



AN INTRODUCTION TO PROFIT SHARING FOR
THE RETAIL FOOD CHAIN INDUSTRY

by

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AN ABSTRACT

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The potentialities of profit sharing as a tool for successful business operations have long been suspected and advocated. The early history of profit sharing has been dotted with philanthropy, social awareness on the part of the employer and a feeling of moral obligation to distribute any overabundance of wealth. However, in the refinement of the philosophy of profit sharing labor has become recognized as people not as a commodity. Profit sharing has become another means of tapping the resources of human cooperation and productivity.

Successful profit sharing programs are the result of many contributing factors. The development of a profit sharing plan to suit the particular characteristics of an organization is essential. Proper installation of the plan is required and a carefully developed program of administration as well as follow through are essential to the success of profit sharing.

Although profit sharing may offer such advantages as increased employee productivity, employee security, improvement of industrial relations and others, profit sharing cannot dissipate all management problems. To expect profit sharing to perform the duties of a panacea is futile anticipation.

A program of profit sharing may generate its own problems. Not the least of the obstacles which have faced profit sharing is the attitude of organized labor. However, recently organized labor began to accept the concept of profit sharing as a sound business technique. New gains have been made in profit sharing as a means

of joint cooperation between management and labor, but time will reveal the extent of this transition or the degree of its permanence.

Companies contemplating the sharing of profit must take into account legal requirements or allowances which may effect their particular plan. Such agencies as the Internal Revenue Commission, the Securities and Exchange Commission, and the United States Courts may impose numerous qualifications. In all cases, the enlistment of competent legal counsel is advisable in order to insure the security of the particular profit sharing plan.

A survey conducted among 125 members of the National Association of Food Chains reflected the extent to which profit sharing has been used in the retail food chain industry. Profit sharing was reported in forty percent of the 59 food chains answering the mail questionnaire. Deferred profit sharing plans seem to be the most popular among the profit sharing chains, accounting for 73 percent of all plans started in the last six years. The majority of plans (19 out of 24) extend their coverage to all of the employees retained by the company. This fact would appear to substantiate the claims of the industry that the employee represents the most important element of the retail food chain business.

The most popular method of allocating employee shares of the profits was based on employee earnings. This feature allows the recognition of service, responsibility, and achievement of the employee. Other factors pertaining to the survey demonstrated that promoting productivity, and providing employee security are

the most popular objectives in the installation of a profit sharing plan. Eighty-three percent of the companies having profit sharing replied that their objectives had been fully achieved. All of the twenty-four profit sharing food chains stated that they would recommend profit sharing to companies similar to their own. The experience of the retail food chains included in this study has demonstrated that profit sharing can be employed as a sound business method.

"The Food Distribution Program at Michigan State University
is under the sponsorship of the National Association of Food
Chains"

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CHAPTER I

INTRODUCTION

The United States stands out in the world as one of the last great strongholds of free enterprise and individual liberty. While other areas of the world are placing their faith in the leadership of governments, the United States continues to depend on the efforts of individuals in a free society.

In order to retain the spirit of freedom, faith in the integrity and liberty of the individual must be kept alive and nurished. Industry is required to seek more effective ways to bring a sense of understanding and participation to the American worker.

Although making money is basically essential for the well-being of any business organization in its task of serving society, it becomes a by-product allied with jobs and wages in the accomplishment of a more primary purpose. Enlightened management has come to realize that the basic purpose of an enterprise is to provide the greatest amount of value and satisfaction to the public which it serves.

Thus the fundamental economic interests of management and labor are mutual and derived from the same source. Together they must share the same interests and responsibilities if they are to realize mutual gain and progress.

Progressive management is aware of the potentialities which lie in the cooperative efforts of management and labor. In establishing an awareness within the employee of the rewards of mutual effort, greater resources of responsibility, and productivity may be tapped. Once the sincere philosophy of serving and sharing has been adopted by an enterprise, the expanse between labor and management may be narrowed. The understanding of this concept, once imbued within the organization, will strengthen and intensify the efforts of human beings not only for monetary gain, but also for self-respect and dignity which will follow.

Purpose of Study

The purpose of this study is to introduce the potentialities of profit sharing as a tool for successful business operations in the retail food chain store industry.

"One of the primary obligations of management today is to think, plan, and work with an increased sense of social responsibility, to try earnestly to share equitably the productivity of enterprise in terms of goods and services, salaries and wages, satisfactions of the mind and spirit, leisure, and security."¹ These words of Franklin J. Lunding, Chief Executive Officer of the Jewel Tea Company Incorporated, are illustrative of the new spirit of management in America today. Due to the multiplicity and complexity of business

¹Franklin J. Lunding, Sharing A Business (Scarsdale, New York: The Updegraff Press, Ltd., 1951), p. 106.

problems in modern organizations, it is difficult to isolate any single factor which may be responsible for the success or failure of a company. In the retail food industry, however, the emphasis belongs upon the people who comprise the organization. They are the ones who shoulder the responsibility of efficiently and productively providing the American housewife with those products and services which are necessary to satisfy her wants and desires.

In order for an organization to prosper, the combined efforts of all employees are necessary. Enthusiastic effort shared by everyone in the organization points the way to greater efficiency and satisfaction on the job as well as greater monetary gains. Only through teamwork can everyone in the company share the full satisfaction of a job well done and of building a substantial progressive future for the entire organization.

One of the most important factors affecting employee willingness to cooperate is monetary compensation. While it is true that other compensations for work are important in the development of a unified work spirit, the question of profits and their disposal remains paramount. It is not the purpose of this study to present profit sharing as a panacea for business ills. No naive profit sharing program can ever do the job or replace the responsibility of management toward its employees, community, or nation.

It is felt, however, that within the concept of profit sharing lies a resource of methods and techniques which will

enable management to better accomplish its objectives. Therefore, this study was undertaken with the view that the results may be helpful to the members of the retail food industry in their continuing drive toward greater achievement.

Sphere of Study

The study is comprised of three main divisions:

1. A discussion of the philosophy and economics of the profit sharing idea, including the concepts as applied to productivity, labor management relations, and financial aspects of profit sharing.
2. A discussion of the mechanics of profit sharing programs as to the techniques of plan installation, profit sharing obstacles, labor's attitudes, and legal qualifications.
3. An analysis of profit sharing in the retail food chain store industry as illustrated by a survey of the member chains of the National Association of Food Chains.

Profit Sharing and Its Allied Forms

The term profit sharing has carried the confused connotation as being any compensation supplementary to the worker's regular wage.² While this definition of the term is partially true, in the sense that profit sharing is an addition to a regular wage, many types of supplemental remuneration are only indirectly related to profit.

² National Industrial Conference Board, Practical Experience with Profit Sharing in Industrial Establishments, Research Report Number 29 by the National Industrial Conference Board (Boston: National Industrial Conference Board, 1920), p. 2.

The present study distinguishes direct profit sharing, cash plans, deferred plans, and combination plans, from allied or indirect forms of profit sharing. Such indirect plans encompass wage bonuses, cost savings plans, and stock subscription plans. The variety of either the direct or indirect profit sharing plans is limitless, however, only those previously mentioned will be briefly discussed.*

Wage bonuses are arbitrary gifts, made at the discretion of management, in the hope that they will stimulate additional incentive, interest, and good will toward the establishment. Some companies distribute bonuses not directly related to production. Often these gestures of good will amount to several weeks wages and are distributed at Christmas time or at the end of the fiscal year. Many times gifts of this nature reward service in a very indirect and obscure manner. When a record of consecutive bonus payments is established, omitting or cutting the size of the reward may more than counteract the good will which may have been gained by the practice.³

Cost savings plans endeavor to provide a direct incentive to better teamwork by sharing with the workers in a given

*The direct profit sharing plan will be handled in the following section.

³Kenneth M. Thompson, Profit Sharing (New York: Harper and Brothers Publishers, 1949), p. 170.

group or department the savings achieved in cost of production.⁴ The methods of monetary computation may vary according to the cost savings plan. Some plans compute the amount shared by a ratio of labor cost to sales dollar.⁵ Others may choose to use a method based on the savings between a budget and actual costs.⁶

The concept of sharing savings or sharing profits will depend upon the discretion of management. Both, however, are common in their goal of producing benefits for management and labor.

Stock subscription plans are another example of an allied profit sharing form. Stock subscription plans encourage employees to purchase shares of company stock, generally on easy terms, so that they will become co-partners with management and therefore interested in the success of the business.

The success of such programs has been in question, however, since worker resources are generally inadequate to purchase controlling quantities of stock in large corporations and restrictive provisions in the plans of small companies often prevent such a possibility.⁷

⁴National Industrial Conference Board, Op.Cit., p. 3.

⁵Council of Profit Sharing Industries, Profit Sharing Manual (Akron, Ohio: Council of Profit Sharing Industries, 1948), p. 502.

⁶Ibid., p. 508.

⁷Thompson, Op.Cit., p. 168.

Profit sharing and its allied forms are alike in the general purpose which they seek to achieve. They aim at securing a general or group cooperation and interest in the welfare of the enterprise. True profit sharing plans (as defined in the following section) extend to the employee the concept that the amount of his share of the profits will depend on how profitable he helps to make the enterprise. Thus, the plans strive to secure maximum individual performance by obtaining the loyalty and cooperation of the entire working force.

Definition and Classification

The term profit sharing first received its definition from the International Congress of Profit Sharing, meeting in Paris, France, in 1889. The Congress declared profit sharing to be an agreement freely entered into, by which the employees receive a share, fixed in advance, of the profits.⁸

In January of 1950, Wage Hour Administrator William McComb was asked to officially describe a bona fide profit sharing plan. His reply evolved into six major points.⁹

1. It must be in writing, and where employees can see it.
2. It must be intended to give employees a share of profits as additional pay, over and above wages and salaries.

⁸Edwin B. Flipppo, Profit Sharing in American Business (Columbus, Ohio: Bureau of Business Research, 1954), p. 4.

⁹Anon., "Is It Bona Fide," Business Week, August 19, 1950, p. 85.

3. All full-time employees must be eligible.
4. What employees get is determined by a formula set forth in the plan -- Payments can't depend to any "substantial" extent on the quality or quantity of work done, and there must not be any guarantee of a minimum profit sharing payment.
5. The amount to be split up must come only from profits. The employer may not promise -- or make -- periodic payments of any fixed sum into the profit sharing fund.
6. Payments must be made at regular intervals if profits warrant them.

The previous definitions are regarded as the more formal or elaborate definitions of profit sharing. They have stood, however, as guides to all those interested in the aspects of profit sharing.

The Council of Profit Sharing Industries founded in 1947 has adopted less rigid standards. In its "Declaration of Principles," profit sharing is defined as "any procedure under which an employer pays to all employees, in addition to good rates of regular pay, special current or deferred sums, based not only upon individual or group performance, but on the prosperity of the business as a whole."¹⁰

For the purpose of this study, the term profit sharing shall be considered as an agreement freely entered into by management with employees receiving a share of the profits*

¹⁰ Council of Profit Sharing Industries, Revised Profit Sharing Manual (Akron, Ohio: Council of Profit Sharing Industries, 1951), p. ix.

*Profits referred to in the term "profit sharing" are the net profits of the accountant. Net profit may be defined as "the balance remaining to the stockholders of a business

which shall be predetermined upon the installation of the program. Three classifications shall be recognized as true profit sharing plans -- cash or current, deferred, and/or combination plans. Any bonuses or other monetary rewards distributed at the discretion of management and not determined solely by profits are considered outside the realms of this study and are not to be mistaken for true profit sharing per se.

The three classifications of profit sharing to be used in this study include cash, deferred, and combination plans. A cash profit sharing plan provides compensation, additional to take-home pay, as a reward for the overall performance of the enterprise as measured by the profits. No part of the shared profits are retained for future disbursement. The plan is essentially a bonus plan dependent upon the profits of the organization with cash payments during or immediately following the end of the fiscal period.

The second classification of profit sharing is the deferred plan. A deferred profit sharing plan may be defined as "an arrangement to share profits with employees under a fixed formula, the profits shared being accumulated in a trust fund and paid out to employees on the happening of specified contingencies, such as the completion of a specified number of years of membership in a plan, the attainment of a

enterprise after deducting from the gross revenue for a given period all operating expenses and income deductions during the same period" -- Eric L. Kohler, Dictionary for Accountants (New York: Prentice Hall, Inc., 1952), p. 278.

certain age, occurrence of disability, severance of employment, or death."¹¹ Legal and tax benefits of this type of plan will be discussed later in this study.

The combination plan is as its title denotes -- a combination cash and deferred plan. The division of the funds may be handled in a variety of ways. Some of the most common include an equal division -- one-half of the earnings distributed in cash at once and the other half held in trust. Another plan may provide that approximately one-third of the profit sharing fund be distributed in cash, one-third held in reserve for periods when there are no profit shares, and one-third used to set up a retirement fund.¹²

The relative merit of each classification or type of profit sharing plan is not of paramount concern in the study. However, the various motives for installing profit sharing will govern the choice of plan to be adopted by management.

Objectives of Profit Sharing

Managements, through various surveys, have indicated that profit sharing plans throughout industry are set up to accomplish several different objectives. In order to justify the expenditures made by sharing profits, certain objectives must be gained from the installation of a profit sharing plan. The following list of eight objectives are not inclusive of

¹¹J. I. Bogen (ed.), Financial Handbook (New York: The Ronald Press Company, 1956), p. 1026.

¹²Council of Profit Sharing Industries, Op.Cit., p. 28.

all avowed profit sharing objectives. For the purpose of this study, these objectives encompass the major values of management in regard to profit sharing. They are not necessarily listed in the order of importance or in relation to the incidence of objectives obtained from any survey.

1. To provide employee security. Many companies have set up their profit sharing programs as a method of providing retirement benefits for their employees. Others require an employee to contribute a percentage of his pay before he may share in the company profits. Thus, with the employee's saving and the company's contribution, a sizeable amount may be provided for the retirement or disability security of the employee.

