Firm-Level Determinants of Earnings in the Formal Sector of the South African Labour Market

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Objectives
- We examine the relative contribution of demand and supply side characteristics to wage formation in SA, advancing the literature by adding a developing country case.
- We examine the role of various firm characteristics in explaining wage levels and differentials across workers.
- We focus on the relationship between firm size and wages.

Results

F1. Technology & Productivity
Regression results:
- Workers in firms which are 1% more productive earn 11% higher wages.
- Workers in firms which are 1% more capital intensive earn 2% higher wages.

F2. Firm Age
Regression results:
- U-shape relationship between wages and firm age.
- Workers in firms age 50+ earn 7-10% higher average wages than those in firms age 1-10 years.

F3. Concentration Ratio
Regression results:
- FeilSDV fixed effects: Negative relationship between concentration ratio and wages.
- Quantile regressions indicate heterogeneity: concentration ratio is negatively related to wages at 10th & 50th percentile, positively related at 90th percentile.

F4. Trade Status
Descriptives:
- Non-trading firms pay the lowest average wages, two-way traders the highest.

Regression results:
- Importing firms pay lower wages than non-traders.

F5. Profit/Loss
Descriptives:
- Large profit and loss associated with higher average wages.

Regression results:
- Firms making profits over previous 3 years pay higher wages.

F6. Firm Size
Descriptives:
- U-shaped relationship between firm size and wages.
- High small-firm wage premium in financial sector.
- High large-firm wage premium in mining, utilities.

Regression results:
- FeilSDV fixed effects: Negative relationship between firm size and wages.

T1. Variance Decomposition using FEilSDV fixed effects method
- Gives relative importance of firm and individual characteristics in explaining wage formation.
- Main driver of variation in formal sector worker wages is unobserved person effects, or individual supply-side characteristics (61%), e.g. education.
- 13% of variation is from observed time varying characteristics (majority of which are demand-side).
- 13% of wage variance due to unobserved firm effects, e.g. managerial quality.

Conclusions
- Individual characteristics are more important for explaining wage variation than firm characteristics.
- Firms that are profitable, more capital intensive, more productive and involved in international trade pay higher wages, on average.
- Interesting relationship between firm size and wages, contrary to existing literature.