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SME FRINGE BENEFITS PROVISION

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Abstract

The aim of this paper is to inform the reader about the distribution of fringe benefits provided to employees by firms in 10 provinces of Vietnam. Five types of benefits are considered: Annual leave, maternity leave, sick leave, social insurance and health insurance. We especially focus on whether the gender of the owner has an effect on the fringe benefits provided. It appears that women firm owners are more likely to provide employees with fringes, and this gender effect exists primarily in non-household enterprises and is robust to the inclusion of standard determinants of wage compensation. We discuss these results and formulate a set of policy recommendations.

Key words: Vietnam, gender, fringe benefits

JEL classification: J16, J31, O53

1. Introduction

SME development has been a central part of the Vietnamese government development and job creation strategy and the effects of these policy initiatives on the livelihood of employees clearly depend on the level of wages and fringe benefits they receive from firms. Moreover, fringe benefits provision also affects general labour market conditions such as job mobility and the demand for part-time and casual workers. When the employer is obligated by law to provide fringes to permanent full-time employees, some types of SMEs will choose to hire relatively more casual labour in order to avoid the costs of having the employees on permanent contracts. On the other hand, fringe benefits may create a “job-lock” on the permanent full-time employees because they fear losing their health care and social benefits if they switch job. Fringe benefits can therefore be seen as one way for the employer to reduce labour turnover (and the costs associated with this) and thereby ensure a stable employee work-group better equipped at pursuing longer-term business

strategies. However, there are also issues of ensuring labour market flexibility in labour-turn-over when required due to changes in the market. Identifying firm level differences in the characteristics of contributors (voluntary or compulsory) and non-participants may help streamlining the health and social insurance design and thereby improve the overall livelihood among SME workers. It may also help in the formulation of appropriate labour market policies more generally.

Employee fringe benefits rights: The Labour Code in Vietnam

According to the Vietnamese Labour Code from 2003 employees with a labour contract with duration over three months are entitled to paid annual leave and social insurance.¹ Starting with annual leave rights we note that employees have to be employed by an employer for at least twelve months to be entitled to 12 days fully paid annual leave.² If the employee for some reason fails to use up all of his/her annual leave it should be paid out according to his/her daily wage rate for the days not taken. Moreover, the leave increases by one additional day for every five years of employment in the same firm.

The contribution to the social insurance fund is by law 15% and 5% of wages for employers and employees, respectively. For contributing parties employees are entitled to social insurance benefits and allowances in the event of illness, work-related accidents and occupational disease, pregnancy, retirement, and death. For example a female employee who has paid social insurance contributions is entitled to a social insurance allowance equal to her normal wage and an additional allowance of one month's pay.

According to the Labour Code, enterprises are responsible for organizing health care for employees. The health insurance scheme is administered by Vietnam Health Insurance (VHI), but is only compulsory for private sector enterprises with more than 10 workers. The contribution rate is 3 percent of salaries paid (2 percent paid by the employer and 1 percent paid by the employee). Employees in micro firms must either pay full user charges for government health facilities or

¹ Firms with ten or less employees must still provide its employees with the basic rights and benefits stipulated in the Labour Code but can be considered for exemptions from a number of criteria and procedures stipulated by the Vietnamese Government. In the following we therefore report results with and without micro household enterprises.

² According to Article 74 in the Labour Code the number of fully paid annual leave days can be increased to 14-16 working days for workers in heavy, dangerous, or toxic jobs, or in places with difficult living conditions, and to persons under the age of 18.

purchase voluntary health insurance, under which they make a co-payment of 20% of the total user charge.

Why do we expect gender differences in the fringes provided?

Social awareness in enterprises is becoming more and more central, and a particularly focus is whether women have more altruistic behaviour and have higher social commitment. Research shows that gender differences in fringe benefits provision exist even when controlling for the usual suspects in a traditional wage equation setup. Several explanations for this are outlined in Rand and Tarp (2007b). One explanation is the fact that individuals tend to engage in the labour market with people of the same sex. This means women owners employ a larger share of female workers. Combining this fact with evidence that female employees tend to be more risk-averse than male workers we expect that individual employer-employee contract negotiations will result in a higher probability of women entrepreneurs providing fringes as compared to their male counterparts.