2. To improve industrial relations and morale. Management through the inauguration of a profit sharing plan has expressed the hope that general employee-employer relations will be improved. The plan provides an avenue for discussion of company profits and the welfare of the employee. Although most companies realize that profit sharing alone will not make a company, it can be an important part of a well developed personnel program. Profit sharing in this capacity may do a great deal in the development of sound employee attitude toward the organization.

3. To stimulate incentive. One of the more important ways in which management feels that a plan will pay for itself is in the realm of direct incentive. It is generally hoped that by sharing the company profits, employees will be motivated to extend a more conscious production effort.

4. To gain tax savings. Under recent federal legislation, particular profit sharing plans may qualify for considerable tax exemption. The employer's profit sharing contributions are deductible from his taxable income if the test of the Bureau of Internal Revenue's regulations as to reasonableness of total employee compensation is met.¹³

5. To promote productivity and efficiency of employees. The hope of management lies in the concept that group desire will be stimulated to use more available time in producing greater amounts, thereby affording larger profits to be shared. Also included in this objective is the encouragement of employee self-discipline and the conscious effort to avoid waste.

6. To give flexibility to salaries and wages. Under a profit sharing program compensation can fluctuate according to business conditions. In times of high wage levels, a profit sharing business may better control permanently high charges against income. Thus, the company may better maintain more stable basic wages and be in a better competitive position in a time of price cuts or declining consumer demand. An inflated wage scale without profit sharing may not allow such easy adjustments to be made.

7. To retain top level executive personnel. In an effort to adequately compensate top management personnel, many companies have been turning to the use of profit sharing programs. Based upon company profits and deferred for later

¹³Bogen, Op.Cit., p. 1026.

payment, executives receive remuneration which is not subject to severe taxation. Thus the amount of realized income is appreciably increased.

8. To associate labor with management in partnership. Progressive managements believe that profit sharing can make a genuine contribution to good labor-management partnerships. By providing a share of profits for employees, management helps to create common interest in the success of the company. Profit sharing, it is believed, appeals to the worker's sense of justice, thereby increasing loyalty and enthusiasm. A well developed program will also aid in developing understanding toward the problems of management. These possible benefits of profit sharing are considered as important to management as are more immediate, measurable gains.¹⁴

Historical Sketch

The concept of profit sharing has a long and involved history dating as far back in this country as 1794. Albert Gallatin, Secretary of the Treasury under Presidents Jefferson and Madison, has been credited with being the pioneer sponsor of profit sharing in the United States. The first program of which there is definite evidence was instituted in 1867 by the Bay State Shoe and Leather Company of Worcester, Massachusetts.¹⁵

¹⁴Thompson, Op.Cit., p. 66.

¹⁵Ibid., p. 9.

The concept of profit sharing has not been limited to the United States. France is generally given the honor of having the longest history of such plans. Great Britain is credited with having the greatest acceptance of the idea by its business firms.¹⁶

In this country only a few outstanding plans have lasted any considerable length of time, one being the Procter and Gamble Company of Cincinnati started in 1886. In terms of plan longevity, profit sharing began to grow with a faltering start.

Business cycles appear to have an effect upon the number of plans initiated. With the prosperity of the period immediately before World War I, there was a marked increase in the number of plans started. The collapse of 1920 and 1921 ended this expansion. Similar experiences were registered in the late 1920's. Prosperity brought a flourish of plans only to be terminated by the depression of the 1930's. Many writers thus contend that profit sharing plans tend to flare up in periods of prosperity and die down in periods of depression.¹⁷

The National Industrial Conference Board, since its initial study of 1920, has continued to investigate the extent to which firms in the United States have adopted profit sharing. The Council of Profit Sharing Industries began

¹⁶Flippo, Op.Cit., p. 7.

¹⁷Ibid., p. 8.

its work in 1947. The Council exists to study instances and techniques of profit sharing and to help spread the theory and practice of such plans in industry. Through their efforts, much information has been contributed in this field.

In contrast to 1900 when an estimate of one hundred active profit sharing plans would have been considered a gross exaggeration, the number of such plans today runs into four figures. Approximately four hundred plans, about equally divided between pension and profit sharing plans, are being submitted each month to the Internal Revenue Service for approval.¹⁸

Scope of Investigation

Two major sources of information were relied upon for the material contained in this study. The first involved the use of secondary data from library research. Practically all available literature on the subject was studied for the development of a general background and aiding in the preparation of a questionnaire.

The second source of information was obtained through the use of a mail questionnaire survey. Aside from the quantitative data requested, four general provisions were included in the questionnaire; (1) eligibility requirements, (2) contributions, (3) participants rights, and (4) objectives

¹⁸ P. A. Knowlton, Profit Sharing Patterns (Evanston, Illinois: Profit Sharing Research Foundation, 1954), p. 1.

sought by installation of profit sharing plan. Whenever possible, the question required only a short fill-in answer or check mark. Many companies, however, volunteered additional comments and enclosed brochures concerning their profit sharing plans.

The survey mailing list was comprised of 125 member retail food chains of the National Association of Food Chains. The list of food chains was limited, geographically, to the United States with a single return from Canada. No other restrictions were placed upon the choice of food outlets other than National Association of Food Chains membership.

Out of the list of 125 firms, 59 or 47 percent replied. Out of the list of those replying, 24 companies indicated that they had profit sharing plans meeting the requirements as defined in the questionnaire. In addition to the affirmative replies, several companies anticipated installing profit sharing programs in the future.

CHAPTER II

THE PHILOSOPHY OF PROFIT SHARING

The philosophy of profit sharing throughout its history has been expressed in a variety of forms. In tracing the evolution of this business philosophy, the grass roots may be originally found in a form of philanthropic spirit. The wealthy landowner or prosperous farmer when blest by a bountiful crop or surplus, at times, was struck by his conscience to distribute among the less fortunate, a portion of his overabundance. This arbitrary sharing of "profits" was governed purely by an employer's good-heartedness with little consideration to any economic motivations.

As more formal consideration was given to the profit sharing technique, many held it to be a matter of employee right to share in the profits he had helped to create. The sharing of profits was held to be a moral obligation of the social-minded employer.¹ Thus, profit sharing, to many of its exponents, was not to be considered as a gift, but rather a right. Its basis was not to be one of philanthropy, but the equitable sharing of a joint product.

¹Kenneth M. Thompson, Profit Sharing (New York: Harper & Brothers Publishers, 1949), p. 21.

The morality of this philosophy was greatly expounded by many as the application of Christian principles to the business world. Louis A. F. Flech, economist and banker stated: "profit sharing follows the teachings of the greatest of all economists, Jesus Christ, on which our civilization is based. Not only is the individual raised to new dignity, but the nation is thereby enabled to lead the world out of chaos toward an era of peace and good will."²

The theory advocating profit sharing on the grounds of social right did not gain a great deal of recognition as a theory of economics. Some authors refer to this feeling as the "natural irritation at great inequalities in the distribution of wealth."³

Recognizing that a common ground had not yet been reached between employee and employer, students of profit sharing began to take a more critical view of this philosophy. In order to achieve more widespread success, profit sharing could not rely solely upon a management's social conscience but rather it was required to justify itself on a more pragmatic basis. The philosophy of profit sharing has transformed into a concept where the moral overtones still persist but also an element of practicality permeates its existence. The practicality of profit sharing is that which has been

²Ibid., p. 21.

³Gorton James, Profit Sharing and Stock Ownership for Employees (New York and London: Harper & Brothers Publishers, 1926), p. 31.

displayed in the words of Senator Arthur H. Vandenberg. Senator Vandenberg prepared the United States Senate Subcommittee recommendations following extensive hearings on the subject.

We believe profit sharing to be essential to the ultimate maintenance of the capitalistic system. We have found veritable industrial islands of peace, equity, efficiency and contentment, and likewise prosperity dotting an otherwise and relatively turbulent industrial map all the way across the continent. The fact is too significant of profit sharing's possibilities to be ignored or depreciated in our national quest for greater stability and greater democracy in industry.⁴

The philosophy of profit sharing recognizes labor as people, not as a commodity. Businesses adhering to this philosophy regard profit sharing as one means in tapping the resources of human cooperation and expanding the system of free enterprise to include every employee. Such an expansion of American capitalism has brought to these businesses, labor cooperation and prosperity. Thus, by extending the base of profit distribution to employees, the capitalistic economic theory may increase in popularity and stability.⁵

Profit sharing seeks to demonstrate to management that it is desirable by stimulating increased production, decreasing costs, and a strengthening of the organization through cooperation. Profit sharing thus strives to build teamwork in an organization by instilling within the employees

⁴Thompson, Op.Cit., p. 22.

⁵Council of Profit Sharing Industries, Profit Sharing Manual (Akron, Ohio: Council of Profit Sharing Industries, 1948), p. 5.

a feeling of belonging, security, and the opportunity to reap the rewards of joint endeavor.

One of the key objectives in industry is to establish a spirit of cooperation within an organization. It is almost axiomatic in industry that before one can expect teamwork and trust, a person must express these qualities within himself. A management which expresses and exemplifies these qualities is able to share the responsibilities and rewards of the enterprise with its employees. Employees are generally quick to sense the spirit of management and the contagion of teamwork and trust is allowed to spread.

Profit sharing industries agree that organizational teamwork occurs when:⁶

(a) Each worker knows and accepts his own strength and his own weakness. This permits him to move in alongside the man who will best supplement his efforts. The salesman and the production worker then begin to function as two members of a team.

(b) Each worker knows and accepts the principle that the game is the thing. He is playing to win the game for the team and not to bring more cheers for himself from the grandstand.

(c) Each worker plays by the rules of the game. The differences between fair and foul play are known and taken for granted. When policy decisions are made, any argument stops and production and sales begin to roll.

(d) Each worker has both to follow and to lead. The coach's judgment as to the kind of play needed is accepted and acted upon with enthusiasm even though the other fellow may gain the recognition.

⁶Ibid., p. 8.

The creation of team spirit that will give the employee a sense of human dignity and achievement is indeed a huge task. However, profit sharing with its idealism and hard practicality has demonstrated that such a feeling may be created among workers.

Summary

Whether the philosophy of its advocates be ideological or pragmatic, profit sharing has been adopted by the managements of many industrial firms, both large and small, in the United States. The following chapter will deal with the economic aspects of profit sharing programs as they pertain to individual companies.

CHAPTER III

ECONOMIC CONSIDERATIONS IN PROFIT SHARING

Profit sharing today, as suggested in the previous chapter, is moving toward a pragmatic justification of its use. When top management decides upon the inauguration of a profit sharing program, it is their desire to have the plan justify itself through increased productivity, efficiency, and finally, profits.

The economic effect of the introduction of a profit sharing program in a company has been the subject of a great deal of discussion. The Council of Profit Sharing Industries reported that the total experience of its membership plus additional non-member companies display the following characteristics:¹

1. A 40 to 100 percent increase in efficiency or production per employee.
2. Labor turnover sharply reduced, sometimes eliminated.
3. Reduction in lateness and absenteeism as high as 75 percent.
4. Better care of equipment.

¹ Council of Profit Sharing Industries, Revised Profit Sharing Manual (Akron, Ohio: Council of Profit Sharing Industries, 1951), p. 4.

5. Increase in flow of suggestions from employees and improvement in the thoughtfulness and scope of suggestions.
6. Decrease in grievances.
7. Fewer or no strikes.
8. Substantial reductions in reject and salvage material.
9. Greater number of applicants for employment.
10. Unpopularity of rabble rousers.
11. Increased earnings to stockholders.
12. Ability to reduce prices of goods manufactured.
13. Rise in such intangibles as employees' pride in company, worker interest in improved efficiencies, and a general sense of security and eagerness about the future.

Naturally, a difficulty arises in measuring the extent to which these characteristics may be attributed to the installation of a profit sharing program. It may be said that the industries reporting these results have felt that the introduction of profit sharing has been the major contributing factor to their success.²

Productivity

One of the major economic effects realized through the sharing of profits has been increased output at lower cost.³ This increase is obtained through the full cooperation of

²Ibid., p. 5.

³Council of Profit Sharing Industries, Profit Sharing Manual (Akron, Ohio: Council of Profit Sharing Industries, 1948), p. 10.

workers and their participation in the benefits of increased output. Compulsory worker speed up is not a method employed to achieve these results. Rather, the increased output is due to an increase in the cooperation and teamwork of the employees.

A case in point is the example set by the Lincoln Electric Company of Cleveland, Ohio.⁴ The Lincoln profit sharing program has been in effect since 1934. Since the inauguration of the program, production per man hour has increased over nine times the amount of 1934. Other results have witnessed a reduction of product price, a doubling of wage over the average wage of a laborer doing the same sort of work in the area where Lincoln Electric Company is located, and the virtual elimination of employee turnover. James F. Lincoln, president, has commented upon the plan in this manner. "There has been not only greater skill, greater cooperation, greater desire, on the part of all the people involved to do a better job, but it also has meant that the people in the organization want to work together, not only to complete their skills, but also to develop better methods so that even greater results may be obtained."

The degree to which productivity can be increased by the economies of profit sharing will vary from industry to industry. Certainly the principal factor governing this variation will be the percentage which labor cost is of the total

⁴James F. Lincoln, "Lincoln Incentive Management," Management Report, A Report given by California Personnel Management Association (California: The Association, 1952), p. 6.

costs of an organization. The nature of the firm's operations, the competitive characteristics of the industry, and the character of the firm's personnel will also have a great influence upon the economic effect of increased productivity.

Employer-Employee Relations

Much has been said about the economies of improved management labor relations. The concepts of productivity and efficiencies have as their base, harmonious labor relations. A worker must understand the job which is immediately under his control and where his particular position fits into the whole of the organization. Through a decrease of friction or misunderstandings between persons on the various aspects of the organization, the company can realize a smooth work flow.

In 1949, the Jewel Tea Company employed a psychological consultant in an effort to determine the extent of their profit sharing philosophy in influencing their employees. The following passage is an excerpt from the consultant's report.

