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PROFIT SHARING FOR IRELAND?

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1. A Brief Survey of Profit Sharing

Profit sharing may be defined as an agreement between an employer and workers to pay a share of the profits or wealth created by the organisation in addition to wages and direct incentives. It is a recognition of the worker's right to a share in the results of the organisation, just as the right of those who provide the capital. Profit sharing is regarded frequently as a direct incentive to employees whose extra efforts can increase the profitability of an enterprise; it should not be confused with productivity schemes, however.

There are many ways in which profit sharing may be operated: (i) it may be a cash distribution; (ii) it may take the form of share allocation or of share option; (iii) it may apply to all workers or to certain categories; (iv) the amount may be at the discretion of owners or determined by rule; (v) profits shared may be a fixed percentage before tax, net profit after tax, a proportion of profit over a specified minimum. The profitability of a firm depends on many factors, sufficient capital, capable management and the efforts of all the workers, therefore it would appear equitable that all interests should share in the surplus remaining after each section has been reasonably remunerated.

Some of the arguments against profit sharing are:- (i) if employees are encouraged to participate in a scheme of investment in a firm's shares, they may expect to be compensated even if the firm runs into difficulties; (ii) many employees might prefer a cash bonus to investment in shares; (iii) the formula for calculation of shares is often too complex to be understood by all workers; (iv) employees may consider that profit sharing gives an illusion of ownership without the power of control; (v) workers may begin to regard bonuses or dividends as a right and resent their absence in unprofitable years; (vi) if paid in cash it is likely to be regarded as part of pay and hence lose the incentive

or distribution of ownership advantage; (vii) it cannot be applied to public service and other nonprofit organisations unless special arrangements are made. The advantages of profit sharing are said to be: (i) employees acquire an interest in the organisation as owners as well as workers; (ii) profit sharing provides an interest in the firm; (iii) good employees may be induced to join and to remain with the firm; (iv) employees are encouraged to save; (v) by building up a common purposes profit sharing may help to reduce conflict and therefore further public interest which is often forgotten when confrontations occur between management and workers; (v) social justice is seen to exist when workers share in the profit of the enterprise; (vi) profit sharing would involve a wider distribution of ownership in the community.

Most writers on the subject of profit sharing stress some basic principles: (i) basic pay to employees must take precedence over all other interests, (ii) there must be a reasonable proportion of profit for distribution to staff; if the profit bonus is only a small fraction in relation to total dividends, its psychological effect may be disastrous; (iii) the scheme should be simple and clearly understood; (iv) there is emphasis that schemes can operate only in successful firms and cannot be used to salvage a lost situation; (v) the scheme must state who are eligible, e.g. full time employees, certain period of prior service for eligibility, exclusion of certain staff, applicable to all staff; (vi) many think that employees cannot be involved in sharing losses but benefits must vary according to the profitability or otherwise of the firm; (vii) it is important that a reasonable proportion of employees will voluntarily retain their shareholding. In voluntary shareholding staff should be able to opt for a cash bonus instead of shares as it is pointless to give shares which will be realised immediately. In many organisations employees are assisted in acquiring shares in the concern, by means of loans, payable over five years. During the repayment period, shares cannot usually be sold except in exceptional circumstances; (viii) there should be income tax concessions to encourage promotion of profit sharing schemes (ix) the size of the firm does not appear to be important as both large and small

firms have introduced profit sharing successfully; what appears to be important is a steady dividend; (x) schemes may fail to stimulate workers to greater effort as they have to wait too long for results; (xi) schemes are said to increase loyalty to the organisation and lessen strikes.

There appears to be general agreement that unless the wage structure is adequate, profit sharing is not possible. There must be good working conditions, satisfactory pensions and sick pay schemes, particularly in the UK and Ireland before profit sharing can be considered; although in the USA it appears that schemes are introduced to provide pensions and other benefits, workers in European countries do not appear to respond in such motivation. European profit sharing companies tend to be those which have adequate fringe benefits.

It would appear that for profit sharing to be successful there must be a high standard of communication and consultation flowing each way between management and workers. It would be unwise to expect too much from profit sharing schemes alone. They will necessarily remove nor reduce conflict over pay or conditions of work; usually workers prefer increases in basic rates of pay rather than in what they regard as marginal or fringe benefits. There is also the argument that whereas basic pay remains, rewards based on profits may fluctuate or be discretionary.

The Commission of The European Communities considered employee participation in asset formation in a Memorandum issued in 1979. They were "of the opinion that employee participation in productive capital formation constitutes an efficient approach towards the fundamental goal - from a social standpoint - of greater justice in the distribution of total wealth. This asset formation policy is furthermore a modern means of regulating the economy and of controlling inflation".

The most important basic principles, which should tend to reinforce the social aspect of incentives to individual savings are in the view of the Commission:-

- A jointly negotiated asset benefit at a standard rate in absolute value, as in the Federal Republic of Germany.
- Compulsory "frozen" participation of the wage earners in the profits of undertakings financed in part by the State, as in France. Several forms of voluntary participation are operational in Netherlands, the Federal Republic of Germany and in the United Kingdom. Also in France there is compulsory participation in shareholding by employees in certain public enterprises. Similar systems are to be found, although optional, in Denmark, the United Kingdom and in the Federal Republic of Germany.

The Commission favours the sharing of profits by employees, whether by free negotiation between the two sides of industry or within a legal framework. Among the many objectives of such sharing schemes it was argued that priority should be given to the social objectives, particularly to a fairer distribution of wealth. Further objectives were:

- to ensure an overall level of saving necessary for the financing of investments;
- to obtain greater participation in saving;
- to channel such saving towards medium and long term forms of investment;
- to maintain relatively stable prices by balancing incomes with consumption, savings and investment.

In order to encourage savings, countries must implement a policy to control inflation as in times of accelerated inflation savers can see their efforts largely wiped out by currency depreciation; while the real value of interest paid to savers can be negative. It would therefore be necessary, the Commission argued,

that, at least the low income groups, should have some kind of guarantee that medium and long term savings will keep their real value.

There is no EEC law on PS. The Commission recommends two methods of PS. According to the first employees in the private sector and the government would pay their employees standard contributions in addition to earnings which would be frozen for a certain period. The idea would be for the two sides in industry to negociate agreements on asset formation within a legal framework. According to the second method, described as "more advanced", employees would be given a frozen share in company profits, growth or capital Funds transferred to employees, preferably in the form of share certificates could be limited to the employees of the particular company or could be extended to a wider range of employees by assignment to a more or less general fund. It is pointed out that limitation to own company is more likely to bring about improvement in the work atmosphere while funding is the more likely to bring about nearer to equality in reward for employees of more profitable and less profitable companies.

Following are short notes on the parctices in some countries. Of greatest interest for Ireland is the UK. In a booklet produced by CBI (1978) what is described as a "checklist for management" is important because almost invariably schemes are introduced on the initiative of management, whose reasoning, it is suggested, should be on the following lines:-

- "Why do we want a scheme? The timescale is important here. A scheme with regular short-term pay-outs can be used to reward performance but it is wise to consider a scheme based on longer-term achievement if the objective is to seek to increase employee involvement and commitment to the company.
- "Who should belong to the scheme? Should it be for executives, or the whole workforce? Who should be excluded - non-executive directors, senior management, part-time staff?

- "What ratio is the scheme to be based on: net profits, pre-tax profits, added value? Should there be a 'triggering-off' device whereby a certain profit percentage has to be reached before there can be a distribution?
- "How will the company cope with employees' disappointment and disillusion when the company has a bad year and there are no profits to share? Should all the profit surplus be distributed, or some held back in reserve for bad years?
- "Should the company bind itself in advance to the payment of an agreed proportion of profits every year?
- "On what basis should the distribution be made? Should it be related to remuneration, length of service or a combination of both?
- "What should an employees entitlement be when he leaves the company, retires or is dismissed? Will his estate be entitled to anything if he should die?
- "Who should manage the funds set aside for sharing - board of trustees/management/trade unions? Is there scope for a joint management/union initiative?
- "How can we best inform our employees of our proposals and seek their views at the earliest opportunity?
- "How can we ensure that when we have decided on a scheme, it is explained as clearly and simply as possible and that all those covered by the scheme have an opportunity to discuss it with senior management?"

We emphasize that these questions represent only management's thinking; regard must be had also to the viewpoints of employees of particular industries and of trade unions, and to society generally if government is to be involved.

The 1978 U.K. Finance Act purports to make it easier for employees to acquire shares in their company. Relief from income tax is provided for schemes approved by the Inland Revenue. From the viewpoint of the company, amounts expended on PS are deductible for calculation of corporation profit tax. Conditions were: administration by trustees resident in UK, at least five years employee service, participants to be treated like other shareholders, maximum of untaxed allocation £500. In the 1980 budget speech the latter was increased to £1,000. To encourage retention of shares vested, the recipient could not sell these in the first two years of ownership and income tax was payable on sales less than seven years but at a decreasing rate in years 3-7 after acquisition. In the IDS international report

(1980), where much of the information in this paragraph and in what follows was obtained, it is stated that profit sharing in UK has but a small role in "companies' employment participation policies". There are few schemes in heavy industry or in highly unionized companies. It is stated that British trade unions "have shown little enthusiasm for profit sharing, being more interested in increasing their members' influenced and pay in other ways."

In August 1980 firms with PS schemes approved by the Inland Revenue numbered 151, with 114 awaiting approval. Only two per cent of British workers are in PS schemes.

The CBI booklet gives a few examples of PS in the UK. In ICI the scheme is administered by the company through trustees. Under new proposals four employee trustees will be elected by the staff. Shares in the company are issued to PS participants in the July of the year following the particular year of PS allotment. There is no accumulation of shares in the trust from year to year. The formula for allocation is based on the ratio.

R = Value added/Employee remuneration. (Note that R is largely unaffected by inflation). R is converted to a percentage of income (7 per cent in the following example) by a ready reckoner:-

Salary £4, 000, rate 7 per cent	= £280
£280 less tax at say 34 per cent	= £185
£185/share issue price of say £3.90	= 47 shares.

This manner of calculation has the virtue of simplicity, the desirability for which is emphasized. While shares can easily be sold, it is stated that, when least culculated in 1971, about 40 per cent of employee shares were retained.

The Boots Company scheme is about 20 years old. Its declared aim is to give employees a share in the company's prosperity. The PS fund is calculated as $8\frac{1}{2}$ per cent of UK trading profit (calculated before PS). Members of UK

staff who have completed twelve months' service or more qualify for a share in the fund. It is for the company to decide whether an individual qualifies (absenteeism etc). Staff of 49,500 shared £7.3 million in 1977. Each employee entitled to a bonus will be allotted a number of shares in the fund equal to the amount of his weekly pay, with multipliers for 10, 20, 25 and 30 years' service. An example is given illustrating how each share is valued: if the annual fund was £1,000,000 and total number of shares 513,000 the value of each share would be £1.95. Again the simplicity of the scheme will be noted.

The H.P. Bulmer Group's plan is administered by six trustees, of whom two are employees. Each employee is allotted shares as a percentage of earnings. Again allotment depends on the ratio R, e.g. being 1.15 per cent of pay when R = 1.50 rising to 2.40 per cent when R = 1.75. Trustees hold shares for five years after which they are vested in the individual employee if he is still in the company. There is mention of a criticism: during this delay in vesting the employee "feels very little sense of being a shareholder".

Rowntree Mackintosh has had a PS scheme since 1923. Latterly, however, the emphases seems to have been more on SAYE (Save as You Earn). The scheme is stated to offer a large number of employees the opportunity to acquire ordinary shares in the company. According to Option A of the scheme, employees can have savings (between £1 and £5 a week) deducted from pay, the money being held for five years and then used to buy shares in the company, paying the price of those shares fixed five years earlier. (The latter proviso is interesting in protecting the employee from the risk of a fall in share price and if share price has risen in the five years, as will ordinarily be the case with a successful company, granting more shares than if price at vesting were used.) An interesting feature is that at the end of the five years the employee has a half-year to decide whether to buy shares (minimum 25) or to withdraw savings which are index-linked and carry a bonus. This description has been given at some length for this company because SAYE has features in common with PS.

In 1974 the Government of the Federal Republic of Germany adopted a plan that undertakings with an annual profit, before tax, of DM400,000 (limited liability companies) and DM 500,000 (private companies) would have to transfer some equity capital or cash (in some cases) to a clearing institute which distributes the resources to specially created funds from which all employees and self-employed persons whose income does not exceed a certain limit will receive participation certificates which may not be sold for seven years. This draft law has not been implemented because of some practical difficulties but the principle of employee participation in company profits has been accepted and denationalisation of part of the Federal industrial property resulted in a distribution of shares to workers, principally in Volkswagen and Preussiche Bergmarks and Hutten A6. By legislation in 1967, income tax is not payable, up to a stated maximum, by workers owning shares in the company which employs them. There are some provisos including the holding of the shares for five years before sale.