Another possible explanation for the “gender fringe benefits gap” is gender differences in social networks, which affect the recruitment process. Women generally have a more limited business related network and therefore tend to recruit through personal contacts to a lesser extent. Male owners “exploit” their relationship advantage with their employees and offer fewer fringes as compared to women.

Finally, focusing on ethical behaviour among managers and executives many studies have argued that gender is a significant factor in the determination of ethical conduct and that female managers are more ethical than males in their perception of business ethical situations. We therefore hypothesize that laws, regulations and government guidelines are more likely to be followed by women entrepreneurs than their male counterparts, and we especially focus on the dimension whether gender differences exist as regards quality and levels of trade unionization.

2. Distribution of Fringe Benefits

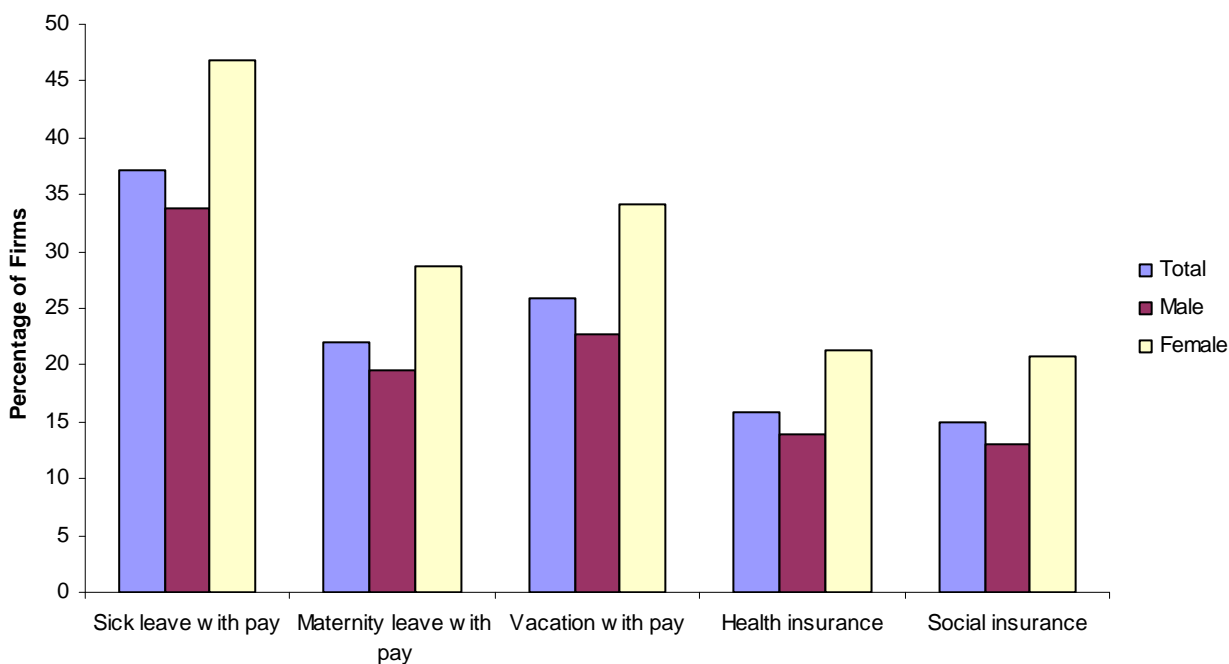
In what follows data from the Vietnamese Small and Medium Enterprise (SME) survey from 2005 (Rand and Tarp, 2007a) are used. The survey was developed and implemented by the Department of Economics at the University of Copenhagen in collaboration with the Central Institute of Economic Management (CIEM) and the Institute for Labour Studies and Social Affairs

