 'trickle-down effect'.

Training practices must therefore be examined in the light of this extreme differentiation of the SME fabric as it appears in most of the most recent work. The targets and possible expansions of training in SMEs should be designed on the basis of this differentiation.

❑ Then, training practices can also be differentiated according to the *time span and life cycle of SMEs*. Looking at the *supply of training* and the regulatory abilities contributed by the intermediate players (consular bodies, trade associations, public or private consultancies), we find that a number of – at least partial – responses to small enterprises' training needs involve identifying specific moments and publics that facilitate investment in training in those enterprises. Thus, the transfer of an enterprise, the purchase of new equipment and its corollary the expansion of activity, as well as changes in product-market pairs, improvements in quality or the tightening of management constraints (delivery times, just-in-time) are important moments that very often open a wider breach into management problems which in turn call for training. As for the publics concerned, young people and especially husband and wife teams, they also help to structure the training supply. Thus, in the report by the European Commission, Eurostat and Cedefop (1997), based on data derived from the Labour Force Survey, a chapter is devoted to CT for the self-employed as compared to employees. Among other things, they state that, among the self-employed (with no employees) women undertake the most continuing vocational training (almost 4% of them, compared with just over 2% for men).

❑ Finally, observation of innovating SMEs in the field of training could be a very great help, especially since it would enable us to understand why some small enterprises are able to adopt 'atypical' behaviours, that is training policies that are not normally very widespread in similar firms. An example of this type of approach is given in the work of Bel and Rosanvallon (1990) and Rosanvallon (1990). These authors begin by pointing out that *new training policies in SMEs* do not come about by chance but are very much based on *internal factors* or *external management* mechanisms that facilitate them.

For the former, note will be taken of the enterprise's history, the manager's personality and his ability to set a strategy ('in 2/3 of units studied, training innovation goes hand in hand with the arrival of a new manager'). Analysing innovating initiatives in SMEs in the Rhône-Alpes region, they in turn recognise that, far from ruling each other out, *formalised training* and *training incorporated into the work situation* are complementary, since innovation is an expression of the abil-

ity to formalise needs and of the specific methods of implementation: 'the most innovative enterprises recognise the limits of training on the job, especially its ability to ensure mastery of new, more complex working situations. They make greater use of formal training in the form of courses with a theoretical content' (Bel and Rosanvallon, 1990: p. 65). It is true, the authors add, that measuring the training effort in terms of courses shown in official returns (e.g. the famous 24.83 in France) does not make for a complete appraisal of the training effort, but the small amount of formal training generally shown for SMEs in national and European statistics 'is revealing of real or potential major imbalances between the content of the training policies deployed and what is needed to cope with the changes that are taking place' (p. 42).

So far as *external factors* are concerned, Rosanvallon (1990), like many others, puts particular stress on the emergence of a large number of 'new players and training skill networks', including local authorities, private companies providing consultancy and assistance with training, sundry agencies, etc. In this sense, 'the emergence of innovating training practices forms part of a wider process of integrating SMEs-SMIs into external skills networks providing aid and assistance, particularly in training', which must be seen alongside 'the rise and development of new profiles of entrepreneurs, the recruitment or arrival of engineers and managers who remain in contact with their old networks' and also alongside the current trends in the ways SMEs-SMIs articulate with large industrial groups (Bel and Rosanvallon, 1990: p. 82).

Finally, it is clear that 'the establishment of new systems of apprenticeship and skill production' cannot be reduced to ad hoc interventions targeted on enterprises alone. Innovatory schemes are of necessity complex and need to deploy a larger number of players using more diverse methods of training. Without a doubt, 'such many-sided and varied reshaping' is, potentially at least, more appropriate to the specific nature of SMEs-SMIs because of its modular nature and greater integration 'between the organisation of courses and experimentation with new working methods, between training and needs analysis, between training and production within the enterprise...' (Bel and Rosanvallon, 1990: p. 85), but it also requires overall consideration to be given to the institutional machinery of vocational training, as can at present be seen in most EU countries.

5.4 Towards new forms of regulation...

It is not our purpose here to go back over the many examples of the reform of national continuing vocational training structures examined in detail in outstanding publications (e.g. Cedefop, 1983, for the structure of the systems, and Aventur and Möbus, 1999, for a study of their recent dynamics). It seems to us more interesting to bring out the main trends and current changes of course that may augur well for the future development of vocational training in SMEs. We shall look here at three in particular: firstly, the present swing of enterprises towards skill mobilisation; secondly, the ways of identifying, validating and accrediting informal apprenticeships; thirdly, the debates on technological and organisational innovation for a training appropriate for SMEs.

