



# Employment relations in micro and small enterprises - literature review

## Country profile: Bulgaria

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## Introduction

The new system of industrial relations has started evolving in the early 1990s. In March, 1990 the National Assembly adopted the Law on Collective Labour Dispute Settlement, which laid the foundations of new collective labour relations. The amendments in the Labour Code from 1992 provided the legal foundations for the setting up of the tripartite partnership mechanisms aiming to better regulate the labour relations and to settle the collective labour disputes in the enterprises.

The tripartite bodies at various levels were set up - nationally, regionally and branch - especially in some highly unionized branches like mining and other primary sectors. The main debate was around labour and social security issues, living standards, safety at work, education and training, health, as well as issues related to privatisation, prices and improving the overall macro-economic situation in the country.

The problem of employment relations has received almost no coverage in the growing number of publications on SMEs in Bulgaria. There are no specialised surveys on labour contracts and working conditions in micro companies though a growing evidence of violations of Labour Code regulations in micro and small companies - work without labour contracts, long working hours, payment of wages below legally established minimum wage is perceived to exist. A number of media releases and checks of the General Directorate "Labour Law, Social Insurance and Safety at Work" with the Ministry of Labour and Social Policy (Reports of the General Directorate "Labour Law, Social Insurance and Safety at Work" at the Ministry of Labour and Social Policy, 1999-2000) revealed serious violations of the labour relations in companies from some sectors - wood processing, garments, food processing, etc. Despite the topic of labour relations in micro companies has never passed from the mass media publications to the specialized research institutions.

There are number of reasons for the small interest to employment relations in micro companies:

The SMEs in Bulgaria are predominantly micro-companies. About 47% of the micro enterprises have no hired employees and those with up to two employees have a 26% share of total (National Statistical Institute, Conditions for Development of the Microenterprises in Bulgaria, Sofia 2000). Majority of them are family businesses. (Centre for Economic Development, Foundation for Entrepreneurship Development, Small and Medium-Sized Enterprises 1996-1999, Agency for Small and Medium-sized Enterprises, Sofia 2000). That means that labour relations in the majority of small companies are informal and labour contracts are not the ones that regulate the relations between the employer and the employee.

Trade unions have little representation in small companies, despite that workers have the right and freedom to associate, there are evidences reported by employees organisations, that private owners forbid creation of unions in their enterprises (Confederation of Labour "Podkrepa", Programme, 2000). Union membership in Bulgaria is mainly in primary sectors and manufacturing that are dominated by large-scale companies, that have been restructured recently. They continue to focus their activities in these sectors since they still employ a large share of the labour force. Small companies are in the field of services (Centre for Economic Development, Foundation for Entrepreneurship Development, Small and Medium-Sized Enterprises 1996-1999, Agency for Small and Medium-sized Enterprises, Sofia 2000) where the unionization is minor. The industrial relations that were developed in the context of the mass socialist production seem to be not very appropriate for the growing small private sector (Foundation for Entrepreneurship Development, Club "Economika 2000", Continuing Vocational Training in Steel and Mining Industries in the Pernik Region, Sofia, 2000).

There is a general pressure to deregulation of the labour market in Bulgaria. Some of employers organisations state that the labour market in Bulgaria should be further deregulated giving more flexibility to employers in the area of labour contracts, working time and benefits in order to maintain the low labour costs competitive advantages of companies. This view was recently more pronounced in view of the amendments in the Labour Code. They pretend to put the stress on economic efficiency and competitiveness than on labour protection.

The focus of all the studies on SMEs is from the perspective of the employers or within the state policy to facilitate the business environment for the private sector development.

### Small business in Bulgaria

This analysis is based on data from annual balance sheets and profit loss statements of 204 501 enterprises for 1998 and 209 296 enterprises for 1999<sup>1</sup>.

Table 1: *Structure of enterprises by their size class*<sup>2</sup> (%)

	1998	1999
All enterprises	100.0	100.0
Micro enterprises	92.4	92.5
Small enterprises	5.4	5.5
Medium enterprises	1.1	1.0
Enterprises with employees between 101 and 250	0.8	0.7
Large enterprises	0.4	0.4

Source: *NSI, own calculations*

The structure of the enterprises by size class is almost constant during the last few years. The bulk of the firms is micro- and small ones, which share is about 98% in the total number of active firms. The micro and small enterprises have the biggest share in the health and social work, education (except the budget financed enterprises), tourism and business services. They are 99% and more of the enterprises in these branches.

