1919

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Recommended Citation

Haskins & Sells Bulletin, Vol. 02, no. 11 (1919 November 15), p. 84-87; Haskins & Sells Bulletin, Vol. 02, no. 12 (1919 December 15), p. 90-94; Haskins & Sells Bulletin, Vol. 03, no. 01 (1920 January 15), p. 02-05

Some Successes and Failures In Profit Sharing

PROFIT-SHARING has been suggested as the panacea for ailments growing out of the relations between the capital and labor groups in industry.

Would the recent strikes of the printers, expressmen, longshoremen and laundry workers have been prevented had the employers introduced some system of profit-sharing? Would the strike in the steel mills have been averted had the administration of the United States Steel Corporation, instead of giving its employes frequent and liberal increases in wages and the opportunity to buy the common stock of the company at somewhat less than the current market price, instituted some plan whereby the workers would have shared, as such, in the profits?

The value of profit-sharing as a remedy may perhaps be better judged after a consideration of its object and history and some of the instances wherein it has either succeeded or failed.

Profit-sharing is that plan wherein the worker receives, in addition to his wage, a share, determined in advance, of the profits. It is not specifically related to the wage system, which aims to increase the compensation of the worker as he increases production and thereby reduces cost, or which allows him a share in the saving representing the difference between a standard time and his actual time, when the latter is shorter. It has nothing to do with the Differential Rate Plan used by Taylor or the Individual Effort System originated by Harrington Emerson, which achieved such publicity through its application in the shops of the Santa Fe Railroad that it is frequently referred to as the Santa Fe System. All these schemes are limited to and affected by the labor operations and the relation of production to labor costs and overhead. Profit-sharing takes no specific cognizance of the part which the individual plays in the result. It is assumed, however, that the hope of sharing in a profitable result will serve as the necessary incentive to each individual and spur him on to constant effort to the end that the result may be as large as possible.

If the employe receives a gift at Christmas time, or at the end of the year, it is a bonus and not profit-sharing. It is something which results from the generosity of the employer and may depend upon his mood. Under a profit-sharing scheme the share may depend upon the generosity of the employer, but it is fixed in advance, thus constituting a right which is conferred upon the worker, and is something to which he may look forward. It is probable that he might enforce such right at law.

The profit to which reference is made is the net profit. Such profit is that which remains after deducting all selling, administrative and financial expenses. In short, it is that profit which is available for distribution after taking out all applicable costs and expenses; that residue which, ordinarily, if it were not distributed as dividends would pass to surplus. This interpretation has been modified in various instances in that interest on investment has in some cases been charged before the determination of the amount subject to distribution among the members of the proprietary group and the manual workers.

To trace the history of profit-sharing would be to trace the history of capital and labor in enterprise. Writers usually agree that profit-sharing in a broad sense must have had its origin in remote antiquity. The earliest reference to its existence in concrete form is in the time of one Turgot, a French statesman and economist, who lived from 1727 to 1781. There are references to a profit-sharing scheme practised by a certain Lord Wallscourt in Ireland about 1829; however, the details surviving the experiment are too meager to give a clear idea as to the plan. It is supposed to have been taken from the Irish Owenite Colony, a group of farmers, wherein there were divided among its members the profits resulting from their efforts. It has been remarked that this could scarcely be called profit-sharing in the ordinary sense, as there was no employer. It was rather a co-operative scheme worked out by the group.

The outstanding exemplification of profit-sharing is that instituted by Edmé-Jean Leclaire in Paris in the year 1842. Leclaire was a house-painter, who, born in 1801, the son of a poor shoemaker, began business for himself in 1827. Within a few years he developed a business so extensive that he was employing about seventy-five workmen.

Leclaire evidently was interested in his men and recognized the principle that incentive makes for better effort, as he is reported as having developed the habit of giving his workmen special rewards, even before he formulated the idea of allowing them to share in the profits.

In 1838, he prevailed upon his employes to organize a Mutual Benefit Society to provide for cases of illness. In 1840, he worked out a calculation which showed that by care in the use of time, supplies and tools, the three hundred workmen which he then had might effect an annual saving of about $15,000. Calling his workmen together, he announced his plan, but the men were not yet ready to receive it. In 1841, he reduced the working hours, from eleven to ten per day, as a step precedent to the introduction of his scheme.