In West Germany voluntary PS schemes are rare (and there is no legislation making PS compulsory), some major companies use other means towards the same end. They have arrangements which enable their employees to acquire shares in the company or other forms of investment, with fiscal incentives.

In 1976 about 770 firms had arrangements for 800,000 workers to acquire a stake in their company, and these firms included the ten largest companies in the country. The usual procedure is for shares to be made available at discount rates to employees with service qualifications. Shareholding of workers is still very small.

France is exceptional in that, since 1967, PS is required by law in private sector companies with more than 100 employees and, in spite of a lack of trade union interest, many smaller companies have voluntarily introduced a PS scheme. At the end of 1978, nearly 5,000,000 employees in 11,500 companies had PS, a quarter of these with less than 100 employees and hence not bound by

law. France has a "complex array" of legislation to put a greater proportion of industrial capital into the hands of French workers but so far with little success (pace the law!). It would seem as almost in desperation the Minister of Labour in 1978 proposed an obligatory handout of shares to employees equivalent to three per cent of the capital of publicly-owned companies, envisaging that eventually "employees would own between 20 and 30 per cent of the capital of the companies in which they work". Not surprisingly one learns that the proposal has had modifications during the past two years. A bill based on it is at present (September 1980) before the French parliament but advocating only voluntary share distribution. There is a second bill making changes in the 1967 PS law. In our source of information it is stated that the fate of these bills is uncertain.

PS in France - cash or shares - is designed for the individual employee and not for a collective fund. In 1976, the last year for which statistics are available, average allocation under the law was £110 but there were wide variations amongst industries, ranging from £320 in the petroleum industry to about £60 in construction. About a fifth of beneficaries got more than 5 per cent of annual pay and a quarter got less than one per cent. Presumably because of the statutory formula (consideration of which follows) nearly two million employees in companies with PS schemes got nothing.

The formula used in France to define a firm's contribution to the workers' Special Participation Fund (SPF) is as follows:-

$$SPF = (B - .05C)\ S/2\ VA$$

where B = profit less tax, C = capital applied, S = employee compensation, VA = value added, to which we may add N = number of employees. One can see most of the rationale of the formula; no payment unless profit after tax exceeds 5 per cent of capital and, once again, the ratio S/VA (which we have noted in UK schemes). The fraction $\frac{1}{2}$ may imply an equal division of this surplus between owners and employees. An authority states that an object of the formula is to "cushion the difference" between capital and labour intensive industries. To examine this point

theoretically let us convert the formula into rates by the following substitution:

Profit before tax $= kB$, $k \quad 1$

$VA = kB + S$

$S = wN$

$B = bc$

$C = aN$

The lower case letters are the rates. There is no a priori reason why k, w, b should necessarily vary with size of firm or capital intensity, measured by a. On substitution in the formula $- SPF/N = a\ (b -.05)\ w/2\ (kba + w) = f$, say.

The coefficient a directly measures capital-intensity, so we may calculate f, the firm's contribution per employee for different values of a, giving the other coefficients reasonable constant values. As examples with w (as numéraire) $= 1$, $k = 1.5$ and $b = 0.8$ we find $f = .0882$ for $a = 20$ and $f = .1188$ for $a = 100$, which means that at these capital intensities the firm's payments to the workers' SPF would be 8.82 and 11.88 per cent respectively of pay. The formula can be regarded as "cushioning" for it succeeds in this example in making a contribution ratio of 1.35 (= 11.88/8.82) while the capital ratio was 5. The range in actual payments per employee between industries quoted above are certainly not in accord with this statutory formula which could, of course, mean that some industries are more generous than the law requires and/or the fact that firms with less than 100 employees with PS are not statutarily bound. This may account for the low average payment of £60 in the construction industry.

A survey of industries in the Netherlands in 1976 covering 40,000 companies with ten or more employees, 2.8 million in all showed that 7,000 companies (one-sixth of all) had PS. Schemes were more common amongst larger companies; one-fifth of those with 100 or more employees had PS. 4,000 firms had a scheme covering all employees, most of the remaining schemes extending only to senior employees. Some 600,000 employees participated in 1976 and 90 per cent of these received some payment in that year. In companies covering all

employees payment per employee was about £290 and average payment was £750 in companies with schemes for part of staff. Most important manner of payment was a fixed percentage of employee's pay. About half of the PS schemes are included in conditions of employment but it is stated that Dutch collective agreements seem to have had only a small part in establishing schemes. Most allocations were based on companies' published profit figures, the rest on taxable profits, dividends, turnover or output. Legislation facilitating company savings schemes has been in force since the 1960s. In 1978 two bills were introduced in the Dutch parliament which would require companies to distribute up to 24 per cent of "excess" profits to employees, i.e. in excess of a certain amount each year - £26,000 in 1980 to be indexed in future. A maximum is proposed equivalent to three per cent of the company's taxable profit. The principle is the participation of employees in the capital growth of companies - it is known as VAD. Some of the allocations would go to individual employees, some to a national fund for all Dutch workers with trade union representatives with a majority on the board. This is known as the collective VAD scheme. In principle all payments would be in the form of shares or other asset certificates. There seems little point in describing the schemes in detail since they are controversial with many amendments proposed already, so that the final form is uncertain.

The Meidner plan in Sweden (initiated in 1971) rejected individual PS, because of the objection of tying the wage earner to the firm and promotes solidarity amongst workpeople and employers instead of amongst workpeople alone. The plan envisaged companies being required by law to use some 20 per cent of their pretax profit annually in the form of new shares. These would go to a "central equalisation fund" to be run by the trade unions. The object would be for the fund to acquire shares which would entitle it to appoint delegates as directors of companies. The Swedish blue-collar union federation LO gave formal support to the plan in 1976. The plan naturally created great political controversy and it is believed that it

was partly the cause of the fall of the Social Democratic (SAP) government in 1976 after 40 years' rule. In 1978 a joint LO-SAP working party proposed changing obligatory PS rules to voluntary and the 1978 SAP congress postponed party decision on employee funds to 1981. There is also a Meyr commission appointed by the government in 1975 to examine the whole question of employee funds and due to report in December 1980.

Danish unions were amongst the first in Europe to claim a greater share in the ownership of industry through a collective fund. The Danish LO's proposals formed the basis for a draft law introduced by the Social Democratic government in 1973 but the government fell that year. While unions persist in central fund proposals, employers oppose but they favour voluntary financial participation by employees in their companies. According to Danish trade union ideas the employee - holding would be frozen for seven years in the fund after which the employee would receive payment in cash.

There are already voluntary schemes in Denmark. Usually the arrangement is for the employee to acquire shares at a favourable rate; there can also be a transfer of profit; 99 companies with 85,000 employees were involved at the end of 1978.

In Ireland, a discussion Paper on Worker Participation (which includes financial participation) was issued in 1980 with the aim of "focusing debate on the key issues", to promote discussion and to encourage initiatives.

The section on financial participation argues that recognition be given to employees" in respect of their interests in and contribution to the wealth created by their labour." Financial participation could also influence the level of inflation and the supply of investment capital, while in its social dimension "it is a logical development of workers demands for broader-based participation in the operations of the enterprise." When workers are asked to practice wage demands restraints it is "only just and equitable that they should be entitled to share in the

wealth thus created when the subsequent recovery in economic performance takes place".

Financial participation must be developed through good management and trade union practice "as part of a total pattern and philosophy of employee participation".

In the next section we give the results of a sample survey in Ireland.

In the US profit sharing has grown, perhaps more than in European countries; this may be, in part, due to the fact that schemes are used to provide superannuation schemes and other fringe benefits. The Employee Retirement Income Security Act of 1974 is stated to have had a profound effect on promoting PS in USA. Tax - deductabilty has played a large part. Usually profit sharing schemes are envisaged as (i) a means of attracting and retaining quality personnel; (ii) the creation of incentives; (iii) the deferment of current income taxes and accumulation of a capital reserve, (iv) maximisation of accumulation of capital through the exemption trusts; (v) the provision of retirement income and of benefits in respect of sickness, death, disability; (vi) fulfilling the company's social responsibility and enhancing its image.

The most usual schemes for profit sharing are, cash only, deferred shares, a combination of both, and savings and thrift plans. Profit sharing is regarded as an organisational incentive designed to unite employees with the company in the common goal of profitability and efficiency. Its objective is the promotion of unity of prupose and equitable sharing within the enterprise.

Bert L. Metzger (1980) states that:

"Profit sharing should not be used as a substitute for -

- competitive wages and customary fringe benefits;
- good working conditions;

- sound personnel practices (e.g. fair wage and salary administration, equitable treatment of employees, grievance resolution, training and development, promotion from within, and the like);

- competent management (profit sharing will not generate a profit when management, even in normal times, cannot)".

A US writer using US data states

"On all measures of significance, the profit-sharing sharing group of companies outperformed the non-profit-sharing group by substantial and widening percentages as can be seen in the following table:

Ratios, 1969	Profit-sharing Companies	Non-Profit-sharing Companies
Net income to net worth	12.78%	8.00%
Net income to sales	3.62%	2.70%
Indices, 1969 (1952 = 100)		
Sales	358.40	266.00
Net worth	376.10	256.70
Earnings per common share	410.50	218.80
Dividends per common share	293.70	175.30
Market price per common share	782.10	397.60
Other Measures		
Approximate company earnings per employee (1969)	$1,165	$647
Growth of the invested dollar (1952-1969)	$9.89	$5.61
Employment growth	103,7%	75.5%"

The data related to US department store chains. Our comment is that the trouble here is attribution of causation. While the introductory wording of the foregoing quotation is careful, there is an implication and an intention to convey the impression that PS was the reason for the different experience of the two groups. It may be that it was because they were successful that the PS group had recourse to PS; there seems no justification for the adjective "widening" in the quotation. If more successful than the non - PS group in the period 1952-69, it is likely to have been more successful prior to 1952 and, when it was decided to adopt PS, the future prospect of the group must have seemed favourable. Our

reading leads us towards the latter direction of causation, i.e. towards a discounting of incentive effects of PS.

PS has had a great success in U.S.A. John Fitzpatrick (1978) writes:-

> "The present strength of the movement may be gauged by reference to its membership. Some ten million employees are now covered and the trust funds accumulated on their behalf amount to over $30 billion. One in every four manufacturing, one in three distribution businesses, now operate profit-sharing schemes. Forty percent of America's four thousand banks, including three-quarters of the largest, have schemes. Sectors hitherto considered unsuitable for profit-sharing, such for instance as construction and transportation, have been found susceptible. Irrespective of whether the Company's operation is labour-intensive or otherwise, or whether profits are stable or widely fluctuating, it has been found possible to devise effective schemes."

As regards USA's greater recourse to PS it may be observed that, as regards pensions and social security, at company level and governmentally, USA has been backward compared to Europe. PS is tax-favoured in USA yet this alone cannot account for its success which must be due in part to PS's incentive and related effects.

2. Some Statistical Aspects of Profit in Ireland

For a consideration of PS we should know something about profit levels in Ireland, in regard to which statistics are meagre. Our short analysis may have some interest in itself.

[Table 2.1]

Table 2.1 shows that between 1960 (about when the modern industrial revolution started) and 1978 (latest figures available, in preliminary form) the proportions borne by pay of employees and "other" income (the latter so termed in what follows) in added value has changed drastically; in fact percentage of other income fell from 42.5 to 34.1, the very low figures for 1974-76 reflecting the recession in these years, reminding us the essential character of other income, namely that it is a residue, showing the effects of the vicissitudes of fortune in factors external to enterprise. Of course, other income includes more than profit in the narrow sense (i.e. as interest on capital) since it includes incomes of the self-employed.

From the PS point of view, interest must centre on major sector 3 of Table 2.1. We notice that, in current terms, with 1960 as 100, other income in 1978 was 900 while employee pay was about 1,200, prices (last row of table) multiplying by six. The row of percentages for this major sector (3) show that the stable situation of the years 1970-73 was restored in 1977.

The great fall in the percentage borne by employee compensation in AFF from 12.9 in 1960 to 6.4 in 1978 is due to the decline in number of employees in AFF which, as a value judgment, we deplore.