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<sup>1</sup> These samples of firms do not include financial enterprises, budget financed enterprises from the education, healthcare and government.

<sup>2</sup> Micro enterprises are those with employment less than 10 people; small enterprises - with employment between 11 and 50 people; medium enterprises - with employment between 51 and 100 people; and large enterprises - with employment between more than 251 people. According to the Bulgarian legislation the firms with employment between 101 and 250 people should also be included in the group of the large enterprises.

Table 2: Structure of enterprises in 1999 by branches and size class (%)

	Micro Enterprises	Small Enterprises	Medium Enterprises	Enterprises with employees between 101 and 250	Large Enterprises
Total	92.5	5.5	1.0	0.7	0.4
Agriculture, fishing and forestry	69.5	24.0	4.1	1.8	0.5
Mining	44.5	19.1	8.7	11.6	16.2
Manufacturing	79.1	12.6	3.4	2.9	1.9
Electricity, gas and water supply	41.3	15.9	8.0	9.4	25.4
Construction	80.2	14.1	3.0	2.1	0.6
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	96.5	3.1	0.3	0.1	0.0
Hotels and restaurants	97.3	2.2	0.3	0.2	0.1
Transport and communications	95.3	3.1	0.8	0.5	0.3
Real estate, renting and business activities	94.5	4.4	0.7	0.4	0.1
Education	96.1	3.3	0.4	0.2	0.0
Health and social work	96.9	2.7	0.3	0.1	0.0
Other services	91.8	6.0	0.9	1.1	0.1

Source: NSI, own calculations

In 1998 the microfirms have generated 9.8% from the value added in the country<sup>3</sup>. In 1999 their contribution in the total amount of the value added generated in the economy has increased to 13.4%. In 1999 the growth of value added of the micro enterprises is remarkable. The value added generated there has increased with about 50% in current prices.

Table 3: The Contribution and the Dynamics of the value added by size class of the enterprises (in current prices, %)

	1998	1999	The growth of value added in 1999 (1998 = 100)
All enterprises	100.0	100.0	101.1
Micro enterprises	9.0	13.4	149.8
Small enterprises	9.5	10.7	113.7
Medium enterprises	6.3	6.6	105.8
Enterprises with employees between 101 and 250	12.3	12.0	99.1
Large enterprises	62.9	57.3	92.2

Source: NSI, own calculations

<sup>3</sup> Defined as a sum of the operating profit of the enterprises, the compensations of employees (includes the gross wages and all other payments connected to the wage such as social contributions, unemployment insurance, etc.) and the expenditures on depreciation. It is only a proxy of the term of the Gross Value Added used in the System of National Accounts.

The average volume of value added generated in an enterprise from the different groups correspond with their size class. In 1998 the value added generated in one micro enterprise has been 18 times smaller than in one small enterprises, about 60 times smaller than in one medium enterprise and about 1650 times smaller in comparison with the enterprises with employment more than 251 people. In 1999 these ratios decrease because of the higher growth of the value added generated in the micro enterprises than in the other groups of enterprises. Nevertheless, the differences still remain notable. In 1999 one micro enterprise has generated 13.5 times less value added than one small enterprise, 46 times less than one medium enterprise, and 1127 times less compared to the largest enterprises.

Table 4: *Structure of enterprises in 1999 by branches and size class (%)*

	<b>Micro Enterprises</b>	<b>Small Enterprises</b>	<b>Medium Enterprises</b>	<b>Enterprises with employees between 101 and 250</b>	<b>Large Enterprises</b>
Total	100.0	100.0	100.0	100.0	100.0
Agriculture, fishing and forestry	2.6	11.1	9.8	5.2	1.0
Mining	0.1	0.4	0.7	2.5	8.0
Manufacturing	13.0	22.9	33.5	49.2	41.1
Electricity, gas and water supply	0.0	0.3	0.8	1.6	16.7
Construction	9.2	9.1	11.6	13.7	3.3
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	43.4	31.2	23.8	11.0	3.0
Hotels and restaurants	7.8	2.6	3.1	2.0	2.6
Transport and communications	10.8	4.0	6.7	5.2	22.8
Real estate, renting and business activities	11.0	15.0	7.7	4.1	1.2
Education	0.5	0.3	0.2	0.3	0.0
Health and social work	0.3	0.3	0.1	0.0	0.0
Other services	1.2	2.7	2.0	5.3	0.3

Source: *NSI, own calculations*

Since 1998 there is observed a dramatic change in the structure of the value added in the enterprises. The share of operating profits decreased to the range of 10 - 15% of the value added in 1999 and only in the group of the micro enterprises it remains above 50% of the value added. Probably part of this operating profit should be referred also as compensations. Since the second half of 1997 the real wages increased and this process contributed to the growth of their share in the total value added of the enterprises.