Jewel's program has produced self-elevation for the individual and recognition and respect by his co-workers. In this way, the employees get the feeling of maturity, independence, accomplishment, power and self-sufficiency, rather than the feeling of reward and punishment. We found that the overall effect of Jewel's set up also creates a strong bond and feeling of belonging, but that in this case it is based on the feeling of independence the employee gets rather than on dependence. By its sharing philosophy, Jewel gives the employee the feeling that he is a success in life, in relation to himself as well as to the outside world, and that he is an independent individual standing on his own feet.

In creating this feeling, Jewel provides the employee with work incentive. The incentive which we found to be produced in the Jewel employee is one that comes from within. This inner incentive is self-renewing and of a

mature character. It becomes part of the permanent personality of the employee.⁵

To the Jewel Board of Directors, the survey demonstrated that they were clearly running a business, not a paternalistic charity organization and that the employees realized it. Successful human relations is an important product of the profit sharing technique, and cannot be separated from the economics of profit sharing.

Some Financial Aspects of Profit Sharing

One of the most frequent questions which may arise in the mind of management when contemplating the inauguration of a profit sharing program is, what will be the cost? The administrative costs of a profit sharing plan are difficult to precisely anticipate. As mentioned under productivity, profit sharing plans will vary from company to company according to the desires of management. Thus the cost figure will also fluctuate as to plan. The only statement which may be validly put forth at this time is that any costs entailed through the administration of a profit sharing plan are generally nullified through the success of the plan objectives.⁶

The major consideration in the financial obligations of profit sharing, however, is how large the employer's

⁵Franklin J. Lunding, Sharing A Business (Scarsdale, New York: The Updegraff Press, Ltd., 1951), p. 142.

⁶Pension and Profit Sharing Report (Englewood Cliffs, New Jersey: Prentice Hall, 1953), p. 1551.

contribution to the plan should be. In other words, the question involves a determination of what part of the company's profits it requires to achieve the objectives of a specific profit sharing plan. Most businessmen, rather than arbitrarily selecting a figure to share or basing their opinions on abstractions, generally seek to find out what other businessmen have contributed to their plans and what results have ensued.⁷

One of the more interesting efforts to arrive at a theoretical ideal and at the same time extract a workable arrangement for dividing profits equitably between owners and employees has been exemplified by two members of the Council of Profit Sharing Industries.⁸ In each case, the amount of the annual payroll is added to an amount representing invested capital. After deducting what is regarded as an acceptable return to capital (corresponding to the basic return already received by employees in the form of wages), profits are divided between owners and employees in the ratio which the contribution of each bears to the sum of the two.

Managements, in seeking an answer to the question of contribution in terms of percent of wages, can find direction in two chief objectives of profit sharing. (1) Increased employee incentive and (2) increased employee welfare.

⁷ P. A. Knowlton, Profit Sharing Patterns (Evanston, Illinois: Profit Sharing Research Foundation, 1954), p. 69.

⁸ Ibid., p. 68.

Profit sharing companies have learned that cash bonuses of ten to fifteen percent of annual wages have repeatedly proved interesting enough to call forth extra employee effort. Employer contributions to deferred profit sharing funds considerably below the maximum tax-free amount of fifteen percent of participants' compensation have also built up impressive employee equities. There seems to be general agreement that from five percent to ten percent of pay is good, and more than ten percent is a definite incentive for employees.⁹

However, an employer's contribution cannot always be based upon the experience of others. A contribution based upon the ratio of profit to payroll may be too low to provide an adequate amount of money to share. Another factor is that management's view of an appropriate amount to share may be influenced by the degree to which workers actually influence company profits. Individual incentive plans, pensions, or other fixed-benefit plans may also have prior claims to several cents of the profit dollar of a company, thereby reducing or at least influencing the amount to be appropriated for profit sharing.

The philosophy which guides management will also influence the financial contribution of the employer. Management that regards the sharing of profits as a moral obligation may not impose the same limits that may be stipulated by a management seeking more pragmatic considerations in their profit sharing program.

⁹Ibid., p. 69.

In seeking an understanding of the financial obligations of a profit sharing program, the president of a successful profit sharing food chain offers this explanation.

"We do not share our money profits because we can afford to do so; we share them because doing so enables us to afford it."¹⁰

Summary

The economic considerations of profit sharing in this study are confined to the concepts of productivity, teamwork, and financial factors. Using the results of tested profit sharing programs, the Council of Profit Sharing Industries has compiled a list of the outstanding characteristics to which companies attribute the successes of their sharing principle. The increases in productivity and in the creation of a cooperative spirit among the employees have demonstrated the potentialities which lie dormant within many companies.

In the determination of the amount of profits to share, the question of what such a program will cost, tends, in actuality, to be a declaration of the principle which profit sharing embraces, that is profitable spending. Business enterprises continue to thrive as they are capable of fulfilling a need. Thus by the results demonstrated, sharing profits tend to afford the enterprise better returns, sounder growth, and greater security.

¹⁰Lunding, Op.Cit., p. 82.

CHAPTER IV

TECHNIQUES OF PLAN INSTALLATION

Up to this point, the discussion of this study has been concerned with the principles and philosophies of profit sharing. However, after due consideration of these areas, a company contemplating the installation of profit sharing requires wise management in order to achieve satisfactory results. The success of profit sharing in any industry does not hinge solely upon the acceptance of the sharing idea, but rather derives its full worth from sound plan installation and administration.

The installation of a profit sharing program must meet the demands which the industrial relations of an organization places upon it. The problem which this implies is by no means minor in its implications. Kenneth M. Thompson sums the situation in this manner:

Democratic profit sharing programs are being utilized to reverse the divisive trends in American industry profits, long the prerogative of those who contribute capital to a business, are made a proper province of labor participation. Labor's active help is sought to increase productive efficiency so that there may be more profits to share. Labor and management are cast in the new role of partners instead of antagonists.

Such a departure from the well worn ruts of time and customary practice cannot be effected by a sudden announcement. The firm seeking to introduce a democratic profit sharing program is confronted by fears, suspicions and rigid concepts grounded in the past. Neither management

personnel nor labor ranks will be automatically prepared or sympathetically attuned to change, however beneficial.¹

To aid in overcoming the problems which face the firm inaugurating profit sharing, the Council of Profit Sharing Industries has devised a guide of eight steps for the installation of a sound profit sharing program. Although as mentioned previously, each company must mold their plan to their individual organization and objectives, these steps will furnish the basic direction for most types of profit sharing plans.

The eight steps are as follows.²

First, there must be a desire on the part of management to install the plan in order to enhance the team spirit of the organization. The desire must be sincere and not a matter of momentary improvisation. Management's philosophy of business should coincide with the philosophies of profit sharing if true faith and trust is to be established by both management and labor in regard to the program.

Once the philosophy of the organization is clarified, its intensions should be spread throughout the organization. Creating interest in the merits of profit sharing early in its formulating stage will enhance its degree of acceptance in its final form.

¹Kenneth M. Thompson, Profit Sharing (New York: Harper & Brothers Publishers, 1949), p. 210.

²Council of Profit Sharing Industries, Profit Sharing Manual (Akron, Ohio: Council of Profit Sharing Industries, 1948), p. 50-60.

Secondly, a period of thorough investigation of profit sharing should be undertaken. This should include interviews with profit sharing managements regarding existing profit sharing plans, their administration and performance, and a screening of all pertinent literature. This allows greater understanding of the techniques and ideas behind the sharing of profits. The importance of selecting a program which will most closely fit the need of the particular organization cannot be overemphasized.

The third step is the selection of a plan that would fit the particular company and its particular circumstances. A good deal of ingenuity is necessary to match the requirements of the firm with the knowledge of profit sharing gained through the investigation period. Generally, aid from firms already sharing profits, proves beneficial in this regard.

The fourth step of the guide to plan installation is the actual presentation of the plan and the thinking behind it. The board of directors, the stockholders and the employees must be completely sold both on the mechanics of the particular plan and the philosophy behind the plan in order for it to succeed. This can be done, according to the Council, "only if the seeds of the plan have been carefully planted in the three groups and that a complete and foolproof case for the plan is prepared, setting forth all the reasons that have led to it, all the provisions it is to contain, and all the consequences it is apt to lead to." The order in which the three groups are approached varies, sometimes the board of directors is

sold first and they in turn sell the stockholders and the employees, other times the order may be reversed. The situation should be carefully studied in order to insure a sound tactical approach as to the order of presentation.

Step five is to revise the plan in conjunction with any suggestions which may be received during the presentation of the program to the three groups. Thus, the plan becomes more "custom fit" to the particular organization.

The sixth step in the installation of a profit sharing program is the formal or legal agreement of the plan itself. Profit sharing being, by definition, an agreement announced in advance should be clearly proposed in writing. What precisely should be included in this agreement depends on the discretion of the management. However, for the best interests of the plan, it is generally suggested that the legal statement should include:³

1. The eligibility requirements for participation in the plan. The length of service required should be precisely defined.
2. The formula for company contribution should specify the exact manner in which profits are to be divided.
3. The term "profit" should be clarified. Any deductions from net income for dividends or tax payments before profits are shared should be explained.
4. The basis for allocation of the profit share and the time and manner of payment are necessary provisions.
5. In the case of current distribution plans, the dates for cash payments should be stated. Some authorities also believe that such payments should be kept separate from wages.

³Thompson, Op.Cit., p. 211.

6. In deferred distribution plans, the conditions under which payment of employee accounts will be made need to be explained in detail.
7. The composition of the administrative board, the number of management and labor representatives and the manner of their selection should be made explicit. The duties of the administrators should be enumerated and limits placed upon their powers of action. In order to allow for plan expansion or readjustment, provisions for the alteration of the rules may also be necessary.
8. In many cases of presenting the objectives of the profit sharing program within the formal statement, the sincerity of management may be conveyed to the employees.

The legal problems or problems of understanding confronted in the formal written agreement may be taken care of by two plan presentations. One should be the requirement of an explicit, legal contract, meeting the qualifications of the Internal Revenue Code for income tax purposes. The other presentation should serve to stimulate employee interest and aid understanding of the program's purpose and form.

The seventh step may prove to be the focal point of a plan installation program -- the formal announcement of the profit sharing plan to the employees. It is here that the correct atmosphere must be created in order to stimulate receptiveness among the employees. The presentation should be injected at a time of peaceful labor relations. An untimely, unplanned presentation may force profit sharing into becoming a detriment rather than a stimulus to good labor relations.

The manner of presentation may vary according to the whims of management. Spectacular banquets, large group meetings, employee brochures, house organs, etc., may all play an important part in carrying the message to the employee.

Without the all-out support of the employees, however, the entire program may be lost or seriously restricted as to its effectiveness. With this in mind, every effort should be made to increase the personal interaction of management and labor toward greater acceptance of the sharing idea. Thus, the employees should have every opportunity to convince themselves of the value which profit sharing holds for them. A more extensive consideration of methods of promoting profit sharing plans will be handled later in this section.

The eighth step involved the overall administration of the plan and the continual promoting of its objectives to the employees. Financial information on the position of the company in their market and its bearing upon the profits of the organization should be periodically passed on to the employees. Through a continual reporting of the progress of the profit sharing plan, employees become educated to the plan and its objectives can be made more meaningful.

The important aspect of sound plan administration lies within the realm of human relations. The importance of good lines of communications is unquestionable. In a recent study conducted at Ohio State University, the communication techniques used by profit sharing companies displayed an emphasis on maintaining continuous employee interest.

Two out of three profit sharing firms put forth efforts to educate their employees concerning profits and the free enterprise system. Approximately eight out of ten profit sharing firms indicate that they go beyond the sharing of profits to stimulate an attitude of partnership on the part of employees. The two most commonly used methods of

applying these partnership programs are the issuance of financial reports to employees and the distribution of various types of company progress information.⁴

The eight steps in the installation of a profit sharing plan covered here represent a broad interpretation or explanation of guides which may be followed by a company inaugurating such a plan. However, they are not intended to be all inclusive by any means, nor do they imply any limitations.

The following section indicates a variety of methods most commonly used by profit sharing companies in promoting the profit sharing idea.

Some Methods of Promoting Profit Sharing Plans

After a company has chosen to share profits, and has decided on the proper classification which they feel meets their needs, a program of promoting the profit sharing plan should be selected.

In order to begin a program of this type, three basic elements are essential; motivation, interaction or communication, and activity. The program of promotion must motivate the employees along proper channels of thought in order to grasp the profit sharing plan correctly. Without proper motivation the plan will never leave the ground. Motivation should then be guided into interaction among the employees. Sharing implies interaction. The greater the interaction among employees, the greater is the chance of success for the plan. Interaction in turn will lead to activity. If

⁴Edwin B. Flipppo, Profit Sharing in American Business (Columbus, Ohio: Bureau of Business Research, 1954), p. 63.

properly controlled, the activity will result in greater production and success for the profit sharing plan. Once the cycle has begun, it is then imperative that management apply the proper stimulus at the correct time. Follow through is as important as any other part of the program to insure constant interest in the profit sharing plan.

In a recent bulletin published by the Council of Profit Sharing Industries, the Council proposes five major profit sharing communication patterns. The five areas comprise: Letters to Employees; House Organs; Oral Communication; Books, Reports, and Statements; Visual Communications. The Council states that these techniques on communication have been used successfully by many of its members.

Letters to Employees

To best exemplify the use of letters to employees by profit sharing organizations, Cass S. Hough has made this statement:

I feel that the best communications tool is the written letter. This statement is made on the basis of a careful study, extending 25 years, of all methods of communications used in the business of which I am a part. In no way do I wish to belittle the variety of methods used by thousands of successful companies to convey ideas and ideals to all groups within a business; but, given only one tool with which to work, I would choose the letter above all others.

The letter immediately implies the importance of its content. The very act of breaking open a sealed envelope which is addressed to an employee, dignifies the message contained within the envelope. Though the letter is mimeographed and the employee knows all other employees have received a like copy, nevertheless, there still is

a sense of privacy and personalness to be found in no other communications tool.⁵

The letter to employees is respected as a useful tool by management. How well the letter accomplishes its purpose, however, is its only measure of effectiveness. By means of a check list it is possible to eliminate poor letters.⁶

1. Be accurate in the letter.

Real harm can be done by giving official status to an error. Is it possible for the letter to be misunderstood?

