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## SMALL SCALE ENTERPRISES ON THE LABOUR MARKET

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Small industries provide employment for a large amount of people in urban areas of developing countries. In the ILO informal sector studies of the seventies, it was assumed that this sector was acting as a "sponge" to absorb the surplus of labour. Due to large migrations from rural to urban areas, and because of the demographic trend, the supply of labour in most of towns of developing countries was overwhelmingly superior to the needs of the modern segment of the economy. As a consequence, and since the State could not take in charge unemployed people, the role of the informal sector has been to provide jobs and incomes to an increasing share of the labour force.

This situation is often analyzed as a segmented labour market, where part of the labour force is employed in the modern sector (including the public sector) of the economy, while the rest of the population has to rely on informal activities to get income. It is generally assessed that people engaged in informal activities have a lower educational level (the barriers to enter the modern sector are linked to skill and education requirements), low productivity and low incomes.

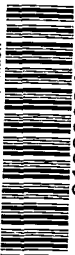
The case of Thailand is, however, original. At least from the mid eighties, Thailand has experienced a shortage of labour due to a steady rate of growth in the modern sector. Migrations from rural areas are less dramatic than described elsewhere. The supply of labour has, however, been high due to past demographic trends and a rise in labour force participation rates by the female population, but there is no "reserve army" of unemployed people. In this context, it is difficult to assume that the existence of an "informal sector" is a consequence of the situation in the labour market.

Self employment, family labour and work in small enterprises remain, however, a major form of employment. These are the components of the informal sector and they provide jobs for roughly half of the labour force in urban areas<sup>1</sup>.

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1 - Measurement of labour force in the "informal sector" is not precisely possible, not only because the statistical categories generally used for measuring employment do not fit with the concept of the "informal", but also because the concept itself is quite fuzzy. A first estimate is given by the categories of non wage workers from the population statistics (self employed and family helpers), but a part of wage workers, those working in small establishments should be added. By making this kind of calculation, the TDRI estimated the share of the informal sector in total employment of Bangkok to be 56% in 1989 (see SUSSANGKARN Chalongphob, HUTASERANI Suganya, SIENGTHAI Sunanta, 1991).

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This paper intends to give an idea of the labour market in Thailand, as it appears to small entrepreneurs, from the results of a recent survey on small scale industries. It describes the structure of labour in these industries and analyses the opinions of the entrepreneurs on questions related to labour.

We shall first describe the labour force in small industries, then we shall consider how the entrepreneurs intervene and what the problems of small scale industries are as far as the labour force is concerned. The results shown in this paper are representative for the urban individually owned enterprises in Thailand for the selected trades since the sample was randomly selected using the method of random area sampling (see appendix).

### **The Labour Force in Small Industries**

In this section, we shall give information on the structure of employment in the small industries in the first part, and study the remuneration of the workers in the second part.

#### Composition of the Labour Force

In manufacturing sectors (garment, metal, and wood), most of the enterprises have between 2 and 5 people, while in the service sector (restaurants and electric repair), the majority are self-employed. Note that the sample of enterprises takes into account only shops open to the public, the activity being therefore visible from the street. Homeworkers who do not work for the public, but for a contractor or a trader, are not included in this sample.

Table 1. Distribution of Enterprises by Size (Total Labour) and by Activity (%)

	Wood	Metal	Garment	Electric	Restaurant	Total
Self Employed	11.1	11.6	22.8	53.4	60.9	33.8
2-5 People	48.1	45.9	48.5	40.8	34.5	43.1
6-10 People	24.7	32.9	19.4	4.9	4.1	16.5
Over 10 People	16	9.6	9.2	1	0.5	6.5
Total (=100%)	81	146	206	103	197	733

Source: CUSRI-ORSTOM Survey on Small Scale Industries, 1991

In garment, one out of four owners of the sample is self-employed, without any employee, nor spouse or family helper working in the enterprise. These self-employed are nearly all women, while the majority of the owners with employees are males. These women are seamstresses, not working on mass production, and only with individual customers. All of them work at home. However, a few of them might work

sometimes under subcontract for another garment enterprise, performing specific tasks. But on the whole, this kind of individual workshop has different characteristics from the enterprises with employees, and works in different markets.

These seamstresses sometimes have one or two employees, often apprentices or family helpers, and so are still well represented in the category of 2-5 people enterprises. Half of the enterprises of the sample in garment have between 2 and 5 people (including the owner), and this is a mixture of tailoring shops and industries working on subcontract. It can be seen in the structure of the labour force that half of the owners of enterprises between 2 and 5 people work with spouse and/or family helpers only, without wage earners (they are only 10% with the same feature among the bigger enterprises). This shows a typical family-run small industry, where the scale of business does not allow hiring of employees.

