

Productivity and wage gaps across firms

Key findings

- Large manufacturing firms tend to pay higher wages than SMEs. In Germany for example large firms paid a wage premium of over 50% of medium-size firms and over double that of smaller and micro enterprises. Similarly, large differentials also occurred in Belgium, France and the Netherlands. However, wage differentials were significantly smaller in some other countries, such as in Finland and Slovenia.
- Wage differentials across firms typically align with labour productivity gaps. Large firms in the manufacturing sector are on average more productive and tend to pay higher wages than SMEs.
- Differences in average labour compensation across firm size classes have increased in the manufacturing sector in a number of countries, including in all OECD Eastern European economies - except Poland-, Estonia, Latvia, Norway and the United Kingdom.

Relevance

Recent years have seen growing concerns about rising inequalities of income within countries. Weaker productivity growth in SMEs in some countries in the post-crisis period has exacerbated longstanding productivity gaps in many countries, limiting the scope to address inequalities.

Definitions

Compensation of employees includes the total remuneration, in cash or in kind, payable to an employee in return for work done by the latter during the reference period. No compensation of employees is payable in respect of unpaid work undertaken voluntarily, including the work done by members of a household within an unincorporated enterprise owned by the same household. Compensation of employees does not include any taxes payable by the employer on the wage and salary. It includes therefore wages and salaries of employees and other employers' social contributions.

Compensation of labour for all persons employed is equivalent to the sum of wages and salaries of all persons employed and other employers' social contributions for employees.

Compensation per employee by firm size in national currency are converted to US dollars using purchasing power parities (PPPs) for actual individual consumption and as such reflects average labour compensation per employee from a worker/consumer's perspective.

Labour productivity is measured as the current price, gross value added per person employed. For the definition of "Manufacturing", see the Reader's guide.

Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Comparability

Value added data refer to value added at factor costs in European countries and value added at basic prices for other countries. Estimates of value added and employment presented by size class are based on the OECD Structural and Demographic Business Statistics (database) and will not usually align with estimates produced according to the System of National Accounts. The latter includes a number of adjustments to reflect businesses and activities that may not be measured in structural business statistics, such as the inclusion of very small units or self-employed, or those made to reflect the Non-Observed Economy.

Many SMEs are unincorporated enterprises. The owners of these firms do not pay themselves a salary but instead receive compensation through mixed income (as defined in the System of National Accounts), which is a component of value added. This means that estimates that focus only on compensation of employees are likely to underestimate the relative contribution made by labour to SMEs compared to estimates for larger enterprises.

Data for Australia and Israel refer to compensation of all persons employed.

Comparability across size classes, industries and countries, may be affected by differences in the shares of part-time employment. For these reasons, in productivity analysis the preferred measure of labour input is total hours worked rather than employment, but these data are typically not available by size class. Measuring compensation of employees per hour worked provides a better account of cross-country differences in part-time employment; this measure is however available for a limited number of countries.

Some countries use different conventions concerning the size-class breakdown: for Australia, the size class "1-9" refers to "1-19", "20-49" refers to "20-199", "250+" refers to "200+"; for Mexico, "1-9" refers to "1-10", "10-19" refers to "11-20", "20-49" refers to "21-50", "50-249" refers to "51-250", "250+" refers to "251+".

Data for Mexico are based on establishments and not on enterprises. Data for the United Kingdom exclude an estimate of 2.6 million small unregistered businesses; these are businesses below the thresholds of the value-added tax regime and/or the "pay as you earn (PAYE)" (for employing firms) regime.

Sources

OECD Structural and Demographic Business Statistics (SDBS) (database), <http://dx.doi.org/10.1787/sdbs-data-en>.

Further reading

OECD (2017), *OECD Compendium of Productivity Indicators 2017*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/pdtvy-2017-en>

OECD (2017), *OECD Employment Outlook 2017*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2017-en

OECD (2001), *Measuring Productivity – OECD Manual: Measurement of Aggregate and Industry-level Productivity Growth*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264194519-en>.