(ILSSA) with kind support from Danida in 10 provinces (Ho Chi Minh City, Ha Noi and Hai Phong, Long An, Ha Tay, Quang Nam, Phu Tho, Nghe An, Khanh Hoa and Lam Dong). A total of 2,739 SMEs were covered, and from figure 1 we see that 26 percent of employers provide their employees with paid holidays according to the law. Some 37 and 22 percent of firms provide sick and maternity with pay, respectively, even though only 15 percent of firms contribute to the official social insurance scheme. Given that paid sick and maternity leave is part of the social insurance scheme it is noteworthy that 60 percent of firms provide paid sick leave without contributing to the social security scheme. Finally, 16 percent of firms provide health insurance for their workers.

a) Gender and Owner Education

Figure 1 furthermore divides fringes by gender of firm owner. From this figure there is a clear indication that female entrepreneurs are more likely to provide employees with fringes. The remainder of this policy brief will establish that this gender difference in fringe benefits provision cannot be explained through other firm attributes. For example, if women generally own smaller firms and smaller firms provide workers with fewer benefits, the difference in fringe benefits provision may be due to a firm size effect rather than a gender difference effect. We will show that this is not the case. There is a “clean” gender effect.

FIGURE 1: FRINGE BENEFITS BY GENDER OF OWNER



Managerial quality and experience are key determinants of business strategy choices. “Skilled” owners use employee fringe benefits as a part of their motivation toolkit to a larger extent than owners with less education.

FIGURE 2: FRINGE BENEFITS BY OWNER EDUCATION

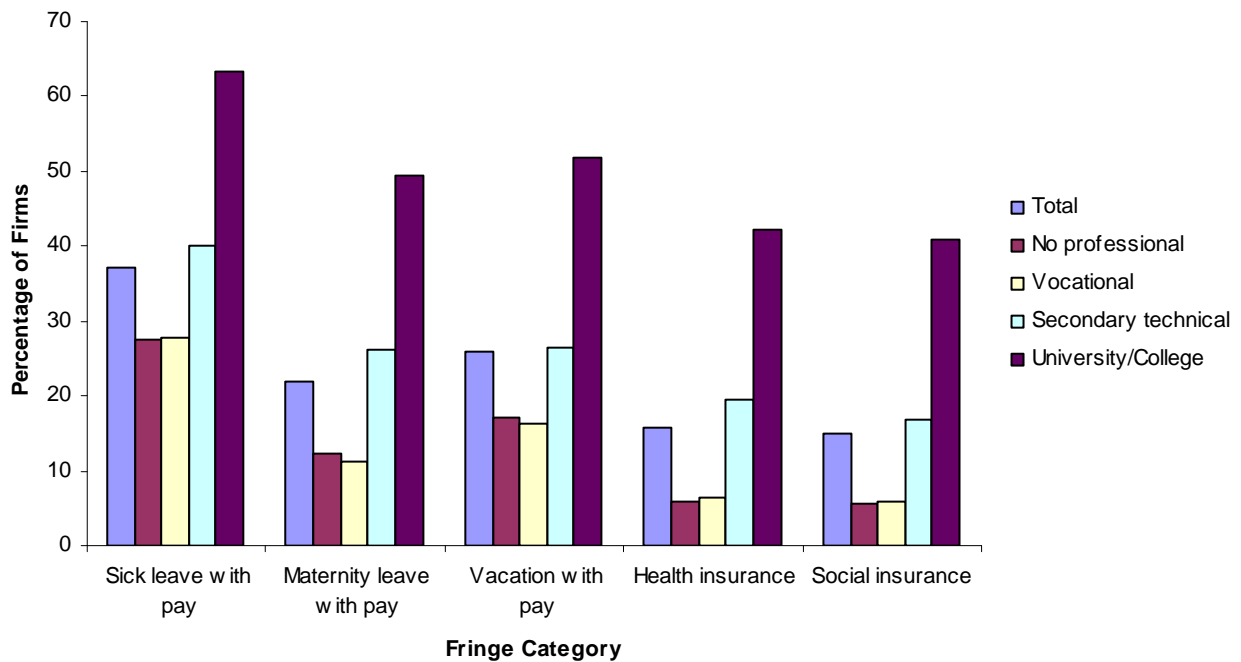


Figure 2 shows that owners with a university or college degree have a higher probability of providing their employees with fringes than owners with no professional, vocational or secondary technical education.