2. The letters must always be definite.

If doubt enters the letter it can spread alarm through the company like wildfire.

3. Is the letter forceful?

In addition to being accurate and definite, the letter should carry conviction. Without conviction the letter may still be understood and carried out, but probably only in a mechanical way.

4. Is the letter suitable?

Don't get an idea across at the risk of outraging the employees.

5. Keep the letter simple.

Present one idea at a time. Use examples as much as possible. The length of a message is less of a stumbling block than the difficulty experienced in understanding its meaning.

6. Avoid "HIDDEN" meanings.

⁵Council of Profit Sharing Industries, Profit Sharing Communication Patterns (Chicago, Illinois: Council of Profit Sharing Industries, 1955), Foreward p. 3.

⁶Ibid., p. 11.

To avoid misinterpretations, it is sometimes desirable to trace briefly the developments leading up to the letter. The letter should not have one meaning under certain circumstances and another meaning under different circumstances.

House Organs

House organs or publications are the lifeline of intra-company communications. When properly functioning, they represent a unifying technique which bands employees and management into a homogeneous force. Used as a profit sharing tool, the house organ can serve these main objectives:⁷

1. Educate and inform employees about your company's profit sharing plan.
2. Report and interpret profit sharing operations to employees.
3. Give recognition for individual and group accomplishment showing how it benefits profit sharing.
4. Develop company pride, loyalty and spirit for your profit sharing plan.
5. Promote good profit sharing practices within your firm.
6. Bridge the gap between the job and how profit sharing affects the home.

Oral Communications

The use of oral communication as a tool of profit sharing promotion is almost self-explanatory. Close personal contact and word of mouth promotion is usually the most effective.

⁷Ibid., p. 7.

The techniques of oral communication may take many forms.⁸

1. The interview.

Many profit sharing companies have their Personnel Director conduct a special interview with a new employee to better acquaint him with the firm's profit sharing plan.

2. Committees.

Committees give employees an opportunity to air their views on various problems and learn more about management's plans. Employees sitting on committee boards remove the veil of secrecy generally ascribed to top level conferences and enables them to report proceedings to their fellow workers.

3. Parties.

Profit sharing parties have been used in a number of companies to promote communication and have proved extremely popular with employees.

4. Mass meetings.

The advantage of mass meetings is that you can reach all employees quickly and also tie in other aids of promotion.

5. Special programs and conferences.

Executives or trustees will at times present programs in order to promote the concept of profit sharing. Conferences may be held to promote interest and participation in profit sharing.

Plan Books, Annual Reports and Statements

Only when employees fully understand their firm's profit sharing plan, its benefits and how they stand to benefit, the increased good will, higher production and decreased turnover that go to make up allover efficiency will be evident.

⁸Ibid., p. 1-14.

Plan books, annual reports, and statements are the best means of providing the technical data of a profit sharing plan. Care should be given to establish a simple method of presentation which will be comprehended by all employees. These methods can not tell the whole story of profit sharing, but they can pave the way for further communication.

Visual Communications

To list and discuss each of the various methods of visual aids, would far exceed the purpose of this study. To mention a few, however, would include suggestion boxes, cartoons, posters, films, charts, etc. A few rules of thumb are to keep the visual aids from appearing overcrowded, replace them frequently with new ideas, and have them display a positive appeal.

The methods of promoting profit sharing plans may follow many courses. However, the axiom used by the Jewel Tea Company in regard to their profit sharing message may best sum the entire concept; (1) keep it simple, (2) keep it personal, (3) keep it complete, and (4) keep telling it.⁹

Summary

Successful profit sharing programs are the result of many contributing factors. Beginning with the acceptance of the sharing philosophy by management, to the selection of a plan tailored to meet the needs of the particular firm, the

⁹Ibid., p. 11.

outcome of each step bears its influence upon the total program. The eight steps of plan installation can form the framework of a profit sharing program, but each must be activated by the sincere desire of management if success is to be achieved.

The final selection of a plan and its installation should not terminate the efforts of management. If management believes firmly in the principles of profit sharing, they must convey their beliefs to the employees along with the merits of the plan. It is a story which must be told and retold in order to build and retain employee support. Through mutual understanding of the plan, both worker and employer together may strive to attain greater returns.

CHAPTER V

DETERRENTS OF SUCCESSFUL PROFIT SHARING

Several years ago at a National Association of Food Chains forum discussion, Lloyd W. Moseley of the Grand Union Company made this statement. "There is probably less agreement about profit sharing than about any other aspect of management policy." The statement reflects one of the basic principles which management must first confront, namely, no policy or plan in the industrial relations field can succeed unless it is well adapted and unless it has behind it the sincere desire of management to be fair and the faith of management in the importance, dignity, and response of the human individual.¹

Over the years, many companies have hopefully turned toward profit sharing to bring them labor peace and increased efficiencies. However, the statistics display a rather discouraging history of their efforts to use the sharing principle to its greatest advantage. Various investigators have compiled tables of statistics illustrating the mortality rate of profit sharing programs. The National Industrial Conference Board,

¹ Profit Sharing Plans, Speech presented at National Association of Food Chains Forum Discussion, Washington, D. C. (September, 1951), p. 1.

in 1937, conducted a survey of profit sharing companies. The survey showed that sixty percent of 161 profit sharing companies had given up their programs. In 1949, an analysis by Industrial Relations Counselors, Incorporated, showed a forty-two percent mortality rate among seventy-eight profit sharing plans adopted in the high profit war years. Yet the 1945 survey by this firm also showed that while thirty percent of 209 plans were discontinued, only ten percent were dropped because profits were lacking or inadequate. Of the other twenty percent, half were replaced by retirement, or straight bonus, or revised profit sharing plans, and half failed for various other reasons -- "employee lack of understanding, poor incentive, and company reorganization or merger."²

These figures have alarmed many firms seeking to install profit sharing. Such percentages would seem to suggest severe defects in the practical application of the sharing principle. The defects or pitfalls involved in profit sharing have motivated businessmen to seek a greater understanding of the objectives and principles behind the number of plan failures. Rollin E. Ecke, writing for Controller magazine expresses the opinion that "it is the lack of the true profit sharing* spirit which is responsible for a large percentage of the

²Editor, "The Pitfalls of Profit Sharing," Fortune, Vol. XLIV, August, 1951, p. 144.

*True profit sharing, as Mr. Ecke defines it, is to develop a feeling of partnership and the motive force behind its installation should be the positive acceptance by the

plans that fail." A recent analysis of discontinued plans indicates that the following are the more important reasons for their failure.³

The first obstacle in the path of a profit sharing program can be the lack of a true conviction of the worth of sharing on the part of management. A profit sharing program may have a difficult time succeeding if it is installed solely for mercenary motives. Management must actively display its sincerity for true partnership and community of interest advocated in the concept of sharing profits. Managements that have followed the cooperative approach to profit sharing feel that this is more important than the actual money share.

Pitney-Bowes, Incorporated, manufacturers of postage meters, express this belief in profit sharing. Since 1947, more money has been shared with the employees than has been paid out in dividends; yet president of the firm, Walter Wheeler Jr. feels that shared profits are no more than "earnest money" that shows management's good faith.⁴

Another advocate of profit sharing who warns of the dangers of insincerity is Mr. Denton K. Swartout, president

management of the principle that the sharing of profits of an enterprise is right and proper because everyone associated with the firm helped to earn those profits.

³Rollin E. Ecke, "Profit Sharing: Pitfalls or Panacea?" The Controller, Vol. XXV, January, 1957, p. 16.

⁴Fortune, Op.Cit., p. 140

of Swartwout Company of Cleveland. Mr. Swartwout cautions that if management adopts profit sharing solely to have more satisfied shop workers, or have more profits left over for the business, or the stockholders, that will be doing the right thing for the wrong reason. He holds that if management shares profits for the "right reason," i.e. because the employees help to earn the profits, then "you are given an insight and a determination and a power to carry through . . . What is more, your sincerity will be very apparent to all."⁵

Another snare which at times may be overlooked is the lack of communications. Any profit sharing plan once placed into operation, will not continue solely under its own power. As pointed out earlier in the previous chapter, there must be a careful and continuing campaign of education to see that all employees understand and appreciate what the profit sharing plan means to them. Employee turnover within the company also means that there are continually new people who may never have heard the original story of the plan. While this situation may call for a great deal of ingenuity on the part of the personnel manager -- repeating the profit sharing story so as to be interesting to the new employees while not being offensive to the regular work force -- the task is quite essential.

The trustees of the McJunkin Corporation of Charleston, West Virginia, claim that their hardest problem in connection with their profit sharing program has been: "will it be understood?" The management has published two booklets covering

⁵Ibid., p. 140.

questions employees ask most frequently, and it distributes an annual statement for employees on profits and trust assets. Individual reports are also prepared for participants, listing their insurance assets, profit credits, and income to be expected on retirement. (The McJunkin plan is a deferred profit sharing program.) Mr. Wehrle, financial vice-president of the corporation, comments that:

An annual statement isn't the same thing as money in the pocket. It's hard to get people thinking of assets in the bank as their own when they haven't actually felt the cash. We are spending more time now indoctrinating new employees, and we believe our older employees understand the plan fairly well. But we still haven't done enough with publicity.⁶

An inadequate share of the profits for employees can lead to an arousal of resentment from the employee's belief that he is being exploited. If the employee receives only a meager portion of the joint profits of the firm, the declaration by management that the employees are true partners in the enterprise will be a poorly constructed illusion.

S. D. Noble, while Executive Director of the Sears, Roebuck and Company, stated that:

A profit sharing plan is an incentive plan. Without profits or with low profits there cannot be incentive. A company wastes time making up a plan to share what it hasn't got and such a plan has no appeal to an employee. It is important to have a generous formula for sharing profits. The more you share, the greater the incentive. The less you share, the less the incentive and the less the value of the plan.⁷

⁶Van Ness Philip, "Getting the Kinks Out of Profit Sharing: One Company's Experience," Management Review, Vol. XLVI, No. 2, February, 1957, p. 29

⁷S. D. Noble, "Company Profit Sharing Programs Today," Management Report, A Report given by the California Personnel Management Association (California: The Association), p. 10.

As was discussed in chapter III, the amount to be shared will vary from industry to industry or individual company. The amount which will serve to stimulate the achievement of company objectives cannot be precisely determined. However, surveys considering the increases in incentive in relation to the amount shared have already been argued.

Continuing the list of deterrents of successful profit sharing, another obstacle appears when a profit sharing plan is used to supplement a substandard wage. One of the most axiomatic principles in the concept of profit sharing is that the plan must be over and above a fair and adequate wage scale.

Franklin J. Lunding, Chairman of the Board of Directors of the Jewel Tea Company, contends that:

It is false and futile generosity for a management even to consider a plan for sharing money profits until it is sure its basic pay rates and salary scales are sound. Our own standard is that the combination of regular pay and profit sharing participation when results are good must be higher than the individual could get for the same work elsewhere. We would like to have our people feel, "I'm not sure that I would give myself quite that much in salary, and bonus."⁸

Generally, much of the union opposition to profit sharing in the past has been based upon a fear that it would be used to retard justified wage increases.

Tied somewhat closely to the threat of substandard wages is the lack of other employee benefits. A profit sharing plan cannot be considered a satisfactory substitute for other fringe benefits which are common in industry today.

⁸Franklin J. Lunding, Sharing A Business (Scarsdale, New York: The Updegraff Press, 1951), p. 82.

Profit sharing while aiding in the development of good employee relations cannot create them. Management must provide above and beyond profit sharing the other benefits offered in this particular industry in order to accentuate their sharing plan. Two profit sharing plans which have survived many years illustrate this point. Procter and Gamble, which has been sharing profits since 1886, and Sears, Roebuck and Company since 1916, both preceded their plans with other evidences of management's interest in employee welfare. At Procter and Gamble, it was the $5\frac{1}{2}$ day work week, while Sears offered to its workers liberal sickness benefits. Both companies have continued to provide prevailing wages and many additional benefits along with their stockownership profit sharing plans.⁹

Mr. Ecke concludes his list of profit sharing pitfalls with these words of caution:

A successful plan cannot be static. If it is not possible to modify the plan to meet changing conditions in the industry or the company, it will consequently fail to meet the purposes of its installation. Our own plan has been amended four times in the past nine years.¹⁰

Flexibility should be one of the outstanding characteristics of a profit sharing plan. However, many companies anxious to share profits with their employees overlook the necessity of avoiding built in rigidity in their plans. To exemplify, if the percentage of profits shared were set at too low an amount, the individual shares would also be low. The impression upon

⁹Fortune, Op.Cit., p. 104.

¹⁰Ecke, Op.Cit., p. 17.

the employees would probably be very slight as to the effect of profit sharing. Management may act too hastily by discontinuing the plan rather than converting it to either a different and larger percentage of profits or perhaps from a cash to a deferred type of plan where the shares would accumulate. Allowing for a degree of mobility in the profit sharing plan may save a seemingly doomed plan and produce a plan highly successful in achieving the objectives of management.

A Dilemma in Profit Sharing

One of the most difficult problems in dealing with profit sharing is the dilemma of the money share itself. Management may have the best intentions, but may suffer a severe defeat at the hands of this problem.

In the case of current profit sharing plans, the money distributed may come as a windfall gain. The money may be spent to clear up old bills and debts or perhaps stimulate the purchase of long awaited luxuries. During years of prosperity, the cash payments become something which is taken for granted, and it is possible that they may be spent before the money is actually received. However, if a situation arises where there are no profits to share or if the shares are less than expected, the employees may become resentful toward the firm. To some employees, it may cause financial hardship due to commitments made in anticipation of their money share. Their cooperation as well as their efficiency may be seriously affected by such conditions.