5.4.1 The shift towards a 'skills' logic: between individualisation and institutionalisation

For a number of years now, there has been a marked trend in most European countries to build enterprises' competitiveness on the 'mobilisation of skills'. Clearly, this is not something unique to SMEs. One might even say that it is inspired more by the technologies of Human Resources Management common in large enterprises. But the notion of 'skill' carries with it three ideas that are very close to the models of professional competence and status validation currently encountered in SMEs.

Following the skills logic, first of all, the specific command of work situations takes priority over both the trade-related systems of recognition that are structured by professional relationships (as in the old British corporatist tradition), over diplomas and theoretical knowledge (as in the French-style institu-

tional, statist control), over the jobs or positions held (as in bureaucratic organisations) or over socially incorporated knowledge (as in the Italian forms of local regulation).

Secondly, looking at training, as A. Vinokur notes, the skills logic corresponds to a requirement for 'downstream piloting' of apprenticeship systems, a piloting 'characterised by a separation of the skill transmission function from the certification function' (quoted by V. Merle, 1997: p. 49). From this point of view, the process of apprenticeship is less important than the result, that is the command of work situations in all their complexity. However, SME managers and especially VSE managers who are their caricature are saying nothing different: 'training takes place in the enterprise itself' and the use of professional know-how can be validated without any formal training or instruction or even diplomas (Bentabet et al., 1999). Moreover, in the British NVQ system, often held up as an example of the 'skills' approach, apprenticeship courses and their content are not specified.

Thirdly, the recent theoretical widening of the concept of skill to include social and relational know-how may be applied to SMEs in traditional commerce and service activities (sales, catering, accommodation, etc.).

Some critical analysts have said that the rise in the concept of 'skill' should be seen in parallel with the weakening of the 'qualification paradigm' (Rainbird, 1995: p. 246), which was based on strong professional, institutional or societal regulation (on the British, French or German models)[90]. In fact, it appears at a time when the traditional collective regulations in the field of work and training are in crisis and the small enterprise model is, according to some, becoming established as an organisational alternative to the rigid professional relations of the Fordist era. In plain terms, in an area where trade unions are so little involved and where SMEs have such reservations about initiatives taken by the State, the skills logic could be all the more important for assuming a weakening of the wage relationship and its conventional framework and an individualisation of training.[91] There is a whole series of articulations here that need to be studied and debated, while not forgetting the dangers that V. Merle refers to as 'tendential' in the European Commission's *White Paper* (1995), those of a 'free market in skills [where] only the individual and his skill remain' (1997: p. 42) with no other form of regulation than the short-term needs of enterprises.

In this extreme case, there would be the risk of excessive individualisation resulting in desocialisation, that is a failure to take into account the collective contexts in which vocational skills are acquired and, ultimately, quite simply a return to elitist mechanisms (exclusion of individuals from the labour market, aggravation of the rifts between SEs and LEs, dualisation within the SME sector). That is why we must be attentive to the new compromises built in each country between the various players on the labour and training markets, since the adoption of a skills logic would paradoxically require the adoption of strong institutional norms, be they inspired by the State or regional institutions (as in the United Kingdom, France or Spain) or born out of collective bargaining between the social partners (as in Germany).

This is how we must understand the *gradual hybridisation* of the new CVT systems being built in most EU countries. In the United Kingdom, for example, where the edifice of TECs and LECs inspired by a liberal, decentralised concept and powered by the market

[90] 'To speak of qualification', Rainbird says of the British case, 'is to speak of the role of skilled workers and their trade unions in the enterprise' (workplace) (1995: p. 231).

[91] Such individualisation of training can in fact already be seen in the concept of 'co-investment' that is emerging in several EU countries and which involves a financial sharing between the individuals in training and their enterprise or the State to adjust to new forms of employment (training partly in leisure time in Denmark and Germany, 'Youth Credit' in the United Kingdom). It is also explicitly suggested in the concept of 'individual right to training', which would operate as a system of credit throughout working life, as recently proposed by J. Delors (1999: p. 5) as part of the reform of the French CVT system.