In February, 1842, after two years spent in educating the workmen to the point where the plan was generally acceptable, it was put into operation. Mr. Aneurin Williams, in his book on "Co-partnership and Profit-Sharing", relates how Leclaire assembled "the workmen who were entitled to share the profits of the preceding year, and flung down upon the table a bag containing 12,266 francs—$2,453.20, their share of the profits of the preceding year. Opening the bag, he paid each man his share, amounting to about £11—$53.46, per man. This at length convinced them and Leclaire soon found the effect upon their zeal fully up to his expectations: he was soon able to give a large part of his time to other matters, because the business now went with so much less supervision."

"For the year 1843," Mr. Williams continues, "eighty-two men were entitled to share in the profit and the amount falling to be divided among them exceeded 19,700 francs, more than half as much again as in the previous year. During the next four years the number of those entitled to share grew to ninety-eight, and the amount to be divided among them to 20,754 francs.

"Only his permanent workmen were entitled to participate; these were the '*noyau*' or kernel, the members of the Mutual Provident Society. As the number of his employes at this time was apparently about 300, it will be seen that a comparatively small proportion, namely, 15% of the men shared the profits in the first year. This rapidly rose and was nearly 33% in 1847, but still, it was only Leclaire's permanent hands who shared in the profits until the year 1870. In that year, stung by the remark of a Socialist, 'your house is nothing but a box of little masters, who make a profit out of others,' Leclaire induced the Mutual Provident Society to agree to the extension of profit-sharing to the whole of those employed. This was not a new project with him: he had broached the idea of general profit-sharing as early as 1842 though he had never before put it in practice. Since 1870, every workman employed by the firm, even for a single day, has been entitled to a share of the profits of the business, in proportion to his wages for the time he was employed. In the first year of the new departure, 758 men were entitled to share; in 1871, 1038; in 1880, 1125; and in 1912, 1277."

The first real experiment in profit-sharing must be regarded as a success since it was at last reports still flourishing after a period of operation extending over seventy-eight years. Leclaire retired in 1865 and died in 1872, leaving a personal estate valued at about $250,000, not, however, without having so organized his business and arranged the profit-sharing features as to enable all to continue without his personal attention. From 1869, when the final step in the organization was taken, Leclaire received no share in the profits, taking only five per cent. on his invested capital. The workman have received various rates on their wages, some years as high as 24%; never less than 12%; the average being about 17½%.

The relation of the Mutual Provident Society to the scheme is interesting. Originally it was organized for a period of fifteen years, composed of permanent employes and financed through subscriptions of its members. In 1854, it was reformed for a further period of fifteen years and arrangements made to finance it out of a share of the profits assigned by Leclaire to the Society. In 1869, the Society was given a definite legal status and became a partner with limited liability in the firm, Leclaire having previously taken a partner in the person of M. Dufournaux, a son of one of his foremen. Leclaire and Dufournaux continued to assume unlimited liability for the debts of the firm.

Membership in the Society requires that one must be a Frenchman between twenty-five and forty years, in good health, able to read, write and use figures. He must also know his trade thoroughly, possess exceptional character and have been in the employ of the firm five years. Fulfilling these requirements of membership, he is entitled to medical benefits, sick pay, maternity benefits, a pension at the age of fifty of $300 per year, provided he has served twenty years; free life insurance and funeral benefits.

In the distribution of profits, the managing partners, as well as the workers, having been compensated specifically for their services and 5% having been deducted for interest on the share capital of the Society, as well as that of the managing partners, the balance is distributed as follows:

Workmen	50%
Mutual Provident Society	35%
Managing Partners	15%
	100%

Thus it will be seen that while all workers share in one-half the profits certain workers, namely, those who are members of the Mutual Benefit Society, not only share like others in the general profits but derive additional privileges and benefits from membership in the Society.

It has been testified by managing partners from time to time that the plan has worked out admirably. Workmen are said to have developed a greater interest in their homes and to have acquired considerable property. It has promoted good conduct, politeness towards customers and a general pride in the organization. M. Marquot, one of the managing partners, is reported as having stated at one time that it had not been necessary in five years to punish a workman for laying off on Monday on account of drinking to excess.

Leclaire regarded his accomplishment with great pride and satisfaction. His motive was not mercenary, although incidentally he acquired a competence. He was prompted by his love for his fellow men and his desire to help them. On one occasion, according to Williams, he wrote to his men saying that "the dream of his life" was "that, after good conduct and steady work, a workman and his wife might in their old age have the means to live at ease in independence." "It is not enough," said Leclaire, "that antagonism between employer and employed is forever dead among us: it is not enough that the cause of strikes has disappeared. Sentiments of brotherhood must show themselves more and more."