Table 5: *Profitability<sup>4</sup> of the enterprises by size class (%)*

	1998	1999
Total	0.6	-1.3
Micro enterprises	3.2	3.1
Small enterprises	-0.3	-2.2
Medium enterprises	-0.2	-2.9
Enterprises with employees between 101 and 250	1.1	-1.7
Large enterprises	-0.3	-3.4

Source: NSI, own calculations

The employment in the firms of the sample decreased in 1999 compared to 1998 as a total. The only groups, which have increased their employment are the micro enterprises (with 2.6%) and the small enterprises (with 1.1%). All other groups of enterprises have decreased their employment and the reduction is the strongest from the group of large enterprises (with about -10%). The same pattern of employment dynamics was observed in 1997 and 1998. In 1998 the employment of SMEs have been 43.9% of the employment in all enterprises included in the sample. In 1999 their share in the total employment increases to 46.5%. The importance of the SMEs in the overall employment is probably much higher if we take into consideration that many individual producers from the agriculture and services did not report their activity.

Table 6: *Employment of the enterprises by size class (%)*

	1998	1999
Total	100.0	100.0
Micro enterprises	20.4	22.0
Small enterprises	14.4	15.3
Medium enterprises	9.1	9.2
Enterprises with employees between 101 and 250	14.2	13.5
Large enterprises	41.9	40.1

Source: NSI, own calculations

<sup>4</sup> The profitability is defined as ratio between the profit and the revenues of the enterprises (%). For all enterprises with double side accounting in the nominator is the net profit, while for all enterprises with one side accounting there is the gross profit.

Table 7: *The share of the enterprises in the employment in 1999 by size class and branches (%)*

	Micro Enterprises	Small Enterprises	Medium Enterprises	Enterprises with employees between 101 and 250	Large Enterprises
Agriculture, fishing and forestry	11.4	36.5	18.6	18.1	15.4
Mining	0.5	1.8	2.2	7.6	88.0
Manufacturing	7.4	11.3	9.8	17.9	53.7
Electricity, gas and water supply	0.2	0.8	1.5	3.6	93.8
Construction	15.6	23.7	16.2	23.7	20.8
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	60.4	22.1	6.8	5.5	5.2
Hotels and restaurants	55.0	13.7	7.3	8.9	15.0
Transport and communications	13.0	5.6	5.1	7.0	69.3
Real estate, renting and business activities	37.8	19.9	10.4	12.3	19.6
Education	54.8	24.3	10.3	10.5	0.0
Health and social work	67.6	20.8	8.1	3.6	0.0
Other services	24.7	22.1	10.6	29.4	13.3

Source: *NSI, own calculations*

The compensations of employees include the total remuneration, the social contributions, the contributions to the unemployment fund, etc. Their level depends on the ability of the enterprises to pay to their employees for their services. On other hand, they the mean of employers to hire and hold the necessary labour force with appropriate skills and qualifications.

 Table 8: *Average monthly compensations on employees in the enterprises by size class (leva denominated, in current prices.)*

	1998	1999
Micro enterprises	62.51	97.99
Small enterprises	187.48	209.22
Medium enterprises	220.48	239.27
Enterprises with employees between 101 and 250	258.05	285.86
Large enterprises	406.23	431.88

Source: *NSI, own calculations*

The compensations on employees are lower in the enterprises with a smaller size. Moreover, the average monthly compensations of employees in the micro enterprises are very close to the minimal level of the wages set in the legislation plus the obligatory payments for social insurance, etc. The micro and the small enterprises have a lower capacity to generate a new income in comparison with the biggest enterprises, which influence on the lower levels of the compensations on employees there. On other hand, the entrepreneurs in the small enterprises realize part of their incomes not as a wage but as an entrepreneur's income. For the needs of social insurance, health insurance, etc. they set for them a payment near to the minimum wage in the country in order to save part of the obligatory payments connected to the wages. Probably, the same model is used for the family workers and for all other employees in the firm.