('market-led training system': Parker, Vickerstaff, 1996: p. 251) may be combined with a highly voluntaristic action by the State resulting in a kind of 'organised laissez-faire' (Bouder, 1999: 387). Similarly, the guidance and organisation of NVQs at national level can adapt to programmes of support for individuals (*Youth Credit, Career Development Loans*) or for enterprises to enable them to invest in human resources (*Investors in People*). Likewise, too, the leadership of large local enterprises on TECs can coexist with the quest for new balances that will allow the specific nature of SME needs to be recognised by the establishment of ad hoc committees and even a programme adopted in 1995 (*Skills for Small Business*). In France, where the skills approach is not really institutionalised as a tool for human resources management, but is recognised as an individual right ('skill balances'), the Ministry of Education (Education Nationale) is still the dominant player for certification. The establishment of machinery for *validating vocational experience* and of *Vocational Skill Certificates (Certificats de Qualifications Professionnelles – CQP)* have however helped to get the training role of enterprises recognised and the power to oversee and evaluate employment and training reference systems opened up to other players (on this point see Feutrié, 1997). There are many other examples of new combinations of players accompanying the progressive diversification of systems of qualification and forms of certification.

5.4.2 Recognition and validation of professional or informal experience

Another movement is emerging that could prove favourable to the development of training in SMEs. We are referring to the policies adopted by the EU, in particular through the *Leonardo da Vinci* programme and illustrated by the *White Paper* (European Commission, 1995) concerning systems for the identification, validation and recognition of informal experience for improving transparency and skill transfer[92]. It is not our place here to go into the methodological and epistemological debates to which such a set of measures has given rise, or even to list the current studies or international comparisons on the subject. These are all described and discussed at length by Bjørnąvold (1997-a; -b; -c; -d).

While not adopting a specifically SME-centred stance, he reviews the context that encouraged the emergence at European level of measures for the *validation* of skills acquired outside the formal education and training system alongside the *traditional certification procedures* based on formal education. He refers both to the calling into question of the social and professional value of qualifications in rapidly changing production systems, 'the emergence of new organisational perspectives and practices in enterprises, requiring a more diversified approach to questions of apprenticeship and skill formation', the development of training throughout life, and especially the changes that have taken place in the operation of labour markets where internal recruitment practices (which presuppose at least a relative transparency of professional experience) have weakened while the strategic importance to enterprises of looking to external markets has increased, which implies taking a closer interest in the formal and especially the informal or 'invisible' skills of candidates for recruitment (Bjørnąvold, 1997-c, pp. 5-6).

We can see here that the first and fourth arguments are the ones most in line with the SME issue, firstly because SMEs (especially the smallest among them and in some national contexts more than others) are always quick to question the value of qualifications produced by school systems, and secondly because more intensive use is made of external markets in SEs than in LEs. While the approaches to the validation of non-formal experience are appropriate to the ideas of SMEs, they are nevertheless limited, not only

[92] A number of benchmarks may be quoted in the European Commission's guidelines for identifying and validating existing and/or informal experience: the project launched in 1993 for an 'individual skills portfolio' (Individual Portfolio Project), the idea of a Personal Skills Card put forward in the *Livre Blanc* (1995), the EU Skills Accreditation system and the 'Euro-validation project' conducted in five countries as part of the Leonardo programme (on this point see Bjørnąvold, 1997-c, Chapter 4).

by their ability to formalise implicit skills[93], but especially by their sociology, that is the cultural norms they carry. In other words, going back to the three aspects suggested by Bjørnąvold (1997-d), while *the identification* of non-formal skills is going well methodologically and scientifically, and while their *validation* requires top-level decision-making authorities at European level, their *recognition* depends for its part on social values at national level and in the enterprise.

As Bjørnąvold (1997-d) suggests, a discussion of instrumental approaches (their 'validity' and 'reliability') must not neglect the questions of their *acceptability* and *credibility*, which are sociological in nature. In a way, 'creating a system for recognising non-formal experience is tantamount to changing the social definition of skills' (idem: p. 43). We know in fact that any national or European system of this kind adopted may very well not be followed by SMEs, either because they lack the means to do so or out of ideological reluctance: despite making much of their specific contribution to the construction of skills, they generally rely on the legitimacy conferred by official certification arrangements. Moreover, they have historically been kept away from the legitimation authorities (whether or not central)[94]. This, at any rate, is what emerges not only from a historical analysis of CVT systems in most European countries, but also from how they have developed, leaving SMEs little say in the most socially recognised certification and validation processes. Hence the dilemma, never completely resolved, in the various national or European political guidelines, between a *centralised strategy* that seeks to make systems for the recognition of skills homogeneous and give them greater credibility, but which runs the risk of being far removed from specific SME practice, and a *decentralised strategy* ('from the bottom up') which, while offering pragmatic solutions and a degree of flexibility, risks lacking legitimacy and being too piecemeal.