The average size of wood and metal industries is higher. There are not many self employed, and nearly no family workers, except the spouse. However, there are many apprentices among workers in these activities.

The labour force in restaurants and electric repair has opposite characteristics. First, the average number of employees is very low, and more than half of the owners are alone (and a few with spouse only). Wage-work is not frequent (all the wage-workers are concentrated in the bigger enterprises of the sample).

In these small industries, the owner and his or her spouse constitute 1/3 of the total manpower, but more than half in the restaurants. Nearly one third of the entrepreneurs work with their spouse in the enterprise<sup>2</sup>. Except for the owner and spouse, non paid family labour appears to be negligible on the whole. It was found to be significant only in the category of restaurants with 2 to 5 people. In urban areas, free family labour is no longer the norm of labour, as it used to be in cottage rural industries for instance. Note, however, that members of the extended family may work as apprentices or skilled workers<sup>3</sup>.

Wage-workers are the most important part of the labour force, above all if we add apprentices. Actually, apprentices are low-skilled workers who are training on the job.

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2 - In the whole sample, about one out of four entrepreneurs is not married. Out of the others, one third work with spouse (mainly in restaurants, then in garment), and two thirds without spouse.

3 - Unpaid family helpers are a common form of labour in agriculture only, where they account for 55% of the labour force. The part of family helpers in the manufacturing and services sectors in urban areas was in 1991 around 7%, that is not more than 15% of employment in the "informal sector" (if we consider that about 50% of the urban labour force works in this sector). There is no category of apprentices in the Labour Force Survey; apprentices are probably divided up among the categories of private employees and family workers (National Statistical Office, 1991).

They are however paid, though at a low rate. The proportion of apprentices is high in manufacturing industries (garment: 22% of all paid workers, metal: 35%, and wood: 21%), because it is a typical and traditional way to acquire skills in manual trades. Although the spread of private vocational schools, like sewing schools, has offered another opportunity to get skills in these trades for people who do not meet the requirement of the public vocational schools, this survey has revealed that traditional apprenticeship is still thriving in Thailand.

Apprenticeship is an important means of integration of non skilled labour into the labour market, and of course of skill acquisition. The present survey did not elaborate on this, but the importance of apprenticeship as a means of skill acquisition clearly appears in the results. As far as entrepreneurs are concerned, apprenticeship has been the first source of acquisition of skills in garment and metal industries<sup>4</sup>. It is obviously still lively in these two activities.

Wage-workers are not paid a regular wage in many cases. In garment, most of them are piece workers. This happens also in metal and wood industries to a lesser extent, but is irrelevant in restaurants. The division between skilled and unskilled workers shown in the chart above is due to an appreciation of the entrepreneurs, and depends on the experience and salaries of the workers, not on an official scale.

So, in this random sample of individually owned enterprises, it appears that the average size is very low and that for a majority of the enterprises, the dominant form of labour is not formal (except in wood industries).

Table 2. Number of Enterprises by Structure of Employment (%)

	Wood	Metal	Garment	Electric	Restaurant	Total
Owner Alone	11.1	11.6	22.8	53.4	60.9	33.8
Fam. Labour & App: Only	14.8	13	21.8	24.3	23.4	20.1
1 or 2 Wage Workers	19.8	43.8	24.8	17.5	8.1	22.5
Over 2 Wage Workers	54.3	31.5	30.6	4.9	7.6	23.6
Total (100%)	81	145	206	103	197	733

Source: CUSRI-ORSTOM Survey on Small Scale Industries, 1991

Apart from the composition of the composition of the labour force by activity, it is worth considering the composition of the labour force in small industries by size of establishment. As can be seen from the chart below, non formal forms of labour (family

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4 - 45% of the entrepreneurs in garment and in metal industries in the sample acquired their skills mainly from apprenticeship in small establishments. Actually, this source of skill acquisition is more frequent among non educated entrepreneurs and to a certain extent, can be considered as a good complement to school for those who did not have the chance of getting far in their studies.

labour including spouse and apprentices) are dominant in enterprises of up to five people, while wage-workers constitute the majority in bigger enterprises.