3. PRODUCTIVITY BY ENTERPRISE SIZE

Productivity and wage gaps across firms

Figure 3.7. **Compensation per employee by enterprise size, manufacturing**
Thousands of USD, current PPPs for actual individual consumption, 2014, or latest available year

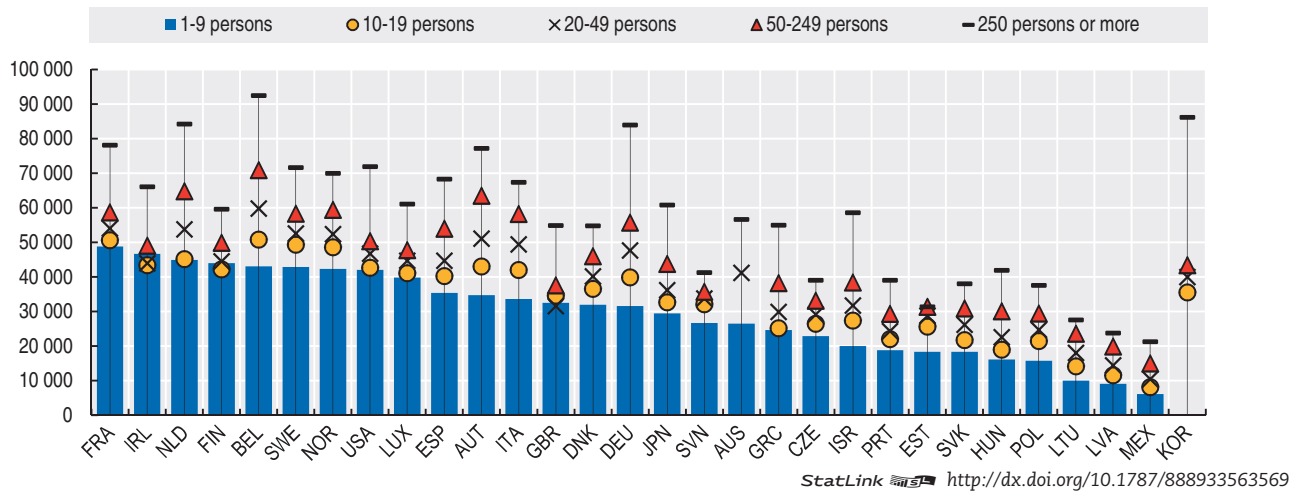
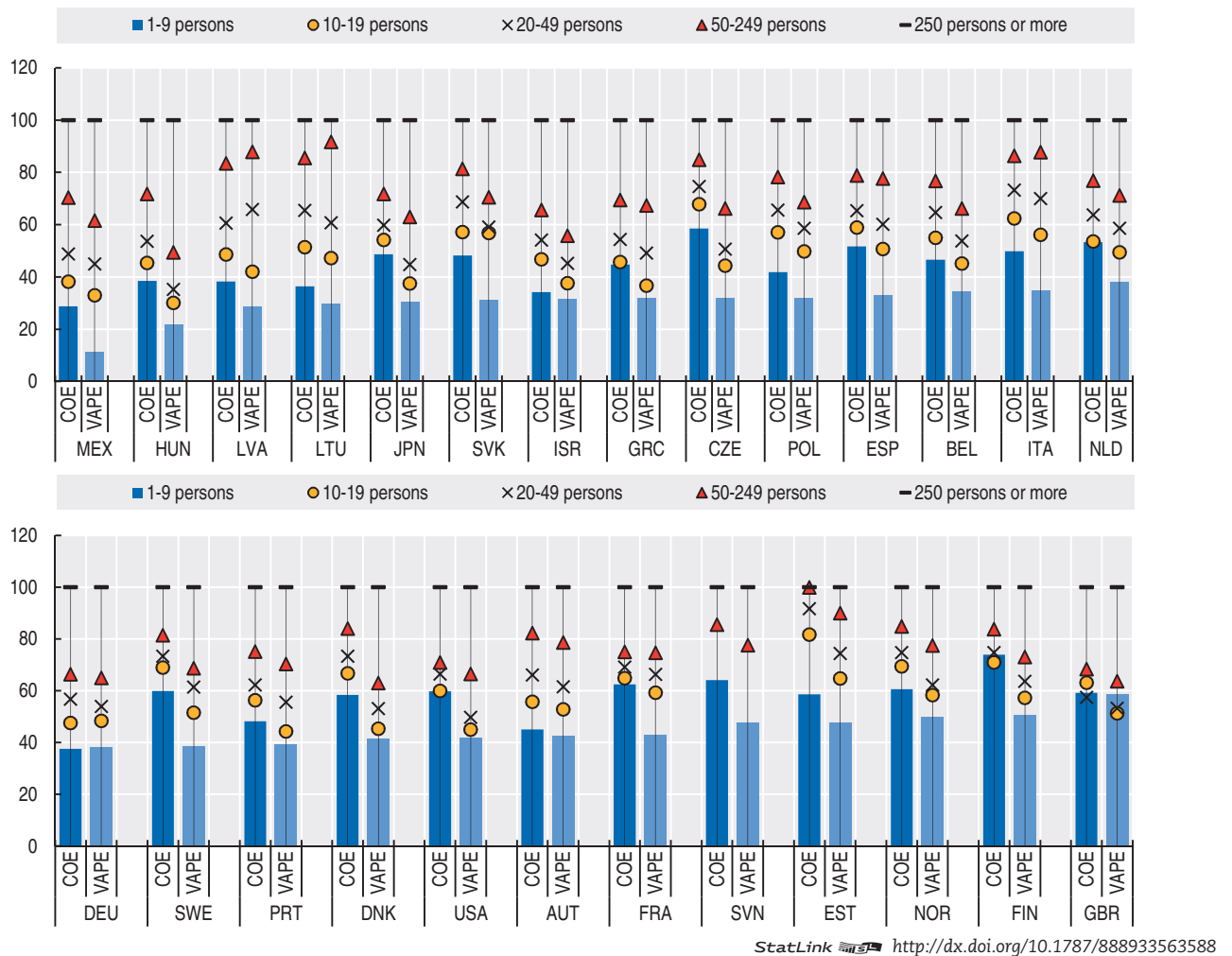


