"Subsidy, Sluggishness, and Strategy: Assessing the Effects of Consumption Subsidies on Worker Effort and Intervening Strategies"

Erasmus University

March 2024

- Cash transfer programs have been found to improve overall welfare, such as better health, higher school attendance and improved household productivity. However, studies on the intensive adjustment of labor outcomes are limited.
- What is the impact of cash transfers on worker effort?
 - (Work less) Labor-leisure trade-off? (Lottery winners Cesarini et al (AER 2017), Picchio et al (EJ 2018))
 - (Work more) Alleviate Financial concerns (Kaur et al , WP 2022)
- How would managers respond to worker reduced effort?
 - Redesigning the incentive structure (Hjort, QJE 2014)
 - Reassigning workers to different tasks (Adhvaryu et al, JPE 2023)

- I exploit a natural shock in the nationwide consumption subsidy program in Thailand and the variation in eligibility to causally document negative effects on worker efforts.
- I demonstrate how managers responded to workers slacking off by (1) increasing monitoring (sticks) and (2) reallocating tasks (styles) to maintain the overall productivity level.

- A large private manufacturing company in the ready-to-wear garment industry in Southeast Asia with headquarters in Bangkok.
- The company employs both local (60%) and immigrant workers (40%— Myanmar). Both local and immigrant workers perform the same tasks, work in the same environment, and are under the same incentive contract.
- During the Covid-19, the Thai government implemented a consumption subsidy program called "Half-and-Half," which subsidizes all purchased goods and services by 50%.
- All Thai workers in this sample are eligible for this program, while immigrant workers are not.

The Co-Pay Program

- Subsidize purchases of goods and services from eligible vendors by half and up to 150 THB per day (about 50 % of base daily wage)
- 5 phases ¹
 - Phase 1 Phase 2: Oct 23, 2020 March 2021 3,500 THB (100 EUR) $^{\rm 2}$
 - Phase 3: July 2021 December 2021 4,500 THB
 - Phase 4: February 2022 April 2022 1,200 THB
 - Phase 5: September 2022 October 2022 800 THB
- The estimated takeup rate is about 92.5 percent ³ of all eligible citizens.
- All Thai workers in our sample are qualified for this program whereas Myanmar workers are not.
- To minimize the confounding impact of COVID, I will focus only on the first two phases where Covid cases in Thailand is close to zero.

- ²Net pay of our sample is about 9609 THB (250 EUR) per month
- $^{3} https://library.parliament.go.th/th/radioscript-rr2564-dec1 \quad (\bigcirc \ ()$

¹(September 23, 2020 – Program announcement)

Findings

• Thai workers shirk more.

- 2% lower in the take-home pay⁴
- 228 % lower in the incentive pay (about 2.2 % to net pay)
- 2.4 % reduction in OT salary (0.04 % of net pay)
- $\bullet~117$ % increase in the workplace violation report
- 82 % increase in lateness (18 % on the extensive margin)
- 32 % increase in absence (46 % on the extensive margin)
- Managers intervene and minimize the impact on overall production.
 - (Sticks) Managers used sticks to discipline misbehaved workers more.
 - Managers are 1.7 times more likely to punish Thai workers who shirked during the subsidy period.
 - (Styles) Managers allocated less difficult tasks to affected teams.
 - $\bullet\,$ Allocated 10 % fewer styles and about 23 % fewer new styles.

⁴The amount of the average monthly transfer is about 7% of the sample net pay ogg

 $Y_{it} = \alpha + \beta_1 \operatorname{Treat}_i + \beta_2 \operatorname{Post}_t + \beta_3 \operatorname{Treat}_i X \operatorname{Post}_t + \gamma_i + \tau_t + \epsilon_{it}$

 Y_{it} – represents the outcome of interest.

Treat_i – (0,1) whether a worker (a team) is Thai.

 $Post_t - (0,1)$ pre-post cash transfer.

 β_3 captures the effect of the cash transfer on the outcome of interest.

 γ_i accounts for individual (team) fixed effects, and τ_t represents time fixed effects.

Sample – 3 months before + 3 months after the cash transfer program. Note that the cash transfer begins in Oct 2020 and ends in March 2021. I include data from July 2020 to June 2021.