The other noteworthy French cases are those of Godin, who founded the Familistère at Guise, which developed into one of the greatest manufactories in the world for the production of stoves, and the Laroche-Joubert Paper Works. Both of these ventures in profit-sharing must be regarded as successes.

Proposed Office In Shanghai

Under date of October 30 ,1919, the firm announced the proposed opening of an office in Shanghai, China, and the appointment of Mr. H. S. De Vault as Manager.

The plans contemplate that Mr. De Vault will sail from Seattle, December 3, 1919, with the expectation of arriving in Shanghai about January 15 following.

The announcement of the address of the Shanghai office will be made as soon as definitely determined.

Shanghai is a city with a population of about six hundred and fifty thousand. It was opened to foreign trade in 1842 and has become the principal port and financial center of China. It lies at the mouth of the Yangste River, which leads back into a country of almost unlimited resources.

China is now regarded as a fertile field for American capital and industry. The Chinese, it is said, prefer to do business with Americans and American institutions. China undoubtedly looks to America for assistance economically and financially. Shanghai, as the leading commercial city, gives promise as a place to which American enterprise will go. American enterprise should have the services of American accountants.

Reading Course

We shall be glad to assist the members of the staff who desire to avail themselves of the opportunity to make up a general purchase order for books required in connection with the reading course recently issued. By so doing a better price may be obtained than if the orders are placed individually. Orders may be sent to the Executive Offices marked for the attention of the Department for Professional Training.

Although somewhat tardy, it is with none the less pleasure, that we make mention of the election of Mr. W. P. Bickett as President of the Illinois Society of Certified Accountants. The society is one of the oldest and most representative of the state societies.

Mr. G. W. Rossetter, C. P. A., formerly connected with our Chicago office, has become associated with Mr. E. A. Kracke in the management thereof, effective November 1, 1919.

Mr. Elijah Bates has been appointed manager of the Cleveland office, effective November 1.

Announcement is made of the appointment of Mr. S. George Hay as assistant manager of the New York office.

The men who have been in the forefront of the movement to promote and maintain high professional and moral standards in the profession, have been striking exponents of this desirable virtue.

In our relations with clients and their employes; in our relations with the general public; in our own organization, whether in relation to those who supervise our work or our own subordinates; at all times and in all places, let emphasis and importance be placed upon the practice of this estimable virtue—courtesy.

Such practice is in keeping with the spirit of the holiday season.

Some Successes and Failures in Profit Sharing (Continued)

WHILE profit-sharing may be said to be native to France, it is in Great Britain that it has achieved its greatest encouragement and development.

John Stuart Mill, one of the best known and authoritative English economists, was among the first to give prominence to the idea and plead its cause. In his "Principles of Political Economy" (1848) he offers the opinion that—"the relation of masters and work-people will be gradually superseded by partnership, in one of two forms: temporarily and, in some cases, association of the labourers with the capitalist; in other cases, and perhaps finally in all, association of labourers among themselves."

Mill also describes the Leclaire "experiment," as he terms it; the scheme of the Cornish coal miners in which gangs of miners contracted with the owners to excavate certain veins in return for which they received a share in the proceeds realized from the sale of the coal; and what will be news to some readers,—the fact that in American ships trading with China in those days, every sailor had an interest in the profits of the voyage. "To this," Mill says, "has been ascribed the general good conduct of those seamen, and the extreme rarity of any collision between them and the government or people of the country."

Lord Wallscourt in 1829 started a scheme wherein the laborers who performed the work participated in the results. This can scarcely be called a profit-sharing plan. It was rather a co-operative venture. It is thought to have been suggested to Lord Wallscourt by Robert Owen, the English social reformer, who conducted various communistic experiments in Great Britain and Ireland. Owen is generally regarded as the original Socialist. Some of his early attempts at benevolence were successful. Later, however, after his socialistic tendencies developed, his experiments failed one after another, among which was the community settlement at New Harmony, Indiana, U. S. A., where Owen lost most of his means. Like its prototype, Lord Wallscourt's co-operative venture was apparently of short duration. Information as to its duration and the cause of its failure is extremely meager.

The year 1865 saw the first real fruits of the profit-sharing propaganda in Great Britain. Henry Briggs, Son & Co., who operated coal mines near Normanton in Yorkshire, England, in that year converted the business organization from that of a firm into a limited liability company and introduced a profit-sharing scheme. A considerable portion of the stock was offered to the public with preference given to the officers, workmen, and customers of the firm. The prospectus bearing on the scheme described it as follows: "In order, however, to associate capital and labor still more intimately, the founders of the company will recommend to the shareholders that whenever the divisible profits accruing from the business shall (after the usual reservation for redemption of capital and other legitimate allowances) exceed 10 per cent. on the capital embarked, all those employed by the company, whether as managers or agents at fixed salaries, or as work-people, shall receive one-half of such excess profit as a bonus, to be distributed amongst them in proportion to, and as a percentage upon, their respective earnings during the year in which such profits shall have accrued." Employes who took shares in the company received a higher rate than others. On the first distribution such employes received twice as much as the others; subsequently, one and one-half times that received by the others.

