

Profit Sharing and the Financial Performance of Companies: Evidence from U.K. Panel Data

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Abstract

This paper examines the dynamic relationship between profit sharing and profitability in a sample of U.K. firms during the 1980s. The estimates indicate a positive short run effect of the introduction of profit sharing schemes on the financial performance of companies. This relationship is evident even if we control for unobserved firm specific fixed effects and potential endogeneity of profit sharing. Quite apart from its widely recognised influence on productivity and industrial relations, profit sharing is arguably a financially attractive option for firms. There is also evidence of the persistence of profitability in U.K. profit sharing firms.

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