Table 2.1. Added value in categories (1) remuneration of employees, (2) other income in three major sectors 1960-1977, with percentages derived therefrom, with personal expenditure price indexes,

Values in £ million

	Major sector	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978
1.	Agriculture, forestry, fishing (AFF)											
	Remuneration of employees	17.2	20.5	26.0	28.6	31.0	33.6	38.1	45.4	50.9	54.8	59
	Other Income	116.2	146.2	188.3	208.0	293.0	374.0	342.1	489.7	552.6	761.9	865
2.	Public administration, defence (PAD)	30.5	49.9	84.2	96.2	116.7	142.6	168.5	241.3	282.2	310.5	362
3.	Other domestic sectors (ODS)											
	Remuneration of employees	246.1	403.9	734.6	854.3	989.9	1,200.8	1,451.6	1,836.1	175.7	2,561.0	3,009
	Other Income	100.9	141.3	216.6	238.7	292.7	337.2	318.5	376.2	493.2	680.1	908
4.	Net domestic product at factor cost (NDP)	510.9	761.8	1,249.7	1,425.8	1,723.3	2,088.2	2,318.8	2,988.7	3,554.6	4,368.1	5,203
	Remuneration of employees	293.8	474.3	844.8	979.1	1,137.6	1,377.0	1,658.2	2,122.8	2,508.8	2,926.1	3,430
	Other Income	217.1	287.5	404.9	446.7	585.7	711.2	660.6	865.9	1,045.8	1,442.0	1,773
	Other income as percentage of total											
1.	Agriculture, forestry, fishing	87.1	87.7	87.9	87.9	90.4	91.8	91.5	91.5	91.6	93.3	93.6
3.	Other domestic sectors (ex PAD)	29.1	25.9	22.8	21.8	22.8	21.9	18.0	17.0	18.5	21.0	23.2
4.	Net domestic product (incl. PAD)	42.5	37.7	32.4	31.3	35.0	34.1	28.5	29.0	29.4	33.0	34.1
	Derived personal expenditure price index (1975 as 100)	23.4	40.5	52.8	57.7	63.3	70.6	81.8	100	119.2	133.7	143.4

Basic source: NIE 1977, Tables A2 and B2, NIE 1978

[Table 2.2]

Table 2.2 shows the fluctuation in price of ordinary stocks and shares of Irish companies quoted on the Irish Stock Exchange. These are the prices of a weighted set of quotations which would have cost £100 on average in 1963. Annual averages are those of the prices at the beginning of each month. The trend is illustrated on Chart 1, which also shows the CPI to the same base (1963). The fluctuations in price from year to year in the share price index are seen to be very large, remarkably so, considering that these figures are averaged two ways, by individual quotations and by months. We surmise that the rewards by way of capital gains of investors in individual Irish stocks are very variable.

Since 1963 the prices of stocks and shares have barely kept pace with the CPI, while reflecting the recession of 1974-76. In view of the risk of investment the investor might have expected better. This experience is in strong contrast to the period 1960-63, the early years of the industrial resurgence, when obviously on investor buying in 1960 and selling in 1963 would have profited handsomely in real terms.

[Chart 1]

Table 2.3 has for its object the comparison of the last two rows (5, 6): while real earnings per hour of employees have doubled between 1960 and 1973, real profit per £100 constant price capital has remained almost static. Vaughan's estimates of fixed capital extend only to the year 1973 and all constant price data relate to the year 1958, as is the case with the capital estimates. In manufacturing industry the reward of labour has improved enormously, no doubt mainly through greatly increased capitalisation, the unitary remuneration of which however, has not increased over the period 1960-73.

[Table 2.3]

Table 2.2 Price index numbers of Irish ordinary stocks and shares and of consumer prices 1960-1979, 1963 as 100

Year	Ir. ord. Stocks & Shares	CPI	Year	Ir. ord. Stocks & Shares	CPI
1960	60.4	91.1	1970	149.5	145.0
1961	71.6	93.6	1971	145.0	157.9
1962	82.0	97.6	1972	213.3	171.6
1963	100	100	1973	252.0	191.1
1964	124.6	106.7	1974	169.3	223.5
1965	121.0	112.1	1975	164.6	270.2
1966	112.9	115.4	1976	174.6	318.8
1967	112.7	119.1	1977	219.2	362.3
1968	160.7	124.7	1978	331.9	390.0
1969	169.9	134.0	1979	370.7*	441.9

* 7 months

Basic sources: various issues of Irish Statistical Bulletin.

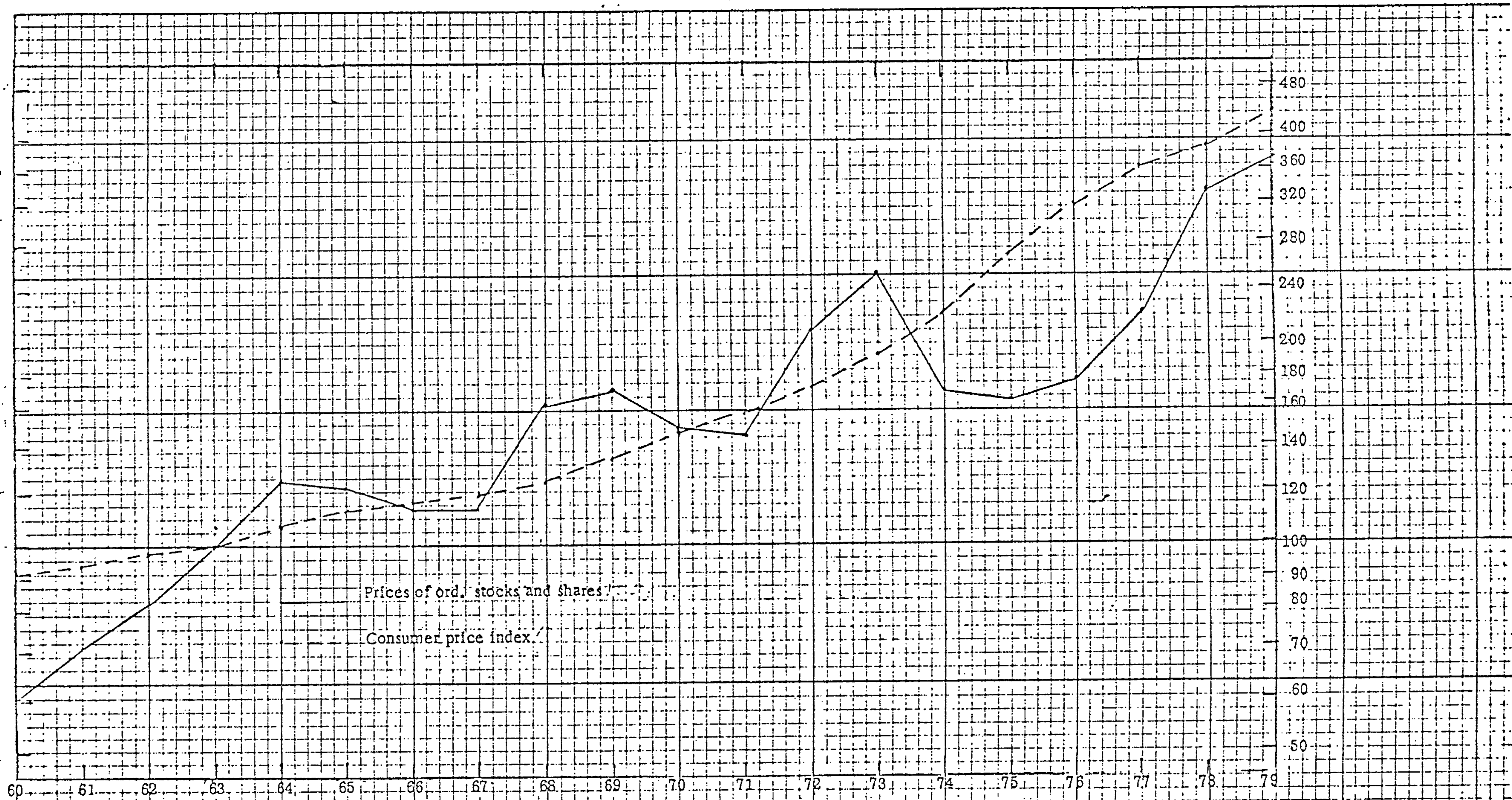

Chart 1. Index numbers of the prices of Irish ordinary stocks and shares and of consumer prices 1960-79, 1963 as 100. Logarithmic scale of ordinate.

Table 2.3. Real earnings per hour and real profit per £1,000 fixed capital invested manufacturing industry, 1960-1973

Item		1960	1965	1970	1971	1972	1973
1. Fixed capital at constant (1958) prices, net	(£m)	185.1	269.7	404.1	440.0	494.5	535.6
2. Profit at current prices	(£m)	38.3	54.8	100.2	110.0	154.2	197.3
3. Profit at constant (1958)	(£m)	38.1	44.4	62.7	63.2	81.6	93.7
4. Earnings per hour, current, September	(£)	0.167	0.245	0.424	0.491	0.559	0.687
5. Earnings per hour at constant (1958) prices	(£)	0.167	0.198	0.263	0.280	0.293	0.323
6. Profit at constant prices per £100 net capital at constant prices	(£)	20.6	16.5	15.5	14.4	16.5	17.5

Basic sources: "Estimates of Capital Employed in Manufacturing Industry 1950-1973" by R. Vaughan ESRI Paper No.
Statistical Bulletin (various issues).

Notes

Item

1. Vaughan's estimates are calculated by the perpetual inventory method, based mainly on the CIP values of gross fixed capital formation.

2. E.W. Henry's input-output estimate for profit in manufacturing industry in 1976 adjusted proportionately according to value added other than employed income in all industry (Table 2A and 2B in NIE 1977).

3. 2 deflated by annual CPI.

5. 4 deflated by mid-August CPI.

6. Quotient x 100 of 3 by 1.

An examination of the financial returns of Irish companies brings to light the extraordinary variability in profit return between companies. We envisage the single year 1979 and in Table 2.4 we consider the result of investing £100 at the beginning of the year and selling it at the end. The dividend is not that for the calendar year 1979 but that which (if any) is the latest paid. The data used are those compiled by E. McVey for The Irish Times, in which companies are ranked according to turnover, no. 1 the highest. Table 2.4 shows net dividend, capital gain realised and the sum of the two which we term "return" (on the £100 invested, not to be confused with company profit, analysed later).

[Table 2.4]

The number of companies listed is 61. The simple averages of net dividend, capital gain and return on the £100 invested were respectively £6.06, £0.08 and £6.14. Ten companies (or one sixth) paid no dividend, 31 (or just one half) made capital losses. Since capital gains (or losses) were greater in absolute magnitude than net dividends, the picture for returns was similar to that for capital gains; losses occurred in 27 companies. The highest net dividend was £24 (for company no. 60), capital gains (or losses) ranged from £59 (for company no. 47) to minus £51 (for company no. 46), all in relation to the same investment of £100. Table 2.5 gives the frequency distribution according to the three factors.

Table 2.5 Frequency distributions based on Table 2.4

Net dividend (£)	No.	Capital gain (£)	No.	Return* No.
0	10	30 or over	10	12
0.01 - 3.99	7	0 - 29.99	20	22
4 - 7.99	24	-30 - -0.01	23	21
8 - 11.99	17	-30.01 or less	8	6
12 or over	3			
No. of companies	61		61	61

* Same classification as for capital gain.

Table 2.4. Return on £100 invested in each Irish company at the beginning, and sold at the end, of 1979. Data in £

Rank No.	Net dividend	Capital	Return	Rank No.	Net dividend	Capital gain	Return	Rank No.	Net dividend	Capital gain	Return
1	4.46	-20.92	-16.46	21	5.78	1.05	6.83	41	5.13	-7.69	-2.56
2	3.93	-11.22	- 7.29	22	8.20	-34.00	-25.80	42	5.30	-9.72	-4.42
3	4.93	-20.54	-15.61	23	8.72	-10.26	- 1.54	43	12.96	-7.41	5.55
4	8.66	15.46	24.12	24	9.71	5.91	15.62	44	0	-3.85	-3.85
5	7.65	2.94	10.59	25	8.71	57.41	66.12	45	0	-48.15	-48.15
6	6.87	5.00	11.87	26	5.95	-29.52	-23.57	46	0	-51.43	-51.43
7	3.20	-14.14	-10.94	27	8.33	3.33	11.66	47	1.41	58.82	60.23
8	0	-39.71	-39.71	28	11.67	-1.67	10.00	48	11.96	30.43	42.39
9	3.71	-14.29	-10.58	29	4.12	37.36	41.48	49	5.12	-19.51	-14.39
10	11.27	3.23	14.50	30	5.05	-33.33	-28.28	51*	4.38	-35.00	-30.62
11	4.88	-20.98	-16.10	31	9.52	20.29	29.81	52	10.29	23.53	33.82
12	6.36	-1.73	4.63	32	8.33	0	8.33	53	4.58	-14.29	-9.71
13	3.78	-4.05	-0.27	33	4.45	17.50	21.95	54	11.72	-21.88	-10.16
14	7.14	-17.86	-10.72	34	6.09	0.78	6.87	55	8.33	50.00	58.33
15	8.35	12.78	21.13	35	10.32	31.58	41.90	56	0	-5.00	-5.00
16	5.00	-35.19	-30.19	36	0	27.27	27.27	57	4.11	9.20	13.31
17	10.00	-4.62	5.38	37	7.02	6.67	13.69	58	0	-10.00	-10.00
18	5.58	11.63	17.21	38	12.50	37.50	50.00	59	0	-38.60	-38.60
19	7.52	27.82	35.34	39	0	42.86	42.86	60	23.86	36.36	60.22
20	0	-10.00	-10.00	40	3.96	-15.09	-11.13	61	2.50	0	2.50
								+	6.60	39.62	46.22

* Particulars missing for company ranked no. 50 + Turnover, hence rank, unknown.

