

Industrial Relations and Social Security

Profit Sharing for Wage Earners

By C. C. BALDERSTON

PROFIT sharing for rank and file employees is likely to be ineffective if relied upon as a substitute for other more fundamental personnel devices. It ought not to be thought of as an incentive that can take the place of piecework and bonus plans, or even as a mild incentive to increase efficiency in operations that do not lend themselves to the objective measurement of performance. Nor does the initiation of profit sharing eliminate the need for some kind of joint dealing between an employer and his workers. It is not a satisfactory solution for a strike involving wages, nor a good answer to a demand for a wage increase.

When a well rounded personnel program that includes properly financed schemes designed to protect the employees against such contingencies as unemployment, disability, old age and death has been developed in a company, however, the management may be justified in undertaking some means of sharing profits with the workers. The history of such protective measures indicates that this point of view has had some acceptance. While some 193 American profit-sharing plans have been found by a recent study, no fewer than 385 pension plans, exclusive of those in railroad companies, were discovered in 1932. There has been an increasingly better provision for pension plans in recent years. In 1932 some 163 pension plans were underwritten by insurance companies and during succeeding years this means of

funding pensions grew in favor to such an extent that the contracts in force increased to 405 by the end of 1935.¹

Impetus to the spread of such devices for employee security has come through realization by management that employee reserves are also necessary for reasons of efficiency. Any company that looks forward to a long-continued existence is certain to face the necessity of eliminating from the organization those who for any reason are unable to function properly. If, at the time employees reach the age when they are no longer effective in their jobs, a company has no financial reserves in the shape of a pension fund or paid-up annuities, the management will be tempted to sidestep the problem of retirement entirely by retaining such workers on the payroll long past the time when they have slowed up so much as to be a handicap. Similar arguments can be advanced with respect to other crises such as the necessity for laying off regular employees during a depression. Though the very continuance of the business may necessitate the reduction of the payroll, most managements will feel a responsibility toward those who are the sole support of families. Consequently, they delay taking the steps called for by the business conditions of the moment because they hesitate to cast out such individuals to seek jobs when no jobs are to be found. Retirement and dismissal wage plans are at least a partial answer to these problems.

Granting the importance of these agencies from the points of view of employee security and managerial efficiency and

Editor's NOTE: C. Canby Balderston is Professor of Industry at the Wharton School of Finance and Commerce which is part of the University of Pennsylvania. He has just published a book "Profit Sharing for Wage Earners" which was brought out by the Industrial Relations Counselors, Inc., New York. It is one of the most valuable contributions made in recent years to that important problem and should be read by all students of Industrial Relations. The price is \$2.00.

1. Industrial Relations Counselors, Inc., Industrial Pension Systems in the United States and Canada, New York, 1936, (mimeographed), p. 15.

the need for their sound financing by predetermined procedures, companies might well consider the use of a share of the profits in good years to strengthen the financial bases of the schemes, or to shorten the period of amortization of pension plans, for example. Boards of directors have frequently so acted without previously announcing to employees any formal plan for the use of exceptional profits. Such informal allocation of surplus, while they leave the company free of commitments for the future, are no doubt in most cases less likely to improve employee morale than an announced formula for devoting exceptional profits to furthering employee security.

This combination has the distinct merit of conforming to what is here favored as the long-run objective of managers, i.e., the protection of the business itself and also of the families of workers dependent upon it, which requires flexibility of total payroll and stability of individual employee earnings. The continuance of a business in periods of competitive pressure and economic crisis calls for policies that keep current payroll expense somewhat responsive to fluctuations in volume and prices. Individual employees, however, need security of job and earnings. They need security against all, not merely a few, of the difficulties that befall them as family heads. They need earnings sufficiently stable to permit the budgeting of family expenditure to maintain a living standard that will not be subject to sudden changes. To be "in clover" one year and on relief the next is not conducive to a satisfactory life or to reasonable attitudes in work relationships.