Sample Construction

The company has 10 factories across South East Asia employing about 18K daily workers. These daily workers are categorized in various positions (cutting, sewing, embroidery, ironing, packing, QC, etc)

- I will only focus on Sewer as the productivity data is the clearest.
- Select only locations with both Thai and Myanmar working in the same factory.
- Only location with complete attendance, salary, and productivity records.
- Worker samples are in monthly frequency whereas team-level productivity data is daily.
- Worker-Month with COVID sick are dropped.⁵
- Thai-team is identified as teams with more than 80 % Thai workers and vice versa (will discuss this later)
- To maintain coherence, the main sample workers are those that is <u>mappable to the team identifying criteria</u>.

 5 Robust to different cuts – never get covid sample or full-sample show similar results $_{\odot}$

Road Map

Individual level outcomes

- Salary
- Shirking behavior lateness and absence
- Mechanisms direct evidence of labor-leisure trade-off + local labor market interactions.
- Not driven by covid
 - Sub sample of Thai migrants
 - Interaction with new COVID cases

Team-level Outcomes

- Productivity (efficiency) between Thai and Myanmar team
- How managers intervene and mitigate the negative effects
 - Task reallocations across teams (more difficult tasks are allocated to the Myanmar team)
 - Manager intensifies monitoring control.

Worker-Sample		Team-Sample			
Variable	Mean (Per Month)	SD	Variable	Mean (Per Day)	SD
Net pay	9609.07	1559.65	Efficiency (%)	79.44	52.48
Base pay	7602.42	1022.96	Avg. SAM	20.02	10.97
Incentive Pay	95.48	422.70	No. Style	1.33	0.69
OT Pay	1911.17	1022.96	Avg Team Size	21.11	5.03
Working Day	23.62	3.12	% Thai Workers	0.58	0.37
% Thai Workers	0.58	0.49	No. Absent Workers	0.09	0.46
Late (Minutes)	2.87	14.39	No. Late Workers	0.44	0.91
Days Absent	0.09	0.69			
Holiday Leaves (Minutes)	133.91	250.97			
Saturday Leaves (Minutes)	120.26	290.23			
Worker-Month (Obs)	26053		Team-Day (Obs)	21371	
Unique Workers	2586		Unique Teams	115	
Number of Factories	6		Number of Factories	6	

Table: Summary Statistics

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Salary

	(1)	(2)	(3)	(4)
	Net Salary	Incentive Pay	OT Salary	Working Days
	b/se	b/se	b/se	b/se
Thai X Post	-260.877***	-216.873***	-46.874*	0.266***
	(29.222)	(16.267)	(25.821)	(0.084)
Working Days	401.251***	12.931***	61.331***	
	(3.038)	(1.488)	(2.563)	
Obs	25,975.00	25,975.00	25,975.00	25,975.00
Y mean	9,609.73	95.48	1,911.27	23.62
Worker FE	Y	Y	Y	Y
Month FE	Y	Y	Y	Y

Table: Salary

* p < 0.10 ** p < 0.05 p < *** 0.01

Standard errors are clustered at the worker level. The first and last months of observations of workers are removed.

A worker is considered late or absent if they fail to notify their supervisor before the shift starts, and such behavior is seen as shirking, possibly leading to punishment.



Lateness and Absence– DiD full controls + FEs



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Unplanned Non-attendance

		Lateness	Absenteesim		
	(1)	(2)	(3)	(4)	
	Late mins	Late Dummy (0,1)	Days Absent	Absent Dummy (0,1)	
	b/se	b/se	b/se	b/se	
Thai X Post	2.347***	0.015***	0.023*	0.025***	
	(0.314)	(0.006)	(0.012)	(0.005)	
Obs	25,975	25,975	25,975	25,975	
Y mean	2.86	0.08	0.07	0.06	
Worker FE	Y	Y	Y	Y	
Month FE	Y	Y	Y	Y	

Table: Lateness- Main

* p < 0.10 ** p < 0.05 p < *** 0.01

Standard errors are clustered at the worker level. The first and last months of observations of workers are removed. The outcome variables in columns (2) and (4) are binary, coded as 1 for non-zero values and 0 otherwise.