Basic source: Table compiled by Eoin McVey in The Irish Times 29 December 1979.

[Table 2.6]

Table 2.6 is based on the 59 of the 61 Irish companies displayed in Table 2.4 for which particulars of employment, capital and profit were available from the McVey table. In aggregate in the 59 firms, capital employed amounted to £674 million, profit £125 million, number of employees 75,400. It will be noted that the principle of classification by size, namely turnover, is different for the three factors manipulated, a procedure necessary for avoidance of bias. The average number of employees column shows that the turnover classification also is successful in classifying by size of company as measured by number of employees. Assignment of about equal numbers of companies in each grade in Table 2.6 deliberate, to avoid selectivity.

While the figures in the last two columns do not vary regularly with size of firm it is fairly clear that capital intensity (last column) is related to size of firm.

There are many definitions of capital. To assume that any of the capital, as defined and measured for Table 2.6, would be available for alternative investment is fanciful. Nevertheless, a very strong impression from Table 2.6 is that percentage profit is far too low, in view of the demonstrated risk attached to investment in Irish securities, which are anything but secure. The aggregate 18.6% is but little in excess of the approximate 16½% yield on longterm Irish Government stock in 1979, available without any hazard whatsoever, apart, of course, from capital or inflationary loss.

It may be because of emphasis on employment in the Irish economic upsurge that profitability of investment has been disregarded, due in large measure to the absence of official statistics of capital employed. Yet in the private sector investment depends on anticipation of profit and investment is needed for employment. If no firm statement can be made about the rewards in equity of labour and capital in the division of value added, we have shown that trendwise labour has fared better

Table 2.6 Number of employees per company, profit as a percentage of capital and capital per employee in five groups of companies classified by turnover, 1979

Rank Nos.	No. of cos.	Employees per company	Profit as % of capital	Capital employed per employee
		No.	%	£
1 - 12	12	3,649	19.8	9,970
13 - 24	11	1,363	15.1	7,538
25 - 36	11	827	21.0	7,675
37 - 48	12	453	14.1	7,486
49 - 61	13	163	11.8	6,992
All cos.	59	1,279	18.6	8,932

Basic source: Same as Table 4

Note

Capital employed is the sum of the issued share capital, reserves, loans, net bank overdraft, minority interests and future tax less goodwill. Profit is before interest and tax.

than capital and, having regard to the risks associated with private investment, earnings therein seem meagre.

One of the stated objects of PS is the wider dissemination of ownership of wealth. So there is some interest in its present concentration in Irish business. Table 2.7 shows that of £674m. capital £119m. or 18 per cent

[Table 2.7]

is owned by company directors or members of their families. As might be expected family-director ownership percentage diminishes as company size increases. Outside ownership percentage, 31 per cent overall, varies generally, if not regularly, with size of company. While, as pointed out in the Note, the two categories are not exclusive, it seems that about half the capital is owned in Ireland other than by directors and family and that the proportion (one-half) does not vary much by size of company. In Tables 2.6 and 2.7 the classification of companies is the same. The showing in both is dominated by the twelve companies in the largest group which accounts for two-thirds of capital employed and nearly two-fifths of employment.

Table 2.4 -2.7 relate only to what are described as "Irish public companies" which those for which prices are quoted on the Irish Stock Exchange. Their activities cover only a small fraction of all Irish business, best evidenced by their employing 75,000 only 10 (?) per cent of all non-agricultural employees in the State.

Table 2.7. Total capital employed, capital owned by family and directors, and capital owned outside the State, in same five groups of companies as in Table 2.6

Rank nos.	No. of cos.	Capital employed	Ownership		% Ownership	
			Fam. dir.	Outside	Fam. dir.	Outside
		£m	£m	£m		
1-12	12	436.6	59.81	163.15	13.7	37.4
13-14	11	113.0	23.05	15.82	20.4	14.0
25-36	11	69.3	17.50	15.64	25.3	22.6
37-48	12	40.7	14.03	10.10	34.5	24.8
49-61	13	14.2	4.79	2.44	33.7	17.2
All cos.	59	673.8	119.18	207.15	17.7	30.7

Basic source: Same as Table 2.4

Note

Capital as defined for Table 3.6. Amounts in the two categories of ownership in each size group estimated by applying given percentages to capital employed. The two categories are not exclusive since it is obvious from the individual records that some family-director owners reside outside the State.

Correlation coefficients between the variables dealt with in the foregoing analyses are as follows

		1	2	3	4	5
1	No. employees	1	-.15	.13	-.07	-.20
	% equity held by -					
2	Fam., directors	-.15	1	-.36	.23	.16
3	Outside State	.13	-.36	1	-.11	-.02
	Per £100 invested-					
4	Net dividend	-.07	.22	-.11	1	.39
5	Capital gain	.20	.16	-.02	.39	1

For c.c. NHP critical levels for 57 d.f.: - r (.1) = .22; r (.05) = .26; r (.01) = .33

All correlations are small. Only two can be accounted significant and both are to be expected, the .39 between dividend (4) and capital gain (5) and the negative -.36 between percentages (2, 3). There seems to be a slight tendency for businesses with high ownership by family and directors to have higher dividends and capital gains.

One set of non-significant results is of greater interest, namely that size of business as determined by employment (1) had no influence on the other variables. The tables given earlier were more revealing than this correlation analysis.

3. Irish experience with profit sharing

"Company" is a vague concept in its popular usage in Ireland. From different sources we derived a list of about 3,000 companies, from which we selected a non-random sample of about one-tenth, in fact 319, to whom a very simple single page form containing six questions was sent; 180 or 56 per cent were returned. We are aware that PS in Ireland is at its small beginnings so that the object of our inquiry was more to obtain details of types of PS as case histories than as statistical estimates (of number of companies practising PS classified in various ways); enough to know that some one-tenth or fewer of companies have some form of PS. Hence the non-random sample which, in fact, consisted of (i) all Irish companies in the 1979 Irish Times list, (ii) all banks and finance houses listed in Thom's Commercial Directory 1979/80, (iii) a one-tenth systematic sample of companies listed in Thom's Commercial Directory 1979/80, (iv) a one-third sample of the top 100 grant-aided foreign companies, to repeat 319 companies in all.

Of 180 which responded, 30 had PS in some form, or one-sixth. Probably the national proportion is much smaller (even as regards companies) since one assumes that the 139 who did not trouble to reply contained very few profit sharers. Suffice to repeat that PS is at its small beginnings in Ireland. The 30 were interviewed orally using a very detailed structured form - see synoptic table - or were sent the form; 22 companies complied. It may be stated, without specifically identifying them, that they contain a number of the most illustrious companies in Ireland. Our object is not to obtain statistics of the number of companies practising PS in Ireland, (we knew beforehand that they were few) classified in various ways, but rather to ascertain the types of profit-sharing which, as it happens, vary a great deal. We have tried to show these variations in the synoptic table but there are many particularities which the table conceals. For this reason we have judged it expedient to give a short description for each of the twenty-two companies, as an Appendix.

[Synoptic table with Key]

4.1

Synoptic table showing profit-sharing characteristics of twenty-two Irish companies, (See Key for numeration)

Co. No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	Co. No.	31	32	33
1	iii	25	3	8,000	i	iv	7,300	ii	i	i	i	ii	iii	iii	i	i	ii	i	i	i	ii	ii, iii, iv	i	ii	73/74	i	ii	i	iii	i, ii, iii, v,	1	ii	i	i, ii
2	iii	100	15*	160	ii	iv	160	i, iii	i	i	i	ii	i	i	i	i	i	i	i	ii	ii	ii, iv	i	ii	65/66	i	ii	i	iii, iv,	i, iii, v, vii	2	v	i	i, ii, iv
3	ii	1	6	230	ii	i	30	i	–	–	–	ii	i	–	–	i	i	i	i	ii	i	–	–	–	'33	i	–	–	i	i, ii, iii	3	v	i	i
4	i, ii	39	5	115	ii	i	12	i, ii	ii	–	i	ii	iii	–	i	–	ii	i	i	ii	ii	ii	i	–	78/79	i	ii	i	i	iii, v	4	v	i	i
5	iii	–	–	7,500	i	iv	7,500	i, iii	i	i	i	ii	iii	iii	i	i	ii	i	ii	i	ii	ii, iii	i	ii	'50	i	i, ii	i	iii, iv	ii, v	5	v	i	i, ii, iii
6	iii	100	1	200	ii	iv	90	i, iii	i	i	ii	–	iii	iii	i	i	ii	i	i	i	i	–	i	ii	'74	i	ii	i	iii	i, ii, iii, vii	6	i	i	i, iii, viii
7	iii	16	4	600	i	i	32	i, iii	i	ii	ii	ii	i	ii	i	i	ii	i	i	ii	ii	i, ii, iii iv	i	ii	'78	i	ii	i	iii, iv v	i, ii, iii, v, vi	7	v	i	i, iii, vi
8	i	75	4	2,500	ii	iv	2,500	i	ii	–	ii	i	ii	–	–	i	ii	i	i	i	ii	ii	–	–	'64	i	ii	–	iii, v	i, ii, iii	8	v	i	i, ii, iii, iv, viii
9	i	100	–	323	ii	iv	323	i	ii	–	ii	i	i	–	–	ii	ii	i	i	ii	ii	ii	–	–	'79	i	i	–	ii, iv	i, ii, iii, v	9	ii	i	i, ii, iii, viii
10	iii	100		2,700	i	iv	2,700	i	ii	–	–	–	–	–	–		ii			ii				–	–	i	ii		iv, v	i, ii, iii	10	iii	i	i, vi
11	i	51	10	217	ii	i	12	i	ii	–	i	iii	iii	–	–	i	ii	i	i	ii	ii	ii	–	–	'79	i	ii	–	i	iii	11	v	i	i, ii
12	i, ii	5	–	1,800	i	iv	400	ii	ii	i	ii	ii	–	iii	i	–	ii	–	ii	ii	ii	ii	i	ii	'79	i	ii	i	iii, iv	i, ii, iii, v, vii	12	ii	i	i, vi
13	iii	100	6	90	i	iv	70	i, iii	ii	ii	ii	ii	iii	iii	i	i	ii	i, ii	i	i	ii	ii	i	ii	'78	i	ii	i	iii	i, v	13	iii	i	i, ii, iii
14	i, ii	51	–	900	i	i	40	iii	i	ii	ii	ii	i	ii	i	i	ii	–	–	i	ii	i, iv	i	ii	'75	i	ii	i	iii	viii	14	v	i	i, ii, iii
15	i	5	2	600	i	iv	550	ii	ii	ii	–	ii	iii	i	i	ii	ii	ii	ii	i	ii	i	i	ii	'71	i	ii	i	iii	ii	15	iii	i	i, ii
16	i	0	–	350	i	i	40	i	ii	–	ii	ii	iii	–	–	i	ii	i	i	i	ii	ii	–	–	'76	i	ii	–	iii	iii, vii	16	i	i	i, ii
17	iii	100	–	598	ii	iv	524	i, ii	ii	ii	ii	ii	iii	ii	ii	i	ii	i	i	ii	ii	ii	i	ii	'79	i	ii	i	iii	–	17	–	i	–
18	i, ii	43	1	2,700	i	i	170	i	ii	i	i	ii	iii	ii	i	iii	ii	iii	ii	i	ii	i	i	ii	'69	i	ii	i	i	vii	18	ii	i	i, iii, v
19	i	100	3	600	ii	iv	593	i	ii	–	ii	i	ii	–	–	i	ii	i	i	i	ii	ii	–	–	'25	i	ii	–	ii, iii, iv	ii, ii, iii iv	19	i	i	i, ii
20	i	35	$4\frac{1}{2}$	863	i	iv	849	i	ii	–	ii	i	ii	–	–	i	ii	i	ii	ii	ii	ii	–	–	'75	i	i	–	ii, iii, iv	i, ii, v	20	v	i	i, ii, iv, vii
21	i	100	9	482	ii	iv	482	i	ii	–	ii	i	iii	–	–	ii	–	i	ii	i	ii	ii	–	–	'67	i	–	–	i	i, ii	21	v	i	i
22	i	25	–	900	i	iv	350	iii	i	ii	ii	ii	iii	i	i	–	ii	–	–	–	–	–	i	ii	–	–	–	–	ii, iv	i, ii, iii, iv	22	i	i	ii, iii, iv, viii

Key to notation in synoptic table

1 Broad sector:- (i) manufacturing, (ii) distribution, (iii) other services

2 Percentage of equity held outside State

3 Percentage of after-tax profit distributed under the profit-sharing scheme in the last financial year. * Percentage before tax

4 Employment (approximate).

5 i public (principal), ii public (subsidiary).