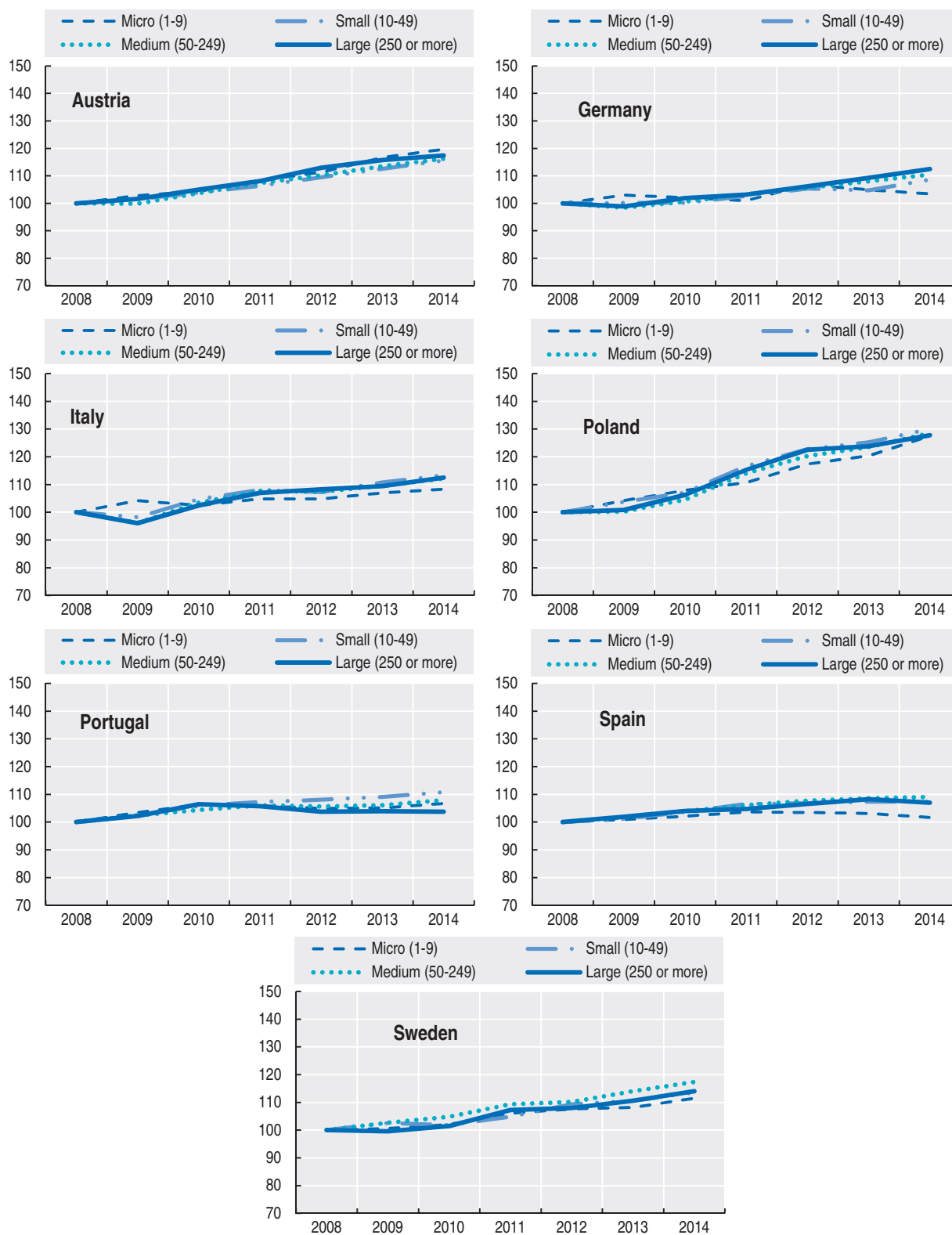
Figure 3.8. **Labour productivity and compensation per employee by enterprise size, manufacturing**
Value added per person employed (VAPE) and compensation per employee (COE), index 250+ = 100, 2014, or latest available year