Image: A matrix and a matrix

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- The production process is organized in sequences, where completed section garments pass through each team member.
- Any unexpected non-attendance is likely to result in bottlenecks and delays in the production process, ultimately affecting productivity.
- The firm considers unplanned non-attendance as shirking behavior and the firm may impose disciplinary actions on the misbehaving worker, ranging from warnings and suspensions to possible displacement.
- Why would subsidy recipients take more risks?

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- One plausible explanation is that the subsidy may function similarly to unemployment benefits, potentially reducing job search costs (Ahammer et al., 2023).
- To test this, I estimate the following equation:

 $Y_{it} = \alpha + \delta Treat_i + \theta Post_t + \beta MC_{i,t} X Treat_i X Post_t + \gamma_i + \tau_t + \epsilon_{it}$

where $MC_{i,t}$ is referred to local market condition. I proxy for this using unemployment rates similar to Lazaer et al. (2016)

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	Salary/Working Days		Lateness		Absenteesim	
	(1)	(2)	(3)	(4)	(5)	(6)
	Net Salary	Working Days	Late mins	Late Dummy (0,1)	Days Absent	Absent Dummy (0,1)
	b/se	b/se	b/se	b/se	b/se	b/se
Thai X Post	-801.202***	-0.169**	4.635***	0.058***	0.012	0.017
	(38.961)	(0.077)	(0.548)	(0.009)	(0.013)	(0.013)
Thai X Post X Unemployment Rate	616.703***	0.661***	-2.065***	-0.035***	0.007	-0.001
	(27.429)	(0.081)	(0.268)	(0.006)	(0.017)	(0.009)
Obs	25,975	25,975	25,975	25,975	25,975	25,975
Y mean	9,609.73	23.62	2.86	0.08	0.07	0.06
Worker FE	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y

Table: Local Labor Market

* p < 0.10 ** p < 0.05 p < *** 0.01

Standard errors are clustered at the worker level. I have excluded the first and last months of observations for workers. The outcome variables in columns (4) and (6) are binary, coded as 1 for non-zero values and 0 otherwise. Official unemployment data is reported quarterly, while the outcome variables in this table are recorded monthly. To address this, I impute monthly unemployment data based on the most recent quarterly figures.

Direct Evidence of the Labor-Leisure Trade-off?

Evidence so far seems to support the idea that workers have reduced their effort in response to the subsidy. To directly show this, I look at vacation leaves and taking leaves on Saturday– both leaves are unpaid.

	Vacat	ions Leaves	Satu	rday Leaves
	(1) (2)		(3)	(4)
	Leave (Days)	Leave Dummy(0,1)	Leave (Days)	Leave Dummy (0,1)
	b/se	b/se	b/se	b/se
Thai X Post	0.045***	0.084***	0.133***	0.134***
	(0.011)	(0.009)	(0.015)	(0.016)
Obs	25,975	25,975	25,975	25,975
Y mean	0.28	0.26	0.25	0.26
Worker FE	Y	Y	Y	Y
Month FE	Y	Y	Y	Y

Table: Holiday Request

* p < 0.10 ** p < 0.05 p < *** 0.01

Standard errors are clustered at the worker level. I have excluded the first and last months of observations for workers. The outcome variables in columns (2) and (4) are binary, coded as 1 for non-zero values and 0 otherwise.

No differential effects on turnover indicate that lowered efforts did not come from selection (good workers quit) but rather the same worker adjusting their behaviors.

	(1)	(2)	(3)	(4)	(5)
	First Month	Tenure	Last Month	Last Month	Last Month
	b/se	b/se	b/se	b/se	b/se
Thai X Post	0.006***	-3.427***	0.006**	0.002	0.001
	(0.002)	(0.431)	(0.003)	(0.003)	(0.003)
Obs	35,765	35,765	35,765	34,423	33,609
Y mean	0.01	50.66	0.02	0.02	0.01
Control	N	N	N	N	N
Sample	Full Sample	Full Sample	Full Sample	${\sf Tenure}>3 \; {\sf Months}$	${\sf Tenure} > 6 {\sf \ Months}$

Table: DiD on Pay

* p < 0.10 ** p < 0.05 p < *** 0.01

Standard errors are clustered at the worker level. First Month and Last Month are monthly binary variables and coded as 1 if a worker starts or resigns in that period and 0 otherwise.