In the end, the structure of employment appears to be typically "informal", in the sense that the majority of enterprises do not rely on wage-labour. In the whole sample, we found that in just 15% of the enterprises, the labour force was constituted by the owner and wage-earners only, that is the "modern" structure of employment. At the same time, half of the enterprises do not have any wage-worker at all. Besides, when considering wage-labour in the small industries, it appears that this form of labour is not that formal. There are no written contracts between the employer and the employee, barely fixed salaries nor any respect for labour regulations<sup>5</sup>. The limits between the status of labour that we used here are not clear, and lie on the experience, skill and earnings of the workers. They are fixed out of any regulatory setting. That is how they should be considered together with information on the payment of workers.

#### Payment of the Workers

The survey questions on the payment of workers give only approximations, since payment may depend on the amount of pieces, and this may vary with the employees and from one day to the other<sup>6</sup>. Several questions were also asked on fringe benefits.

At the time of the survey, the minimum legal salary was 100 Baht per day in Bangkok. In other regions, the minimum wage varied, but was on average around 80 Baht per day. On the basis of 25 working days per month, the minimum legal monthly wage was around 2,500 Baht in Bangkok and 2,000 Baht upcountry. From the socio-economic survey (National Statistical Office, 1992), we can calculate that the median wage of private male employees of urban areas (formal and informal sectors together) was in the category of 3,000-4,000 Baht in the manufacturing sector (3,215 Baht). For females, it was 2,710 Baht. When we compared these data with the information on payment of workers in small scale industries, it cannot be said that the informal sector provides lower salaries than the modern sector. What should rather be emphasized is that there are many trainees or non skilled workers, generally very young and uneducated, that get wages under the legal minimum wage. But after they have acquired some experience, the workers of these small industries get, on average, wages that can be compared with those of the modern sector.

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5 - At the time of the survey, enterprises with less than 20 people were exempt from some regulations. See Bunjongjit & Oudin [1992].

6 - The questions were asked per category of workers. Payment per piece and amount of pieces were asked about in the case of piecework.

The status of workers is an important explanation of the average salary. Trainees and unskilled workers hardly get the minimum wage while the average salary of skilled labour is comparable to the one in the manufacturing sector.

Table 3. Average Monthly Salaries

		Wood	Metal	Garment	Electric
Apprentices	Bangkok	1,750	1,630	1,090	2,030
	Upcountry	1,220	1,230	820	940
Unskilled Workers	Bangkok	2,050	2,430	2,730	2,670
	Upcountry	2,030	2,030	1,830	2,380
Skilled Workers	Bangkok	5,140	4,110	3,510	3,230
	Upcountry	3,930	3,030	2,880	2,820

Source: CUSRI-ORSTOM Survey on Small Scale Industries, 1991

About one enterprise out of three in Bangkok and one out of two up country pay average salaries under the minimum legal wage. However, no conclusion about bad payments of the manpower can be drawn. One must consider that many of the employees are apprentices and are trained in the same time they participate in the production, and above all, employees often get advantages in kind, principally food and sometimes lodging. Nearly three workers out of four get food and lodging, or one of the two. These advantages are far from being negligible, especially in Bangkok, and show that the average payment of employees in small scale industries is not a starvation payment.

Table 4. Percentage of Workers with Food or Lodging by Activity and Size of the Enterprise

	Garment	Metal	Restaurant	Wood	Electric
% of Workers Getting Food					
1 to 3 Workers	60	76.5	100	72	80
Over 3 Workers	86.8	65.4	100	63.8	80.6
% Workers Lodged					
1 to 3 Workers	47.8	60.8	96.9	58	71.1
Over 3 Workers	64.7	58.6	96.9	50.3	45.2

Source: CUSRI-ORSTOM Survey on Small Scale Industries, 1991

It is worth noticing that in garment industries the advantages in kind are much more frequent among workers of larger enterprises. This is because these advantages are often provisions of the contract between the employer and the employee.

When we add fringe benefits to the wages, the distribution of enterprises by average payment of the employees shows that a minority of enterprises (mainly restaurants) offer low payments, while the majority offer decent wages (as compared

with the legal minimum wage). The bulk of garment and metal industries seem to be in this category.

### **Intervention in the Labour Market**

We shall now consider by which means the entrepreneurs of small scale industries recruit their employees, on which criteria, and the main problems they face with their employees.

#### Finding Employees

The behaviour of small entrepreneurs in the matter of hiring employees remains largely "traditional" in the sense that modern ways of hiring employees (official agencies, middlemen) are not much used. More than half of the entrepreneurs rely on kinship (or friendship) to hire employees. However, advertisement is the way to find employees for one entrepreneur out of four in garment and metal industries. This is not through newspapers, rather by word of mouth (with the employees among others). It is also significant that unemployed people go from one shop to the other and that, in the end, this is a not negligible way of hiring employees.

