

Family Labor, Enforcement, and Product Quality: Evidence from the Lao Textile Industry *

Yasuyuki Sawada[†] Mari Tanaka[‡]

January 17, 2024

Abstract

In developing economies where business owners suffer from agency problems with workers, a kinship may serve as an enforcement device for producing high-quality products. Using unique data collected in handwoven textile micro-enterprises in Lao PDR, we examine the effect of family workforce size, defined by the number of the owner's relatives who can potentially work for the business, on business performance. For identification, we exploit an exogenous variation in gender composition in the owner's relatives that determines family workforce size. We confirm that a larger family workforce significantly increases the share of family workers in the business, positively affecting labor productivity and value-added per product. As a potential channel, having a larger family workforce seems to enable owners to produce high-price products designed by themselves, rather than low-price products of standard designs, due to a strong trust between family workers and owners. This supports the hypothesis that working with family labor helps owners overcome design infringement. We also obtain suggestive evidence that owners who design products by themselves have lower labor demand for external workers.

Keywords: Family labor, Quality, Productivity, Agency problem, Trust, Micro-enterprises

JEL codes: D22, J2, O12

*Acknowledgments: We thank Kiengkham Khamvilanh at the National University of Laos for data collection and field experiments. We are also grateful for financial support from the Asian Development Bank and JSPS Grant in Aid for Scientific Research (S) (JP26220503) and International Leading Research (22K21341). The constructive comments from Marco Calienda, Daiji Kawaguchi, Hideo Owan, Aloysius Siow, and Naila Shofia are appreciated. The views expressed in this publication are those of the authors. This study is conducted as a part of the Project "Analysis on policies to improve firm productivity: the case of Lao Textile industry and initial analysis on Japanese firms' foreign study tours" undertaken at the Research Institute of Economy, Trade and Industry (RIETI).

[†]University of Tokyo, Faculty of Economics. Email: sawada@e.u-tokyo.ac.jp.

[‡]Hitotsubashi University, Institute of Economic Research. Email: mari.tanaka@r.hit-u.ac.jp.