

Vertical and Horizontal Pay Dispersion, Labour Turnover and Firm Performance

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Abstract

Using matched employer-employee micro data for the population of Slovenian firms over the period 2006-2016 we analyse the impact of vertical and horizontal pay dispersion and employee mobility on firm performance. We confirm the overall positive impact of vertical pay dispersion on average value added per employee, resulting mostly from the indirect sorting effect, especially for expert workers, while the direct incentive effect is rather weak. Overall, only expert horizontal pay dispersion, but not managerial, has a significant effect on firm performance providing incentives to both existing and new hires. Compared to other occupational groups, managerial turnover has the least desirable effect on firm performance, suggesting that for managers, turnover is the most powerful channel to influence firm performance and compensation schemes are more important for experts due to their specialisation and smaller mobility than managers. The importance of turnover and its interaction with pay dispersion also links the employee mobility to flows of human capital.

Keywords: horizontal pay dispersion, vertical pay dispersion, employee mobility, firm performance, sorting effect, Slovenia