This situation may be carried to the upper levels of the enterprise as well. Franklin J. Lunding, in his book, comments:

Even the sharing of money profits with executives and top supervisory groups presents many problems. Substantial profit sharing payments may tend to raise the recipient's standard of living. He may build, buy or rent a better home than his normal salary will support, or take other financial obligations unwarranted by his regular income. When the profit sharing payments decrease, or perhaps vanish altogether, he may find himself in trouble. Though this may be his own fault, the business comes in for a good share of the unfavorable reaction.¹¹

The cash plan is not the only method of profit sharing subject to difficulties however. The principal problem in the use of a profit sharing plan as a method of providing retirement income is the lack of definiteness as to the ultimate amount available for retirement benefits. The amount which will be available depends upon future profits of the employer and the success or lack of success of the trustees in investing the trust fund. Some workers complain that there is no satisfactory way to guarantee that the sum payable to an employee from a profit sharing trust will extend over the lifetime of the retired employee. It is difficult, under a profit sharing plan, to provide adequate benefits for employees approaching retirement at the time the deferred profit sharing plan is adopted since insufficient recognition can be given to years of past service in allocating employer contributions. (Past service can be recognized in a supplementary, pension plan, however.) Many years of participation

¹¹Lunding, Op.Cit., p. 67-8.

are generally required for the sum credited to the profit sharing account of an employee to reach the proportions necessary to provide a reasonable retirement income.¹²

Thus with either method of money distribution, profit sharing poses some formidable problems in regard to its satisfactory achievement of the firm's objectives. Yet if a sound plan can be carefully worked out, considering all of the factors of company objectives, share distribution, communication, etc., profit sharing can become a potent force in the growth and success of an enterprise -- ultimately striving to greater profits for all to share.

In this discussion of "pitfalls" in profit sharing, one economic fact cannot be overlooked. A company cannot share money profits unless it operates profitably. Failure to produce profits is not necessarily fatal to a well grounded plan, but it has been a major cause of death among some of the older plans.¹³

For example, the Simplex Wire & Cable Company of Boston installed a plan in 1901 and for twenty years the sharing averaged ten percent of payroll. Then competition, overcapacity, and the other pangs of an aging industry began to cut profits; by 1942, the sharing was down to $3\frac{1}{2}$ percent and despite a heavy wartime volume of business, the plan died at three

¹² George Buck Jr., Pensions and Profit Sharing (Washington, D.C.: BNA Inc., 1953), p. 167.

¹³ Fortune, Op.Cit., p. 143.

percent. A weak or sagging profit outlook for a firm will not enhance the chances of a profit sharing plan's success. However, profit sharing may prove to be the stimulus needed to increase production, efficiency, and finally, profits.¹⁴

Summary

Stated in the purpose of this study was the phrase, an introduction to profit sharing . . . It is not the task of the writer to present a persuasive or dissuasive argument for profit sharing. Thus, this chapter has endeavored to present an understanding of the fact that although profit sharing offers many advantages to the business world, it is not a panacea. The problems and situations which arise in the establishing and administration of a profit sharing program are formidable and cannot be taken lightly or dismissed. The deterrents of successful profit sharing mentioned here are by no means all inclusive. Each company must face its own peculiar situations in regard to their plan. Only, through the use of sound judgment, based upon experience and foresight, can a management weave its way through the obstacles which stand between the firm and successful profit sharing.

¹⁴Ibid., p. 143.

CHAPTER VI

THE EVOLUTION OF LABOR ATTITUDES TOWARD PROFIT SHARING

The development of the profit sharing story thus far in this study has been mainly explored from a management viewpoint. Profit sharing, however, is not a one-way street. Both the employer and the employees must gain mutual trust and cooperation in order to fully realize its benefits. With the advent of organized labor, management has been required to conduct their employee relations, for the most part, within the established national pattern of collective bargaining. In keeping with the movement toward closer management-labor union harmony, profit sharing strives to achieve greater employer-employee relations. The attitudes, opinions, and beliefs of organized labor are, therefore, becoming increasingly important in the successful sharing of profits and deserve consideration at this point.

Early Labor Union Attitudes

The history of labor union attitudes toward profit sharing has been marked with firm opposition from the ranks of union leadership. In June, 1920, the National Industrial Conference Board issued a report on its findings regarding the use of profit sharing in American industry. Their comment upon trade union opposition to profit sharing is as follows.

There has unquestionably been a consistent opposition to profit sharing by organized labor, manifested decades ago by the Knights of Labor and now shown by trade unionists generally. The expression attributed to the late president of the Boot and Shoe Worker's Union, John F. Tobin, contained the usual trade union point of view. In his opinion, profit sharing plans are intended to wean away employees from unions so that they may not be in a position to bargain collectively for wages, hours, and improved conditions of labor.¹

This feeling continued to be prevalent among the members of organized labor for many years and was re-echoed from time to time. Samuel Gompers, the first president of the American Federation of Labor, maintained that:

This proposition (profit sharing) has never been seriously considered by the organizations of labor . . . What we are especially interested in more than profit sharing is a fair living wage, reasonable hours and fair conditions of employment.²

Many of the fears and suspicions of labor regarding profit sharing, probably, arose from the instances of actual malpractices of some profit sharing companies. Thus, a sweeping condemnation of the entire program of sharing generally increased the distrust between management and labor. In testimony before a United States Senate Committee in 1938, John L. Lewis again summarized labor's feelings:

Labor's disillusioned experience in regard to profit sharing plans has been that they were used to avoid the payment of an immediate decent wage and made labor

¹ National Industrial Conference Board, Practical Experience with Profit Sharing in Industrial Establishments, Research Report No. 29 prepared by the National Industrial Conference Board (Boston: National Industrial Conference Board, 1920), p. 24.

² National Civic Federation, Profit Sharing by American Employers (New York: Profit Sharing Department, 1920), p. 368.

dependent upon the haphazard industrial and financial policies of management. . . . Labor cannot eat or live on hopes of participation in profit sharing plans.³

In order to gain greater comprehension of organized labor's attitudes toward profit sharing, the reasons or suspicions behind these attitudes should be briefly explored.

Labor Objections to Profit Sharing⁴

Labor has long voiced a number of objections to the profit sharing philosophy. Whether these claims are justified or not is not the task of this study to determine. However, the importance of the attitudes behind labor's feeling toward profit sharing does make valid their consideration.

Anti-Union Device. One of the basic ^{objections} ~~objections~~ of profit sharing is to create a closer relationship between the employees and the management of a firm. Many labor organizations, however, have looked upon this as a technique on the part of management to supplant union loyalty. In areas which are not union organized, labor has accused profit sharing plans of bribing workers to keep them from joining a union. Joseph N. Scanlon, former research director for the United Steelworkers, claims:

Too often in the past, a plan of this kind (profit sharing) was introduced as a weapon to combat union organization. And even when such was not the ulterior purpose,

³Edwin B. Flippo, Profit Sharing in American Business (Ohio: Bureau of Business Research, Ohio State University, 1954), p. 88.

⁴Kenneth M. Thompson, Profit Sharing: Democratic Capitalism in American Industry (New York: Harper Brothers, 1949), p. 43-50.

the effect upon the minds of the employees was the same, for management conceived and established such plans on an unilateral basis.⁵

Undermining Union Prestige. Tied in closely with the idea of profit sharing as an anti-union device is the concept that such plans may detract from the importance of organized labor. The feeling created by profit sharing, fear the unionists, may minimize the operations of a union by joining the employees to the company through their interest in profits. Thus, in a firm with profit sharing, workers may be more hesitant in carrying out strikes because the profit situation of the company might be jeopardized.

Depressing Wage Rates. Probably one of the greatest objections, in long standing, to profit sharing is the fear that such plans will be used to keep basic rates of wages at low levels or perhaps prevent justifiable wage increases. If profit sharing were to be substituted for wages, unions feel that it may also lead to a sharing of any possible losses.

Profit sharing plans may tend to make for differences in the amount of pay within a given industry. This could create some dissatisfaction in a union which has organized most of that industry and proposes to stand for uniform employee income. The union thus views profit sharing as a threat to the worker's economic security.

Management Domination. Another objection voiced by trade unions is the complete control of profit sharing programs

⁵Ibid., p. 43.

by management. Often, plans are unilaterally created and administered by management without employee participation. This, the unions argue, affords the worker little voice in either the inauguration or termination of the plan. To substantiate this argument, the Industrial Relations Counselors in 1945, issued the following evidence. Of the 129 active American plans reported, 117 were administered solely by the company board of directors or other management representatives. In only twelve plans, less than ten percent, were employee representatives allowed to share administrative duties. Such a denial by management, many unions feel, is an undermining of the industrial democracy goal of organized American labor.

"Profit Sharing" Plans. Plans which reward managerial employees, while excluding the rank and file wage earner from participation, are often opposed by unions. Profit sharing plans have been discredited by organized labor because of the element of discrimination found in some company programs.

Closely aligned with this objection are those plans which operate under the name of profit sharing but which are not carefully defined. Production schemes of various sorts which leave the amount of profits to be shared undefined, or to the discretion of management, have also been opposed by unions. In such cases, argue the unions, the participating wage earners are not certain of continuing rewards, even when profits are being realized by the company

Management Accounting Practices. Following the opposition of unilateral installation of profit sharing is the

question of corporate profits. The labor unions question the exact connotation of managements definition of profit and are hesitant to merely accept whatever management offers. Philip Murray as president of the Congress of Industrial Organizations, has written:

Few workers understand accounting practice . . . and the lack of uniformity in American accounting practice adds to this confusion. Under these circumstances, a profit sharing plan has often proved to be a source of friction rather than a means of better industrial relations.⁶

A stronger admonishment in regard to the determination of profits comes from a booklet entitled "How Corporations Conceal Their Profit." This booklet by the United Electrical, Radio and Machine workers union stated:

There is literally no end to the number of ways by which profits may be concealed, and most large corporations know them all. Obviously, where such large sums may be saved by tricky accounting, any large corporation can well afford to pay the large fees charges by consultants specializing in this type of fenegling.⁷

Speeding Up Workers. Labor organizations which generally seek to standardize hours, wages, and production oppose or are suspicious of techniques which pit worker against worker in order to gain increased output. Profit sharing, in many instances, has been confused with other management techniques. The concept of profit sharing has been charged

⁶Ibid., p. 45

⁷Robert L. Dixon, "Profit Sharing," Journal of Accountancy, Vol. LXXXII, July, 1946, p. 17.

with many of the criticisms aimed for other schemes such as piece work incentive systems. Arguments involving the health of the worker and the possible creation of unemployment situations are also often cited by the unions.

Paternalism. Union objections to profit sharing also include resistance to paternalism. Hostility has been created by labor's feeling that management expects gratitude for the sharing of its profits. Some have looked upon the concept of sharing as "commercialized charity."⁸ It is believed by the unions that if the employee actually earns the money for increased effort, it should be placed in the pay envelope. If it is not earned by that worker; it is then charity. One Industrial Relations Counselors study comments: "Profit sharing plans are regarded by unions as gifts that in effect place employees under obligation and interfere with employee mobility."⁹

Profits are Too Uncertain. The weekly pay envelope holds the major appeal for the union in regard to compensation. Profit sharing, it is suspected, subjects the worker to the uncertainties of wide fluctuations in the profits of a firm. Thus in the minds of some labor unions, their desire for stability of income is incompatible with the flexibility of profit

⁸ Flippo, Op.Cit., p. 89.

⁹ Thompson, Op.Cit., p. 47.

sharing payments. One study displays labor attitudes to the problem in this manner:

By its intrinsic nature, profit sharing does not commend itself to wage earners . . . The first want of the worker is for a steady income assessed on the business as an operating cost with payment insured by a first lien on the assets.¹⁰

Interference with Collective Bargaining. The principle of collective bargaining has become the life force of organized labor in America. Labor unions rely upon this principle for their very existence and serve that principle by bargaining for employees with the representatives of management on wages, hours, and other areas of employment situations.

There is no compromising in the support of labor leaders for collective bargaining procedures. George M. Harrison stated this issue in regard to profit sharing.

In wage determination, therefore, there can be no substitute for direct bargaining between management and employees through their freely chosen representatives. Any profit sharing plan which neglects this vital factor is little more than a veiled attack on the right of labor to organize for the purpose of bargaining equality with management.¹¹

The labor position on this principle has been reinforced strongly from time to time by labor's opposition to any plan which might endanger their bargaining power. William Green of the American Federation of Labor told the United States Senate subcommittee:

¹⁰Ibid., p. 47.

¹¹Ibid., p. 50.

Labor believes all plans affecting labor must rest on collective bargaining . . . What is needed in this situation is genuine organizations of workers in unions so that they may have an agency for collecting and collating the facts of the work relationship and of the results of joint and individual work for the purpose of joint discussion with management to define the principles and standards of compensation for work.

We are equally unwilling to see the scope of collective bargaining narrowed so that profit sharing or any other new provision affecting work relationships must mean an extension of collective bargaining to the new field.¹²

The objections which organized labor holds for profit sharing whether real or imaginary, have helped to shape the attitudes of both labor and management in regard to the principle of sharing. The following section deals with the concepts of changing attitudes and the increasing recognition being gained by profit sharing among labor unions.

Evidences of a Changing Attitude

Although many of the labor union objections to profit sharing appear to be irreconcilable with the philosophies of sharing, this is not necessarily a valid conclusion. Many of the authors writing today, feel that a new era may be dawning for profit sharing techniques. As greater understanding and cooperation is built between management and labor, profit sharing will find more fertile ground in which to develop.

One author comments:

Some labor union leaders and company administrators see signs of a revision in organized labor's traditional opposition toward employee profit sharing plans. If the

¹²Ibid., p. 50.

union is safe in its capacity as bargaining agent for the work force, there is a tendency to look upon such plans with favor.¹³

The movement toward greater union acceptance of profit sharing has been expressed by another author, Kenneth Thompson, who has offered this opinion.

Indicative of a pronounced trend in profit sharing plans is the incorporation of profit sharing provisions in collective bargaining agreements, thereby removing much of the basis for labor opposition. Union agreements which include profit sharing arrangements are increasingly common in American industry. Profit sharing thus becomes a part of normal union-management relations instead of a separate procedure competing with and undermining other parts of the industrial relations program. The "either union or management" fallacy which assigns profit sharing to a partisan role furthering the aims of only one party is exposed by this practice.¹⁴

The statements of these authors are also substantiated by a recent survey conducted at Ohio State University. It was found that of the 341 profit sharing firms answering the survey, slightly over two-fifths indicated that they negotiate with unions. The affiliations of these unions fell into the following classifications. Approximately one-sixth of the total, or one-third (51) of those that have unions, were affiliated with the Congress of Industrial Organizations. The American Federation of Labor had almost an equal number (46). The proportions of National Independents and Local Independents were much smaller. Twenty-three of the sharing companies reported dealings with more than one union.¹⁵

¹³Flippo, Op.Cit., p. 90.