The plan remained in operation nine years, during which time the annual distributions to the workers were substantially as follows:

1866—	$ 8,748
1867—	13,122
1868—	15,299
1869—	16,825
1870—	8,456
1871—	8,480
1872—	25,515
1873—	69,284
1874—	29,393

From the beginning the workmen were represented by a committee which, although it had no direct voice in the management, was consulted from time to time and had full knowledge of the affairs of the concern. The accounts were audited by professional accountants.

In 1869, one of the workman, who was a shareholder, having been elected by his fellow workmen, was given a place on the directorate consisting of five members. Thus the workmen came into their own in the matter of representation and direct control.

This scheme, while strictly speaking a bonus system, the distribution being voted at the end of the period, was, it will perhaps be seen, something which went further than mere profit-sharing. It was in part labor co-partnership. All who shared in the profits were not stockholders. They were, however, represented on the board of directors by one of their number through whom they exercised a voice in the management. There were consequently present the essentials of co-partnership, namely, a share in the profits and a voice in the management.

The arrangement resulted in great harmony between the employers and employes, as well as increased efficiency. The coal was gotten out in better shape. There was a saving in timber and supplies. There was increased willingness on the part of the men to receive and obey instructions and a genuine desire to co-operate. In general the plan worked admirably for several years.

The abandonment seems to have been due to a number of causes. In 1873 certain competitors of Henry Briggs, Son & Co., in an effort to obtain as great a share as possible of the prosperity then prevailing, sought to induce some of the men to leave the firm mentioned with offers of a higher wage. This, it was explained, was higher than the regular wage of the district and took the place of the profit-sharing feature. This served to strengthen the idea which some of the workmen already had that the share of the profits distributed at the end of the year was something withheld from their wages during the year.

During 1873 there also occurred something which tended to shake the confidence of the workers in the management. A sum of £30,000 was taken out of the profits and devoted to the purchase of a new mine. The shareholders received additional shares as they would in case of a stock dividend, but the workers received nothing in connection therewith. The latter were further deprived of a share in the prosperity of the period by heavy charges against the profits for depreciation and other reserves.

In 1874, prices began to fall; market demands as to quality began to stiffen; greater care with regard to sifting in the pits became necessary; and it became necessary to reduce wages. As a result of the latter, a four weeks' strike ensued and at the semiannual meeting of the share-holders, held in February, 1875, it was voted that the "payment of a bonus on the industrial partnership principle be discontinued."

Thus terminated Great Britain's first experiment in profit-sharing. The motive which prompted its institution was industrial peace, not philanthropy. Its failure was due, not to any defect in the scheme or the principle on which it was founded save possibly one, but the way in which it was administered, together with the decline in prosperity calling for a reduction in wages. Had the profits been distributed part in stock instead of all in cash, the greater financial interest would have acted as a deterrent when the men were tempted to go to other companies. In any stock distribution such as that resulting from the additional mine purchased "out of profits," the men would have shared proportionately. It is interesting to note that when the wages were reduced there was no reduction in the rate of charge against the profits for regular dividends on the shares, which rate had in the prosperous years been increased. Discrimination also apparently played some part in the causes which led to the termination of the experiment.

During the period from 1865 to 1912 the number of schemes started in Great Britain was about three hundred. The movement covered a wide range of industries, including building, quarrying, textiles, shoes, clothing, printing, and food preparation. It achieved its greatest activity during the period from 1889 to 1892 when the idea was taken up by a large number of British gas companies. Of this number one hundred and sixty-six were abandoned. The remainder were, at last report, in force. The average duration of those discontinued was about eight years. Of the schemes started in 1865 one has remained continuously in force.

An analysis of the causes accounting for the discontinuance of the schemes which have ceased to exist shows dssatisfaction of employers as the leading one. Out of a total of one hundred and sixty-six cases, forty-eight, or about twenty-nine per cent, are attributable to this cause. Dissatisfaction on the part of employes is given as the reason in only four cases out of the entire one hundred and sixty-six.