6 Coverage:- i managerial, executive, ii clerical, iii other employees, iv all employees.

7 Number of employees in scheme.

8 Form of sharing:- i cash, ii allocation of shares, iii share option.

9 Contribution by employees:- i Yes, ii No

10 Are shares issued at a discount? i Yes, ii No.

11 Is scheme varied according to type of employee:- i Yes, ii No.

12 Are part time staff included? i Yes, ii No

13 Minimum period of service for qualification:- i no minimum, ii under one year, iii one year or over.

14 If shares are allocated, can employees:- i sell shares immediately or hold for under one year, ii hold one year but under five years, iii hold five years or over?

15 Shares or options issued to:- individual employees, ii a trust fund for employees.

16 Frequency of payment:- i yearly, ii twice yearly, iii more frequently.

17 Employee participation in management of PS:- i Yes, ii No

18 Allocations:- i before tax, ii after tax, iii unrelated to profit.

19 Minimum profit necessary before allocation:- i Yes, ii No.

20 Allocation discretionary:- i Yes, ii No.

21 Do employees receive equal amounts? i Yes, ii No

22 If 21 is No, allocations are according to:- i seniority, ii pay, iii grade, iv merit?

23 Allocation is of i ordinary shares, ii preference shares.

24 Negotiation of value of shares with employees:- i Yes, ii No.

25	Year when PS started.
26	Was PS started on initiative of i management, ii employees,
27	If 26 was i, were employees consulted before initiation? i Yes, ii No
28	Is share of share option allocation confined to own shares? i Yes, ii No
29	Steps taken by management to propagate benefit of PS - i no action, ii notices on notice boards, iii communications to individuals, iv staff meetings, v brochures etc.
30	Company objectives in PS - i distributive justice, ii industrial relations, iii productivity, efficiency, iv lessening absenteeism, v motivation, vi competitiveness, vii profit, viii retain staff.
31	Attainment of objectives - i no, ii partly, iii doubtful, iv not long enough in operation to judge, v yes.
32	Fringe benefits independent of PS - i Yes, ii No.
33	If Yes at 32, benefits:- i pension, ii medical, iii cash bonus, iv subsidy to canteen, bar, v car, vi loans, vii product allowance, viii other
-	Does not apply or not stated.

The showing of the table may be summarized as follows. About half the companies are owned (in majority equity) outside Ireland. Practically all are large firms by Irish standards. Most of the after - tax profit for PS is less than 10 per cent. All are public companies, half-and-half principal and subsidiary. Two-thirds of the companies' PS extends to all permanent staff, one-third to the executive class only, in the latter case the proportion of staff covered is therefore small. In most cases distribution is in the form of cash, sometimes with shares or share-options. Contributions by employees is rare. In most relevant cases shares are issued to participants at a discount, and do not vary according to rank of employee. Mostly part-time staff are not included. A year or more service by recipients for inclusion is required in most cases. Practice is varied as to length of time shares must be held unsold. In all cases of shares but one in the sample, shares were allocated on an individual (and not a 'trust fund) basis. Sharing was mostly yearly. In nearly all cases there was no employee participation in management of PS, in the initiation of the scheme or any form of consultancy in regard to it; PS is the child of management in Ireland. Most allocations are before tax; a minimum profit is necessary before PS, mostly. Allocation is discretionary in about half the sample companies (i.e. at the discretion of management, half therefore according to some predetermined rule). Distribution is usually according to pay. Shares are always ordinary shares in own company, with no prior negotiation of value with staff by management. In all known cases but two schemes was of recent origin (earliest 1964). Some action was taken by mangement in most cases to propagate benefits of PS amongst employees. Company objectives ranged over the whole spectrum listed in the Key (head 30). All sampled companies had fringe benefits, invariably including pension. As to attainment of objectives, most companies were satisfied, but amongst 21 respondents to this head 31 there were four blunt noes.

Our interviews with the twenty-two PS companies left us with the following impressions:-

1. Companies were highly successful by the usual tests;
2. their PS was of recent origin;
3. their deep involvement in fringe benefits;
4. non-involvement of staff in initiating or controlling PS schemes;
5. extent to which PS schemes consisted of cash and not share allocation, tending to result in PS being regarded as part of pay and not in sharing in ownership;
6. comparative disinterest as to whether PS would benefit company;
7. small propaganda amongst staff about PS.

It would seem indeed that the impulsion towards PS on these companies was an extension of 3 above, which could come under the head of enlightened self-interest, but with little concern about results. If PS is to be adopted it seems that reversal at heads 4 - 7 would be beneficial. A very serious qualification to widespread profit sharing in Ireland is our statistical showing that profit as percentage of capital invested is generally low. Variation is, however, great, so that a proportion of firms could afford substantial PS.

While, in our sample, a majority indicated that they were satisfied with the results of PS (and are so recorded in the synoptic table) we suspect that this is usually a statement that the system is working efficiently. For the majority of companies PS has been in operation for only a few years and it is too soon to decide whether the scheme has been a success as regards any or all the desired effects, as listed at head 30 of the key to the synoptic table. In any case it will be difficult to decide since the firms which have PS are "good" firms and the might have been equally successful without PS.

4. Conclusion

From our study of the literature, a survey in Ireland involving personal interviews on a structured questionnaire with companies practising PS, and from our own impressions of all this material we find:-

- not much interest in the topic amongst managements or employees;
- some interest in the EEC Commission and governments generally, Ireland's in particular;
- a vast degree of variation in schemes in Ireland and elsewhere;
- a small proportion of firms with PS in Ireland and no high percentage anywhere except in France, and in USA where it is tax-favoured and involved in fringe benefits;
- in Ireland, practising firms have good fringe benefits: we infer that PS is widely regarded as an extension of these;
- trade unions are disinterested when they are not positively antagonistic;
- broadly there are two types of schemes of deductions from profit 1 distributed amongst own staff, 2 contributed to a general fund for all employees of all firms, 2 being favoured by trade unions;
- experts are generally agreed as to aspirations with regard to PS but there is an entire absence of statistical proof as to whether stated objectives have been attained, there being simply statements that this has been the case usually.

Our title is in the form of a question implying that we seek an answer. This answer should be Yes, No or Doubtful. For any choice, reasons should be given. If Yes the type of scheme favoured should be sketched in broad lines, while recognising that choice of scheme will depend on company circumstances. We may state at once that our answer is Yes.

Our analysis will be full of value judgements, so deprecated by analysts seeking proof. To repeat, we have been unable to find statistical proof, little economic theory and vast variability in scheme detail, this an argument for absence of proof of theory. So we feel justified in recourse to value judgement, noting the words of the EEC Commission of Communities in regard to PS "We are of the opinion...." implying value judgement. We consider our judgements to have value, more value than

most as resulting from months of reflection and study. We will be well content if the opinions in this section and in the paper generally (the other sections of which consisting almost entirely of statistical and other facts) will polarize discussion, even if most other opinions differ from ours.

PS in its origins was idealistic, paternalistic and generally charitable in its intent. Tending towards the economic were the objects of increased saving, increased labour productivity, improved industrial relations, distributive justice, with diminution generally of the two-sided industrial philosophy within the firm. Collectively these objects, insofar as they are attainable, would go some way towards justifying PS. Can we produce any further argumentation that PS is in accordance with the natural law? Can we ascertain or set limits to the just rewards of those entitled to a share of VA in an individual enterprise?

Very early on we came to the conclusion that PS was but a small part of the important topic of participation, implying the question of the share of employees in ownership and management of the firm. Taking a stand mainly on ethical grounds we have not the smallest doubt that ownership and management should be widely distributed amongst staff, who are vitally concerned in the success and even the survival of the firm. (Happily, ethical judgements are, of necessity, value judgements, not requiring apology therefore.) We are on record as deprecating these two sides in industry, arguing that employees and owners of an enterprise are in the same boat, This results in demands for employee compensation being to a large extent independent of the welfare of the firm, sometimes leaving too little for profit on which, largely through allocations to reserve, the survival of the firm depends. The two-sided philosophy is fully accepted by management and staff. We do not argue that its disappearance is necessary for participation in general or PS in particular. We do consider that a better atmosphere in industrial relations than at present is a prior condition for PS to take firm hold.

In its practical aspect the problem of PS raised the more general question of the fair division of value added (VA) between owners and staff. Thus some consideration of VA will be necessary.

VA, the difference between total sales and purchases of goods and services embodied in these sales, in any period (usually a year but nowadays efficient firms use shorter periods for accounting), is the measure of work done by the firm in the period. Sales will include value of increase in stocks of goods (products and materials) during the period; that these unsold elements can be valued in different ways need not trouble us at this stage. Purchases include a valuation for depreciation (or capital consumption) as well as repairs and maintenance during the period. Here again there is an unsold (and hence non-valued) element, namely depreciation. That added value can have different valuation does not disqualify it from being the _fons et origo_ in any discussion of the distribution of the value of work of the firm. Our argument will apply however VA is defined. Nor need we be troubled about the fact that levels of sales and/or purchases may be subject partly or wholly to monopolistic pressures, thus increasing or decreasing VA.

For this discussion VA may be regarded as consisting of four main categories:-

(i) employee compensation;

(ii) company taxation;

(iii) additions to reserves, i.e. company saving;

(iv) dividends and interest.

These four categories are set out in their natural order, the order in which a board of directors usually would consider them. We deal with them in the following paragraphs, as far as relevant to our inquiry.

(i) _Employee compensation_ includes overtime and bonus (on turnover or for productivity etc. - let us exclude bonus in the form of PS for the moment, terming

it "non-PS bonus"). Regular pay and overtime are unrelated to outcome in so far as payments are independent of output or sales of goods or services. Non-PS bonus on the other hand depends on results, though it may become a routine payment, at more or less the same rate over a term of years and, as such, indistinguishable from ordinary pay. If PS is in operation it would seem to be important for the staff to distinguish clearly between such bonus and PS, if PS is to have any incentive effect in any direction which, incidentally, will be to the weal of staff as well as shareholders. There must be no tendency towards confusion of non-PS bonus and PS, especially if paid in cash, which should be an important element in the firm's publicity of its PS scheme. In turn, any such scheme should be voluntarily adopted by the staff, in general principle and as to the method of distribution. It seems logical and PS should vary up or down with profits if it has to have its incentive effects and that this fact should be accepted by the staff. The same argument might appear applicable to non-PS bonus but the staff will not look at it that way since such bonus is regarded as part of pay. There should be no difficulty in distinguishing between PS and other bonus (and one might add pension and other fringe benefits) if each is an absolute value or a fixed percentage of a relevant financial entity.

For owners, staff are a cost like materials. The question stands; is this attitude, apart from the moral aspect, in the interest of the firm? The attitude is also enshrined in the practice of professional accountancy, for whom the appropriation account begins with trading profit. Within the logic of VA it would seem that the account should open with employee remuneration. Indeed, very much more information, statistical in character, is required than accountants usually supply to increase profit. These statistics could be based on data the firm <u>must</u> supply, sometimes at considerable cost, to the statistical authorities and which could be used with little extra expense by the firm, to increase its efficiency.

We have become so accustomed to (ii) <u>company taxation</u> that we have ceased

to realize how odd it is. It started in World War I and amounted for many years to about one-half of company profit before tax, but has latterly tended to diminish. It is really a phenomenon associated with the transition of the firm from private ownership to joint stock status. It obviously entails double taxation on both staff and stockholders, the alleged owners (but with least control, of those involved in running the company, if non-executive), both groups of whom have also to pay personal income tax. Nowadays the private owner still pays only a single (Schedule A or B) tax, as is equitable. We shall not pursue this aspect which we assume will be dealt with by the recently appointed Commission on Taxation. During the last few years, government and EEC subsidies to firms have become so common that the relevant figure may be taxation minus subsidy. The point is that with the advent of PS, taxation and subsidy, hitherto irrelevant, have entered the orbit of interest of workpeople and their TUs.

The foregoing are mainly explanatory comments of the four categories of VA. Something on these lines would be absolutely necessary in any conference between staff representatives and management in the determination of rules for PS. Indeed, explanations by management should extend far further and in great detail, for instance to planning, external constraints etc (to the absolute limit of prudent confidentiality) in the interest of the firm, and quite apart from PS.