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- My analysis focuses on the cash transfer period in which monthly new COVID cases are close to zero. Monthly Covid Cases
- (Non-psychological) Differential effects of COVID cannot explain why workers show up late for work. For absent, workers are incentivized to report Covid sickness as they are paid leave.
 - Using variation in new covid cases in different location, the results do not seem to be driven by COVID. Covid Interaction
- (Psychological/Family situation) Internally migrated workers (Thai workers from different provinces) exhibit the same pattern as local Thai workers relative to Myanmar workers. Non-Attendance Salary Migrant

- Productivity/Efficiency Actual output divided by target quantity per unit time.
 - Comparable across teams/styles.
 - Target quantity is calculated using SAM (Standard Allowable Minutes) and actual input minutes at the team level.
 - SAM How long does it take to finish a product (jointly determined by the firm and the customer).
- Team organization
 - 20-25 sewers work in a team. Teams can be mixed or homogeneous. In this setup, the distribution of nationality is bimodal Team Distribution
- I identify Thai team as teams with more than 80 % of workers being Thai before the treatment period and vice versa.
- All results hold with continuous treatment
- Production data is recorded at the daily frequency. I control for date FE and factory-date FE in all specifications.

Line level efficiency RAW MEAN

Overall average efficiency remains stable throughout the sample period. No difference between TH and MY teams



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Table: DiD on Eff

	(1)	(2)	(3)	(4)	(5)	(6)
	Efficiency	Efficiency	Efficiency	Efficiency	Efficiency	Efficiency
	b/se	b/se	b/se	b/se	b/se	b/se
Thai X Post	-6.505	-1.794	-7.047	-2.355	-4.444	
	(4.446)	(3.874)	(4.597)	(3.975)	(6.548)	
Ratio Thai X Post						6.102
						(6.096)
Obs	21,371	21,371	21,371	21,371	21,309	29,734
Y mean	79.44	79.44	79.44	79.44	79.42	81.76
Line FE	N	Y	N	Y	Y	Y
Date FE	N	N	Y	Y	Y	Y
FAC X Date FE	Ν	Ν	Ν	Ν	Y	Y

* p < 0.10 ** p < 0.05 p < *** 0.01

Standard errors are clustered at line level. Zero values are removed. 1st and 99th percentile are dropped. Controls are the number of workers, average. SAM, number of styles, and absent rate (unplanned input minutes loss to total input minutes).

• Lateness and absenteeism would result in a bottleneck affecting the impact the entire team's production process.

Why don't the effects show up in productivity?

- Level of shirking is not substantial enough to impact productivity.
 - This is unlikely as the level of unplanned non-attendance is significantly higher and exceeds the firm's reserve capacity. Team-level lateness

Team-level absence Cefficiency and Unplanned Non-attendance

Efficiency and Unplanned Non-attendance II

- Indicate some type of managerial interventions in response to productivity shocks.
 - Managers tighten their monitoring controls.
 - Managers reallocate more difficult tasks to unaffected teams.

- The factory has fast-fashion production characteristics: continuously changing product styles, small-batch orders, high pressure to meet on-time delivery targets.
- Production is planned centrally at the HQ. Orders and styles are allocated to different factories based on production capacities.
- To factory managers and planners, these allocations from the HQ resemblances exogenous demand shocks.
- For sewers, new styles are bad and hurt their productivity. The higher the number of new styles, the less likely they would hit the efficiency target (85% 87%) which determines their incentives. (style raw)

	(1)	(2)	(3)	(4)	(5)	(6)
	Efficiency	Efficiency	Efficiency	Efficiency	Efficiency	Efficiency
	b/se	b/se	b/se	b/se	b/se	b/se
Number of Style	-9.713***	-4.596***				
	(1.199)	(0.808)				
>1 Style (0,1)			-15.339***	-8.477***		
			(2.073)	(1.023)		
New Styles					-6.578***	-4.106***
					(0.754)	(0.416)
Obs	35,933	35,905	35,933	35,905	35,933	35,905
Y mean	83.96	83.96	83.96	83.96	83.96	83.96
Ctrl	N	Y	N	Y	N	Y
Line FE	N	Y	N	Y	N	Y
FAC X Date FE	N	Y	N	Y	N	Y
Sample	Pre-Sample	Pre-Sample	Pre-Sample	Pre-Sample	Pre-Sample	Pre-Sample

Table: Efficiency and Styles

* p < 0.10 ** p < 0.05 p < *** 0.01

Standard errors are clustered at the line level. Observations with zero outputs are removed. Observation with 1st and 99th percentile output are dropped. Controls are the number of workers, efficiency, average. SAM, number of styles, defect rate, late minutes (at the team level), absent rate (at the team level).