c) Legal Ownership, Firm Size and Age

Household firms are often less formal and subject to other legal requirements. Differences in legal structure is therefore a likely source of variation in fringe benefits provision. Law enforcement regarding fringe benefits provision may therefore differ by ownership category. Table 1 shows that only 1 percent of household (HH) firms provide employees with formal social insurance. This is as could be expected due to the way the insurance scheme is constructed (HH firms tend to be micro and most of the firms therefore are not included in the compulsory contributors group). However, 23 percent of HH firms still provide employees with paid sick leave. Some 41 percent of Non-HH firms contribute to the health and social insurance schemes, but given that most of these firms are

formal enterprises with 10 or more employees a significant share of firms obligated to contribute to the health and social insurance schemes successfully avoids mandatory payments.

TABLE 1: FRINGE BENEFITS BY LEGAL OWNERSHIP FORM, FIRM SIZE AND AGE

	Total	HH	Non-HH	Micro	Non-Micro	New	Incumbent
Sick leave with pay	37.2	22.6	63.7	24.9	57.8	47.0	32.3
Maternity leave with pay	21.9	6.6	49.7	6.7	47.6	28.7	18.6
Vacation with pay	25.8	12.4	50.1	13.7	46.2	32.2	22.7
Health insurance	15.9	1.6	41.8	1.8	39.5	20.8	13.4
Social insurance	15.0	1.0	40.6	1.5	37.8	20.5	12.3
Observations	1,914	1,234	680	1,200	714	634	1,280

Note: Un-weighted means. New is defined as firms established in 2000 and after. Incumbents are by definition firm established before 2000. Micro firms have below 10 employees and Non-micro are firms with between 10 and 300 employees (small and medium enterprises).

Given the association between legal ownership form and firm size (defined as the total number of permanent full-time employees, excluding part-time employees and casual workers) we find similar results under the “Micro” and “Non-Micro” categories. As described in Rand and Tarp (2007b) the effect of firm age on fringe benefits is complex. However, Table 1 indicates that younger firms have a higher probability of providing employees with fringes than their incumbent counterparts.

d) Location

Provision of fringe benefits may also differ across locations. Vietnamese provinces are relatively autonomous and have carried out centrally planned initiatives with different pace and enthusiasm. The preparation, implementation and enforcement of the Labour Code could therefore differ significantly across different locations. Table 2 documents that employees are more likely to obtain fringes in urban cities than in rural provinces.

TABLE 2: FRINGE BENEFITS BY LOCATION

	Observations	Sick leave	Maternity leave	Annual leave	Health insurance	Social insurance
Urban	952	58.4	32.9	42.8	22.7	21.8
Rural	962	16.2	11.1	9.0	9.1	8.3
Total	1914	10.4	10.4	10.4	11.9	10.4