Table 5. Recruitment of Employees by Activity (%)

	Garment	Metal	Restaurant	Wood	Electric	Total
Friends/Relatives	57.8	44.3	72.7	45.2	54.3	52.4
Middlemen	0	1.6	0	0	2.9	0.8
Advertisement	26.6	23	18.2	9.7	17.1	21.1
Direct Coming	14.8	29.5	6.1	43.5	20	23.9
Official Agencies	0	0	3	0	5.7	0.8
Other	0.8	1.6	0	1.6	0	1.1

Source: CUSRI-ORSTOM Survey on Small Scale Industries, 1991

Half of the entrepreneurs have problems in finding employees. This is essential information given by the survey. There are tensions on the labour market in this period of very high growth. Despite a growth in the non-farm labour force of nearly 4% per annum, many entrepreneurs cannot easily find the workers they need. Of course, the salaries offered by the entrepreneurs may be too low to attract the employees, but we can see in the table below that the demands of the employees are not the main reason for not finding employees (we will also see further that there are not many conflicts on wages). The main problem is the lack of labour, and particularly of skilled labour. Two thirds of the entrepreneurs who have problems put forth this reason. The other significant difficulty in finding employees ("they migrate to other places") is typical of

entrepreneurs outside Bangkok who complain that young boys and girls leave the province to find jobs in Bangkok.

Table 6. Problems in Finding Employees by Activity

	Garment	Metal	Restaurant	Wood	Electric	Total
Lack of Labour Force	35.7	29.7	61.5	12.5	17.6	30.5
Lack of Skilled Labour Force	37.5	35.9	7.7	41.7	41.2	35.6
Migration	16.1	26.6	15.4	29.2	35.3	23.6
Asking for Too Much Money	8.9	4.7	15.4	8.3	5.9	7.5
No Desire to Drop Farming	1.8	3.1	0	8.3	0	2.9

Source: CUSRI-ORSTOM Survey on Small Scale Industries, 1991

A majority of enterprises have not expanded (as far as the number of workers is concerned) in the last two years, despite a very good economical environment. In the sample, we find more enterprises that lost employees than enterprises that had new employees. Although many factors should be considered to explain this phenomenon, the difficulty of finding labour, and especially skilled labour, is probably a fairly accurate explanation of the stagnation of many enterprises.

#### Selecting Employees

The selection of employees in garment and in metal industries relies mainly on skill or experience criteria. Kinship or individual qualities of the candidates are, however, not negligible, and is even the main criteria in restaurants (this question only concerns the entrepreneurs who have workers; family helpers not included).

Table 7. Main Criteria for Selecting Employees, by Activity

	Garment	Metal	Restaurant	Wood	Electric
Level of Education	1.6	0.8	3	0	3
Kinship (or Same Origin)	18.6	7.4	30.3	9.8	9.1
Skill	60.5	63.1	15.2	72.1	57.6
Experience	11.6	18.9	21.2	9.8	15.2
Trustworthiness	7	8.2	27.3	8.2	12.1
Other	0.8	1.6	3	0	3

Source: CUSRI-ORSTOM Survey on Small Scale Industries, 1991

The ability (skill and experience) of the candidate is a determinant factor. This shows that the main concern of entrepreneurs in garment and metal industries is efficiency and productivity, far ahead of personal relations. However, this typically "modern" behaviour does not make them search for employees through official or modern channels.



### Problems with the Workers

Half of the entrepreneurs declare not to have any problem with the employees. The others point out problems related to the situation of the labour market rather than failings of the employees.

Table 8. Main Problem with the Employees by Activity.

	Garment	Metal	Restaurant	Wood	Electric
Lack of Discipline	8	16	1	5	3
Lack of Experience	8	7	0	0	0
Insufficient Skill	12	12	2	5	2
Low Education Level	7	2	2	1	2
Untrustworthiness	0	2	2	2	0
Conflicts on Wages	4	1	1	2	0
High Mobility	20	29	6	10	6
Other	1	0	0	0	0

Source: CUSRI-ORSTOM Survey on Small Scale Industries, 1991

The main problem is the high mobility of manpower. Entrepreneurs complain about a high turnover of employees. This stresses what we have just seen above, that is the tension on the labour market. Entrepreneurs complained about the difficulty of finding labour, especially skilled labour. Now they think that the main problem is the mobility of the employees. This means that employees can easily quit because they do not worry about finding a job, since there is a high demand for labour in the modern as well as in the non modern sectors.

