Compensation policies across EU countries:
Insights from SES data

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Abstract submitted to

6th European User Conference

Mannheim, 7/8 March, 2019

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The classification of countries based on socioeconomic differences has received particular attention in the context of comparative political economy. The literature of varieties of capitalism has contributed to our understanding of firms' practices in different economic and institutional contexts and consequently has offered a categorisation of countries on the basis of those practices. In such a context, some literature examines how firms respond to labour market regulations and design human resources policies and practices. This stream focuses on comparative human resource management and clusters countries according to practices of managing people.

Our research contributes to this literature and examines pay practices of firms across European countries. The goal of this study is classify firms according to their compensation policies within clusters of countries suggested by VoC literature. It uses the Structure of Earnings Survey (SES2014) data to examine compensation policies of medium and large sized firms' plants in five categories of countries, notably Liberal (United Kingdom), Nordic (Norway and Sweden), Central Europe (Belgium, France, Germany and Netherlands), Eastern Europe (Bulgary, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romenia and Slovakia) and Latin (Italy, Spain and Portugal). It should be noted that the data of SES are collected at establishment level; we therefore use establishment as a proxy of firm.

We apply a fuzzy cluster analysis to depict a picture of segmentation of plants according to the pattern of their compensation policies. Fuzzy cluster analysis is performed to deal with the expected overlapping of these policies. In a subsequent step, we performed Tobit regression analysis to evaluate the relationship between the fuzzy clusters and the groups of countries and sectors of activity.

Empirical findings pointed to four clusters. According to their closeness to a theoretical model, we labelled compensation policy model as *Internal Labour Markets* (ILM), *Qualification Pay* (QFP), *Market-based* (MKT), and *Individualised* (IND). The key features of each model are then: low dispersion, closeness to the market and industry mean wage in ILM; the QFP is associated with average dispersion and a high correlation with occupational structure; in MKT there is a high wage differential comparatively to market and industry average wages; finally rules associated with individualised pay rules, notably accentuated dispersion, push firms into IND model. However, the results show that compensation policies are fuzzy, that is, the real policies share the characteristics of different theoretical models.

The next question regards the prevalence of each model in each EU countries or cluster of countries. Empirical evidence from Tobit regression indicates that ILM prevail in Nordic and, to some extent the Central Europe countries. We suggest that the labour market regulation and general coordination by the governments and unions might explain this finding. The IND and MKT predominate in the UK and transitional economies of Eastern Europe. This probably arises from the tension lived in the last years of the old paradigms of centralized economies and the liberal tendencies that influence some of these economies.

There are in addition industry-based differences. For example, lower dispersion and hierarchical model are more likely to be found in Public Administration, while the characteristics of the MKT cluster are found in the financial sector in all countries. In sum, our preliminary results offer insights on how firms manage the wages and other rewards in different countries and different economic activities within countries.