A summary showing the range of causes follows:

Dissatisfaction of employers	48
Liquidation	28
Want of financial success	25
Changes in business	15
Apathy of employes	10
Dissatisfaction of employes	4
Various (such as increased taxation, substitution of increased wages, and new responsibilities of employers under the Workmen's Compensation Act of 1897)	25
Not known	11
	166

The two English cases which, aside from that of Henry Briggs, Son & Co., have attracted most attention are the South Metropolitan Gas Company whose chairman was the late Sir George Livesey, and Lever Bros. Ltd., the head of which is Lord Leverhulme. Both these schemes owe their success largely to the individuals whose names have just been mentioned.

The South Metropolitan Gas Company had since 1886 shared profits with officers and foremen, but in 1889 an attempt was made to offset the influence of the labor unions, reduce waste, and restore discipline, by offering to share profits with such workmen as would sign an agreement to serve the company for twelve months. So cleverly arranged was the agreement with regard to preventing a combined strike on the part of employes that the unions took a hand immediately and brought about one of the greatest strikes London has ever known. The strikers were finally beaten and the matter apparently settled once and for all.

In the operation of the scheme the workers receive a percentage on their wages which fluctuates with the price of gas as do the dividends to shareholders under the English law. They are obliged to invest half their share of the profits distributed in the stock of the company. Three of the ten directors are elected by employes: two by the manual workers, who are shareholders; one by the office workers who are shareholders. The other seven directors are elected by the whole body of shareholders.

The motive for the scheme just mentioned was, like that of Henry Briggs, Son & Co., a desire for industrial peace. For many years the employes were forbidden to belong to the Gas Workers' Union. Latterly this restriction was removed and workers were left free to join such union if desired. The fact that each employe must be a stockholder in the company creates a situation which puts the labor union at a decided disadvantage.

The popular English example is that of Lever Bros., Ltd., of Port Sunlight. The head of this organization, Lord Leverhulme, was known for many years as Sir William Lever. He is said to have started on his career as an errand boy in his father's grocery store in a small town in Lancashire. He became a commercial traveler and at the age of twenty-two made arrangements with a soap manufacturer to produce for him a soap made after his own ideas and which he called "Lever's Pure Honey Soap." This venture was so successful that in 1890 he started a huge plant of his own at Warrington. This was followed two years later by another plant at Port Sunlight in Cheshire. The great success of the organization and the vast proportion it has reached, together with the great wealth attained by its guiding spirit are matters of general knowledge.

The scheme, regarded by the then Sir William as something beyond profit-sharing, namely, "prosperity sharing," was introduced in 1909, but the provisions were made retroactive to 1901 so that employes who had been in the Service during such period received a substantial "nest-egg" in the form of copartnership certificates.

Reference should not be overlooked in passing to the many benefits bestowed upon the workers by the company before the profit-sharing scheme became effective. These took the form of the beautiful garden village of Port Sunlight with its parks and gardens, public halls, baths, swimming pools, gymnasium, and, last but not least, houses with low rents.

Lord Leverhulme's views on the subject of profit-sharing are best expressed in his own words. "What we have got to do," he has said, "if we want to make copartnership spread throughout this country, is to recognize the basis upon which all industries are run, namely, efficient service to the public—to find in copartnership not a coddling scheme, not a scheme for the distribution of doles and benevolences, but a business system, under which the industries of this country can be better run than under any other system; superior to any other system for economy of production, for service to our employers, the public, and for reaping the fruits of our industry among ourselves. I believe it is impossible to produce the necessary propelling power of a human being, unless you give some individual motive, incentive and ideal . . ."

The medium for the distribution of profits in the Lever Bros., Ltd., scheme is the "Partnership Certificate." This does not evidence share ownership in the assets but rather a right to share in the profits. Such certificates may be redeemed or held as the recipient chooses. Two classes of partnership certificates were provided, namely, ordinary and preferential. The preferential certificates were provided for such employes as might have broken down in health or retired.

The employes are represented by a somewhat elaborately organized general committee which serves largely in an advisory capacity. Furthermore, they are organized into various departmental committees and councils, through which they take an active part in formulating and administering the detail policies incident to the operation of the business.

The Lever scheme was prompted apparently by the desire for success through cooperation. In this it represents a view different from that of Leclaire or Henry Briggs, Son & Co. Leclaire was an altruist. Briggs, if the history of the case is correct, had a motive somewhat selfish. With Lever it was a business proposition which took into consideration the fact that labor is an important factor in the operation of any organization and that what the worker craves is not charity but opportunity to cooperate; to be allowed to take an interested part in carrying on the business as well as to share in any prosperity which may result from his effort to save time, labor, materials, or money in the discharge of his duties.