¹⁴Thompson, Op.Cit., p. 239.

¹⁵Flippo, Op.Cit., p. 91.

Statistical data is not the only evidence of the change toward a more tolerant view of profit sharing by labor, however. Labor leaders have begun to take a second look at the potentiality of sharing and have acted in accordance with their findings. In 1951, the International Union of Electrical workers under Jim Carey took the initiative and formally demanded of both General Electric and Westinghouse companies that union-management committees be set up to explore the possibilities of profit sharing plans. Although the companies would not include the profit sharing proposal in their collective bargaining negotiations, it did display union interest in the sharing concept.¹⁶

Continuing the union interest in profit sharing, George Baldanzi, Director of Organization for the United Textile Workers of America, American Federation of Labor, strongly advocated the use of this concept in American industry.

I believe, said Mr. Baldanzi, that profit sharing is one of the ways in which we can provide the opportunity to move ahead to a better life. On the other hand, to say that profit sharing will not work is to say, it seems to me, that our present economic system cannot be improved. This, I for one, am not yet prepared to say, as I see a great potential for mutual and cooperative advancement for the owners, workers, and consumers in our nation.

I see profit sharing as a constructive attempt to remold our economy so as to bring it into better balance, as an effective means of diminishing the inequities in our society and to demonstrate that it is possible for modern American free enterprise to provide the kind of

humane and expanding existence that can well stand as a shining example for a modern industrial society.¹⁷

Summary

Although the historical pattern of organized labor has displayed an attitude of opposition toward profit sharing, recent studies point out the possibilities of a more tolerant feeling emerging in unions. Early labor leaders felt that profit sharing was management's way of defeating the unions' attempts at organizing the American Worker.

In voicing their objections to the profit sharing concept, labor unions, continually reflected their concern with their status as the worker's representative and their right to bargain collectively. They were not willing to allow any scheme to be used by management which might jeopardize these principles.

Recent writers in the field of profit sharing, however, have expressed the opinion that unions are moving toward an acceptance of profit sharing plans. Some labor leaders are now outwardly favoring the installation of such plans in industry. This does not imply that organized labor is in wholesale agreement as to what type of plan is best or the right amount of profits which should be shared, but some unions have progressed to the point of proposing joint cooperation with management on the question of plan installation.

¹⁷George Baldanzi, Labor and Profit Sharing, A Speech to the Fifth Annual Conference, Council of Profit Sharing Industries, November 6, 1952.

Such signs do show some degree of encouragement as to the future of profit sharing and perhaps will lead to greater understanding between labor and management.

CHAPTER VII

QUALIFICATIONS AND LEGAL ASPECTS OF PROFIT SHARING PLANS

In the introduction of a profit sharing plan, a company has many considerations to take into account. The choice of a plan and its implications and requirements have been discussed at some length in previous chapters. Aside from the considerations of the individual company problems, however, management should be aware of legal restrictions or allowances which may govern to a certain degree the type of plan to be accepted and the methods of installation.

This study has included in its scope, three major classifications of profit sharing plans. These include the current or cash plan, the deferred or sometimes referred to as a "trusted" plan, and a combination plan which makes use of the advantages of the first two classifications. While it is not within the realm of this study to explore all of the legal aspects of profit sharing, some consideration of the requirements governing these three plans will be given. Managements seeking information regarding the legal requirements of profit sharing should enlist competent legal aid in the development of their particular plan. The following section will merely call to the attention of the reader the more general considerations of this part of the profit sharing concept.

Cash Plans¹ Under an immediate cash payment plan, distribution of the profit sharing allocation is made reasonably soon after the amount of the shares can be determined. The relation between profits and the distributions to employees is immediate and direct. Since there is no aspect of deferred compensation in these plans, the provisions of section 401(a) of the 1954 Internal Revenue Code -- amended regulation -- are not applicable (this section of the Code will be given later in this chapter). The employer's deduction for his contribution and the taxability of the employee on his receipts are governed by the same rules as any current or salary payment.

This lack of tax benefits is, on the one hand, an important disadvantage of cash plans as compared with deferred. But an employer with a cash plan has the compensating advantage of greater latitude in framing the provisions of the plan to meet the particular needs of the company and the employees. In matters such as eligibility, time and amount of contributions, and allocation of the contributions among the participants, there is more freedom of movement than a qualified deferred plan permits.

Deferred Plans² The tax advantages of deferred plans are a compelling factor in their favor. Unlike a cash plan,

¹The body of legal information used in this chapter is to be found in its more complete form in: Pension and Profit Sharing Report (Englewood Cliffs, New Jersey: Prentice Hall, Inc., 1955), p. 3022.

²Ibid., p. 3028.

the deferred profit sharing trust qualified by the Treasury Department offers the employee the opportunity to accumulate a fund whose earnings are free of federal taxes and the employee pays no tax at all at the time contributions are made. Although the employee is taxed in the year of distribution, it may, under certain circumstances, be at the more favorable capital gains rate. The company in turn can claim its contributions with liberal limits as a tax deduction in the year of payment.

Since a deferred profit sharing plan involves the maintenance of a fund and a trust to administer it, and must conform to the standards of section 401(a) of the Internal Revenue Code and the decisions and rulings of the courts and the Internal Revenue Service interpreting those standards, they necessarily entail some administrative and legal aspects not found in cash profit sharing plans. These aspects are enumerated later in this chapter.

Combination Plans³ Recognizing the value of both immediate payment and deferred profit sharing, many companies have been led to use a combination of the two. Joseph B. Meier, executive secretary of the Council of Profit Sharing Industries, pointed out that these combination plans are becoming increasingly popular, and some plans that started out with immediate payments only have been amended to include a deferred compensation feature.

³Ibid., p. 3023.

Contributions of an employer to either of the following combinations of qualified plans are treated specially.

1. A pension trust and a profit sharing plan.
2. A profit sharing and an annuity plan.
3. Both pension and profit sharing and an annuity plan.

The total amount deductible by an employer for contributions to any of the above combinations may not exceed twenty-five percent of the compensation otherwise paid or accrued during the taxable year to the employee beneficiaries of all the plans included in the combination.

Requirements for Qualification

In order to qualify for special tax allowances, profit sharing plans must meet the requirements of the 1954 Internal Revenue Code. Section 401(a) of this code establishes the requirements for qualification.

Section 401(a) Internal Revenue Code⁴

(a) Requirements for Qualification.

A trust created or organized in the United States and forming a part of a stock bonus, pension, or profit sharing plan of an employer for the exclusive benefit of his employees or their beneficiaries shall constitute a qualified trust under this section:

(1) If contributions are made to the trust by such employer, or employees, or both, or by another employer who is entitled to deduct his contributions for the purpose of distributing to such employees or their beneficiaries the corpus and income of the fund accumulated by the trust in accordance with such plan;

(2) If under the trust instrument it is impossible at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under

⁴Ibid., p. 11,033.

the trust, for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of his employees or their beneficiaries;

(3) If the trust, or two or more trusts, or the trust or trusts, and annuity plan or plans are designated by the employer as constituting parts of a plan intended to qualify under this subsection which benefits either --

(A) 70 percent or more of all the employees, or 80 percent or more of all the employees who are eligible to benefit under the plan if 70 percent or more of all the employees are eligible to benefit under the plan, excluding in each case employees who have been employed not more than a minimum period prescribed by the plan, not exceeding five years, employees whose customary employment is for not more than 20 hours in any one week, and employees whose customary employment is for not more than five months in any calendar year, or

(B) Such employees as qualify under a classification set up by the employer and found by the Secretary or his delegate not to be discriminatory in favor of employees who are officers, shareholders, persons whose principal duties consist in supervising the work of other employees, or highly compensated employees;

and

(4) If the contributions or benefits provided under the plan do not discriminate in favor of employees who are officers, shareholders, persons whose principal duties consist in supervising the work of other employees, or highly compensated employees.

(5) A classification shall not be considered discriminatory within the meaning of paragraph (3)(B) or (4) merely because it excludes employees the whole of whose remuneration constitutes wages, or merely because it is limited to salaried or clerical employees. Neither shall a plan be considered discriminatory within the meaning of such provisions merely because the contributions or benefits of or on behalf of the employees under the plan bear a uniform relationship to the total compensation, or the basic or regular rate of compensation, of such employees, or merely because the contributions or benefits based on that part of an employee's remuneration which is excluded from wages differ from the contributions or benefits based on employee's remuneration not so excluded, or differ because of any retirement benefits created under State or Federal law.

(6) A plan shall be considered as meeting the requirements of paragraph (3) during the whole of any taxable year of the plan if on one day in each quarter it satisfied such requirements.

The limit to which companies may deduct shared profits under a qualified plan is also governed by the Internal Revenue Code. In the taxable year when said, if the contributions are paid into a profit sharing trust, an amount not in excess of fifteen percent of the compensation otherwise paid or accrued during the taxable year to all employees may be deducted. If in any taxable year there is paid into the trust, or a similar trust then in effect, amounts less than the amounts deductible under the preceding sentence, the excess, or if no amount is paid, the amounts deductible, shall be carried forward and be deductible when paid in the succeeding taxable year in order of time; but the amount so deductible under this sentence in any such succeeding taxable year shall not exceed fifteen percent of the compensation otherwise paid or accrued during such succeeding taxable year to the beneficiaries under the plan.

In addition to this rule, any amount paid into the trust in any taxable year in excess of the amount allowable with respect to such year, under the preceding provisions shall be deductible in the succeeding taxable years in order of time, but the amount so deductible in any one succeeding taxable year together with the amount allowable for the current year shall not exceed fifteen percent of the compensation otherwise paid or accrued during such taxable year to the beneficiaries under the plan.⁵

⁵Ibid., p. 11,038.

Other Legal Aspects

There are a number of other legal aspects to a profit sharing plan, aside from the laws relating to taxation and deductions which should be considered. The first of these considerations involves the question of whether the company has a legal right to create a profit sharing plan. In the absence of some statutory, charter, or by-law prohibition, a corporation can validly create employees' profit sharing plans providing benefits based not only on future service but also on past service, and incur reasonable expense to maintain them. It is true that charters, statutes, or by-laws could prohibit a corporation from undertaking such a project, or provide that consent of the stockholders must be obtained before putting a plan into effect. However, specific statutory authority to create and operate a plan as part of the corporate purpose seems to be unnecessary. Court decisions have displayed that a corporation has the implied power to inaugurate and operate any reasonable plan for the benefit of its employees as an ordinary function of business management.⁶

Another consideration is the rights which the employer's creditors may have over the shared contributions. Where the employer has no control over the funds of a profit sharing trust which has been created in good faith, it does not seem that the employer's creditors can reach amounts paid into the trust prior to insolvency. Where the funds are not segregated

⁶Ibid., p. 6,201.

but commingled with the employer's general assets, it appears probable that employees are not entitled to preferential treatment over general creditors. This result has been reached even as to funds which a bankrupt employer has retained from wages for the purpose of an employee benefit plan.⁷

Companies offering securities for public sale must also take into account any regulations imposed by the Securities and Exchange Commission. The Securities Act of 1933, and the Securities Exchange Act of 1934, compel issuers to make full and fair disclosure of information on their securities to prospective purchasers. In connection with contemplated employee profit sharing plans, the question of possible Securities and Exchange Commission jurisdiction over the proposed plan is sometimes raised. The law in this respect is not sufficiently clear and the Securities and Exchange Commission's opinion should be sought regarding the need for registering a particular plan.

Neither the statutes giving authority to the Securities and Exchange Commission, nor the regulations issued thereunder, contain definite provisions with respect to profit sharing plans. No court has yet defined the authority of the Commission over such plans. Although the Commission has interpreted the laws with respect to particular plans submitted to it, the possible differences in detail between plans preclude the assurance that an interpretation as to any one may serve as a precedent for another. Thus, these interpretations have not been

⁷Ibid., p. 6,207.

made public and the employer contemplating inauguration of a plan must rely upon his own interpretation, that of his advisers, or on whatever information he can get as to the Commission's interpretations.⁸

The final legal aspect to be considered in this study involves profit sharing plans and the Federal Wage-Hour Law. Employees subject to the Fair Labor Standards Act must be paid overtime compensation for the hours worked over forty in a week at the rate of time and one-half their "regular rate." Payments made to employees that enter the "regular rate" therefore increase the hourly rate at which overtime is computed.

Under the amended Wage Hour Law, all sums paid to employees must be included in the "regular rate," except those types of payments specifically excluded by the law itself. Among excluded payments are employer contributions to a bona fide profit sharing plan or trust. If a plan does not conform to the Wage Hour Administrator's regulations, additional overtime must be paid on employer's plan contributions.

The Wage-Hour Division does not demand that plans be submitted to it for approval. Companies in doubt about which provision of the law applies to their plan and whether it satisfies that provision, should write to the Wage-Hour Division for information. The Administrator's letter of approval may serve as a good faith defense if any question is raised in the future.⁹

⁸Ibid., p. 6,208.

⁹Ibid., p. 6,062.

Summary

The three classifications of profit sharing, cash, deferred, and combination plans, entail certain restrictions in the scope of their programs. In order to qualify for tax deductions, profit sharing plans are required to follow the dictates of the Internal Revenue Code and the United States Courts.

Aside from these qualifications, other legal aspects must be taken into consideration. Those aspects covered in this study involved legal right to install profit sharing, the rights of the employer's creditors, the Securities and Exchange Commission and the Wage-Hour Law. The extent to which these aspects will govern a profit sharing plan will depend upon the particular characteristics of the plan. However, any company seeking to install profit sharing should enlist competent legal advise in regard to its validity.

The following chapter will reveal the position of profit sharing in the Retail Food Chain Industry as represented in a survey of the National Association of Food Chains' membership.