These remarks are a preparation for coping with the problem stated at the outset of this chapter which amounts to finding an equitable division of VA between labour and capital. Really it is VA less company taxation which is the sum to be divided, for the Revenue Commissioners will have immutable rules for determining their share, beyond the control of the firm or its employees. The problem as we envisage it is one confronting a firm which has decided to adopt PS. Are there any rules for deciding the amount of the share?

There is a very strong tendency for basic wages of workpeople with given occupation to be the same in all employments. This is mainly a result of unionization

with its collective agreements sometimes of nationwide scope. In addition to the workpeople there are the managerial, clerical and technical staff. Though some of these may have their TUs there will be far less uniformity between firms in their basic pay. As to earnings of workpeople, which to repeat, will include overtime pay and bonuses in addition to basic pay, this will vary positively with the profitability but not nearly as much as the statistic VA per person engaged which can vary between firms in the ratio 4:1 in each type of Irish industry.

The survival of the firm depends on (iii) additions to reserves. In the opinion of many economists, survival interests most firms rather than maximization of profit, the character of profit being essentially that of a residual which depends so much on matters outside the control of management and staff. Profit is a random variable. Self-financing of capital development is far preferable to borrowing at the usurious level of interest rates of the last few years. In strict logic staff should be regarded as part-owners of allocations to reserve, after PS is adopted in principle.

As regards (iv), dividends and interest, interest will be absolutely determined by the amount of the loan to the form and the rate of interest. The lender will almost invariably be a bank and the amount and rate of interest will depend on the lender's assessment of the borrower's credit. Dividend itself is usually expressed as a rate on capital invested originally, which capital is deemed to be a loan to the company, regarded as a corporate entity. While individual companies try to keep this rate of dividend approximately level (sometimes by withdrawals from or additions to reserves) there is considerable variation (sometimes the rate is zero) over the years and much greater variation in rate between companies. Investment in equities is largely a gamble, much more so than investment in bonds with rate of interest predetermined, but the value of the investment itself is liable to fluctuate inversely with the Bank Rate (or other minimum lending rate). For large stockholders buy and sell stock for profit or to avoid loss on the fluctuating price of the stock. There are two elements in the earnings of equities and bonds, dividends (or interest) and profit (or loss) on sale.

To whom should be given the credit and hence the reward for an increase in VA? Investigation may show that this was due to some or all of a great variety of causes including (i) increased sales from contracts won by sales force supplemented by other staff's working harder to meet conditions of contract, (ii) increased prices of products or lower prices of materials, (iii) increased labour productivity, (iv) more modern machinery and instruments etc. The short answer is therefore that it would be quite impossible to apportion fair shares amongst shareholders and the different kinds of staff. The argument is the stronger for the fact that the increased profit may be due entirely to increased demand, whether this was or was not anticipated by the firm in the pre-determination of the kind of goods or services produced.

A further complication is that the two sides in the modern joint stock company are rightly seen to be management and labour, not employer and staff. But management (which may include several individuals in the firm) is itself part of staff as on a basic income, possibly with additional compensation analogous to workpeople's overtime and bonus. Management's essential role of decision making is largely in its hands. It would seem that no section of the staff can lay exclusive claim to increased VA in a firm.

But what of the rights of non-executive shareholders, assuming that there was no change in their investment during the year?

Trade unionism as a philosophy is opposed to differentiation in reward between individuals in a group. We would agree to the extent that it may be impossible to apportion credit to individuals, amongst whom there will always be a best and an acceptable worst. One conclusion is that any distribution by way of bonus on PS should be proportional to the basic remuneration of each of members of the staff, an accepted measure of her/his contribution to VA, with

abandonment of effort to ascertain what the true contribution of each individual or group is. Even if this were possible, differentiation in relative reward would lead to discontent.

If PS is to be widely adopted it must be accepted by trade unions, in principle and in detail of plan. Trade unions at present tend to disapprove of profit sharing schemes, particularly share-holding schemes as workers' insecurity may be increased if the employing firm gets into difficulties. They fear that employees in labour-intensive industries would not be included in profit sharing or would get very much less return than in capital-intensive enterprises. It should be possible to evolve a scheme of profit sharing, however, so that the proportion of profits distributed to employees is higher in labour-intensive industries - not that the individual will receive more but the total bonus will be adequate for sharing among a greater number of staff.* Unions tend to regard profit sharing schemes as "sharing" in a limited way as the principles and administration of such schemes is usually entirely in the hands of management with very little sharing of power -- in most cases none. Unions also argue that, because of the degree of profit sharing usually envisaged, profit sharing schemes contribute little to a more equitable distribution of wealth in society. Unions object to the implicit idea that workers employed in unprofitable organisations should be punished. They also argue that inequalities arise, as profit sharing cannot be applied to the public sector. Such schemes are not seen by trade unionists as a satisfactory substitute for good pension and sickness provisions, nor are they a substitute for a sound industrial relations programme. They do not like individual allocations according to seniority, which may not necessarily reflect the individual's contribution to the success of the enterprise. Union objections are rational and must be met for PS to be successful.

* The French formula considered in section 1 has been shown to be largely successful in this.

An editorial in The Irish Times* has a bearing on the equity of PS. It is suggested therein that the security of tenure issue of the modern industrial worker (instancing workers in the British steel industry, on strike at the moment or writing, partly because of threatened redundancy) is analogous to that of the Irish tenant farmer of a century ago, who could be evicted for non-payment of rent. The cases certainly are similar in that insecurity of tenure was or is a characteristic of both. The editorial goes on to point out that agrarian turmoil ended with the Land Acts whereby tenants acquired a legal equity in their holdings. The implication is that workers' acquisition of an equity in their companies (implied by PS) would lead to industrial peace; the editorial is doubtful about this outcome. To the analogy it might have been added that in modern business the non-executive shareholder could be cast in the role of the absentee landlord of the land wars. Analogies are not proofs. We shall not venture to anticipate the verdict in a court of law of a case that the worker was part-owner of the business he worked in; we suspect it would be unfavourable. The law, governed largely by the Companies Acts, is overwhelmingly on the side of the owners. The owner might argue that the worker's rewards, by trade union pressure have lowered profits (i.e. interest on capital) inequitably, the truth of which remains to be seen.

Is a fair division conceivable of VA between employees and owners? We think so. But there must be far greater frankness on the part of owners with employees and their trade unions about the financial condition, plans and prospects of the firm, and improved goodwill on both sides, than has heretofore been the case.

Since capital intensity varies so much between firms and industries, a fixed percentage of VA (less tax), generally applicable, would be inequitable. The greater the capital the greater the investment and the greater should be the reward

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* Issue of 25 February 1980.

of the investors. (It has been shown elsewhere that, with industries as units, the greater capital per employee the greater are earnings per employee.) We have seen that it would be impossible to attribute credit for improved VA to individual employees or their groups. But can we regard employee compensation in all forms as a residual of VA less company tax after ascertainable provision for allocations to reserve and dividends?

We have pointed out that survival is a major, if not the major, concern of any business. Employees, management and owners will agree that reserves are necessary for survival which is presumably in the interest of both sides. But will there be agreement as to the amount to be allocated or withdrawn in a particular year, agreement, that is, between all parties concerned with survival (which includes improvement), embracing, of course, employees or their representatives? Good management, the very word survival itself implies planning for years ahead, including financial planning. We think that in a proper atmosphere there could be agreement as to reserve policy.

In section 2 we show that the reward of an investor of £100 for a year in an Irish company depends very much more on change of price during a year than on dividend. We suspect that, while price of stock depends on change in dividend, this relationship is not very strong. There is a marked tendency for prices of equities to move en bloc.

Equities and fixed interest bearing bonds are traded as if they were commodities, i.e. with constantly changing prices. Our investor with £100 is confronted with the free choice of equity or bond. Both can change in price but the likelihood is that the change up or down by year-end will be far greater in

the case of equity choice. Can the equity holder, confronted with a sharing of profit with employees, effectively argue that because of uncertainty of reward, he is entitled to a higher rate of dividend than if he had invested in a bond?

We do not think so. We consider that the market takes this element into account. The bond yield must he high enough already to compete with anticipated equity yield to acquire the amounts that bond sellers need. This might not be the case if investors in equities and bonds were separate or nearly separate categories. This may be true of individual investors but stock markets are dominated by great institutional funds, pensions, insurances etc. and even banks; these, once predominant in bonds, have now moved strongly into equities. The rate of interest on bonds in particular may give some indication of the minimal rate to which the equity holder is entitled.

We consider therefore that a full scale inquiry into profits in Ireland would shed much light on the ascertainment of a minimum rate of return to owners of capital investment, minimal in the sense that it must be earned before any PS distribution. But, of course, dividends must not be confined to such minimum rate. In France, where PS is mandatory, excess profit over a basic minimum is divided between workpeople and owners by formula. In such an enquiry the cooperation of the Revenue Commissioners would be necessary, especially as regards private companies and partnerships which constitute the bulk of Irish business. Of course if PS is legally adopted as a policy there will probably be lower limit for size. We see no reason for any such limit, for voluntary application, always assuming that a PS policy is found recommendable for Ireland.

We conclude by asserting that a widespread plan for PS should be set up in Ireland because it is equitable that employees should be part owners of enterprises. There are other arguments on balance favouring PS but equity is by far the most important, in our view. While we appreciate the force of arguments favouring a scheme for contributions from profit to a central fund for sharing with all the nation's employees we consider that for the present in Ireland the U.K. type of plan is most suitable, firmly centred, as regards funding, control and distribution of own shares, in the particular firm. We set down for discussion other recommendations as follows:-

- the scheme should be voluntary for the present;
- a PS bill should be prepared in consultation with employer and employee organisations;
- contributions should be tax-deductible as regards firms and individual employees for schemes approved by the Revenue Commission;
- schemes should involve the setting-up of a fund within the firm to receive cash contributions, employees being consulted on the setting up of any scheme and represented on the board of the fund;
- while employees can choose to have contributions in cash or shares, share-holding should be strongly favoured by tax-policy;
- arrangement should be made for the time for the individual employee's coming into possession of shares as short as possible;
- the scheme should extend in principle to all employees with as few exclusions as possible;
- PS contributions should not be discretionary on the part of management but according to rules or formulae determined by agreement with staff in advance;
- employees with shares in the firm should have shareholders' rights in full;
- on leaving the firm without discredit the ex-employee should receive his full entitlement from the fund;
- for the present PS contributions should be particular to the firm determined as half the residual of VA after tax and after pay (including fringe benefits), allocation to reserve and reward to capital calculated at minimum government bond rate.

The last proposed condition has the attraction that it recognises the basic rights of both sides, capital and labour, before determination of residue which, it is proposed, should be equally divided (for want of a better rule). As shown in section 2, many Irish firms do not earn the minimum government bond rate on

capital invested and so would not be liable for PS, using this formula; only successful firms would be so liable. We propose the scheme with no special conviction for discussion. The French statutory formula we examined in section 1 implies that no PS is necessarily payable (by firms with 100 employees or more) unless interest on capital exceeds 5 per cent which, of course, is far lower than present day bond rates; the French formula has a much wider catchment area than that which we propose; while, as we have shown, the French formula nearly achieves equal rewards to staff in low and high capital - intensive firms (as favoured by trade unions) we do not consider it suitable for adoption in Ireland at the present stage. The simplest system of all would be a straight contribution, say 5 per cent, from profit, perhaps after the deductions specified. Choice of formula will be for high level consideration involving government and organisations of employees and employers. The tax system can help selection of favoured formula, for instance no tax concessions unless deductions exceed x per cent. In frank discussion of the fair division of VA, allocations to reserve seems likely to give most trouble, since they must differ from year to year and firm to firm.

Profit sharing is but a single detail in the immensely more important problem of employee involvement in the welfare of their enterprise, but it may be a necessary condition.

Appendix

Profit sharing in each of 22 Irish companies

Company No. 1 is a services sector organisation, having 25 per cent of equity held outside the Republic of Ireland. Total employment is approximately 8,000 of whom 7,300 are in a profit sharing scheme. The remainder are manual workers who have a bonus scheme, not related to profits. The company was a public company. The organisation has two types of profit sharing:-

(i) a bonus, which is paid annually provided there is a profit, and open to all 7,300 "non-manual" workers

(ii) a share-option scheme which was irregular - only happened twice since 1967; available also to "non-manual" staff.