(*To be continued*)

A National Budget System

THE average person who has had no occasion to give particular thought to the matter would probably be shocked by a statement to the effect that the government of the United States has no provision whereby there is drawn up in advance a general financial program for the operation of the government.

Under the present plan the appropriation bill and other bills calling for the disbursement of funds originate with the legislative branch of the government. Such bills may be reported out at any time during the session; hence, it is difficult to determine how much the government plans to spend until the legislative branch adjourns and the President has either signed or vetoed the bills.

There is now (December 1, 1919) before the Senate a bill introduced in the House by Mr. Good of Iowa, (H.R. 9783) the purpose of which is to provide a national budget system and an independent audit of government accounts. This bill passed the House on October 21, 1919.

The bill provides for a budget bureau and an accounting department. The former would be established in the President's office; the latter would take over the functions of the Comptroller of the Treasury and the auditors for the various departments and would be under the direction of an officer to be known as the Comptroller General.

The bill takes the estimates of appropriations out of the hands of the Secretary of the Treasury and requires that they shall be submitted to the President. The latter, with the assistance of the Budget Bureau, is required "to transmit to Congress on the first day of each regular Session after the calendar year 1919, a document to be known as a budget and to contain (1) balanced statements of revenues and expenditures for the preceding fiscal year, (2) of the resources and liabilities at the close of the year, (3) estimates of revenues and expenditures (a) for the current fiscal year, and (b) of the revenues and expenditures needed for the ensuing year."

The Budget Bureau contemplates two functions; one to conduct investigations and compile data from the various government departments; the other to assist the President in the preparation of a budget.

The Comptroller General would be authorized to investigate matters relating to the receipt and expenditure of public funds and to submit to Congress at the beginning of each regular session a report on the work of the Accounting Department with recommendations as to legislation deemed necessary to facilitate prompt rendition and settlement of government accounts. The Comptroller General would have access to all books and records of the executive departments and the power to enforce from such departments any information desired.

public offerings. Some who have had securities to offer have realized the advantage of having the name of a good firm of accountants on the offering as well as the names of reputable lawyers, engineers, or appraisers.

The accountant's opportunity for service in this respect is great. So is his responsibility. He stands in the unique position of one who renders a dual service. He must therefore serve with the utmost care. The growing enlightenment of the investing public as well as of the entrepreneur is likely to bring increasing opportunity for service along these lines to the public accountant. It should not be an unwelcome feeling, that of helping to facilitate business enterprise.

Some Successes and Failures in Profit Sharing (Continued)

ANY attempt to give an idea in terms of percentage of the development of profit-sharing in the United States fails because of the vastness of enterprise and the large number of business organizations in this country. To compare the number of instances in which profit-sharing has been tried, to the average number of business organizations in existence in the country, would result in a showing decidedly disadvantageous. Yet it must not be assumed that there has been little or no interest manifested by the business world in the subject. The development has been somewhat sporadic, but it is probable that there has been more interest and more experimentation than is generally suspected.

The motives which stimulate the interest are the same here as in other countries. They are the same the world over. They proceed from a variety of desires and ambitions. They are in the main desires which, if permitted to bear fruit, tend to the general uplift and benefit of mankind.

One concern sees in profit-sharing a protection against strikes; another, a means of holding the organization together. In some cases, increased efficiency and output, prevention of waste, and increased returns for the owners, are the reasons. A big-hearted wish to reward loyalty and devotion to his interests has prompted many an individual to adopt profit-sharing in his business. To many others charged with the responsibility of conducting business enterprise, has come the conviction that a new era is dawning in industry. They have come to feel that lasting success in the business world will be possible only when industrial autocracy has been succeeded by industrial democracy.

The less radical are developing an appreciation of the fact that voluntary and unstinted co-operation is essential to the successful and satisfactory conduct of business affairs. One does not have to be a socialist to recognize the important part which the human element plays in successful business and the necessity of making every effort to insure the unremitting interest and happiness of those who serve.

A well known industrial engineer disclaimed some time ago that there is any philanthropic motive underlying welfare work. It is, he said, "A cold-blooded business proposition. It is one of the factors with which business must reckon. It is as necessary to operation as labor itself." By many is profit-sharing, in its relation to business, so regarded. It is an absolute necessity. Some advanced thinkers go beyond this point and say that the worker has a "right," not only to a share in the profits, but a voice in the management.