Despite these reservations, SMEs could well be a crucial arena today as well as a potential laboratory for experimentation and for building public policies for the recognition of non-formal skills.

5.4.3 Technological and organisational innovations: mirages or a way to make SME training practices more dynamic?

While considering the questions raised above, we should not at the same time overlook the many pedagogical innovation and experimentation schemes aimed at making continuing vocational training more appropriate for small enterprises, be it by using the new distance learning technologies or by organising training in networks or enterprise or businessmen's clubs on a regional or branch basis. This is a vast new field for the systematic observation of 'best practice', so we shall merely mention it here.

5.4.3.1 Use of new education technologies: hopes and open questions

Subject to the distinction between employee training and manager training, the application to SMEs of *new education technologies* (modular, individualised, multimedia, assisted self-instruction, 'open and distance' learning) has already been widely discussed in the European literature. Some see their flexibility and accessibility as helping to spell the end of the traditional model and therefore as being better geared to SMEs' needs. However, this new multifaceted paradigm, which already has its monographs, its Netherlands-based European Federation (FFFOD), its 'abundance of local initiatives', its websites, etc. (*Actualité de la Formation Permanente*, 1998) is still far from being sta-

[93] Hence the relative failure of the application of the 'skills portfolio', especially in the context of transnational worker mobility.

[94] Hence their difficulty in participating directly in such bodies as the British *TECs* or the *National Council for Vocational Qualifications*, set up in 1986, in the French institutional structures for *validating professional experience* or for constructing the *Certificats de Qualification Professionnelle*, which is organised on a branch basis where large enterprises predominate (on this point see Feutrié, 1997) or in Spain, where the *Repertorio de Certificados de Profesionalidad* is compiled jointly by the Ministry of Labour and the Ministry of Education.

Box 5.5: Commitments to Develop Vocational Training in France (EDDFs - *Engagements de Développement de la Formation en France*) in France

Created in 1984, the EDDFs are intended for enterprises that are under a statutory obligation to take part in the development of vocational training and which increase the quantity and quality of their training effort as part of a programme extending over several years. The aim is to support projects to raise the level of employees' qualifications and skills as required by technological and economic change.

Aid is granted in particular to small and medium-sized enterprises (be they self-employed, or group subsidiaries). Thus, 90% of enterprises involved in EDDFs have fewer than 50 employees. Two thirds of trainees are manual and non-manual workers.

Enterprises' training plans must form part of a development strategy. They are for the most part negotiated at the level of occupational branches, where problems of modernisation and competitiveness can be raised globally and coherently; they also cover a period of several years so that training schemes can take a medium-term view. They can also be decided on a territorial basis, with interprofessional organisations, for example, for local development purposes. For the most part, EDDF framework agreements are negotiated between the State and one or more trade organisations; however, employee representatives ensure they are properly implemented through their involvement in supervisory committees.

This scheme is currently under review. It could be improved in three ways: by giving greater place to local initiatives (30% of credits are still managed at national level) while preserving the benefits of branch-level negotiation; by expanding the scope of EDDFs to include experiments in e.g. internal training and skills validation; and by simplifying procedures so as to extend the scheme to enterprises normally bypassed by public intervention, especially small enterprises that are not group subsidiaries.

Source: Ministry of Labour, Employment and Vocational Training, Les Outils du changement du travail (aides au conseil, aides à l'action) - Guide.

ble. Moreover, it does not in itself allow SME needs to be clarified, neither does it allow us to resolve the difficult (impossible?) transition between the traditional concept of training in SMEs, where the transmission of skills symbolically requires the *proximity* of trainer and trainee, and the forms of *distance* learning encouraged by new technologies. Finally, rather than being an instigating factor, the use of the new 'training engineering' based on information and communications technologies is never really anything more than an effect of new production and skill management practices, themselves a response to innovative behaviour shown by only a minority of SME managers (Fournet and Bedin, 1998). Most of the time, the training dimension remains a determined variable. It is 'the expression and lever of more global changes affecting methods of workforce management and enhancement in SMEs-SMIs' (Hillau, 1987).

5.4.3.2 'Networks': genuine alternative, magic formula or additive?