	(1)	(2)	(3)	(4)
	Number of Style	>1 Style (0,1)	New Styles	Team with New Styles (0,1)
	b/se	b/se	b/se	b/se
Thai X Post	-0.135*	-0.135***	-0.621**	-0.141***
	(0.074)	(0.042)	(0.252)	(0.054)
Obs	21,309	21,309	21,309	21,309
Y mean	1.33	0.25	2.69	0.69
Line FE	Y	Y	Y	Y
FAC × Date FE	Y	Y	Y	Y

Table: Styles Changes

* p < 0.10 ** p < 0.05 p < *** 0.01

Standard errors are clustered at the line level. Observations with zero outputs are removed. Observation with 1st and 99th percentile output are dropped. Controls are the number of workers, efficiency, average. SAM, number of styles, defect rate, late minutes (at the team level), absent rate (at the team level).

continuous treatment

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Number of Styles



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Punishments are rare events, occurring at only about 2 percent in the observations.

Table: Violation Reports

	(1)	(2)
	Country	Countr
	Counts	Counts
Total	7440	1303
Thai	6107	959
Sewers	3349	732
Task-related Punishment	2054	411
Verbal Warnings	4862	793
Formal Warnings	2477	484
Suspension	78	22
Fire	13	4
Sample	2018-Oct 2023	Study Period

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Higher Reported Violation Incidence for Thai worker



Figure: Reported Incidence of Violation

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Sticks and Styles

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- Higher violation reports could be both a response to shirking or higher misbehaving itself.
- Comparing an actual observed shirking (lateness) and what shows up in the report should give us an accurate measure of monitoring control.
- Coded 0 if shirking and no punishment, 1 if shirking and punishment. Changes in the proportion between pre-post cash transfer should capture changes in monitoring intensity.

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Response to Lateness (Pool-TH+MY)



Response to Absence (Pool-TH+MY)



Table: Response to Shirking by Nationality

	Punish Late	Punish Late	Punish Absent	Punish Absent
	b/se	b/se	b/se	b/se
Thai X Post	0.038*	0.071***	0.015	-0.083
	(0.021)	(0.025)	(0.064)	(0.152)
Obs	2,794.00	2,794.00	974.00	974.00
Y mean	0.04	0.04	0.09	0.09
Worker FE	Ν	Y	Ν	Y
Month FE	Ν	Y	Ν	Y

* p < 0.10 ** p < 0.05 p < *** 0.01

Standard errors are clustered at the worker level.

Conclusion

Summary

- I document the adverse effects on employee effort for subsidy recipients.
- The effects are unlikely to be driven by COVID.
- I show that the firm strategically intervenes and the overall productivity is unaffected.

Policy Implication

- Providing a monetary subsidy directly to individuals can result in negative externalities for employers, as workers might decrease their effort in line with the labor-leisure trade-off hypothesis.
- In this context, the studided firm's productivity is unaffected but this is primarily due to its management intervention.
- This might not hold true for smaller firms where management capital and monitoring systems may not be as robust.