The compensations on employees depend also on the labour productivity. It may be expected that higher labour productivity is one of the main conditions for the higher growth of the wages. According to the data from the sample, the labour productivity<sup>5</sup> is higher in the larger enterprises. In 1998 the workers in the largest enterprises have had 3.4 times higher productivity than the workers in the micro enterprises and 2.3 times higher productivity than the workers in the small enterprises. In 1999 these differences are smaller but they are still significant. The level of labour productivity depends in a large degree on technology and equipment used in the production process and they differ by branches. Thus, the low labour productivity in the small and micro enterprises is caused by two factors:

These enterprises have not enough funds to finance the necessary investments and the lack of financial resources limits their ability to use up-date equipment.

The predominant part of the micro and small enterprises operates in the trade, while the large enterprises have a predominant share in the manufacturing. The manufacturing enterprises have a higher labour productivity than the trade enterprises as a common.

## Collective representation

The Constitution of 1991 guarantees freedom of association. The Labour Code (LC) regulates this relations granting trade unions the right to establish organisations of their own without any preliminary registration or permission. LC defines the criteria for representation recognition of the employer organisations and the trade unions at national level.

The main legal base for the “social dialogue” are the Labour Code (amended in 1993) and the Government Decree N 51/93 for adoption of regulations for the work of the National Tripartite System - “Rules for the Functioning of the National Tripartite System” as well as the Criteria on representativeness of employees’ and employers’ organisations to participate in the social dialogue at national level. The procedure for tripartite partnership is determined by the Government after consultations with the representative employees and the employers organisations.

Under the Labour Code the Council of Ministers is responsible for the recognition of employees and employers organisations as representative ones and for the setting up the recognition procedure. The criteria for the approval as a representative employees and employers organisation at national level is provided by the Labour Code and it is as follows: each employers association should include at least 500 employers from more than one sector and to have established national and territorial bodies. At present there are four officially recognized as representative employers organisations - Bulgarian Chamber of Commerce and Industry, Bulgarian Industrial Association, Union for Private Economic Enterprise and the Union “Vazrajdane”. In 1995 they established the Association of Bulgarian Employers. Since 1996 the Association is a member of the International Employers’ Organisation.

The Employees Organisations officially recognised are the Confederation of Independent Trade Unions and the Labour Confederation Podkrepa. Since 1995 the employees organisations are members of the International Confederation of Independent Trade Unions and the European Trade Union Confederation. Employees’

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<sup>5</sup> The labour productivity is calculated as a ratio between the value added and the number of employees.



organisations on the national level can be recognized as representative if they have a membership of at least 50,000, unite employees in more than half the industries, and have established national and regional bodies.

In countries like Bulgaria where social dialogue lacks traditions and is in a process of adaptation to the EU practice, the state plays a crucial role for creation of conditions for full-scale participation of social partners. Trade unions as workers / employees representatives have the right to request from Government the development of national programs responding to the long-term interests of labour force. They have to provide the feedback on the implementation of such policies of particular projects / programs. Organisations of employers and employees participate in the collective management boards of institutions implementing state policy. Branch employees' organisations protect interest of employees before employers in relation to labour and social security issues.

In the pre-accession period the principle of regionalism becomes very important in economic and social management. Therefore the regional management structures become especially important. Regional employment councils (established in the last three years) are non-governmental organisations dealing with employment problems entirely on a tripartite basis. They include representatives of local authorities, employers, trade unions and NGOs. In general in these councils representatives of regional / local SME associations (e.g. chambers of commerce, etc.) participate.

According to the Bulgarian Labour Code employees may, with no prior permission, to freely form, by their own choice, trade union organisations; to join and leave them on a voluntary basis, showing consideration for their statutes only. Trade union organisations represent and protect employees' interests before government agencies and employers as regards the issues of labour and social security relations and living standards through collective bargaining, participation in the tripartite cooperation, organisation of strikes and other actions, pursuant to the law.