The findings of research into the effects of inter-enterprise organisations on their training dynamics seem less uncertain. Hence, political decision-makers have come to think that the best way to influence SME training behaviour would be to apply pressure to the existing forms of cooperation, be they in the form of customer/supplier relations, partnerships, groupings, associations, clubs or various kinds of interrelating networks. That is the lesson to be drawn, for example, from observation of Italian-style industrial districts or French-style localised production systems, but which is also provided by some evaluation work on the United Kingdom's TECs and LECs. Many of these aspects have already been mentioned (Chapters 2.1, 2.2, 2.3 and this fifth section). We shall now concentrate

on the essentials, always remembering that these selected configurations are not all based on the same rationale: some are the product of a historical heritage, others are constructs or artefacts born of changing production systems and a political or entrepreneurial desire to modernise SMEs.

In Italy, local systems of inter-enterprise co-operation and competition have a training role for SME employees and bosses at the same time as collectively incorporated vocational training operates as an engine of entrepreneurial dynamics (Capecchi, 1995), and the recent development of external networks (Castaldi, 1999) or the present CVT reforms (Treu, 1997) must be analysed in the light of this initial model, either as challenging it or as continuing it with adjustments.

In the French example, the work on local development and localised production systems must be mobilised, such as the work by Laget (1994) with his 'small enterprise', 'local' and 'training' triplet, or that by Bel (1992) which, taking the mythical example of the Arve Valley, shows how the relations between the different players help to develop the skills of the workforce in a system of SMEs specialising in screw-cutting.

Another example is the in-depth appraisals of TECs and LECs made by Vickerstaff and Parker (1995). They stress the importance of inter-enterprise networks or of existing forms of cooperation between enterprises and local, regional and professional bodies in getting LECs to make greater headway with SMEs.

However, enterprise networks and the externalisation of training into networks are not a panacea for SMEs. In Germany, for example, Lehmann and Speckmann (1993) show how difficult it is to make a success of 'artificial' projects for networks of cooperation between small enterprises and public and private sector institutions.

Inter-enterprise relationships may, it is true, help to loosen the constraints on enterprises; agreements may, in part at least, take the place of market forces and widen SMEs' temporal horizons: investment in manpower and training can then be seen as a medium-term thing (Verdier, 1990-b: p. 300).

There are however other possibilities, involving adjustments or improvements to institutional arrangements, following different national traditions that are at least as important as the major European trends and convergences described earlier. Such is the case, for example, of the French Government's contract-based training and employment assistance schemes like the *Engagements de Développement de la Formation Professionnelle* (EDDFs) [Commitments to develop vocational training in France] that have in many cases enabled the priority targeting of public action on small enterprises and the reality of their situations to be reconciled with branch and/or regional negotiations and provided a strong incentive to incorporate training into a medium-term strategy (Box 5.5).

But does such an exemplary arrangement not always favour those enterprises that are the best equipped to find 'a compromise between public norms and SME practices?' Verdier (1990-b: p. 309) asks. The institutional arrangements to encourage training have no more succeeded in reducing the inequalities of SME access to training up until now than the networks themselves manufacture training within SMEs.

6. Conclusions

The stance adopted in this concluding chapter is not entirely prescriptive: firstly because the breadth and complexity of the ground explored defies all simplification; secondly because we are strangely lacking in perspective and lucidity as we emerge from this bibliographical confusion; and thirdly because the purpose of this dossier was not so much to analyse employment and training policies in the EU and to make recommendations as to examine the research into SME employment and training practices. The political dimension has not been forgotten for all that, especially when the subject is broached by the work quoted, but also because we are trying here to present the findings that appear to us

to be the most significant and the most useful to decision-makers without stepping into their shoes ourselves.

Dealing with the question of SMEs at European level is in many ways a challenge. Despite the Community being unanimous in its sensitivity to the decisive role they play in economic growth and competitiveness, small enterprises are still approached in a great variety of ways in different countries, both as regards industrial, employment and training policy, and in the field of research. On the one hand, their very definition, not to mention their economic weight, varies considerably from one country to another. On the other, their unequal place in national traditions means that research work must always be contextualised. Finally, with the exception of Germany and Italy, SMEs have almost never been a *scientific subject* in their own right for the academic world.