Employee reserves which are built up, at least in part, by profit sharing according to a predetermined formula permit companies that make substantial profits, even occasionally, to pursue simultaneously both phases of this objective—flexibility in payroll for the company and stable earnings for its workers. The payroll to which the company is committed will be reducible to the extent that payments to individual employees in slack times are shifted from the pay-

roll to the reserves created in prosperous periods. The stability of family incomes will be enhanced because the regular family budget will be based in boom years upon the regular full-time pay and supplemented in time of sickness, unemployment or old age from the reserves set aside by the company for this purpose.

The maintenance of the standard of living and the peace of mind of the working population are of the utmost concern to all citizens, whether they be employees, managers, investors or consumers. The state of the nation and the stability of government reflect the scale of living that business is able to provide for those dependent upon it. And from still another point of view, business needs the purchasing power in lean years of consumers who, for one reason or another, have no jobs or have decreased earnings at the moment. In addition to these broad considerations a company wishing to pay its workers high real wages cannot, without some danger to its competitive situation, pay much more than the going rate as current wages. But after each fiscal period is ended, profits, if they have been earned, can be used to provide extra compensation in a form that will enhance the security of employees by protecting and even elevating their living standards.

Some state that leading companies already have plans of the type recommended. The rebuttal to this argument is simple. Although, as already noted, many corporations have given much attention to the perfection of pension and other security plans and have devoted large sums of money to them, the companies known to have provided fully for their accrued pension liabilities and for all other needed forms of employee protection are few. Managements have so frequently protected stockholders, the owners of the business, by paying dividends in dull times from company reserves that the parallel treatment of employees cannot be dubbed paternalistic.

To the contention that employees should get in their pay envelopes or in cash bonuses whatever their company can afford to pay them above the going

rate, the appropriate reply is to consider realistically what happens to such exceptional earnings. Are they either saved or spent in such a way as to advance the long-run scale of living of the family? Some families do have the habit of saving; even these lack access to the mechanisms through which their savings may be invested safely and in a form adapted to all of the major risks to which the family is subject. In the majority of American families it is probable that the windfalls of boom years are spent for purchases which though desirable at the moment may not be warranted on the basis of the family's average yearly income. In these circumstances such employees are prone to look to the company for aid in the emergency at the time when it may be suffering losses, and therefore from the management's point of view the protective type of profit sharing is preferable to the immediate distribution type.

Gist of the Experience

Profit-sharing arrangements have been used in England for three-quarters of a century and in the United States for about half a century, but despite the help of a considerable number of ardent advocates have not been widely accepted.

How extensively has profit sharing been used in the United States? The survey previously mentioned revealed 193 plans in 186 companies that fall within a strict definition of profit sharing. Of the 144 for which information was secured directly from the companies which operate them, sixty-seven (46.5 per cent: were still in use in 1937)

The Group I plans, four in all, were those in which the profit-sharing principle had been applied by the unusual process of arranging for the employees to own at least a majority of the stock. This group would have been a large one, of course, if regular stock purchase plans had not been omitted, for the reasons stated earlier.

Of the Group II plans, which announce a definite formula for distributing profits, direct contact was made with eighty-eight, of which twenty-nine were still

in active operation and fifty-nine discontinued or in abeyance.

In general, the American plans in Group III, i.e., plans announced in advance but less definite than those in Group II as to the portion of profits distributed, seem to have had proportionately fewer casualties than those in Group II. Only eighteen of fifty-two for which information was received directly had been suspended or abandoned, leaving over 65 per cent still in operation.

Of the seventy-eight plans started in Great Britain and Northern Ireland in the years 1922 to 1936, the majority, about 60 per cent, were of the Group III type.¹ Since any plan in which the bonuses depend on dividends, not profits, was classed as Group III, the large number of British schemes in this group is to be expected in view of the popularity of profit sharing among the gas companies, where profit sharing is linked to their sliding scale provision for increasing dividends as gas prices fall, and vice versa.

Returning now to a more detailed examination of Group II, it appears that 28.5 per cent of the 123 American plans discovered as a result of this and other surveys were originated by companies located in the Middle Atlantic states and somewhat more than 30 per cent by companies in the East North Central states. About 14 per cent were in New England plants, and, curiously enough, the great industrial community around Philadelphia has shunned profit sharing almost completely.