The low rates of responses about conflicts on wages (i.e., too high claims from the employees) suggest that the low supply of labour is not due to low salaries offered in these kinds of industries, but is rather due to an absolute lack of skilled labour.

### **Conclusion**

The labour force in the small scale industries appears to be typically informal, both by its structure and by its forms of payment: in its structure because of a large use of non-wage forms of labour, and as far as remuneration is concerned, due to the importance of payment in kind and (probably) because of the non respect of the minimum wage. No kind of payment is in itself "informal", but the fact that certain kinds of payments are more frequent in small scale industries is a specific feature of these industries, when opposed to large scale industries.

The attitude of entrepreneurs on the labour market shows the concerns that are those of entrepreneurs in a modern economy: the efficiency (skill and experience) of

the employees has become the first criterion for selecting employees. There is obviously a search for optimal productivity.

The present situation of the labour market in Thailand has raised tensions, especially with respect to skilled labour, and this is a major concern for the entrepreneurs of small industries. When asked what are the main obstacles to the development of their business (a question with no special mention of labour problems), 47% of the enterprises with more than 5 employees, and 35% with 1 to 4 employees, answered the main obstacle is the lack of labour in general or of skilled labour.

The situation of labour as seen from the small scale enterprises does not comfort some theories on the informal sector and manpower surplus. This is due to the very favourable economic situation now existing in Thailand. The salaries are at a decent level (as compared with large manufactures) and the problems with employment are similar to those of large scale industries: high mobility of manpower and insufficient skill. In these respects, they appear to be in competition with rather than complementary to large industries.

## **Appendix**

### The Survey on Small Industries

The survey was made from 15th July to 15th September 1991 in 11 provinces all over Thailand. The provinces were chosen to represent all main regions. The weight given to the different regions is in accordance with the weight of each region as it appears from the 1989 Department of Labour's survey of establishments for establishments under 20 employees, in each activity<sup>7</sup>. That is why the Bangkok region weights for half of the sample as a whole, but 37% for restaurants and nearly 60% for garment.

Only the main town of each selected province has been surveyed. The survey has been made in Bangkok Metropolis, Nonthaburi and Samut Prakarn (Bangkok), Chai Nat and Ayutthaya (Central region), Chiang Mai and Pichit (Northern region), Khon Kaen, Kalasin and Rayong (Northeast and East), and Nakhon Si Thammarat (South). However, the results are not supposed to be representative at a local level, and only the distinction between Bangkok and upcountry is made. No results by province and even by region have been or will be published.

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7 - Department of Labour, Ministry of Interior: Yearbook of Labour Statistics. Corrections have been made to take into account the self employed, using the Labour Force Survey of the same year.

The definition of the small scale enterprises used for this survey is not based on the number of employees or the value of assets. It is based on the legal status of the enterprise. Only individual enterprises (or sole proprietorship) have been surveyed. This means that companies or registered partnerships are excluded from the scope of the survey. The unit of the survey was the enterprise (not the establishment) and the owner<sup>8</sup>.

Area sampling was used, mainly because it appeared that the census of establishments was not accurate for the purpose of the survey. In Bangkok, 72 blocks, taken out of a permanent sample of the National Statistical Office, were selected<sup>9</sup>. In these blocks, a count of all establishments of the selected activities was made one month before the survey. From this count, the given number of questionnaires to be done for each activity was chosen. The NSO also supplied a sample of blocks for other towns, in which the survey was made.

This survey was made on 735 individual enterprises in the following activities: making garments, making metal goods, making wood furniture, electric repair and restaurants. It is part of a joint research program between CUSRI and ORSTOM on the role of small scale industries in the development of Thailand<sup>10</sup>.