According to the Labour Code state agencies and employers have to provide conditions for, and cooperate with, trade union organisations to further their activities. They have to make available to the employees organisations for free real estate and movables, buildings, premises, and other facilities required for the performance of their functions.

Employers are entitled as well to freely form organisations to represent and protect them, as well as to join and leave them on a voluntary basis. Such organisations represent and protect their economic interests through collective bargaining, participation in the tripartite cooperation, and through other actions, pursuant to the law.

The employers' organisations do not dispose with adequate resources for maintaining regular and effective contacts with companies represented by them as well as for providing services to these companies (mainly because the membership in business/branch associations is not compulsory). Their awareness of the employers' needs is rather general and obscure, based mainly on perceptions and feelings.

At the beginning of 1997 the Social Peace Pact was signed which determined that price of labour has to be based on certain economic indicators. The nationally representative social partners signed a Memorandum for Understanding as well as a Social Partnership Charter. The social charter made provisions for the adoption of a package of social legislation acts - e.g. employment, health insurance, voluntary pension insurance, etc. In 2000, additional agreements were signed between the Government and the Trade Unions on the adoption of urgent measures to reducing unemployment, labour costs and remunerations, temporary employment contracts, post-privatization control structures, form of labour relations.

The tripartite partnership is carried out at national, regional, branch and administrative-territorial units levels. The National Tripartite Council is the highest forum where the representative employees and employers organisations are in a position to discuss with the Government the laws and regulations on social and economic development. The procedure for conducting the cooperation and consultations is specified by the Council of Ministers after consultations with the employees' and the employers' representative organisations.

On the basis of the tripartism the following structures on national level have been created: Supervisory Board of the National Social Security Institute; National Council for Safety at Work; Supervisory Board of the National Employment Service; Assembly of the Representatives of the National Health Insurance Fund, Managing Board of the National Vocational Education and Training Agency (Bulgarian National Observatory for Vocational Education, Training and the Labour Market, Role of Social Partners in VET in Bulgaria, Sofia 2000).

Since 1999 the social dialogue related to employment and the labour market issues at regional level has been set up within the Local Employment Councils. Members are the representatives of regional, municipal administration and the nationally representative organisations of employers and employees at regional level.

The social partnership at company level is performed through the collective bargaining. Collective bargaining is carried out by trade union organisations and the respective employer following the provisions of the Labour Code, the Collective Labour Disputes Settlement Act, and agreements reached at a national, branch and/or local level.

The weak bargaining position of workers in small companies is related to number of factors but mainly with the high unemployment rate in the country. In the period after 1989 unemployment in Bulgaria has increased above 14% and peaked significantly in the last 3 years, reaching 18% on average. There are significant regional disparities in unemployment and in some regions unemployment rate has been steadily above 20%. That makes labour to accept any offer for work and to avoid any conflicts with employers due to the fact that the low qualified labour could be easily replaced.

The employees' organisations are losing their membership base due to the liquidation of big state owned firms. The emerging private sector is resisting against union actions Bulgarian National Observatory for Vocational Education, Training and the Labour Market, Role of Social Partners in VET in Bulgaria, Sofia 2000).

It is interesting to note that even in the industrial centers with strong unionist traditions - such as Pernik (old mining and steel processing centre), the trade unions have little influence in the newly established SMEs. Hence in the garments companies, some with foreign investments, although the working day lasts from 12-14 hours, incl. during the weekends workers do not unionise and react, since there are no other job alternatives.

Along with the development of the private sector in Bulgaria, business associations, professional bodies and similar in activity non-profit organisations have began to rapidly emerging. Over the last nine years more than 7000 non-profit organisations, mostly oriented to business have been registered. A survey of the most influential business associations data show that they managed to attract up to 30% of the companies in their respective sector (Foundation for Entrepreneurship Development, Strengthening Business Associations Assisted by USAID and Competitiveness of Their Member Companies, Sofia, 1999. Their main mission is lobbying for improving the business environment and provision of services - training, information, consultancy. However the same survey related that Business associations both lobby and service oriented

prefer to work with bigger (and economically more powerful companies). Another survey showed that small entrepreneurs are very little aware of services provided by their associations and rarely use their services. None of the surveyed companies stated to have ever used the business associations for advice/consultancy on issues related to the labour relations (Foundation for Entrepreneurship Development, Training and Information Needs of Bulgarian SMEs, Sofia, 1998).