Despite these three difficulties, we know that SMEs have in recent years become a preferred focus for transnational policies that have not been content with designing *funding* programmes for enterprise creation, plant modernisation, research and development and technological innovation, but have sought to draw up guidelines for *investment* in human resources, now considered the major source of competitiveness. At the same time, they have become a new field of research, with a large quantity of empirical work, national or comparative, theoretical or geared to decision-making.

We shall not go back over the reasons for this relatively recent interest in SMEs. Mostly, they have to do with their expansion in service economies, the reconfiguration of production systems marked by the crisis in large productive concentrations and by the simultaneous redeployment of small structures that are more agile and more capable of meeting a demand that is increasingly unstable and diversified. Let us not forget, either, the persistence of unemployment in Europe that has made SMEs 'harbingers of hope'.

These developments are however heteronomous, and even if the generic model of the small independent family enterprise is still in the majority (especially in the countries of Southern Europe), it is tending to diminish in favour of small structures caught up in networks of dependency or multiple interdependency with other small enterprises or large groups. These changes must be the starting point for tackling the employment and training behaviour of SMEs, which is what most European research generally does.

6.1 The employment practices of SMEs

❑ On the first field of investigation ('SMEs and employment'), research work into *the relationship between enterprise creation and job creation* is the first to be mobilised. Contrary to what is commonly thought, it shows very convincingly that such a relationship is not obvious, firstly because the proportion of newly created enterprises surviving for more than five years does not generally exceed 50%. Secondly, the rapid growth in those enterprises' workforce is a relatively marginal phenomenon subject to a number of conditions that the defenders of enterprise creation often overlook. These include the *sector* or *branch*, the *territorial bonds*, *the creator's previous career path*, the *strategic stance* adopted (cf. Box 3.1), and, above all, *the size of the enterprise when first created* (the potential of newly created enterprises to create jobs increases with the number of employees on start-up). There is also some uncertainty about the number and quality of the jobs created by small 'high-tech' firms. In short, in France at least, while there are more *pure creations* than *resumptions* or *transfers of activity*, they also create fewer jobs. Finally, enterprise creation does not appear to create more jobs than existing small firms do.

Hence the dilemmas surrounding political intervention to encourage or accompany enterprise creation: apart from administrative simplification ('one-stop shops') (ENSR, 1997: p. 102), should we be arguing for *undifferentiated* aid for all enterprise creation (by creating an 'enterprise culture', for example), or rather for measures *targeted* on particular small enterprises? In that case, what would be the criteria for targeting? 'Assisting employment through growth, or rather assist-

ing enterprise growth through skilled labour' (Semlinger, 1995: p. 2)? We now know that financial aid to creation alone is not enough, but that it must be accompanied by management support to avoid creators starting out with too small a workforce. In the end, should we be assisting enterprise creation or 'caring for the stock of existing SMEs' by making more counselling available, since paying attention to SE creation is justified less by their employment potential (which is frankly uncertain) than by the problems resulting from their being too small and the obstacles to their development (Semlinger, 1995: p. 21)? And to round off, should we remain with these dilemmas or construct complementarities between all these options?

❑ Another widely held opinion that was to be tested scientifically and in the end proved more difficult and more complex to substantiate than expected was the claim that 'SMEs create the most jobs in our societies'. More difficult because the speed of the changes taking place in production systems today makes it increasingly hard to identify the *specific* contribution SMEs make to the creation and growth of employment. More complex, too, because the concepts of 'creation' and especially 'job/employment' are themselves being called into question. On this point, there seems at present to be a tremendous distance between the certainties of common thought (for which there is no doubt that half of Europe's working population with a job are currently employed in SMEs) and the barrenness of the methodological debates that inevitably follow when this is contrasted with the research. The overall movement of the latter is relatively clear, however:

❑ It is true that the proportion of jobs in SMEs has been on an upward trend in most EU countries for a number of years. One might for all that question the *specific* role of SMEs in generating new jobs, especially since the accounting methods used to make the transition from 'stocks' to 'flows', from static to dynamic or longitudinal data, are unreliable and controversial. The main question raised here is whether the job creations observed are endogenous or exogenous. Should they be counted as creations or as the fruit of internal growth within small enterprises? Must they not rather be interpreted, at least in part, as a consequence of the restructuring taking place in large enterprises? What emerges from all this in any case is that the behaviour of SMEs as regards employment cannot be studied in isolation from an observation of what is happening in large enterprises.