3. PRODUCTIVITY BY ENTERPRISE SIZE

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Figure 3.9a. **Growth in average compensation per employee by enterprise size class, manufacturing**
 Countries with similar wage growth across firm size classes, current prices, index 2008 = 100




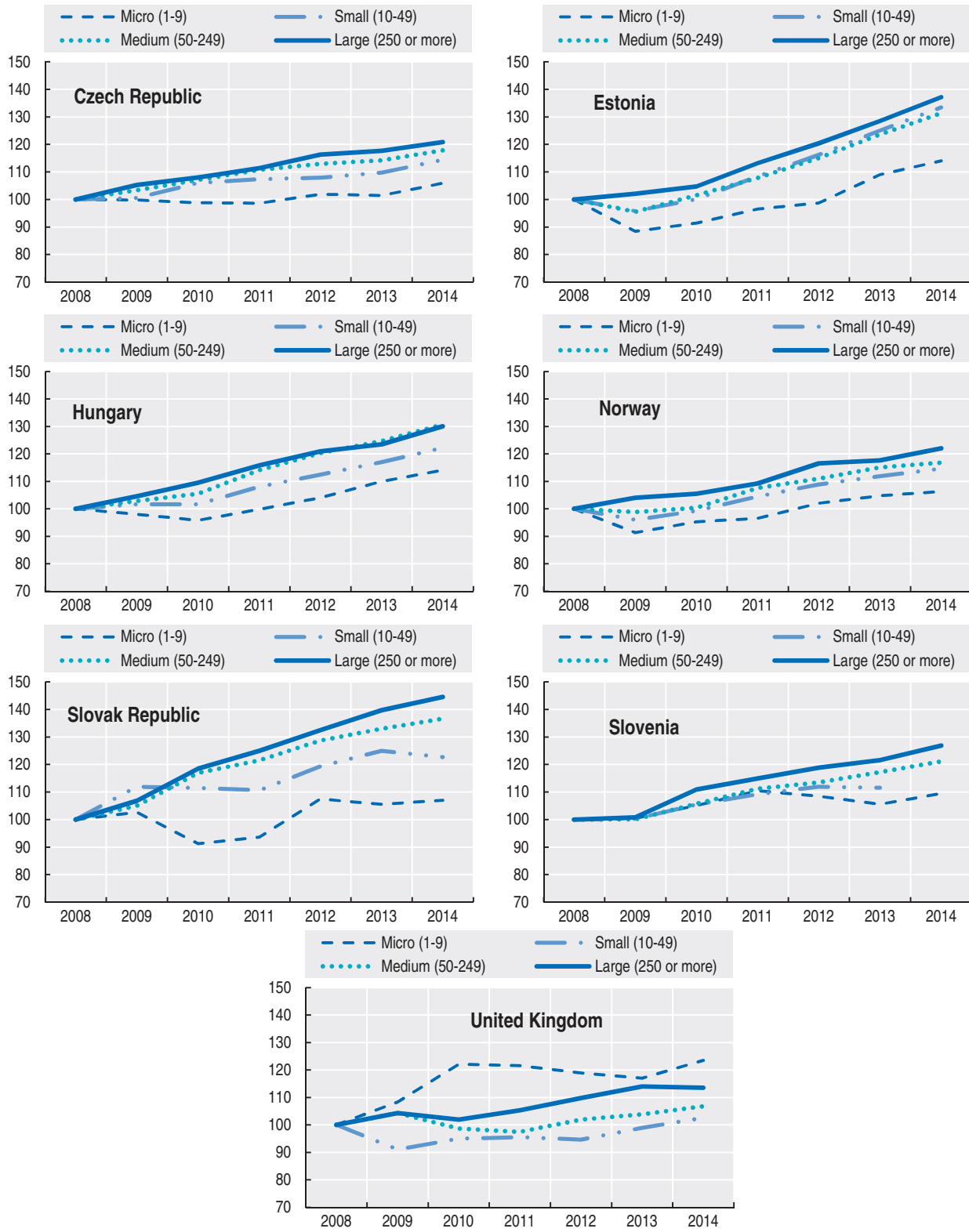
StatLink  <http://dx.doi.org/10.1787/888933563607>

Figure 3.9b. **Growth in average compensation per employee by enterprise size class, manufacturing (cont.)**
 Countries with growing wage disparities between SMEs and large firms, current prices, index 2008 = 100



StatLink  <http://dx.doi.org/10.1787/888933563626>



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