Sketching briefly the history of the movement in the United States, we find the first reported case as far back as the year 1878; that of the Peace Dale Manufacturing Company, at Peace Dale, Rhode Island. In 1882, one of the largest scale experiments was attempted by the Pillsbury Flour Mills, Minneapolis, Minnesota. The years 1886 and 1887 saw numerous instances in which schemes were introduced. Among these were the Norriton Woolen Mills, Norriton, Pennsylvania; the N. O. Nelson Manufacturing Company, Saint Louis, Missouri; the Haines, Jones & Cadbury Company, of Philadelphia, Pennsylvania; the Hoffmann & Billings Company, Milwaukee, Wisconsin; the Ballard & Ballard Company, Louisville, Kentucky; the Springfield Foundry Company, Springfield, Ohio; Rogers, Peet & Company, New York; the Samuel Crump Label Company, Montclair, New Jersey; Samuel Cabot, Boston, Massachusetts; Procter & Gamble, Ivorydale, Ohio; John Wanamaker, Philadelphia, and a score or more of others.

In the thirty years following, many experiments were made and a number endured so that in 1916, according to a report of the Bureau of Labor Statistics of the United States Department of Labor, there were sixty establishments in the United States with pure profit-sharing schemes in operation. Among these are noted the Ballard & Ballard Company, Samuel Cabot, and the N. O. Nelson Manufacturing Company; all of which instituted profit-sharing in 1886 or 1887. These schemes at least must be regarded as successful.

Of the sixty plans mentioned as being in operation in 1916, the largest number introduced in any one year (11) are found in 1915; not of course of sufficient duration to warrant a conclusion as to their probability of success. Four remained from 1901. Practically every year from 1897 to 1916 is represented. New York, with 12 establishments; Massachusetts with 13; and Ohio with 10 lead. The remaining 25 are scattered over 15 states. Manufacturing establishments number 26; mercantile 14; with banking, public utilities, building and contracting, real estate, wholesale baking, and newspaper publishing making up the balance.

Manual workers in the above cases appear to have benefitted principally, since only 17.1 per cent of the employes involved was in the executive, clerical, and sales divisions. Of the total number, 9.5 per cent. was executive; 5.6 per cent. clerical; 1.9 per cent. sales.

Reasons for discontinuance of plans in the United States vary as they have in other countries. In most of the discontinued cases under review, it appears that the schemes have had none too fair a trial and that the effort in such cases has generally been far from whole-hearted. In one case, we read the statement purporting to come from one of the executive officers as follows: "We made two distributions and, as the number participating in the distribution increased the second year, which necessarily made the amount received by each individual decrease, we found that there was a great deal of dissatisfaction; and we felt for the interest of our business, that it would be better for us to discontinue the profit-sharing plan." Even a short time is too long to have dissatisfaction, but it might occur to some executives that to remedy some part of the plan would possibly produce better results than to abandon the plan entirely.

The three representative American cases are perhaps the Procter & Gamble Company, far-famed as the manufacturers of Ivory soap; the N. O. Nelson Company of St. Louis, Missouri, manufacturers of steam pumps, etc., in which case the profit-sharing scheme includes customers as well as employes; and the Dennison Manufacturing company, which it is understood has become completely mutualized.

Numerous strikes by employes in 1886 prompted the firm of Procter & Gamble to adopt, in 1887, a profit sharing scheme for the cure of such conditions. The operation of this scheme apparently did not develop the interest and cöoperation on the part of employes which was sought, because, in 1889, the firm introduced another plan for the sharing of profits in which it divided its employes into four classes. The first class was composed of those found to be interested in improving the quality of their work and otherwise advancing the welfare of the firm, and to these were allotted two shares each. The second class was composed of those who might be characterized as "neutrals," or having only a medium amount of interest in the welfare of the business, and to these was allotted one share each. The third class was composed of those who were indifferent and did not display interest in the welfare of the business, and to these was allotted a half share each. The fourth class was composed of those who were careless and wasteful in their work, and to these no allotment was made.

Testimony has been given to the effect that this profit sharing plan, because of its classification feature, accomplished the purpose of stimulating and broadening the interest of the participants. In 1890, however, when the firm incorporated, another plan was adopted whereunder every workman received a percentage on his wage at the same rate as that paid in dividends on the common stock.

It appears that the profit distribution received by the wage earners in cash must have grown to be looked upon as a part of their compensation, for in 1903 the Procter & Gamble Company revised its profit sharing plan so that, excluding its salesmen and traveling representatives, employes who earned less than $1,500.00 per annum, might participate in the profits of the business under a stock-purchase and trust-receipt dividend arrangement. The object of this arrangement undoubtedly was both to encourage thrift and to promote a proprietary feeling. A well known newspaper writer recently said on the subject of proprietary interest: "When the wage earner is a capitalist he will rail less at capital. But his capital must come by acquisition, not by gift."