Although a form of profit sharing in bonus form existed for many years, the term "profit sharing" was not associated with the schemes until 1973/74. Some of the procedures associated with the bonus scheme appear to come into the category of productivity rather than profit sharing concepts but as the organisation regarded the whole scheme as being contingent on making profit, and as there appear to be many definitions of profit sharing, it seems to the interviewer, that such schemes should be included in a study of profit sharing in Ireland. The organisation did not wish to give precise details of the schemes because of confidentiality. In the case of the bonus paid annually, although the organisation had to make a profit, the total bonus available for distribution was not first formally calculated. The amount paid to individual staff varied according to grade and also included a basic merit bonus, therefore within the same grade, because of flexibility for merit, the employee could receive from $2\frac{1}{2}\%$ to 5% of salary. Efforts were made to keep the decisions regarding "merit" as objective as possible but there was some dissatisfaction with this basis of measurement. The bonus scheme was formalised in 1973/74.

The share option offer of ordinary shares was made available twice to employees once in 1967 and again in 1977; on both occasions the organisation was involved in issuing shares and staff were given the opportunity to participate in buying shares at slightly more favourable terms than those available to existing

shareholders. The organisation advanced loans to staff who wished to buy the shares, repayable over five years; staff could not sell the shares until the end of a five year period. The amount of shares available to individuals varied; the percentage available was higher for senior grade staff than for junior grades and the amount was a percentage of salary e.g. could be 5% of salary for higher grades and 2½% of salary for lower grades. For the first 5 years dividends went to pay off the loans. For both bonus and share option schemes the minimum period of service for qualification was one year - the formula was slightly different but, in effect, it was at least one year before a new staff member would participate. Profit sharing schemes were initiated by management without prior consultation with staff; shares were confined to the organisation's own shares. Management sent out communications to staff regarding profit sharing and explaining the scheme but it was felt that perhaps they could have done better in this regard.

The questionnaire gave several options which might have prompted the organisation to embark on a profit sharing scheme. Lessening absenteeism did not appear to be relevant but although the questionnaire did not include "motivation", this organisation like others thought it important. They also included distributive justice, industrial relations and efficiency. It was felt that these objectives had been partly attained only; this was due, in the case of the bonus scheme, to the fact that cash, when paid once, comes to be expected - almost as part of salary. In the case of the share options, due to the 5 year wait until the shares became the property of the individual and also that tax had to be paid when the shares were taken up, staff did not really identify with the company as co-owners. It was stated that if the tax legislation were amended for staff buying shares, (as e.g. in the UK where tax becomes due only when full ownership is acquired), there would be a demand for share ownership in the company. It was felt that staff identify more with the organisation if they became shareholders and it would be good for the company also to have staff savings invested in the enterprise rather than having them spent outside. On leaving or retirement staff had to wait till

the end of the 5-year period to obtain their shares. The organisation did not use profit sharing to finance fringe benefits; staff had pension schemes and help with loans for house purchase.

Company No. 2 is in the services sector, the subsidiary of a UK company. Staff totalled 160 approximately of whom about 145 were in the profit sharing scheme. A cash bonus is paid to all staff; in addition to cash, executive directors had a share option scheme.

Directors' cash bonuses are directly related to before tax profit of the company but most employees who in any way influence profitability are "rewarded by performance bonuses". Bonuses vary according to the individual functional responsibility which may be measurable directly as in the case of salesmen or diverse as in the case of technicians, whose bonus may be calculated in direct proportion to the income of the organisation or alternatively as a share in a pool, where the amount is calculated by reference to a team performance formula.

There was no minimum period of service for qualification to avail of the profit sharing schemes and in the case of bonus schemes there was no minimum profit necessary before the bonus was awarded. In the last financial year 15 per cent of before tax profits was distributed under the cash bonus scheme; this was allocated to individuals according to their efforts, performance and job; employees set their own targets to maximise the bonus. The bonus was paid yearly for most staff. Directors were paid bonuses according to a target; they could receive a bonus of up to 25% of salary but the bonus could be nil if the individual director (executive) achieved only 75 per cent of the target. Executive directors also had options to purchase shares at a small discount; these shares which could be sold immediately, were issued to individuals only, had a dividend paid annually and shares were offered annually, and it was necessary that a minimum profit should be obtained by the company before shares were allocated. The scheme is confined to the company's own shares. The profit

sharing scheme was initiated in 1965 in the case of bonus and in 1968 for the executive directors share option facility. When employees retire or leave the organisation they are given their proportion of the profit which they have earned up to the date of leaving. Employees benefit from a pension scheme, income continuance (long term disability) scheme, voluntary health contributions are paid for the employee and family members in addition to the bonus scheme. The management initiated the scheme for reasons of distributive justice, efficiency, motivation (which had a high priority). Industrial relations reasons were not regarded as important while it was not felt that absenteeism was relevant in the context of profit sharing. It was felt that the objectives had been attained; management had the target of finding the method whereby typing staff could be brought into the scheme; the difficulty was seen to be one of measurement of performance.

Company No. 3 is in the distribution sector with a total employment of approximately 230 people. The profit sharing scheme is in the form of a cash bonus and applied to 30 managerial and executive staff. The company is a public company, subsidiary to a larger public company. In the past financial year about 6 per cent of after tax profit was distributed among staff and executive directors. (Other staff were paid a Christmas bonus, not related to profit).

The profit sharing (cash bonus) scheme began in 1933; there is participation of employees in the profit sharing allocation. A minimum profit has to be made before the allocation. There is a separate formula for management staff, distinct from directors' share. Management receive 1 per cent of salary for each £x of profit; directors receive $\frac{3}{4}$% up to £4x plus $\frac{1}{4}$% on next £3x plus $3/8$% on next £3x; they cannot receive any percentage above that amount of profit.

The company has a contributory pension scheme and an income continuance scheme in addition to profit sharing. The chief reason for the scheme was industrial relations and the other reason distributive justice. It was felt that the objectives had been attained.

Company No. 4 is a manufacturing and distributive company with a total staff of 115. Profit sharing was confined to managerial and executive staff totalling 12. The company is quoted on the stock exchange and is a subsidiary of a larger group, 39 per cent of the equity being held outside Ireland.

The profit sharing scheme comprised a cash bonus for managerial staff and shares and bonus for executive directors. Shares were allocated free of charge and were in the company itself. Although the profit sharing scheme did not specify a minimum period of service for qualification, in fact all recipients were "long serving". When employees left the company either on retirement or on transfer to another job, managerial staff received a bonus pro rata to the time when they left. Executive directors could keep their shares.

There was not a trust for holding shares, allocations were made to individuals. The bonus based on profits was paid to managerial staff yearly; the share allocation was a once off occurrence. Allocations were made before tax, and a minimum (unspecified) profit had to be reached before profit sharing was contemplated. The cash bonus was usually 5 per cent of salary. Shares allocated were ordinary shares and there was not an imposition of a minimum holding time, shares could be sold when the recipient wished.

The company considered that motivation was an important reason for introduction of profit sharing; they also gave a high priority to increasing efficiency. It was considered that the objects had been attained although as the scheme had been introduced only in 1978 for the cash bonus and 1979 for shares, it was a little soon to measure results. The company also had a pension scheme for employees.

<u>Company No. 5</u> is in the services sector employing approximately 7,500 people. A bonus scheme based on profits was operational since 1950. The firm is constituted as an Irish public company. All staff receive the cash bonus which is allocated yearly. The amount is related to grade and salary; the minimum period of service for qualification is one year. The cash bonus scheme was introduced by management without consultation with staff.

In addition to the cash bonus scheme, a share option scheme was implemented in 1978, without commitment to a similar option at any specific time. The share option allocation was available to all staff but the number of shares available to staff members increased according to grade and salary. The minimum period of qualification for participation in the share option was one year's service. Shares had to be held for five years after they were taken up; this was mostly due to the fact that staff could receive loans from the organisation to enable them to purchase the shares. The shares available were ordinary shares of the company; staff were able to purchase them at a discount. Employees were not concerned in the management of the scheme although they were consulted prior to its implementation.

Allocations were made before tax in the case of both bonus and share options the shares being available at a discount.

Management communicated details of the bonus and share option schemes to staff directly and at staff meetings. The principal reasons for inaugurating profit sharing were motivation, giving staff a feeling of ownership in the company and industrial relations, although the latter was not felt to be a major factor.

The company had a pension scheme for employees, medical benefits, loans to enable employees to purchase shares.

Company No. 6 is a subsidiary of a parent company based outside Ireland. The profit sharing schemes apply to all 220 employees. There is a cash bonus scheme and a share option scheme; employees may take up the options or not; the cash bonus is awarded yearly to all employees. In fact about 70% take up the share options; this may be influenced by the fact that loans on favourable terms are granted to employees to enable them to purchase the shares.

Shares involved in the scheme do not vary according to the category of employee. The profit share allocated in both share and bonus schemes is based on total profits of the ultimate parent company, not of the subsidiary Irish company.

There are no part time employees in the organisation. Staff must have at least one year's service in order to qualify for a bonus and three year's service for the share option scheme. When shares are taken up they cannot be sold for a period of five years; this rule is imposed because loan facilities are granted for taking shares and are repayable over five years.

When employees retire or leave the organisation, they receive a pro-rata proportion of the annual bonus. If they have purchased shares outright, they may take shares with them but if not completely paid for, payment must be completed before the shares can be sold.

Shares are issued to individual employees from time to time. Bonus payments are made annually.

Share allocations are of ordinary shares. The profit of the parent company must exceed a stated amount before any share options are granted.

The profit sharing schemes were started in 1974 on the initiative of management. Communication is individual. The company introduced profit sharing schemes for reasons of distributive justice, productivity, profit and to a lesser extent for industrial relations reasons.

When questioned about the attainment of the objectives, the concensus was that employees had become accustomed to the annual cash bonus and regarded it almost as part of pay. The granting of share options was considered to be reasonably effective.

The organisation has a non-contributory pension scheme.

Company No. 7 is in the services sector; a company based in Ireland with 16 per cent of the equity held outside the State. Total employment was 600. The bonus scheme is not strictly speaking profit sharing but was an incentive bonus for some categories of employees. The profit sharing scheme applied to senior management only and was in the form of an option to purchase ordinary shares; employees were granted loans over a four year repayment period. Shares could not be sold immediately the option was exercised but could be sold at the rate of 25 per cent a year over a period of four years.

When an employee resigns from the organisation or retires, he may retain his shares but must repay any outstanding loan before leaving.

The total amount of bonus and loans allocated amounted to approximately 4 per cent of the before tax profits. The share option allocation was according to seniority, pay, grade of job and for individual merit.
Profit sharing started in 1978 on the initiative of management. Communication with staff was by means of staff meetings, written memorandum and direct contact with individuals.

The objectives of the organisation in introducing profit sharing were, distributive justice, industrial relations, efficiency, profit, competitiveness. It was felt that the objectives had been attained.

The organisation has a staff pension scheme, in addition to loans for the purpose of purchasing shares under the share option scheme.

Company No. 8 is a manufacturing organisation with a total of 2,500 employees. The company is the subsidiary of a parent company based outside the State. All employees are in the profit sharing scheme, which was introduced in 1964 in the form of an annual bonus. Part of each year's profit, calculated according to a clearly defined formula is divided amongst employees of the participating companies.

The profit sharing scheme is available to all employees below Board level, who are permanently employed, provided both the full time and part time staff member has completed one working month's service. The agreed profit share for any year is calculated before tax. The amount agreed is divided among staff in proportion to the basic pay and related to the length of service during that year.

Since 1980 a stock option scheme has been introduced, which is available to employees who have been employed for 3 years previous to the allocation. If the staff member retires or leaves during the year, he may take up a pro-rata option. Employees can also take up the stock in lieu of the existing bonus scheme, although a defined minimum of stock must be taken up. There is a further option to take a mix of the stock and bonus up to the defined maximum.

Regarding the bonus there is no variation in the scheme according to type of employee. The bonus is pro-rata up to the date of leaving the organisation. Employees do not participate in the management of either scheme; the schemes were introduced by management without staff participation. Communication regarding the profit sharing is directly to individuals by means of a booklet; there are annual meetings with staff to explain how the amounts are calculated. The objects of the profit sharing schemes are stated to be the strengthening of the existing sense of team spirit and mutual goodwill, the encouragement of participation in the company's affairs and the provision of an additional incentive to co-operate in improving overall efficiency to the mutual benefit of all.

<u>Company No. 9</u> is a subsidiary of a public manufacturing company with 100% of equity held outside the State. The scheme covers all staff and is the form of a cash bonus available to all staff, part time and full time from the date of commencement of employment or beginning of the bonus year; payment is made twice yearly and is before tax.

The organisation must make a minimum profit before a bonus is allocated; the decision to allocate is not discretionary, although there is not active participation of employees in the management of the bonus. The profit sharing scheme was initiated by management. Employees were consulted before the scheme was initiated.

The amount allocated is a percentage of pay; the scheme commenced in 1979. The benefits of profit sharing were explained by notices on boards, and staff meetings of small groups to whom the management outlined the scheme.