### **Collective bargaining**

According to the Labour Code the collective agreements regulate issues of the labour and social security relations of employees which are not regulated by mandatory provisions of the law. The collective agreement may not contain clauses which are more unfavorable to the employees than the provisions of the law.

Collective agreements are concluded by enterprises, industries, branches, professions and administrative and territorial units. They may be concluded between an individual employer, a group of employers, organisations of employers or association of organisations of employers on the one hand, and the respective trade union organisations or associations of trade union associations, on the other hand.

The collective agreements by industries, branches, professions and administrative and territorial units shall be concluded between the respective representative organisations of employers and employees.

Only one collective agreement may be concluded with one employer or representative of employers, of their organisations or of association of such organisations. Within one enterprise the employer has to conclude the collective agreement with representatives of the trade unions in the enterprise, after they submit a draft coordinated between themselves. Where within the enterprise the trade union organisations fail to coordinate a common draft, the employer shall conclude the collective agreement with that trade union organisation the draft of which has been approved by the general meeting of the employees (the meeting of proxies) by majority of more than half of the members thereof.

Employers - being individuals or organised in associations are obliged to negotiate with the employees' representatives in order to conclude a collective agreement. They have to make available to the employees' representatives the collective agreements in force as well as information on their financial position which is significant for the conclusion of the collective agreement. In case of failure to perform such obligation the employers in default shall owe indemnity for damages inflicted (Beleva I., Tzanov V., et al., Background Study on Labour Market and Employment in Bulgaria, Bulgarian National Observatory for Vocational Education, Training and the Labour Market, Sofia, August 1999).

Collective agreements are subject to registration in a special register with the labour inspectorate in the area where the employers' seat is located.

The collective agreement has effect for the employees who are members of the trade union organisation party to the agreement. The employees who are not members of a trade union organisation may accede to a collective agreement concluded by their employer by applications in writing submitted to him and to the leadership of the trade union organisation which has concluded the agreement, without any other conditions whatsoever.

In case the employer does not observe the collective agreement actions may be brought by the trade union organisations which have concluded the agreement, as well as by any employee who is a party to the agreement.

The diminishing role of the state as employer reduces the state interest in intervening in industrial relations except in cases of breaching the laws. (Mrachkov). Thus the General Directorate Labour Law and Social Insurance with the MLSP has drafted amendments in the Labour Code related to working conditions, safety at work and tri-partism as main leverage in the labour and social insurance relations.

The Labour Confederation Podkrepa states that the collective bargaining at national level is used to minimize the conflicts and provide for social peace. In the last few years the National Tripartite Council had very few meetings and primarily debated issues related to some currency board implications, privatisation and increasing unemployment.

About 20 branch chambers and associations are registered with the General Directorate Labour Inspection as parties within concluded collective labour contracts. With the speeding up of the privatization serious conflicts emerge between the branch associations and the branch labour confederations in relation to the concluded labour contracts. The trade unions insist on preserving clauses in the collective contracts of the former state enterprises which in some cases go beyond the minimum requirements in the Labour code, while the new private owners perceive them as detrimental to the development of the company. In the privatised companies the clauses in the labour contracts are respected for the minimum term of the privatisation contract.

Employment relations are bargained more on national rather than on enterprise level - they are manifested in the collective bargaining and hence the minimum wage is rather a limit to curbe poverty line than a start up point of the labour compensation. The literature review (Garibaldi P., Dimitrov L., Stoyanova G., The Bulgarian Labour Market: and Overview (February, 2000) shows that about 70% of collective bargaining in Bulgaria is on national level, while in other CEE countries more than 90% is on local (enterprise) level.

On the other hand they perceive that most of the collective bargaining arrangements - flexible working hours, labour compensation should be work place related and not branch related, since the collective contracts are often a reason for turnover (Capital Newspaper).

Since the main goal of the trade unions is to preserve employment exceptionally they do include in the collective bargaining issues related to HRD. The collective bargaining rather stresses on minimum limits beyond which employers could not remunerate rather than on labour compensation according to the employees' performance. They establish standardized conditions throughout a sector/branch than to negotiate on enterprise level (Bulgarian National Observatory for Vocational Education, Training and the Labour Market, Role of Social Partners in VET in Bulgaria, Sofia 2000).

The literature review as well as observations of experts show that there are no collective agreements concluded an registered with the General Directorate Labour Inspection in the Ministry of Labour and Social Policy.