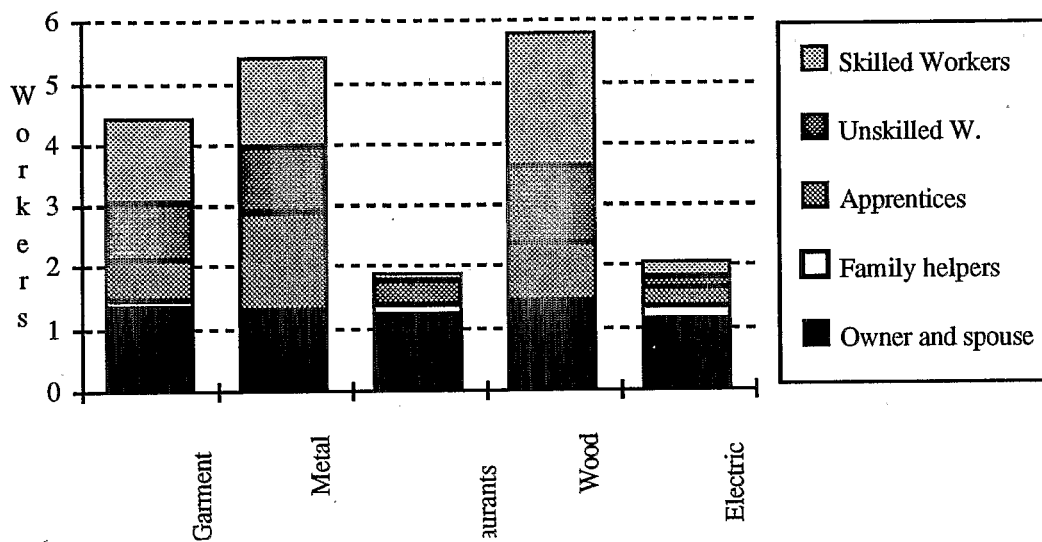
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8 - Questions at the beginning of the questionnaire ensured that the enterprise was an individually owned enterprise, and was not a branch of another enterprise. If the respondent was not the owner (or the main manager), the questionnaire was also stopped.

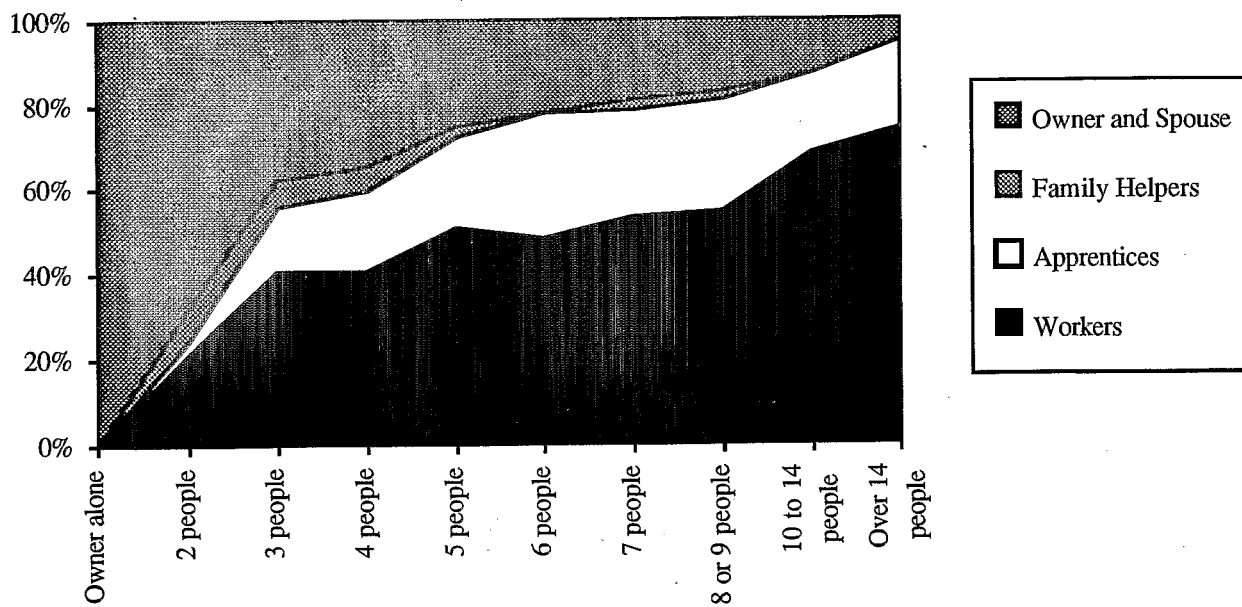
9 - We are deeply grateful to the National Statistical Office for their kind assistance in selecting the blocks and supplying the maps. This survey could not have been implemented in such good conditions without these materials. However, the National Statistical Office do not bear any responsibility for possible errors in this survey and in its results.

10 - In addition, this survey has been used for an international programme on "Informal sector and institutional background", led by OECD (Organization for Economic Cooperation and Development).

Distribution of different categories of the labour force, by activities



Composition of the labour force, in garment, metal and wood industries



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