Labour Practices and Productivity in Lao Garment SMEs

- Findings from a World Bank survey of managers and workers

Stephanie Kuttner (Research Consultant), Richard Record (WB Trade Specialist), Kabmanivanh Phouxay (Researcher, National University of Laos)

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Presentation outline

1. Context: SMEs & Garment Sector in Lao PDR
2. Survey rationale: focus on labour supply & productivity
3. Survey methodology
4. Survey findings: some SME differences
5. Policy implications & SME challenges
Context: Lao PDR

- Lower middle income country: GNP per capita: $US 1,130 (WDI, 2011) with population 6M – mostly agrarian
- Single party state transitioned to market economy since 1986
- Rapidly integrating into the regional and global economy (AFTA, WTO)
- High growth (7-8%) driven by natural resources export boom (minerals and hydropower) but creates few jobs.
- SMEs account for 99% of registered business and provide 70% of employment in Lao PDR, but struggle with access to finance, tax admin. & corruption.
Small firms more likely to be owned by women

55% of small firms vs. 21% of medium and large firms (WB Enterprise Survey, 2012)

In 2009, firms with full or part female ownership:
- more likely to operate in the retail sector > manufacturing
- less likely to be foreign owned
- employ more female workers
- use less technology
- less educated top managers
- less likely to have a bank account overdraft or credit line
- more likely to cite financial obstacles as their primary obstacle
Context: Lao garments sector

- ~90 firms located in the capital with workforce of ~27,000 workers.
- ~US$ 200m in annual exports, mostly to the EU, US, Japan; modest growth.
- Tiny by international standards, but the largest formal sector of manufacturing employment in Laos with predominantly female workforce.
- Representation of workers limited to State-sanctioned mass organizations (Lao Workers’ Union).
Garment Sector Firms and Workforce Shares (2011)

- **Share of total firms (%)**
  - Large firms (> 500): 10
  - Medium firms (100-499): 37
  - Small firms (<100): 53

- **Workforce shares (%)**
  - Large firms (> 500): 49
  - Medium firms (100-499): 43
  - Small firms (<100): 8
Some differences between SMEs & larger garment firms

• Business model & Export orientation
• Ownership: Small firms more likely to be Lao-owned than medium and larger firms
• More female owners and managers amongst smaller firms
• Membership in industry association lowest amongst smaller firms
• Only large firms are engaged in voluntary international social compliance schemes (e.g. WRAP)
• Less contractual security in smaller firms
Worker profiles similar across different firm sizes

• Mostly young women (~ 85%)
• About half migrate from rural areas and half are from the capital (where factories are located)
• Many drop out of school to find factory jobs
• ...although female workers in large firms have slightly higher education (some TVET); male workers in small firms have higher education levels.
• Factory work, although difficult and demanding is considered less arduous and offering better income opportunities than family farming and requires less education than service sector jobs.
Research Rationale: *Labour supply & productivity key industry constraints*

- According to industry leaders, the sector is operating at levels **below full capital utilization** due to labour shortages.
- Many firms have to turn away orders **due to insufficient labour supply**.
- Survey focused on **high turnover rates** (6% monthly for small firms/ 3.5% for med & large firms) identified as a **key constraint** on increasing productivity (having constantly to recruit and train new workers) and because also a **proxy for worker-wellbeing**.
- Study’s explicit objective to identify win-win scenarios for industry and workers: **improved working conditions > reduced turnover > improved productivity**
Research methodology

• Research conducted between March – May 2011.

Comparing & contrasting views from managers & workers:

• Structured Firm Survey of managers using stratified random sampling – oversampling large firms (53 firms/70% of workforce).
• Focus group discussions with current and former workers (from small, medium and large firms)
• Individual interviews with dormitory and production line supervisors as well as industry representatives

Full report:

Firm challenges: turnover & skills

% of firms selecting each as one of top two constraints on labour productivity

- access to technology
- quality control
- production line management
- absenteeism
- motivation
- turnover rate
- skills

Source: World Bank, LGSS (2011)
Reasons workers leave (according to managers)

Reasons workers leave
(according to workers in focus groups)

1. **Difficult transitions** (esp. rural migrants) and insufficient information on working conditions and contractual rights.

2. Workers resent **pressure and conflicts** with supervisors (some cultural clashes and lack of dispute resolution systems).

3. **Wages** (rates, perceived lack of consistency and transparency).

4. **Hours** (*excessive overtime* demands especially if poorly compensated).

5. **Working conditions** (water and sanitation, air quality, heat, etc).

6. **Living conditions** in dormitories (water and sanitation, crowding, meals, etc.).

*All compounded by lack of effective representation or dispute resolution mechanisms → little alternative but to withdraw their labour*
Digging Deeper on SMEs: HR Management & Training

• All large firms and 89% of medium firms reported having an HR development plan, while only 8% of small firms did.