## **Working and employment conditions**

According to Bulgarian legislation employers are obliged to assure healthy and safe conditions of work so that any danger for the life and health of the employee will be eliminated. The general rules on labour safety are

approved by the Minister of Labour and Social Welfare and apply to all sectors and activities of the national economy. In relation of healthy and safe conditions of work depending on the nature of work employers are obliged to provide sanitation and medical service, special work clothes and personal protective means, free meals and anti-toxins, time limitation of work in a hazardous environment, etc.

In many cases workers in SMEs have no labour contracts at all (Ivanov A., Bogdanov L., Are Small and Medium Enterprises in Bulgaria Employment and Growth Opportunity? Non published paper for Regional Summit on SME Development for the 21st Century: Overcoming Barriers through Cooperative Actions, February 17-18, 1999, Sofia) and companies prefer to conclude contracts with outsiders to perform the job. Usually are Contracts for work done and any claims for wage increase and improvement of labour conditions bring to the dismissal of the employee. (Institute for Market Economics, Agency for Economic Analysis and Forecasting. The Shadow Economy in Bulgaria, Sofia, September 2000). The State tries to regulate these contracts and the latest amendment of the Labour Code lead to limiting and controlling the scope of these contracts (Memorandum on Incomes and Labour Pricing between the Government of Republic of Bulgaria and the Confederation of Independent Trade Unions in Bulgaria, 2000).

There are exceptionally job descriptions in micro companies and usually an employee performs more than one job. The difficult business environment makes companies to operate on the brink of profitability. Profits are marginal and hence companies could hardly afford to pay social insurance, for training and qualification and improving the safety at work.

The share of the shadow economy is the highest in hotels (52%), car sales and repairing (38.2%), construction (30%), real estate (86%). It is nourished by high levels of unemployment, low efficiency of the judicial system and low level of laws enforcement, which favours working without labour contracts, social insurance and other fringe benefits. The social "tolerance" towards such phenomena is rather high (Kolev B., Shadow Economy - A Step-Mother on Whom We Depend on Food, in "Capital" Newspaper, Sofia 2000). Conciliation, arbitration and labour courts are underdeveloped (Bulgarian National Observatory for Vocational Education, Training and the Labour Market, Role of Social Partners in VET in Bulgaria, Sofia 2000).

It is also interesting to note that according to a survey micro companies tend to employ workers with lower qualification than needed (National Statistical Institute, Conditions for Development of the Microenterprises in Bulgaria, Sofia 2000)- 45% of responses are that they prefer employees with lower qualification since they could not provide high compensation for qualified labour. Another reason is that they try to avoid the unionization at company and therefore do not employ workers from closed enterprises. The survey in Pernik region established that new companies in apparel do not hire qualified workers but prefer to employ inexperienced workers which are provided with up to three weeks training (Foundation for Entrepreneurship Development, Club "Economika 2000", Continuing Vocational Training in Steel and Mining Industries in the Pernik Region, Sofia, 2000).

In the case of the micro-companies, there is definitely one additional barrier - the psychological one. Most entrepreneurs prefer to maintain the business at the subsistence level and they employ preferably people from the family or the closed friends' circles. To hire an external worker is still considered a difficult step to business growth. This was confirmed also by the data from the survey among SMEs' owners on ways and means of recruiting personnel. Almost half of them (45%) hire mainly upon recommendations by relatives and friends, or by the employees. Many of the owners of micro-companies stated that they did not need workers or that they performed their activities with the support of their family members (Centre for Economic Development, Foundation for Entrepreneurship Development, Small and Medium-Sized Enterprises 1996-

1999, Agency for Small and Medium-sized Enterprises, Sofia 2000). It is a common practice to use non-paid family workers, whose employment status is not regulated. Many of the employees in SMEs do not have labour contracts and hence their jobs are not registered.

Among the possible reasons are the formalities/paper work related to labour contracts, the lack of flexible working time regulations, the legal commitments of the employers to pay social security contributions, etc. The liability to indemnities and repayment of the unused annual mandatory holidays, in case of layoffs, also hinder the recruitment of labour force. There is a perception that salaries in the private sector are higher than in the public one, despite statistical data show the opposite - that the wages in the private sector and the labour costs in SMEs are lower.