Of the Group II plans in the United States and Canada whose starting dates are known, 43 per cent were initiated between 1911 and 1920. Though the 1920's were so prosperous that the starting of a number of plans was to have been anticipated, only fourteen were discovered—probably a reflection of the popularity at that time of the stock purchase idea, which proved disappointing in so many instances.

The total number of Group III plans found in the United States and Canada

(1) Stock purchase plans have been omitted from this count.

is sixty-six, of which one-half are, or have been located in the Middle Atlantic and East North Central regions. Still another quarter belonged to New England firms—a fact which indicates that in this area the wage dividend and other plans with an indefinite relation to profits were preferred to those of the Group II type in which the connection with profits is definite. Examination of the starting dates of these Group III plans indicates that only 33 per cent of the known dates fell in the period 1911 to 1920, whereas 43 per cent of the Group II plans were started during that interval.

Guiding Policies

Assuming that a company decides to adopt the principle of profit sharing, what policies and methods should it use? What are the characteristics of a sound plan? The most important decisions have to do with the policies upon which the plan is grounded.

The following policies are suggested:

1. The regular wages should be at least as high as the going rate paid in the community and by competitors in communities of the same size and with approximately the same living costs.
2. The profits to be distributed to employees should not be regularly paid in cash but should be placed in a fund to be used primarily to further employee security.
3. Funds created through the operation of a profit-sharing plan should be trusted and administered jointly by management and employees.
4. A substantial portion of the fund should be placed in investments such as are suitable for savings banks. Employee savings certainly should not be invested in the company's common stock.
5. Funds created through profit sharing should be so administered that, although an employee is limited in his use of the funds placed to his account to prevent them from being dissipated, his right to join any labor or other organization he may

choose or his right to leave the employer's service is in no way affected. In short, each employee should have a vested right to some part or all of the funds deposited for him and to his share of the interest accumulations.

Conclusion

It may be concluded that profit sharing has real merit, but in its application extreme care must be exercised to determine the suitability of the particular situation and the soundness of the plan in relation to it. It is sound policy for profit-making businesses to adopt profit sharing provided they have established well rounded personnel programs which include properly financed plans to protect employees in periods of reduction or complete loss of earnings. Standing alone, it is a weak device upon which to depend and cannot be recommended except as the culmination of a personnel policy so effective that the sharing of profits is regarded as a further recognition of the mutuality of the enterprise and is not under suspicion as a scheme to evade more fundamental responsibilities. Moreover, managements must be reasonably certain that the financial provisions for the protective measures of the personnel program already in operation are adequate, so that having entered upon a profit-sharing system they will not be compelled to deliberalize or abandon it in order to divert its funds to the bolstering of these other primary obligations.

Nova Scotia Motor Carrier Act

Regulations under this Act, approved by Order in Council on April 20th, limit for the first time in Nova Scotia the hours of labour of drivers of public vehicles carrying passengers or passengers and freight for gain. Taxis carrying seven passengers or less and regularly operating in a city, town or village and making a trip outside such boundaries are exempt.

No driver may be allowed or required to drive or to ride on a public vehicle

as a helper or relief driver for more than ten hours in any 24-hour period. No person after having been employed in any other capacity may drive a public service vehicle when the total number of hours of his employment as a driver or otherwise exceeds ten in 24.

Overtime may be worked on written permission from the Registrar of Motor Vehicles when a written application has been made in advance and the Registrar is satisfied that such overtime is justifiable. Employers are required to keep a record of the hours of employment of all drivers and the vehicle or vehicles driven by each during such hours.

Other regulations relate to the medical examination of drivers, insurance and safety measures.—*The Labour Gazette*.

Industrial Conciliation Legislation in New Brunswick

The New Brunswick Legislature has enacted a Labour and Industrial Relations Act providing increased facilities for conciliation in industrial disputes, while retaining the provisions made in the Fair Wage Act (which is repealed) for a fair wage officer and a fair wage board to inquire into complaints and fix minimum wages and the maximum hours to which such rates apply. The new sections of the Act, like those of the Alberta and British Columbia Industrial Conciliation and Arbitration Acts of 1938 and 1937 respectively, enable the Minister to appoint a conciliation commissioner to whom a dispute may be referred and, failing a settlement, to appoint a tripartite board of conciliation which, if unable to settle a dispute, is to make recommendations for a settlement. In New Brunswick, the Minister is not required to appoint a board unless the dispute affects 30 or more employees. A report of a board is not binding on the parties to a dispute but both employers and employees must take a vote on the question of accepting or rejecting the recommendations.