The objectives of the organisation in introducing profit sharing were distributive justice, industrial relations, efficiency, profit. The firm considered that these objects had all been achieved in part but perhaps not fully yet. The firm had other fringe benefits, namely a pension scheme and medical benefits.

<u>Company No. 10</u> is in the services sector, a subsidiary of a public company situated outside the State (100 per cent of equity held outside the State). The total number of employees of the company is 2,700, all of whom share in the profits. Although the parent company has a share option scheme, the form of profit sharing in the State, (because of tax difficulties) is a cash bonus based on group profits but financed by the Irish subsidiary profits. The amount available for distribution is clearly defined and is distributed annually according to pay. When employees leave the organisation there is no further entitlement to profit sharing. Employees do not share in the management of the profit sharing scheme, which was initiated by management without consultation with employees. Information regarding the scheme is by means of

staff meetings and circulars to staff. The objects of the organisation in implementing a profit sharing scheme are, distributive justice, industrial relations, efficiency. Management find it difficult to assess whether these objectives have been attained but they "consider that there are ongoing benefits".

The firm has a pension scheme and grants loans at concessionary rates for certain categories of staff.

Company No. 11 is in the manufacturing sector, is a subsidiary of a public company with 51 per cent of the equity held outside the State. Total employment is 217 but only 12 managerial and executive employees are involved in the profit sharing scheme which is in the form of an annual cash bonus; full time staff only are eligible; the minimum period of service for qualification is 5 years. When employees leave the organisation they receive a pro-rata amount. The bonus is 10% of pay provided there is a minimum profit. Employees do not share in the management of the Profit Sharing Scheme which was initiated by management, without prior consultation with employees.

The object of the organisation in introducing the scheme was efficiency, which has been achieved. The firm also has pension and medical schemes.

Company No. 12 is both manufacturing and distributive with a total employment of 1,800. Five per cent of the equity of the firm (a public, principal company) is held outside the State. Profit sharing is by means of a share option scheme to purchase ordinary shares of the company and employees, other than directors, now own about 7½ per cent of the equity. About 400 staff participate in the option covering all grades of employees. The initial share option was in 1977 but there have been some rights issues since that date. Shares were allocated to employees at a discount (£1 per share when the market price was £1.82). The employee must be 25 years of age but there is no qualifying minimum service. Shares must be held for five years, this is usually because loans are issued to employees to enable them to take up the

option, repayments are normally spread over 5 years. The loan must be cleared before the staff member can sell the shares. The organisation does not specify a minimum profit which must be attained before a share option is issued. Allocation of shares is 9 per cent of salary but an employee cannot take up more than £2,500 in £1 shares. Shares are valued at the time of disposal.

The profit sharing scheme was initiated by management without consultation with employees and is confined to the firm's own shares. Communication regarding the share option scheme is by staff meetings and at individual level. The company objects in introducing profit sharing were distributive justice, industrial relations, efficiency, profit. It was considered that industrial relations had improved since the scheme was introduced. The firm has a pension scheme and issues loans to buy the company's share either under the share option scheme or at full price on the open market.

Company No. 13 is in the services sector, a principal public company with 100 per cent of the equity held outside the State. Total employment is 90; although all categories of staff are eligible for profit sharing, in fact 70 employees are in the scheme.

Profit sharing is in two categories - a cash bonus and a share option scheme. An employee can accept the bonus and use the money to purchase shares in the company with a maximum of 500 shares. Shares must be purchased directly on the market by staff.

The minimum qualification for either scheme is one complete year's service. Shares must be held for 5 years and can be retained when an employee resigns or retires.

Shares become the property of an employee immediately the share option is exercised or the cash bonus granted. The cash bonus is allocated after tax. Employees do not participate in the management of profit sharing which

was initiated by management without prior staff consultation.

Profit sharing commenced in 1978 and is a percentage of pay in both forms (bonus and share option). The scheme is made known by means of direct communication to each staff member.

The organisation introduced profit sharing for reasons of distributive justice and motivation; it is difficult to measure whether the motivation has been achieved. The company has a pension and medical schemes.

Company No. 14 is involved in the manufacture and distribution sectors. It is a principal public company with 900 employees. Fifty one per cent of the equity is held outside the State. There is a bonus scheme based on profits and a share option scheme, available to 40 managerial, and executive staff including executive directors. The company considers that the bonus scheme is now regarded by the employees concerned as part of salary. The share option scheme is usually available annually, shares being normally offered at a discount. There is no minimum period of service for qualification to participate in the scheme in the defined categories.

Shares, once purchased, must be held for four years, after which shares may be sold over a three year period at a rate not exceeding one-third each full year. When an employee resigns from the company if part or all of his share option is not taken up, it is at the discretion of the Board of Directors whether he is permitted to take up the balance. In the case of death or retirement the balance of shares outstanding would be permitted to be taken up.

When the share option scheme was introduced in 1975 a certain amount of share capital was allocated to the share option scheme. There is thus a reserve of shares available for distribution. Shares are allocated according to seniority and performance. Staff do not share in the management of the Scheme which was initiated by the Board of Directors. The share option is confined to shares in the company.

The principal objective in introducing the profit sharing scheme was to retain managerial staff with the company; the idea appears to have been successful. The firm has a contributory pension scheme, pays Voluntary Health insurance contributions on behalf of staff and allocates some cash bonuses with discretion.

Company No. 15 is in the manufacturing sector and is a public company with 5 per cent of the equity held outside the State. Total employment is 600; all full time staff are eligible for inclusion in the profit sharing plan; the minimum service qualification is one year. Employees do not contribute to the shares which are the ordinary shares of the firm. The scheme was inaugurated in 1971.

Shares may be sold immediately. When employees leave the firm they have the option to keep the shares if they wish. Dividends are paid twice yearly. Share allocations are made after tax. Amounts are allocated according to seniority. The dividend may vary from year to year and is the same as that granted to other shareholders. Employees do not participate in the management of the profit sharing which was initiated by management without employee consultation. Information regarding profit sharing is communicated directly to individuals. The company object in introducing profit sharing was for good industrial relations, of which management doubt the success. A pension scheme and medical scheme are in operation.

Company No. 16 is a subsidiary of a public company entirely owned by investors within the State, in the manufacturing sector. Total employment is 350. The profit sharing scheme is that of a bonus based on profits but in a form somewhat different to that which normally obtains in Irish firms. The terms are that "if the budget profit is achieved senior and middle management may receive a profit share bonus at the discretion of the Board".

The number of employees in the scheme is about 40. The minimum period of service for qualification is one year. When an employee retires or resigns he would be paid pro-rata for service during the year. Payment is yearly subject to a minimum profit. The scheme commenced in 1976. The amount payable is calculated as a percentage of salary.

The scheme was initiated by management without consultation with employees. Details of the scheme are communicated to individuals. The company objects in introducing the profit sharing scheme were efficiency and profit; these objects have not been attained. The firm also operates pension and medical schemes.

Company No. 17 is in the services sector. It is a subsidiary of a public company; 100 per cent of the equity is held outside the State. The scheme is based on the profits of the parent group with employees in the Irish subsidiary having an option to receive their distribution either in cash or ordinary shares of the parent company.

Total employment is approximately 600. The profit sharing scheme is confined to full time employees who have been in service for one scheme year. It was introduced in 1975. There are 524 employees in the scheme.

Shares allocated to staff must be held for two years at least before selling. When employees leave the organisation they receive a pro-rata contribution in the case of a bonus but the two year embargo applies to shares. Shares are in a special trust set up for employees; shares are handed over to individuals in two years. A dividend is payable yearly.

Employees do not participate in the management of the profit sharing allocation; the scheme was introduced on the initiative of management without prior consultation with employees. Allocations are made before tax and a minimum profit is defined before profit sharing takes place.

Bonus on shares are allocated according to pay; shares are ordinary shares in the parent company.

Pension and cash bonus benefits operate. The object in introducing profit sharing was efficiency,which cannot yet be measured.

Company No. 18 is in the manufacturing and distribution sectors and is a principal public company with 2,700 employees; 43 per cent of the equity is held outside the State.

The profit sharing scheme applies to 170 managerial and executive staff and is by means of share-options. There is a minimum period of service for qualification to enter the scheme; part time staff are not eligible; shares are issued to individuals. Employees who avail of the option to purchase shares must hold 50 per cent of their allocation for at least one year; when staff resign or retire the option to purchase shares ceases. Allocation of shares takes place occasionally, is discretionary and is made irrespective of any stated minimum profit. The scheme was initiated in 1969 by management without prior consultation with employees, who do not participate in the management of the profit sharing allocation. Amounts allocated are according to seniority.

The company objects in introducing profit sharing were profit and "greater involvement"; these objectives have been "partly" realised.

The firm operates also a pension scheme; cash bonus and benefits such as a company car.

Company No. 19 is in manufacturing and is a subsidiary of a public company; 100 per cent of the equity is held outside the State. A profit sharing scheme has been in operation since the early 1920s. "This was normally a fixed percentage of total remuneration for the previous financial year depending on the profits made by the companies, and in later years became a percentage of annual remuneration, excluding overtime."

All employees, except Directors, are included in the scheme which is in the form of a cash bonus paid annually. In order to qualify for the inclusion in the bonus employees must have completed a minimum of 6 months service. Allocations are made before tax and are calculated as a percentage of pay.

The scheme was started by management without consultation with staff (which was not unusual in 1925). However, now, the scheme is explained to employees by notices on boards, communications to individuals and meetings with staff. The company objects in having a profit sharing scheme were, distributive justice, industrial relations, efficiency, lessening absenteeism; these aims are not being realised. The firm also has pension and medical schemes.

The following comments are interesting (made to the interviewer). "In earlier days profit sharing appeared to induce a sense of loyalty, good attendance and peaceful industrial relations, but as Social Security Benefits, the general level of salaries/wages, and the standard of living rose, this approach seemed to lose its impact in the modern work environment".

Company No. 20 is a principal public company with 863 employees in the manufacturing sector with 35 per cent of the equity held outside the State.

The profit sharing scheme is available to all employees except Board Members; the number actually participating is 848. It is a cash bonus scheme. Employees must have a minimum of six months service to qualify for the allocation which is paid yearly. When staff leave or retire they are eligible to a pro-rata share relating to the number of months worked in the year in which they retire. Allocations are made before tax and are $6\frac{1}{4}$ per cent of pre-tax profits. Amounts allocated are according to pay. The scheme commenced in 1975 on the initiative of management; employees were consulted. Benefits of the profit sharing scheme are explained to staff by notices on boards,

communications to individuals and staff meetings. The objects of the company in introducing the profit sharing scheme were distributive justice, industrial relations, the encouragement of employees "to identify clearly with the property of the company - to which they contribute". It is considered that the objects have been attained "in so far as they can be measured". The firm has pension and medical schemes, an incentive bonus for sales representatives, subsidised canteen facilities and a product allowance scheme.

Company No. 21 is also in the manufacturing sector. It is a subsidiary public company with 100 per cent of the equity held outside the State and employing 487, all of whom participate in the profit sharing scheme which is a bonus scheme based on profits. "The bonus, however, is not an automatic entitlement. It is awarded at the discretion of the Board (of the subsidiary company) and it is directly related to the trading results of the Company".

Employees must have a minimum of one year's service before qualifying for inclusion in the profit sharing scheme. When they leave or retire they are paid pro-rata for their service.

The bonus is paid twice yearly and is allocated before tax. Amounts are calculated as a percentage of earnings and were 9 per cent last year.

The scheme was introduced in 1967 by management with the objects of distribution justice, industrial relations, "reward". It is considered that the objects have been attained. The firm also has a pension scheme.

Company No. 22 is a principal public company in the manufacturing sector with 900 employees. Approx. 25 per cent of the equity is held outside the State. The company is in the manufacturing sector.

The profit sharing scheme which was introduced in 1969 covered all employees. There are now approximately 350 staff remaining in the scheme, which was in the form of an option to purchase ordinary shares in the company.

Shares were not issued at a discount but a loan note scheme covering a five year period was implemented to enable employees to buy the shares. Staff had to have a minimum of two years service to participate in the scheme. The option was issued to individual employees. To date there has only been the 1969 offer. Shares were valued at a stated conversion price when the Loan Note was fully paid up. If an employee left the company or retired or died before the end of the 5 years the Loan Note would be repaid at par.

The purpose of the scheme was "to provide a means whereby employees may participate in the growth of the company and acquire a shareholding which it is hoped will have a market value greater than its cost". Other objects were improvement of industrial relations, efficiency, lessening absenteeism. It is difficult to assess whether the objects have been attained.

The company also operates pension and medical schemes, a productivity bonus scheme and subsidised canteen facilities.

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