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APPENDIX

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COVID CASES THAILAND



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Table: Salary Migrants

	(1)	(2)	(3)	(4)
	Net Salary	Base Salary	Incentive Pay	OT Salary
	b/se	b/se	b/se	b/se
Thai X Post	-563.368***	-256.179***	-311.622***	0.099
	(53.009)	(27.318)	(42.479)	(0.150)
Working Days	396.730***	16.553***	49.924***	
	(3.672)	(1.977)	(2.698)	
Obs	14,171	14,171	14,171	14,171
Y mean	9,501.51	161.70	1,679.75	23.59
Worker FE	Y	Y	Y	Y
Month FE	Y	Y	Y	Y
Sample	Internal Migrant	Internal Migrant	Internal Migrant	Internal Migrant

SE clustered at the line level

Image: A matrix and a matrix

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Table: Lateness- immigrant

	Lateness		Absenteesim		
	(1)	(2)	(3)	(4)	
	Late mins	Late Dummy (0,1)	Days Absent	Absent Dummy (0,1)	
	b/se	b/se	b/se	b/se	
Thai X Post	3.446***	0.038***	0.082	0.023**	
	(0.772)	(0.011)	(0.052)	(0.011)	
Obs	14,171	14,171	14,171	14,171	
Y mean	1.30	0.04	0.05	0.03	
Worker FE	Y	Y	Y	Y	
Month FE	Y	Y	Y	Y	
Sample	Internal Migrant	Internal Migrant	Internal Migrant	Internal Migrant	

SE clustered at the line level

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Team-level lateness



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Team-level Absence



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Efficiency and Unplanned Nonattendance

Table: Efficiency and Unplanned Nonattendance

	(1)	(2)	(3)	(4)
	Efficiency	Efficiency	Efficiency	Efficiency
	b/se	b/se	b/se	b/se
Absent Workers	-4.900**	14.102**		
	(2.223)	(5.435)		
Late Workers			-4.204**	0.961
			(1.888)	(1.135)
Obs	21,371	24,690	21,371	24,690
Y mean	79.44	83.55	79.44	83.55
Line FE	N	N	N	N
Date FE	N	N	N	N
FAC X Date FE	N	N	N	N
Sample	Main Sample	Pre Sample	Main Sample	Pre Sample

SE clustered at the line level



Brighton Chotiputsilp

Efficiency and Unplanned Nonattendance II

Table: Efficiency and Unplanned Nonattendance

	(1)	(2)	(3)	(4)
	Efficiency	Efficiency	Efficiency	Efficiency
	b/se	b/se	b/se	b/se
Absent Workers	-2.790*	3.648		
	(1.544)	(2.784)		
Late Workers			0.368	-1.151
			(0.539)	(0.720)
Obs	21,309	24,657	21,309	24,657
Y mean	79.42	83.54	79.42	83.54
Line FE	Y	Y	Y	Y
Date FE	Y	Y	Y	Y
FAC X Date FE	Y	Y	Y	Y
Sample	Main Sample	Pre Sample	Main Sample	Pre Sample

SE clustered at the line level



Brighton Chotiputsilp

Covid cases do not seem to explain the shirking behavior. If anything, factories that are in locations with more infections seem to be less likely to shirk.

	Salary/Working Days		Lateness		Absenteesim	
	(1)	(2)	(3)	(4)	(5)	(6)
	Net Salary	Working Days	Late mins	Late Dummy (0,1)	Days Absent	Absent Dummy (0,1)
	b/se	b/se	b/se	b/se	b/se	b/se
Thai X Post	-741.634***	-0.368***	2.648***	0.030***	0.036**	0.034***
	(31.671)	(0.075)	(0.347)	(0.007)	(0.015)	(0.009)
Thai X Post X In(Covid Cases)	209.262***	0.099**	-0.685***	-0.010**	-0.006	-0.003
	(17.913)	(0.040)	(0.115)	(0.005)	(0.005)	(0.003)
Obs	25,975	25,975	25,975	25,975	25,975	25,975
Y mean	9,609.73	23.62	2.86	0.08	0.07	0.06
Worker FE	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y

Table: Covid Cases

SE clustered at the line level



Team distribution



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Raw New Style Firms allocate new styles to MY team compared to TH teams



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Table: Styles Changes

	(1)	(2)	(3)	(4)
	Number of Style	>1 Style (0,1)	New Styles	Team with New Styles (0,1)
	b/se	b/se	b/se	b/se
Ratio Thai X Post	-0.122	-0.147***	-0.941***	-0.214***
	(0.123)	(0.054)	(0.302)	(0.062)
Obs	29,734	29,734	29,734	29,734
Y mean	1.38	0.29	2.86	0.72
Worker FE	Y	Y	Y	Y
Month FE	Y	Y	Y	Y

SE clustered at the line level

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