CHAPTER VIII

AN ANALYSIS OF PROFIT SHARING IN THE MEMBERSHIP OF THE NATIONAL ASSOCIATION OF FOOD CHAINS

The major objective of this study is to introduce the potentialities of profit sharing as a tool for successful business operations in the retail food chain store industry. In keeping with this purpose, a survey was undertaken to determine the extent to which profit sharing has been utilized within the industry to date.

Generally, the practice of companies contemplating sharing their profits is to investigate the experience of other firms in regard to profit sharing programs. This chapter does not seek to promote any one type of profit sharing plan, or any particular characteristics of plans, but rather to reflect what has transpired in the food chain industry.

To review the structure of the survey, a list of 125 members of the National Association of Food Chains was compiled. The list of food chains was limited, geographically, to the United States with a single return from Canada. However, no other restrictions were placed upon the participants.

A mail questionnaire was sent to each of the 125 members accompanied by a letter of explanation. A reproduced copy of the questionnaire and the letter of explanation may be found in Appendix A and B. Out of the list of 125 firms,

59 or 47 percent replied. Out of those replying, 24 companies indicated that they had profit sharing plans meeting the requirements as defined in the questionnaire and letter of explanation. Companies reporting no profit sharing programs numbered 23, while 12 returns were not usable. Of those returns not usable, six defined incentive bonus systems, three were incomplete, and three firms replied that they could not disclose the information.

Size of Companies Surveyed

The size of the companies surveyed was determined by the approximate number of full time employees retained at the time of the survey. Table I illustrates the size of the profit sharing companies. Following the divisions in the data, firms are classified into three groups; small -- 100-900 employees, medium -- 1,000-5,000 employees, and large -- 6,000-50,000 employees. The largest company reported 45,546 employees while the smallest company sharing profits employed 171. The median number of employees was 1,000; the arithmetic mean or average was 4,904.

TABLE I

SIZE OF PROFIT SHARING COMPANIES BY EMPLOYEE COUNT

Number of Employees per Company	Number of Companies	Aggregate Number of Employees
6,000-50,000 (large)	4	97,546
1,000- 5,000 (medium)	9	16,000
100- 900 (small)	11	4,154
Totals	24	117,700

Type of Profit Sharing Plan Used

As defined in this study, three classifications of profit sharing are recognized; cash plans, deferred plans, and combination plans. The type of plans employed by the profit sharing companies are shown in Table II.

TABLE II
TYPE OF PLAN USED BY COMPANY SIZE

Company Size	Cash		Deferred		Combination	
	Plans	Employees	Plans	Employees	Plans	Employees
Large	-	---	3	89,546	1	8,000
Medium	3	5,000	6	11,000	-	---
Small	1	300	7	2,733	3	1,121
Totals	4	5,300	16	103,279	4	9,121

Deferred plans predominate, heavily outnumbering both cash and combination plans by four to one. All size groups appear to favor the deferred type plan, with medium size companies numbering the largest amount of cash plans, and small size companies having the greatest number of combination plans.

Date of Plan Adoption

The data relating to plan adoption serves to present any trends which may appear in the installation of profit sharing programs. Table III displays this data.

TABLE III
YEAR OF PLAN INSTALLATION

Year	Cash	Deferred	Combination	Total
Data not given	1			1
1930	1			1
1936	1			1
1939		1		1
1940		1		1
1943		1		1
1945		1		1
1946	1		1	2
1948		1		1
1951		2		2
1952		1	1	2
1953		3		3
1954		4	1	5
1955			1	1
1956	1	1		2
Totals	5	16	4	25 ^a

^aOne combination plan has separate datings of its cash and deferred element. Hence a total of 25 plan dates.

There is evidence that a heavy concentration of profit sharing plans has been inaugurated since 1951. Sixty percent of all plans reported have been installed during the year 1951 or thereafter. Cash plans seem to hold the longest history from the standpoint of age, while deferred and some combination plans appear to be more popular in recent years. In the past six years, 73 percent of the plans adopted were of the deferred type, 20 percent were combination plans, and the remaining 7 percent, cash.

The next segment of the mail questionnaire used in the survey dealt with the profit sharing formula used by companies

in their sharing programs. Although the methods used by profit sharing firms differ as to the particular needs served, some consideration as to the experience realized by others may aid the company anticipating profit sharing.

Probably the greatest question in profit sharing is the extent to which a company shares its profits. The 24 profit sharing companies reported contributions ranging from 5 percent to 33 percent based on profits. The mode of percentages shared, or the percentage most frequently reported, was 10 percent. The average percentage shared of profits was 14 percent.

Four of the reporting companies based their sharing formulas on a graduated scale. In other words, as the amount of profits increases, the percentage of profits shared increases. For example, the Kroger Company, Cincinnati, Ohio, bases the sharing formula in this manner: Of the first 25 million dollars of profits, 5 percent is shared; the next 25 million dollars, 10 percent; and over 50 million dollars of profits, 15 percent is shared. The company, however, must earn 15 million dollars before it contributes to profit sharing.

All of the companies states that the percentage of profits shared is based on a net profit figured before Federal and/or state taxes.

Reservations of Shared Profits

In the computation of employer contributions, some companies begin sharing the first dollar earned with employees. Others, however, have established various reservations. The

reservation may include prior contributions to dividends or reserves before beginning to share the profits with employees. Thus, a 14 percent average profit share will be decidedly more without prior reservations, than the same percentage with prior reservations.

The survey reflected an even split between the companies sharing profits with their employees. Eleven companies share without prior reservations, while eleven companies attach certain prerequisites to their sharing programs. Two companies reporting did not answer the question.

Plan Coverage

Companies with plans in existence reported that their profit sharing covered either one segment of their employee force or the entire employee staff. In the tabulation of this area, plan coverage is divided into two groups; those plans which are available to all full time employees, and those plans which are limited to the managerial staff. Table IV illustrates the extent of plan coverage by type of plan.

TABLE IV
PLAN COVERAGE BY PLAN TYPE

Type of Plan	<u>Number of Plans</u>	
	All Full Time Employees	Managerial Employees
Cash	1	3
Deferred	15	1
Combination	3	1
Totals	19	5

Exclusions

The particular company plans also make reference to a number of reasons for employee exclusion from their profit sharing plans. Aside from the fact that in all of the plans the members must be full time employees, seven companies made particular exclusions for the following reasons:

A. Executives. Two of the reporting companies exclude the executive staff from their profit sharing programs. In one of the companies, the reason for their exclusion was due to a separate incentive and retirement program for this group. The other company offered no explanation.

B. Union Membership. Union membership was listed as a reason for exclusion by three of the reporting companies. In one of the companies, with a deferred profit sharing plan, a union sponsored pension plan covered the union members. The other two companies offered no explanation.

C. Temporary Full Time Help. Two companies made reference to the exclusion of temporary full time help. Employees who work on a seasonal basis would, thus, be excluded from sharing in company profits.

Eligibility

Companies differ greatly as to the length of time required in order to gain eligibility in profit sharing programs. Again the universal requirement among the companies reporting was employment on a full time basis. Two companies stipulated age requirements of twenty-one years of age. Although through information gained from company

booklets on profit sharing programs, this seems to be the general rule.

Length of service was by far the most frequently mentioned requirement. The mode for the length of service required, as displayed by the survey, is one year, while the average length of time is one and one-half years. The waiting periods required before an employee may participate in profit sharing are shown in Table V.

TABLE V
LENGTH OF SERVICE REQUIRED FOR ELIGIBILITY

Period of time in years of service.	Cash	Deferred	Combination	Total
none			1	1
1/4	1			1
1/3			1	1
1/2	1			1
1	2	8	1	11
2		5		5
3		1		1
5		2	1	3
Totals	4	16	4	24

Determination of Individual Employee Shares

The determination of the individual employee shares of a profit sharing program pose one of the more complex problems of a sharing formula. Due to the multiplicity of company programs, the methods used in the allocations of profit sharing are also numerous. In the tabulation of the questionnaire, it was found that the respondent's answers to this

question, however, grouped themselves into five general areas. The five areas which emerged included:

(1) Equal shares. The total number of employees eligible for the sharing program is divided into the amount of profit to be shared. Hence, each individual received an equal portion of the profits without any discrimination.

(2) According to employee earnings. The amount to be shared by the individual employee is dependent directly upon the base pay of that individual. This method is the most popular, as displayed in Table VI, outnumbering other individual methods of allocation by a strong three to one.

(3) According to employee contributions. This method of allocation is dependent upon the type of profit sharing plan selected by the firm. In the companies surveyed, this method was used only by those companies having deferred type profit sharing plans. Thus, the individual employee shares in the firm's profits in proportion to his particular monetary contribution, out of his salary or wage, to the profit sharing trust.

(4) Weighted for service. Under this arrangement, the employee shares in the company's profits according to his length of service with the firm or in relation to his longevity in the profit sharing program.

(5) Weighted for type or merit of work. Some companies wish to recognize, with their profit sharing programs, unusual or outstanding characteristics of particular jobs. These may include such items as increased responsibility, required

job training, or other specialized talents. In the survey, it may be noticed, this method of allocation was used solely by firms with cash type profit sharing plans.

Table VI illustrates the methods used in the determination of employee shares. The methods of allocation will total greater than the number of profit sharing plans due to the fact that some profit sharing formulas stated more than one factor in the determination of the employee's share.

TABLE VI
METHODS USED IN THE DETERMINATION OF EMPLOYEE
SHARES BY PLAN TYPE

Method	Cash	Deferred	Combination	Totals
Equal shares		1	1	2
According to employee earnings		14	3	17
According to employee contributions		5		5
Weighted for service		4	1	5
Weighted for type or merit of work	4			4

Employee Contribution

Thus far in this section, the discussion has regarded profit sharing formulas in general. However, in order to increase the completeness of this topic, specific characteristics of plan types should be included.

In the case of deferred and/or combination plans, the employee may be required to contribute a part of his earnings for the purpose of increasing the size of the trust fund. In all cases, the employee's contribution remains a separate part of the trust and serves as a savings account while increasing the earning power of the trust. The deferred element of a combination plan may also have this feature.

The aggregate number of deferred and combination plans totaled twenty. Out of this number eleven plans required no employee contribution. In order to gain membership in the program, nine plans stated that a portion of the employee's earnings had to be contributed. In the instance of a combination plan, this requirement pertained only to the deferred element of the program. Other employees may share in the cash benefits of the profit sharing plan.

The nine companies reporting a required employee contribution, all had established ranges regulating contributions. The amount to be contributed within these ranges is determined on a voluntary basis by the individual employee. The ranges of employee contributions divide themselves into three separate groupings; (1) by percentage of wages, (2) by dollar amount, and (3) by percentage of bonus. The plans using the percentage of wages were grouped in a range of one to six percent of employee earnings; six companies followed this method. The dollar contribution method was used by two companies. The range of contribution consisted of one to five dollars of pay per week and one to fifteen dollars of employee

pay per week. A single company reported the use of the third method -- percentage of bonus. Their plan called for contributing fifty percent of the bonus received by the store manager (plan limited to managerial staff).

Distribution of Employee Shares

The question was asked of companies reporting the use of deferred or combination plans, whether any part or entire amount of the deferred sum could be withdrawn at the discretion of the employee. This would include withdrawals for reasons aside from retirement, disability, or death. Out of the total number of twenty companies reporting such plans, only two allowed withdrawals as defined above. Both companies stated that they did not feel that the allowance of arbitrary withdrawals by employees hampered or reduced the value of their profit sharing plan.

The companies denying employee withdrawal privileges were asked whether they felt this denial caused employee dissatisfaction. Of the thirteen companies answering this question, twelve companies stated that it did not cause dissatisfaction and one company replied that it had experienced dissatisfaction to "a small degree."

In the distribution of employee shares under a deferred profit sharing plan, payment of the amount accumulated in an employee's account is generally made upon retirement, complete work disability, or death of the employee. There exists, however, other circumstances upon which payment is also made.

These circumstances usually include employee withdrawal clauses (as already mentioned) and termination of employment. Most companies provide a graduated scale of payment for circumstances other than the three conditions of retirement, disability, or death. The companies reporting deferred or combination plans were asked to state the length of time required of membership in their plans for full realization of the employee's account. In other words, upon the completion of a given length of time of membership in a plan, an employee may withdraw his account at full value upon his termination with the company. In plans requiring employee contributions, the employee is generally allowed the full value of his contributions plus a part or all of the company's contributions to the plan. Table VII illustrates the length of time required by members in order to realize the full value of their accounts.

TABLE VII

ELIGIBILITY TO SHARE IN FULL AMOUNT OF THE PROFIT
SHARING FUND, ASIDE FROM RETIREMENT, DISABILITY,
OR DEATH, BY PLAN TYPE

Length of membership in years	Deferred	Combination	Total
None	1		1
10	5	2	7
12		1	1
15	1		1
20	4		4
Never	5		5

The distribution of a cash plan generally displays less variation. The payment of cash shares to the employee falls into two categories -- quarterly payments and annual payments. In compiling the responses to the questionnaire, the cash element of combination plans is also taken into consideration. Seven companies responded. Five companies distribute their cash payments quarterly and two companies distribute the cash payments annually.

Objectives of Profit Sharing

Managements have indicated that profit sharing programs have been established throughout industry to accomplish varying objectives. Thus, in order to justify the expenditure made by sharing profits, certain objectives must be gained from the installation of a profit sharing plan. Companies included in the survey were asked to indicate their reasons for the introduction of a profit sharing plan in their firms. All respondents having profit sharing programs reported their motives for setting up their plans. Eight motives were furnished in the questionnaire to aid in securing a response. Space was also provided for additional comments. Table VIII displays the objectives of plan installation by plan type and frequency of mention.

