Profit Sharing Works

By WILLIAM LOEB

The business firm which shares profits with its workers is likely to find that their increased interest leads to more production and profits, says the publisher of a profit-sharing paper.

The half million Americans who work for profit-sharing companies may be an advance guard of a movement that will transform traditional capitalism and be the dynamic American answer to both socialism and communism. Certainly the almost six hundred member companies of the Council of Profit Sharing Industries feel that profit sharing not only increases the production levels in their companies and the take-home of their workers but, most important, produces an entirely new interest and harmonious attitude on the part of the worker.

The Council of Profit Sharing Industries with national headquarters in the First National Bank Building in Akron, Ohio, and with members in 31 states, defines profit sharing 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. Members of the Council are convinced that the widespread introduction of this type of profit sharing in American industry would literally remake the economic atmosphere of America.

Many an observer of the national scene today quite correctly complains that only our machines are dynamic; that our thinking in literature, art, government, foreign affairs and human relations is not only without faith but unoriginal and non-creative. In contrast, the leaders of the profit-sharing movement are as full of faith as old-fashioned revivalists, and their belief in the ability of profit sharing to tap undeveloped national wealth by tapping previously unaroused sources of human energy seems to be paying off.

Profit sharing is not new, having been tried in England in the last century. In the United States likewise some individual companies such as Procter & Gamble have had it for more than fifty years. What is new is its recent widespread introduction into all types and sizes of industry, whether they be manufacturing or service businesses.

The largest member of the Council of Profit Sharing Industries is Sears Roebuck, with some 120,000 employees and the largest retail sales in the world. The smallest member is a garage with twelve employees. Members of the Council include such nationally known firms as S. C. Johnson & Son, wax manufacturers; Daisy Manufacturing Company, makers of Daisy Air Rifles; Pitney Bowes, office machinery; Avondale Mills of Alabama, Jewel Tea, Motorola, First National Bank of Akron, Stanley Home Products and Lincoln Electric. But profit sharing seems to work equally well for less known firms in such diverse businesses as envelope manufacturing, iron foundries, velvet casket linings, rubber toys, oil-well drilling, newspaper publishing and a chain of hamburger stands.

About 40 per cent of the members of the Council have contracts with unions. Probably this would reflect the national ratio of union to non-union workers, so the question of union membership seems of no consequence where profit sharing is concerned. Some union leaders at the national level oppose profit sharing because of a few cases where it has been used as a substitute for good going wages. In other cases the opposition from top union leadership arises from the fear that the peaceful relations between management and labor so often promoted by profit sharing might negate the class struggle which some union leaders seem to feel is the source of their strength. The younger labor leaders are apt to favor profit sharing.

A Plan to Suit the Workers

There are as many forms of profit sharing as there are companies practicing it. Roughly, the plans fall into three broad types. First is the deferred plan, whereby the percentage due the workers is set aside in a fund to be paid on retirement or on leaving the company. The length of the period before these funds vest for the worker varies, as do some other conditions, but they are roughly described as deferred pension funds. An outstanding example is the plan at Sears Roebuck, where stenographers and janitors frequently retire after a lifetime with the company with fifty to sixty thousand dollars to their credit.

The second type is the direct cash plan. This calls for the payment in cash so many times a year of a percentage of the company's profit. At Lincoln Electric, for example, profit-sharing checks distributed once a year have raised the average pay of a Lincoln worker to more than seven thousand dollars a year.

A popular combination of the two plans calls for payment part in cash and part into the pension fund. Some workers and executives argue for this plan on the ground that it provides for the immediate needs of growing families of younger workers and also for the requirements of old age. In all three the terms of the profit-sharing agreements vary greatly. The one rule for a successful plan is that it shall suit the workers in a given company and be something they really want. If it is not, it obviously will not produce the increased production which makes it possible.

Executives of profit-sharing companies know exactly why they share their profits. At the outset they know they are not giving anything away to their workers. They can prove that time and time again the incentive of profit sharing has so increased productivity that management, after deducting the workers' share of profits, has more left for itself than it previously had.

Profit sharing accomplishes this apparent miracle simply by gaining the worker's full-time interest and effort for his job. It is real to the worker because he gets a share of what the boss alone is traditionally supposed to receive. Next, under profit sharing there is no ceiling, the future is unlimited, the workers can make profits larger by their efforts and thus increase their share. Profit sharing fits into the human and very American concept that the future can always be better.

Communism and socialism have trapped their millions of believers and supporters with the false picture of pie in the sky. Profit sharing has the same appeal but actually produces the pie. One profit-sharing check is worth all the lessons in economics and paeans on capitalism ever written. Workers who receive such checks soon want to know what makes profits. This leads them to investigate costs in their own plants and costs that they can not directly control, such as taxes. As a result socialism has no allure for a profit sharer.

Profit sharing produces an intense interest on the part of the worker in the business from which he derives a share of the profits and yet does not seem to lead to any desire to interfere on the management level. On the contrary, it seems to produce a new appreciation by the workers of management's problems.

Objectors say that profit sharing will not work when there are no profits. Experience does not bear out this theory. Members of the Council, such as Sears Roebuck, Procter & Gamble and Vanadium Alloy Steel, have gone through a number of cyclical depressions and their plans have survived. Other companies, such as the Gerstenslager Company, builders of special bodies for trucks, have found themselves profitless in times of great prosperity because strikes in steel or auto companies have deprived them of materials. Their men have used their idle time to figure out how to increase production. At Gerstenslager this resulted in a 20 per cent increase per hour on one item after the plant could operate again.

If profit sharing results in the substitution of "we" for "they" when a worker speaks of his company, if it raises wages and profits and, on the other hand, often lowers prices, why is it not universal? For the same reason that American foreign policy flounders, that our art and literature are in a slough: progressive leadership and the creative thinking that accompanies it are lacking. American business, like most of the rest of the nation, is surfeited with brilliant technicians and barren of wise leaders who understand human nature. It is throttled by the reactionaries and stupidarians of the right and of the left.

Management and Labor Both Gain

On management's side it takes vision to see that by giving away part of your profits you will increase what you have left to more than the original whole. It takes the courage of real leadership to enter into the frank and democratic relationship with your workers that profit sharing requires. Under profit sharing there are no bosses—just leaders, and many a businessman has forgotten how to be a leader.

On the workers' side, many employees can not imagine that the boss would ever want to give them a break. They regard profit sharing as a sort of trap. Some unions, as already mentioned, fear that the resulting harmony between management and labor would lessen their hold over their members. Karl Marx and Veblen never wrote anything about profit sharing. Workers don't know quite where it fits in.

Once management and workers make the plunge into profit sharing, the enthusiasm is likely to be great on both sides. A representative of a national business magazine, with a newspaperman's natural cynicism, attended one of the annual conventions of the Council of Profit Sharing Industries, now in its sixth year. Looking about him he said, "I've been to every known type of business convention but this beats me. These people don't act like businessmen; they act like a bunch of evangelists. Yet that doesn't make sense because I recognize many of these men and their companies, and moneywise they are some of the most successful executives and companies in the nation." To this one of his colleagues replied, "Oh, they are successful, so they can afford to share some profits." A passing profit sharer finished the discussion by answering, "No, we are successful because we share our profits."

After two years as vice chairman and three as chairman of the Council, after observing the success of profit sharing in all sizes and sorts of industries and, most important, after operating a profit-sharing newspaper with five different unions, I can say wholeheartedly, "Profit sharing works." If profit sharing were nation-wide, I believe you would not find one Socialist or Communist among American workers.