• 2/3 of large firms and 1/2 of medium firms provide skills-upgrading…but very few small firms reported doing so.

• SMEs identified different training priorities:

<table>
<thead>
<tr>
<th>Training priorities</th>
<th>Workers</th>
<th>Supervisors</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small &amp; medium firms</td>
<td>Production training skills (sewing, cutting, etc.)</td>
<td>Production management and quality assurance</td>
<td>Marketing and sales IT</td>
</tr>
<tr>
<td>Large firms</td>
<td>Numeracy &amp; literacy</td>
<td>Team management &amp; motivation</td>
<td>Social compliance schemes</td>
</tr>
</tbody>
</table>

Source: World Bank, LGSS (2011)
### Working Conditions: Hours & Wages (reported by managers)

<table>
<thead>
<tr>
<th></th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regular hours</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(weekly)</td>
<td>56.5</td>
<td>57.3</td>
<td>59.3</td>
</tr>
<tr>
<td><strong>Overtime hours</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(weekly)</td>
<td>8.7</td>
<td>8.6</td>
<td>9.8</td>
</tr>
<tr>
<td><strong>Wages – unskilled</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(USD monthly)</td>
<td>46.05</td>
<td>47.78</td>
<td>52.09</td>
</tr>
<tr>
<td><strong>Wages – skilled</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(USD monthly)</td>
<td>68.27</td>
<td>68.88</td>
<td>71.45</td>
</tr>
</tbody>
</table>

But according to workers, overtime is often much longer, underpaid and compulsory: “Overtime work is compulsory and everyone has to attend. If we are absent they will deduct a penalty that is larger than overtime pay from our salary. ... Even if we have to do overtime from 6pm till 6am, we still have to come back to work again the next day at 8am.”

Source: World Bank, LGSS (2011)
## Working conditions: Benefits

**Workers receive less benefits in small firms**

<table>
<thead>
<tr>
<th>Benefit Provided</th>
<th>Small firms</th>
<th>Medium firms</th>
<th>Large firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrollment in social security</td>
<td>12%</td>
<td>84%</td>
<td>89%</td>
</tr>
<tr>
<td>Paid annual leave</td>
<td>24%</td>
<td>90%</td>
<td>78%</td>
</tr>
<tr>
<td>Paid maternity leave</td>
<td>44%</td>
<td>79%</td>
<td>100%</td>
</tr>
<tr>
<td>Bonuses (annual, attendance, diligence fee, etc.)</td>
<td>80%</td>
<td>90%</td>
<td>89%</td>
</tr>
</tbody>
</table>

Source: World Bank, LGSS (2011)
Occupational Health and Safety

Accounts of managers and workers differ significantly

According to managers:
• Large firms: ‘good’
• Small & medium firms: ‘ok or satisfactory’

According to workers:
• very hot and crowded; long hours seated without break
• poor water and sanitation facilities
• inadequate safety standards (exit doors, protective clothing, etc.)

Workers have very limited knowledge of sexual and reproductive health and find themselves negotiating sexual relations for the first time leaving them vulnerable to coercion, exploitation and infection.
Key Study Findings:

- Both managers and workers express interest in training and skills development to improve labour productivity.

BUT...

- Transition from rural agricultural farming to industrial factory work extremely difficult, thus many early ‘drop-outs’ and high turnover – especially amongst small firms.

- Significant variation of working conditions across firms, but room for improvement on both ‘soft’ management practices and ‘harder’ conditions of employment (wages, benefits) and infrastructure.

- No effective system of worker representation or dispute resolution.
Implications for Policy and Interventions

Study points to possibilities to increase worker wellbeing, reduce turnover and improve productivity through:

- Gender-sensitive transition support program and better labour market information systems to support entry into garment workforce and reduce early drop-outs.
- Better worker representation, social dialogue and dispute resolution mechanisms.
- Better training opportunities for skills development of workers, supervisors and managers (Garment Service Centre being piloted).
- Multi-stakeholder factories improvement program, plus monitoring and certification systems to provide incentives for firms (being piloted in collaboration with ILO).
How to reach garment SMEs?

- **Two-pronged approach:** direct (business dev. services) & indirect (as sub-contractors to larger firms) focusing on:
  - Integrating SMEs into industry association, State social security systems, Lao Trade Union, etc.
  - Focus on developing SME HR and management strategies (how to retain workers beyond initial 6 month period)
  - Adapting workforce training programs for SMEs
  - Access to finance remains key for SMEs

- **Effective interventions take gender into account** – both due to the higher level of female ownership and managers in SMEs and due to their predominantly young female workforce facing particular life cycle challenges and social issues.
Reactions?

Stephanie Kuttner
Research Consultant
stephaniekuttner@gmail.com