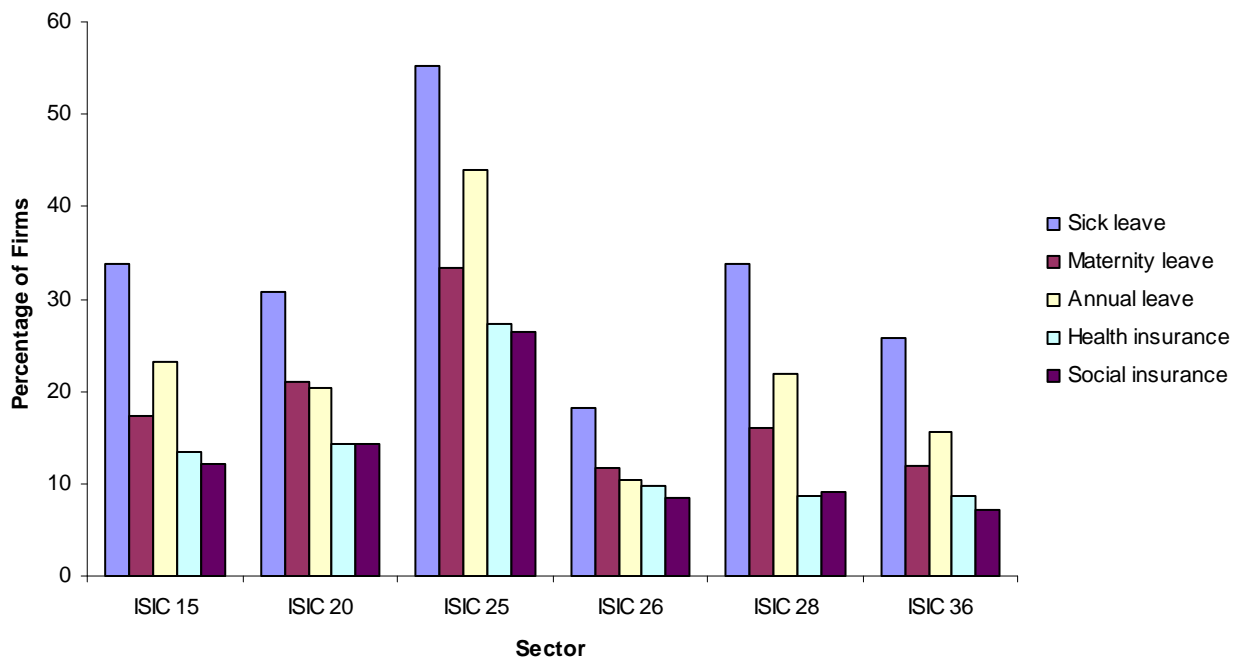
Note: Figures in percentages

e) Sector

Finally, we wish to control for sector effects (based on 2-digit level ISIC codes) on fringe benefits provision, given that general working conditions might differ between sectors. Some sectors allow

for relatively flexible work-hours (limiting the pressure for well-established sick leave arrangements). Other sectors are almost purely male dominated (limiting the pressure for paid maternity leave benefits). Figure 3 provides summary statistics for the six best represented sectors in the survey. Employees in manufacturing of rubber and plastic products (ISIC 25) are more likely to obtain fringes than workers in food processing (ISIC 15), wood products (ISIC 20), non-metallic mineral products (ISIC 26), fabricated metal products (ISIC 28) and furniture (ISIC 36). Remember that ISIC 25 is more harmful to workers, and also note that the average size of firms in producing sector ISIC 25 is significantly larger than firms in the other categories considered.

FIGURE 3: FRINGE BENEFITS BY SECTOR



3. Effects of gender of owner on fringes provided to employees

Table 3 presents poisson regression results on the probability of providing fringe benefits for (i) the full sample (1,914 observations), and (ii) a restricted sample applying appropriate weights for the sample including only non-HH enterprises (680 observations). The reported coefficients under poisson estimates are reported as incident-rate ratios. The dependent variable is constructed as a count variable taking the value zero if the firm does not provide any of the benefits listed and five if all five fringes are provided by the firm.

A central result from Table 3 is that the effect of gender of owner on fringe benefits provision is negative. There is a higher probability of female owners providing employees with fringes as compared to their male counterparts. The poisson coefficient on gender of owner implies that (other factor being equal) the expected number of fringes provided by a male owner is around 9.4 percent (Column 1C: $100*(0.906 - 1)$) to 24.3 (Column 1A: $100*(0.757 - 1)$) lower than compared to a women owner with the same characteristics.