This supports the hypothesis for “out-of-pocket” labour compensations in the SME sector. Thus, one third of the respondents consider that some “fringe benefits” give advantages to SMEs in comparison with the large companies. Some 42% of the respondents perceive that the flexible working time is an advantage for the sector. The SMEs perceive themselves as less competitive than larger companies with regard to social benefits, qualification, promotion of the staff, and absence of labour contracts. (Beleva I., Tzanov V., et al., Background Study on Labour Market and Employment in Bulgaria, Bulgarian National Observatory for Vocational Education, Training and the Labour Market, Sofia, August 1999).

In summary the literature shows that most often violation of labour standards in SMEs in Bulgaria are as follows:

- Work without permanent contracts
- Longer working hours
- Minimum working salary to avoid high social insurance payments

In micro companies workers and employees take upon themselves responsibility for their own development, especially training and qualification (Foundation for Entrepreneurship Development, Training and Information Needs of Bulgarian SMEs, Sofia, 1998).

Industrial relations in small and medium sized companies that underwent privatisation changes as a result of employee involvement schemes in the company management (employees buyouts) which does not necessarily have been the most efficient way of companies operation and hence labour conditions development (Centre for Economic Development, Speeding up the Privatization Process in Bulgaria, “Tenders and Competitions for Small and Medium-Sized Enterprises”, Sofia, 1997). This lead to the conclusion between the Government and CITU of a National Agreement for the Setting up of Post Privatisation Control Body<sup>6</sup>.

The high level of female unemployment has rised the issues related to gender discrimination, welfare, safety at work, etc. (Foundation for Entrepreneurship Development, Survey on Women Entrepreneurship and the Role of Women in the Economic Transformation of Bulgaria, Sofia, 2000).

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<sup>6</sup> Signed in March, 2000

Some of these violations are made for tax evasion reasons, for reduction of costs since respecting all the regulations will lead the companies to bankruptcy.

### **Conflicts**

In general individual labour disputes shall be reviewed by the courts pursuant to the rules of the Civil Procedure Code. According to the Code (art.9) labour disputes could not be referred to arbitration.

Collective labour disputes are to be resolved through direct negotiations between employees and employers (or their representatives) according to an agreed between them procedure. In case no agreement is reached there are two options available (under the Collective Labour Disputes Act). Each party could require the assistance for the dispute resolution from any public or private body / organisation which is superior to the respective employer (e.g. ministry, municipal council, employers association). Negotiation period may not exceed 14 days.

The other option is referring the dispute to an arbitration (if a written agreement between parties exists). Arbitrators shall be persons included in the list approved by the Government (or other body designated by the Government) and published in the State Gazette. The arbitration award shall be delivered in written within three days upon the last hearing.

There are no evidences in the literature for mechanisms to resolve conflicts. No information from trade unions on lockouts and strikes in small firms.

### **Size and sector considerations**

The main characteristic of the industrial relations is their dual structure. On one side are the large enterprises with prevailing traditional industrial relations and in which unions have strong positions and collective labour contracts include various clauses - often higher than the minimum requirements in the labour legislation or the collective contracts at branch level. On the other hand is the predominant share of Bulgarian SMEs (mostly micro companies) in which labour legislation has little influence on employment relations.

The size matters also when comparing the small and micro-companies. Since in the micro firms the relations are more of the "family type" while small companies have more formal labour relations.

Other factors that have impact on employment relations are the characteristic of work force - qualification and specialization (Foundation for Entrepreneurship Development, European Training Foundation, Bulgarian National Observatory, Survey on the Training Needs in the Region of Stara Zagora, Sofia, 2000) which is related to the fact that qualified workers are more difficult to be replaced since the level of unemployment among them is much lower and hence the workers bargaining power - much higher.

### **Policy implications**

Trade Unions aiming to increase their influence have proposed to the Minister of Labour the branch and sector collective labour contracts to become obligatory to all the companies in the sector. It has been mentioned already that they also try to limit the numbers of part-time contracts and outsourcing.

On the other hand national representative employers are for further deregulation of the labour market especially those representing the large-scale companies in the country.

The government is for a more balanced approach and with its withdrawal from economic activity it tends to avoid direct interventions except in cases of breaching the laws. The Labour Inspectorates in small and micro companies perform most of the checks related to compliance with the labour regulations.

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