The Act prohibits any strike or lock-out until a dispute has been reported upon by a board of conciliation or has

been dealt with by the Fair Wage Board but, where there is a collective agreement between an employer and an organisation of employees providing for the arbitration of disputes and the procedure laid down in the agreement has been followed, this prohibition does not apply.

In addition to the direct provisions for the settlement of disputes, the Act contains sections declaring the right of employers and employees to organise in associations or trade unions and the right of employees to bargain collectively through representatives elected by a majority vote or through the officers of the organisation to which the majority of the employees belong. Any condition in a contract of employment tending to restrain an employer or employee from exercising his rights under the Act is unlawful and a penalty is provided for any employer who, by threat of dismissal or by dismissal or loss of employment, or for any person who, by any threat of intimidation, attempts to induce any person to join or refrain from joining or belonging to any organisation or to work or abstain from work.

Organisations of employers and employees may be required by the Minister to file in his office a copy of their constitutions, by-laws or other documents, the names of their officers and a statement of their receipts and expenditures.—*The Labour Gazette*.

Health Insurance in Great Britain

Important changes may be expected in the system of health insurance existing in Great Britain since 1911. If they should become effective they would mean the greatest progress made in that important field since health insurance was established.

The British system of health covers, with very few exceptions, workers in all industries, but it extends only to those engaged themselves in a gainful occupation and does not protect the members of their families. In that respect it differs from the German and French systems which include all members of

the insured persons' families. Now the British Medical Association has proposed to take the same step in England and to give the services offered under the national health insurance plan also to the members of the insured families. If the Government should carry out that suggestion it would mean that more than half of Britain's population would be under the protection of health insurance, an addition of between 18 to 20 million people. This measure would, however, according to the proposition of the British Medical Association, be restricted to families whose income does not exceed £250 a year. Although at the current rate of exchange this amount corresponds to \$1,250, the purchasing power of the sum is much higher. It is interesting to state that the proposition worked out in 1933 by the Canadian Medical Association—which, by the way, also provided for the inclusion of members of the families—set an income limit of \$2,500 for persons with dependents while this limit in the Health Insurance Act of British Columbia was \$1,800. The British Medical Association further recommends an extension of the benefits available for the insured. Hitherto only a medical practitioner might be consulted. Now it is proposed to provide for the services of every type of medical consultant and specialist as the needs of the patients may indicate. The system is further to be extended so that it includes full dental and eye services. Finally the establishment of a complete maternity service is proposed, based on the provision of a family doctor and a certified midwife with "home helps" to relieve the mother of household trouble during the lying-in period, and a specialist in reserve to deal with complicated cases.

Hospital Costs in Canada

Statistics from Canadian hospitals reveal that it costs on the average in Canada \$5.01 per day for a private room, \$2.79 for a semi-private room, and \$1.98 in a public ward. These figures prevail in the average Canadian centre. From the amount of revenue thus received one might imagine that the hospitals should be paying institutions. On the debit side of the ledger, however, is the cost per patient per day. This amounts to \$3.23 for all patients, so that there is a deficit shown with the exception of private room revenue. It might be argued that the charge for other services might be increased, but anyone entering a hospital for any length of time finds the prevailing rate sufficiently high. While conditions in the business world may vary, the hospital rates are fairly constant. In the past twelve years they have shown an increase of only 3.6 per cent.—*The Municipal World*.

Profit Sharing in British Industry

According to a report of the British Ministry of Labour, there existed in 1935 in Great Britain 404 firms which had introduced profit sharing for their workers. The average share that was distributed each quarter from the profit of the enterprise amounted to £10.12.3. It was equal to 5.8% of the wages. Recently the Morris Motors Limited, in order to introduce profit sharing, established a special fund which consists of one million shares of stock of the enterprise. From this fund the amounts payable to the workers will be taken. A committee has been formed by the firm on which the workers are represented.