

## **Performance-Related Pay and Firm Performance in Finland**

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Performance-Related Pay (PRP) schemes are used in Finnish firms that are large or use extensively skilled workers and have high R&D intensity. PRP improves both productivity and profitability by the same magnitude of around 6%, but only if the compensations are substantial enough and exceeding on average 3.6% of salaries for those who receive it. Incentives effects relate to efficient use of organisational capital in the firm, which raises profitability and to a lesser degree wages. It is seen that PRP schemes have substantially improved firm performance without creating much wage pressures.