Handicaps Confronting Profit Sharing Plans

The profit sharing companies were asked to indicate any handicaps or problems which impeded the installation or operation of their profit sharing plan. Seventeen

TABLE VIII

OBJECTIVES OF PLAN INSTALLATION BY PLAN TYPE & FREQUENCY
OF MENTION AND IN DESCENDING ORDER

Objectives	Cash	Deferred	Combination	Total
Productivity and efficiency	3	15	4	22
Provide employee security	2	16	3	21
Stimulate incentive	3	10	3	16
Associate labor and management partnership	2	8	3	13
Improve industrial relations and morale	1	10	2	13
Retain executive personnel	3	7		10
Give flexibility to salaries	4	4		8
Gain tax savings		5		5
Other Objectives Mentioned				
Attract new personnel		1	1	2
Broaden base of capitalistic system		1		1

companies replied to the question. Nine companies reported no such handicaps. Eight firms stated varying obstacles which hindered their plans. These obstacles are as follows:

- A. Lack of cooperation by the Internal Revenue Department.
- B. Profits are never big enough to satisfy employees.
- C. Interest in deferred plan not very great among young employees.
- D. Difficulty in maintaining equitable allocations.
- E. Friction between members as to distribution

- F. Occasional overpayments of shares.
- G. Difficulty in communications in a decentralized organization.
- H. Education of participants to understand value of plan.

Fulfillment of Objectives and Recommendations

In order to discover whether a profit sharing plan is successful, there must be some type of evaluation. A plan can only be as good as it is successful in fulfilling the objectives which the company has established. In the survey, twenty-four companies reported profit sharing plans commensurate with the definition established by this study. Twenty companies replied that their profit sharing plans had successfully achieved their objectives. Three companies reported that it was still too early in the life of their plans to determine the degree of success. One company stated that their plan had only partially fulfilled their objectives, but the firm declined to comment further.

Twenty-four companies confirm profit sharing. Finally, the companies surveyed were asked whether they would recommend profit sharing for other companies similar to their own. The unanimous answer was in the affirmative. All twenty-four companies confirmed the use of profit sharing as an effective business project.

Summary

In order to gain a more comprehensive understanding of profit sharing, particularly as it pertains to the retail

food industry, a survey was conducted of the National Association of Food Chains membership. A mail questionnaire was sent to 125 member chains, accompanied by a letter of explanation regarding the survey. Replies were received from 59 firms; with 24 of these firms indicating their use of profit sharing as defined in this study.

The size of the companies using profit sharing were determined by the number of full time employees retained. The company size ranged from 171 employees to 45,546 employees. The entire number of employees retained by the profit sharing companies totaled 117,700. Since 1951, 60 percent of all plans recorded in this survey have been installed. Deferred profit sharing plans seem to be the most popular, accounting for 73 percent of all plans started in the last six years.

The questionnaire was also designed to obtain a representative picture of the companies various profit sharing formulas. The formulas had these general characteristics. The mode of percentages shared was 10 percent of company profits, while the average percentage was 14 percent of profits. In all cases, the percentage of profits to be shared was figured before government taxes. The number of companies attaching prior reservation to their profits before sharing them with employees totals one-half of the companies reporting. The extent of the plan coverage is also included with the profit sharing formula. Plans including all full time employees numbered 19, while 5 limited their coverage to the managerial staff.

There appears to be a great deal of difference between companies as to the length of service required of employees for eligibility in profit sharing plans. The range extends from three months to five years. The mode for the length of service required as displayed by the survey is one year, while the average length of time is one and one-half years.

The method of determination of the individual employee shares were separated into five major areas. These areas consisted of allocation by (1) equal shares, (2) employee earnings, (3) employee contribution, (4) service, and (5) type or merit of work. The most popular method of allocating employee shares was found to be based on employee earnings.

The total number of profit sharing plans requiring employee contributions was slightly less than half of the combined total of deferred and combination plans. Nine companies required employee contributions ranging from one to six percent of the employee's earnings, one to fifteen dollars per weekly wage, or fifty percent of bonus payments.

The distribution of employee shares may take the following forms: Deferred and the deferred element of a combination plan generally distribute an employee's share at the time of his retirement, disability, or death. Some companies allow the employee to make withdrawals from the profit sharing fund before these conditions are realized, however, only two plans out of twenty make this allowance. The distribution of cash plans generally follow a pattern of quarterly or annual payments.

The survey also sought to arrive at some consideration as to the motives of companies installing profit sharing plans. Eight major reasons emerged. Listed in descending order of importance, they are: (1) promote productivity and efficiency of employees, (2) provide employee security, (3) stimulate incentive, (4) associate labor and management in partnership, (5) improve industrial relations and morale, (6) retain executive personnel, (7) give flexibility to salaries, and (8) gain tax savings.

Eight companies, out of seventeen reporting, listed obstacles which had confronted them in their profit sharing programs. However, twenty companies stated that their profit sharing programs had been successful in achieving their established objectives. Three companies replied that their plans were in existence too short a time to give an adequate evaluation. One company stated that its plan had only partially fulfilled their objectives.

The companies surveyed gave unanimous confirmation to the use of profit sharing as an effective business program. All of the twenty-four companies using profit sharing stated that they would recommend profit sharing to companies similar to their own.

In addition to the twenty-four companies reporting profit sharing, many companies expressed their interest in the sharing principle. Several companies also commented that they were anticipating the installation of profit sharing in their firms in the near future.

If experience is the best teacher, the lessons to be learned from the companies included in this survey may well serve as guides to those companies considering the sharing of profits.

CHAPTER IX

SUMMARY

The concept of sharing profits has a long and involved history dating back many centuries. Although profit sharing has been praised and ridiculed throughout its past, the potentialities which lie within this business philosophy should not go unnoticed. The term profit sharing has been used to identify any or all types of monetary bonuses or rewards given by an employer to his employees. For the purposes of this study, however, true profit sharing is defined as an agreement freely entered into by management with employees receiving a predetermined share of the companies profits. Three classifications of profit sharing used in the study include cash, deferred, and combination plans.

The philosophy of profit sharing also has been expressed in a variety of forms. In its early stages the sharing of profits reflected the goodheartedness of the employer or, perhaps, his recognition of a social or moral obligation to his workers. In recent years, however, a greater refinement in the philosophy of profit sharing has taken place. The philosophy of profit sharing recognizes labor as people, not as a commodity. Businesses adhering to this philosophy, regard profit sharing as one means of tapping the resources of human cooperation

and expanding the system of free enterprise to include every employee. Thus, the philosophy of profit sharing has been transformed into a concept where the moral overtones still persist, however, profit sharing is also expected to produce results in regard to particular company objectives.

Profit sharing, today, is moving toward a pragmatic justification of its use. Managements considering the inauguration of profit sharing programs are seeking to have the plan justify itself through increased productivity, efficiency, and finally, profits. While these considerations are important, the financial aspects of installing such a plan within a company also come under close scrutiny. The determination of the amount of profits to share with employees and the question of what such a program will cost in regard to plan installation and administration are matters to be given consideration. The experience of profit sharing companies has demonstrated that the cost factor will vary according to the type of profit sharing plan selected. Generally, a figure of ten to fifteen percent of annual wages has repeatedly proved interesting enough to call forth extra employee effort. The results experienced by the members of the Council of Profit Sharing Industries have indicated that sharing profits tends to afford the firm better returns, sounder growth, and greater security.

Successful profit sharing programs are the result of many contributing factors. Although each firm must construct its plan to fit the individual organization and its objectives,

the installation of a profit sharing plan will be aided through the guidance of eight steps of plan installation. These are:

First, there must be a desire on the part of management to install the plan in order to enhance the team spirit of the organization.

Second, a period of thorough investigation of profit sharing should be undertaken.

Third, a selection should be made of a plan that fits the particular company and its particular circumstances.

Fourth, the profit sharing plan selected should be presented to the company along with the thinking behind it.

Fifth, a revision of the plan should be made in conjunction with any suggestions which are received during the presentation of the program.

Sixth, a formal or legal agreement should be clearly proposed in writing.

Seventh, a formal announcement of the profit sharing plan should be made to the employees.

Eighth, a method for the administration of the plan and the continual promoting of its objectives to the employees should be carefully selected and actively carried out.

In addition to the framework of eight steps in the installation of a profit sharing program, various methods of promoting profit sharing plans have proved successful. These methods include:

1. Letters to the employees.
2. House organs.

3. Oral communications.
4. Plan books, annual reports, and statements.
5. Visual communications.

Although profit sharing offers many advantages to the company making use of its principles, it is not a panacea. A company realizing difficulties because of poor management practices cannot hope to cure all of its problems merely by installing profit sharing. Problems and difficulties also arise in the establishing and administration of a profit sharing program. The deterrents of successful profit sharing cannot be taken lightly or dismissed; to ignore them is to doom the chances of gaining the firm's objectives and the realization of an effective sharing program. Only through the use of sound judgment based upon experience and foresight can a management successfully overcome the obstacles which may appear in the path of profit sharing.

Not the least of the obstacles which have faced profit sharing is the attitude of organized labor toward the adoption of profit sharing programs. Through the years, organized labor has displayed an attitude of opposition and distrust toward the sharing of profits. Labor unions have continually expressed their fear of the danger that profit sharing by management would jeopardize the bargaining position of the union. Recently, however, unions have given evidence of a changing attitude. Several unions have approached the issue of profit sharing as a means of joint cooperation between labor and management. Only time will tell the extent of this transition or the degree

of its permanence. The indications of change, however, are encouraging to those who advocate the use of profit sharing and believe in its effectiveness as a tool for promoting industrial harmony.

Companies contemplating the sharing of profits must take into account legal requirements or allowances which may effect their particular plan. While cash profit sharing plans are generally controlled by the individual company, deferred and the deferred element of a combination plan may fall under the dictates of the Internal Revenue Code and the United States Courts. Other legal features which should be investigated include the Securities and Exchange Commission, the prevailing Wage-Hour Laws, and any restrictions placed upon the company by its stockholders. In all cases, the enlistment of competent legal counsel is advisable in order to insure the security of the particular profit sharing plan.

The extent to which profit sharing has been used in the retail food chain industry was reflected in the replies received to a survey conducted among 125 members of the National Association of Food Chains. Profit sharing was reported in forty percent of the 59 food chains answering the mail questionnaire. Deferred profit sharing plans seem to be the most popular among the profit sharing chains, accounting for seventy-three percent of all plans started in the last six years. The majority of plans (19 out of 24) extend their coverage to all of the employees retained by the company. This fact would appear to substantiate the claims of the industry that the

employee represents the most important element of the retail food chain business.

The most popular method of allocating employee shares of the profits was based on employee earnings. This feature allows the recognition of service, responsibility, and achievement of the employee. Other factors pertaining to the survey demonstrated that promoting productivity and providing employee security are the most popular objectives in the installation of a profit sharing plan. Eighty-three percent of the companies having profit sharing replied that their objectives had been fully achieved. All of the twenty-four profit sharing food chains stated that they would recommend profit sharing to companies similar to their own.

Profit sharing offers the business world one approach to the solution of problems of industrial harmony, greater productivity, and employee satisfaction. Profit sharing is a tool, and as such must be used with sound judgment, and the knowledge of its capabilities and limitations. The experience of the retail food chains included in this study has demonstrated that profit sharing can be successfully used as a sound business method. The increased use of profit sharing may indicate a new phase in the development of management-labor cooperation. The spirit of sharing may provide the link required for greater business democracy and improvement in the capitalistic economic system.

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APPENDIX

APPENDIX A

May 10, 1957
927 F. Cherry Lane
East Lansing, Michigan

Dear Sir:

What influence has the Profit Sharing idea had upon the retail food industry?

This question is one of many on which I hope to gain some insight while completing the Master of Arts requirements at Michigan State University. As a scholarship student, my thesis area involves the concept of Profit Sharing in our industry.

In using the term Profit Sharing, I am referring to any sum, paid to employees in addition to good rates of pay, based not only upon individual or group performance but on the prosperity of the business as a whole.

Any experience which your company has had in regard to Profit Sharing programs would contribute materially in making an authentic and worthwhile thesis.

Although I do not have to, I would like to be able to quote your questionnaire answers individually as well as in aggregate with the other returns. I will, however, handle the materials with whatever degree of confidence and anonymity you specify. No part of this correspondence will ever be used for any purpose other than research, I assure you.

Since I shall have to assemble material and start writing by June 1st, I would be most grateful if you would let me hear from you as soon as it is convenient.

Sincerely yours,

Richard Turchi

RT

APPENDIX B

1. Approximate number of full time employees. _____
2. Is your company currently operating a Profit Sharing program. YES _____ NO _____
 If not, has your company previously operated a Profit Sharing program. YES _____ NO _____
 If so, what was the major factor in its discontinuance.

3. In what year was your present plan adopted. _____
4. Is your Profit Sharing program a cash plan, deferred plan or combination plan (circle one).
5. Your Profit Sharing formula:
 - (a) Percentage of profits shared _____
 - (b) Before or after taxes (circle which) _____
 - (c) After what prior contributions to dividends or reserves _____
 - (d) To what employee level does the plan extend _____
 Particular reason for any exclusions _____
 - (e) Length of waiting period for eligibility _____
 - (f) How is each employee's share determined? _____

 - (g) If a deferred plan, do employees contribute to the fund? YES _____ NO _____
 If so, what percent of their earnings: _____
 - (h) If a deferred plan, does it permit withdrawals wholly or in part? _____
 If so have these been extensive as to reduce the value of the plan? _____
 If not, has inability to make withdrawals caused employee dissatisfaction? _____
 - (i) If a deferred plan, when is employee eligible for full share of fund? (aside from retirement, disability, or death) _____
 - (j) If a cash plan, when paid? _____
6. For what reason was your Profit Sharing program introduced into the company? (Rank in order of importance)
 - _____ To provide employee security
 - _____ To improve industrial relations and moral
 - _____ To stimulate incentive
 - _____ To gain tax savings

_____ To promote productivity and efficiency of
employees
_____ To give flexibility to salaries and wages
_____ To retain top-level executive personnel
_____ To associate labor with management in partner-
ship
Other reasons _____

7. What, if any, handicaps confront you and your Profit
Sharing plan? _____

Measures taken to overcome them _____

8. Do you feel that Profit Sharing has fulfilled your ob-
jectives? YES _____ NO _____
Comment _____

9. Would you recommend Profit Sharing for other companies
similar to yours? _____

10. Additional remarks and comments.

[illegible]

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