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ORIGINAL ARTICLE

Profit sharing as entry deterrence mechanism

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Abstract In a right-to-manage framework, this paper analyzes the optimal choice of the pay scheme (profit sharing vs. fixed wage) in a unionized duopoly with potential market entry and decentralized bargaining. The paper shows that, depending on the institutional features, both pay systems can arise as equilibria in Nash strategies. Under duopoly with committed bargaining, the fixed wage is the Nash equilibrium; with flexible bargaining, an agreement between the incumbent firm and its union about profit sharing arises as Nash equilibrium, if the union is not too strong. A monopoly with threat of entry reinforces the selection of profit sharing as a deterrent mechanism.

Keywords Union-oligopoly bargaining · Fixed wage · Profit-sharing · Entry deterrence effect

JEL classification J51 · L13 · L20

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