The N. O. Nelson Manufacturing Company of St. Louis, Missouri, stands out as a notable and interesting case. On March 20, 1886, Mr. Nelson announced that for the year ending December 31, following, the company would share profits with the men. The balance remaining after the apportionment of 7 per cent. to the invested capital was to be divided between the wage-earners and the share-holders in the proportion which the wages and capital might bear to one another.

Service of six months with the company was necessary in order that the workman might be entitled to a share. The workmen were represented by one of their number who was appointed custodian of their profit-sharing contract. The custodian was authorized to examine the books at the close of the year.

Imitating Leclaire perhaps, Mr. Nelson called his men together on the evening of January 22, 1887 and handed them $4,828 as their share of the profits. More than two-thirds of the men elected to leave their profits in the business.

In 1905, Mr. Nelson startled the business world by announcing that the company would share profits with customers. The distribution to customers for the first year was at the rate of 1½ per cent. of the gross profit on their purchases, where the purchases amounted to $100 or more. Thus were the customers "taken into partnership." The rate which they receive is fixed annually by the directors. The success of this feature is apparent as it has been in operation since 1905.

Dividends to employes are paid in interest-bearing certificates which, after being held three years, may be converted into stock. Dividends to employes have been paid to employes annually and have, since 1905, ranged from 15 per cent. to 30 per cent. per annum. It is not strange that Mr. Nelson should say, as he has been quoted, "Our men belong to anything they choose. That is something with which we do not interfere. * * * Our men could not be induced to strike by any inducements which could be held out to them * * * It is a solution of the labor problem on business lines, and every employer that takes it up will agree with me that it is so."

The scheme of the Dennison Manufacturing Company, Framingham, Massachusetts, manufacturers of paper specialties, is worked out through industrial partnership stock. The scheme has been in operation since 1911. Participants are employes whose years of service and compensation are as follows:

Service at least 7 years; compensation at least $1,200 per annum.

Service at least 6 years; compensation at least $1,500 per annum.

Service at least 5 years; compensation at least $1,800 per annum.

After dividends on the first and second preferred stocks have been provided, the balance of the net profit is divided among employes in proportion to the amount of actual salary received. The distribution is made in industrial partnership stock which has a par value of $10 per share, receives cash dividends and has a voting power equal to one vote for every ten shares.

The stock is not assignable or transferable except to or for account of the company. If an employe who holds industrial partnership stock withdraws or is dismissed, he must exchange his stock for preferred stock, which has a par value of $10 per share, but at present no voting power.

The amount of industrial partnership stock having now exceeded $1,000,000, as provided in the profit-sharing contract, the voting power is vested entirely in the employes. There is, however, an automatic check on any attempt on the part of employes to be arbitrary in the treatment of the preferred stockholders, which results in a revival of preferred voting power and under certain conditions permanent loss of voting power to industrial partnership stockholders.

The Dennison plan is one of the strongest plans in force. It permits extensive voice in the management to employes as well as a share in the profits, yet provides carefully worked out "checks and balances." It is effective labor co-partnership.

As a sequel to profit-sharing, it is interesting to consider what benefits the recipients derive which, after all, is one of the severest tests whereby profit-sharing must be judged. One case throws considerable light on the subject and is as follows: " 'A' was not approved for participation because he lived in a dirty, unsanitary house. He was advised as to his duty in the matter. Six months later he had moved into a better neighborhood, had improved his home conditions and was approved for participation. Six months after, he had purchased a lot, built a seven room house with a bath and furnished the house. A little over a year after he had been approved, he was found to be making splendid progress in paying for his home. His family was neat and clean, comfortable and happy."

Profit-sharing, properly planned and intelligently applied, is undoubtedly a splendid measure, both from the point of view of the employer and the employe. It tends to stimulate interest in the organization; to maintain continuity and cohesiveness in the working force; to increase production; to reduce waste; to increase profits in times of prosperity; to minimize losses in times of adversity; to promote harmonious relations among the parties at interest.

To succeed, it must provide, through reserves created out of profits in good years, for losses in bad years; it must offer opportunity to the worker to earn something rather than to have something given to him; distribute the worker's share in capital stock or its equivalent instead of in cash; give him an effective voice in the management which may, however, become revocable if he misuses his power; provide for fair treatment to all the parties at interest if he leaves the company.