TABLE 3: FRINGE BENEFITS, MAIN RESULTS

	1A	2A	3A	1B	2B	3B
	Index	Index	Index	Index	Index	Index
	(0-5)	(0-5)	(0-5)	(0-5)	(0-5)	(0-5)
	Poisson	Poisson	Poisson	Poisson	Poisson	Poisson
Gender of owner	0.757***	0.889**	0.906*	0.846**	0.852**	0.876**
(Male = 1)	(4.53)	(2.02)	(1.88)	(2.35)	(2.22)	(2.32)
Owner education 2	1.038	0.935	0.950	0.937	0.938	0.952
(Vocational = 1)	(0.20)	(0.47)	(0.36)	(0.34)	(0.34)	(0.29)
Owner education 3	1.725***	1.196	1.197	1.191	1.203	1.126
(Technical = 1)	(2.74)	(1.25)	(1.23)	(0.92)	(0.97)	(0.67)
Owner education 4	2.694***	1.410**	1.410***	1.370*	1.372**	1.382**
(College/University = 1)	(5.02)	(2.51)	(2.58)	(1.95)	(1.97)	(2.34)
Firm size	1.007***	1.004***	1.004***	1.004***	1.004***	1.005***
(No. of employees)	(10.53)	(6.64)	(6.39)	(5.87)	(5.73)	(5.97)
Firm age	0.988**	0.993*	0.993	0.994	0.994	0.993*
(Years)	(2.23)	(1.71)	(1.62)	(1.17)	(1.18)	(1.82)
Location		2.023***	1.975***		1.125	1.131
(Urban = 1)		(4.15)	(4.05)		(0.87)	(0.97)
Legal structure		0.306***	0.319***			
(HH = 1)		(6.36)	(6.31)			
Sector dummies included	No	No	Yes	No	No	Yes
Weights applied	No	No	No	Yes	Yes	Yes
Observations	1,914	1,914	1,914	680	680	680

Note: Poisson estimates (Coefficients are reported as incidence-rate ratios). All regressions included a constant term . t-values (reported in parenthesis) cluster robust. *, **, *** indicate significance at a 10%, 5% and 1% level, respectively.

Other interesting results are: a) Owners with a college or university degree are more likely to provide fringes to their employees; b) Firm size is positively associated with providing fringes. Although some of this effect comes naturally from the design of the health and social insurance schemes, the firm size effect remains well-determined in the non-HH firm sample (columns 1B-3B); c) Older firms are less likely to offer fringes than their younger counterparts (although not well-determined in all specifications; and d) Considering the full sample including HH firms, location is a good predictor of fringe benefits. However, the effect disappears in the restricted

sample. All this suggests that a larger fraction of micro HH firms in urban areas provide employees with fringes than similar micro HH enterprises in rural provinces.

4. Policy recommendations

During the 1990s the Vietnamese health and social insurance system underwent significant modification, changing from a fully government funded arrangement to a system funded by a mix of employer/employee and state budget contributions. Since these fringe benefits systems are centred on larger formal enterprises concern has been raised about the limited coverage of these insurances. Another worry has to do with law enforcement: A significant share of especially private employers/employees obligated to contribute to the health and social insurance schemes have successfully avoided the mandatory payments. This opens up the question about how the government could ensure (compulsory) and encourage (voluntary) private sector employees to participate in fringe benefits systems. Based on research of the 2005 SME survey data the following conclusions and recommendations are made on employee fringe benefits coverage.

- By continuing and speeding up the business sector reform process, more and more firms will eventually become formal. Combined with increased law enforcement efforts this will ensure social and health insurance coverage of a significantly larger share of SME workers. Moreover, our results show that general firm turnover may also improve insurance scheme coverage due to differences in fringe benefits provision between newly established firms and incumbent enterprises.
- A public employee information campaign to inform about fringe benefits rights and opportunities may increase both compulsory and voluntary contributors. Information strengthens employees in the contract negotiation processes. This could be especially effective in rural areas where worker health and social insurance coverage is lacking significantly behind.
- Continued support to female entrepreneurs, who are as efficient as male entrepreneurs, may in many cases indirectly help improve employee fringe benefits provision. Female firm owners are more likely to provide their employees with fringes (both compulsory and voluntarily) independent of educational level, firm size and age, legal ownership form, location and sector.

- Incentive effects related to fringe benefit systems must be kept in mind. Such systems can create “job lock in” situations on employees and reduce labour mobility. They may also induce a non-optimal share of temporary and casual workers in SMEs. Increasing social and health care insurance coverage and streamlining these fringe benefits systems to cover temporary employees will however reduce the negative effects of such schemes on general labour market conditions.

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