❑ Moreover, while SMEs create jobs, they also destroy a lot, and this is not without significance. The example of the 'American job-creation machine' and the phenomenon of 'creative destruction' invoked by Schumpeter have often made people think they were right to consider job turnover an essential feature of a dynamic economy, a contribution to structural change and the responsiveness of the labour markets. There is, however, also a suspicion that, at a high level, job turnover generates and amplifies processes whereby the labour force, especially the frailest sections of it, becomes more insecure. It may also prevent small enterprises and workers from making the best investment in training, the former giving priority to outside recruitment (flexibility) instead of stabilising their workforce and using internal flexibility, the latter by withdrawing from vocational training and work, sometimes at the cost of exclusion, and instead going for longer and more 'noble' forms of training or towards enterprises with more stable jobs, sometimes at the risk of being overqualified.

❑ Then, not all SMEs create employment, only a small number do so. Hence the crucial question: which ones create the most jobs and, more generally, what are the key factors determining employment behaviour in the specific case of SMEs? On this point, research shows that the size variable is not the most important, but that it would benefit from being combined with other variables such as *sector*, the *sociological profile of the managers*, and, more important still, the *competitiveness strategies* adopted by the managers. This is the line taken by a series of recent studies in France, the United Kingdom and Germany in particular.

In most cases, SME performance in the field of employment is then associated with

product-service/market pairs based on differentiation or even specialisation. It may however also be associated with a particular positioning of small enterprises in the value chains, enabling them, for example, to avoid being too dependent on distribution circuits or having to fight competitively on mass markets, seeking instead direct contact with the final customer. From a scientific point of view, the advantage of such approaches is that they encourage a transdisciplinary stance combining industrial economics, management and sociology. From a methodological point of view, they are based on the quest for complementarities between purely statistical studies and more empirical, qualitative investigations and monographs, the former offering possibilities for generalisation and framework data useful to decision-makers, the latter yielding models closer to reality but less easy to use because of their complexity. They may nevertheless serve to improve the former.

Other approaches again allow this analytical segmentation of the variables to be avoided by integrating employment practices into the productive combination as a whole by means of '(holistic) enterprise' or 'labour management models'.

❏ Over the last few years, however, another question has come to the fore in the relationship between SMEs and employment, that the issue is not only the number of jobs but also the forms of employment created in SMEs. What, in particular, about their durability, their stability and their content? Again, such approaches require articulations between disciplines concerned with *employment* and those focusing on *work*. Bringing these disciplines together is more than mere scientific debate. It opens the door to questions that might renew aid policies for the creation and development of employment in SMEs by making a connection with issues of *job and manpower quality*, that is qualifications and the construction of skills. This is the second subject tackled by our report.

6.2 SMEs and vocational training

Like the examination of research about employment, examination of that on SMEs and vocational training inevitably has a methodological prerequisite. The difficulty here has to do first of all with the impossibility of getting an overall picture at European level when there is such diversity of both institutions and practices rooted in 'heavy structures' and deeply anchored national cultures, and secondly with the complexity of the recent changes that have taken place in the education and vocational training systems of most EU countries. The lack of perspective here is obvious, especially with the main thrust of research in this field lying in attempts to assess the impact of the changes on SME training practices. Hence the impression that tracing the 'best practices' in both national and transnational policies and in enterprises themselves is sometimes substituted for the establishment of a corpus of scientific data that is sufficiently generalisable or reliable to guide decision-makers. From a methodological point of view, we also find a permanent tension between attempts to establish a statistical corpus, especially one where data can be compared at European level, and monographic investigations, which are more qualitative and more intensive but much less open to generalisation. Finally, the main contribution of research in this field seems to reside less in immediate and unambiguous answers to the questions put by decision-makers than in an effort to relativise what are sometimes over-sharp judgements on SME training practices.

What are the most significant points that emerge from all the work consulted?

First of all, while most research now tries to show up strong articulations (especially institutional ones) between *initial vocational training* and *continuing vocational training*, this distinction still seems very relevant for sounding out SME training behaviour. While in the former register they may be considered a key player in training and especially in getting young people into work[95], in the second they are more like 'extras'.

[95] It will be recalled that, with the exception of Denmark, Ireland, Finland, Sweden and the United Kingdom, small enterprises employ a higher proportion of young people (aged 15-24) than large enterprises (European Commission, 1998: pp. 102-103).

In the first case, it is not surprising to see research taking an interest both in the links between vocational training and the emergence of new types of employment and in the various attempts to bring school and (small) enterprises closer together. However, the training function of SMEs and their role in vocational integration now seem to be marking time in most EU countries, both because of the changes to the production apparatus and because of young persons' sociological development. There is then a great danger that we shall see a rift developing not only between SEs and LEs, but within the SE sector itself, a dualism between those capable of absorbing young people with medium to high qualification levels and the rest, the most numerous, that would be condemned to take on the most insecure people. That is why the role of public policies is absolutely central here in organising the labour market and rethinking the patterns of initial vocational training.

So far as continuing vocational training is concerned, most of the statistical data compiled at European level show what little use SMEs make of the most formalised forms of training. This deficit is moreover closely linked to the articulations between initial and continuing training in the various countries. It also shows that the training available and the normative models adopted most of the time by public policy or training intermediaries are inadequately matched, even though it is they who are responsible for making the link between enterprises' needs and institutional guidelines.

A lot of work then tries to identify the main factors determining SME demand for continuing training. It again emerges that, contrary to the interpretations given by statistical corpuses, the effects of size and sector must not be given too much weight. Other factors are involved, like strategic guidance and modes of production, or the sociological profile and previous career path of the managers. Other research tries to demonstrate SMEs' *ability to adapt* outside the formal models of continuing training. Not only do these allow the measurement tools traditionally used to be put into perspective, but they also show that there are many different forms of apprenticeship and that it is now high time account was taken of them. Hence the current work on the *recognition and validation of occupational or non-formal experience* converging with the processes of individualisation of training, the development of skills logics, the rediscovery of the notion of 'trade' (especially in craft activities) and the many experiments in new teaching technologies and networking as a way of disseminating CVT in SMEs. In any case, not all SMEs are incapable of appropriating the most codified forms of training. Some even turn out to be providing at least as much training as large enterprises (this is true of the SEs and especially the *inserted or integrated VSEs* analysed by Bentabet et al., 1999)[96], if not more (on this point see Lange and Gros, 1987).

In the field of public CVT policies, we have for several years been seeing a clear concentration on the needs of SMEs. New ways of structuring the field are appearing in most countries, generally based on a variety of combinations of several levers, depending on the national tradition, summarised by Aventur and Möbus (1999) as follows:

- a necessary arbitration between a statutory funding obligation on employers (as in France) and a laisser-faire where the employer is free to choose (as in the United Kingdom, but also in Germany, Austria, Luxembourg, Sweden and Portugal), with a whole series of 'intermediate' regulations involving limited constraints, flanked by collective agreements (as in Italy, the Netherlands or Denmark) or tripartite accords (as in Spain);

- the adoption of public financial incentives to enterprises in the form of subsidies and tax credits in about half the countries of the EU, including: France (with the EDDFs, see Box 5.5), but also Germany, the Netherlands and even the United Kingdom and Ireland. In Sweden and Denmark in particular, these aids allow a jobseeker to be recruited and trained to replace an employee who has gone away for training;

[96] The same reasoning may also be applied to the employment policies of 'integrated' SEs and VSEs.

- subsidies to support and structure the supply of training (especially in the Nordic countries), but also and especially incentives to improve the quality of training (ISO 9000 standards) and regulation through the introduction of vocational certificates like the NVQ in the United Kingdom, directories of vocational certificates in Spain, Portugal, etc.

- finally, the establishment of organisations created specifically to mediate between (small) enterprises, the public authorities and employees, such as the United Kingdom's TECs or the *Organismes Paritaires Collecteurs Agréés* in France.

True, none of these schemes and arrangements will solve every problem, especially the main paradox of SMEs when it comes to continuing vocational training: *those that have most need of it seek it the least*. Hence the importance of increasing empirical research into the factors that make 'reaching SMEs' easier (Vickerstaff and Parker, 1995) upstream of training actions and counselling. Hence the interest shown, too, in regionalisation (German researchers refer to the '*Regionalisierung der Regionalpolitik*' and '*Regionalpolitik von unten*' – Büchter, 1998), and in the diversification and transversality of actions (combining, for example, technological and/or organisational modernisation with training).

Nevertheless, we should not forget, either, that outside enterprise practice, continuing training ('throughout life') is also a matter of individual projects and that it could therefore be the subject of new research into 'employability'. This would have the merit of being deliberately at the crossroads between training, employment and mobility, between individuals and enterprises. A new field of inquiry could then be opened into the role of SMEs in the individual's career path, not only at the stage of initial training or starting the first job, but also in occupational change and mobility 'throughout working life'. But let us not try the reader's patience.

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