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Article abstract

This study seeks to explain why companies do or do not introduce employee profit sharing, through a telephone survey of chief executive officers at 626 Canadian companies. In addition to examining some of the usual contextual variables, this study goes beyond previous work by directly questioning CEOs about their motives for adopting or not adopting profit sharing, and by including managerial philosophy as a possible factor in their decision-making process. Results indicated that managerial philosophy and company size were the two key predictors of incidence of profit sharing. However, the firms most likely to adopt profit sharing in the future were those experiencing a high growth in sales coupled with a low growth in employees. Surprisingly, unionization was not related to either présence of, or intention to implement, profit sharing.

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Employee profit sharing has experienced a substantial increase in popularity in Canada in recent years (Long 1992; Chaykowski and Lewis 1995). For example, examination of the results of two comparable studies (Betcherman and McMullen 1986; Wagar and Long 1995) indicates that the proportion of Canadian companies with profit sharing plans doubled in the eight-year period between 1985 and 1993. Canada is not unique in the growing popularity of profit sharing (Florkowski 1991; Long 1996).

Advocates claim that employee profit sharing (PS) can lead to a number of desirable consequences, including increased productivity (Bell and Hanson

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1987) and greater employment stability (Weitzman 1984), and there is some empirical evidence to support these arguments (Chelius and Smith 1990; Mitchell, Lewin, and Lawler 1990; Weitzman and Kruse 1990; Kruse 1993). Supporters also contend that profit sharing is a practice that can be win-win for employers and employees, by providing higher profitability to the employer, and greater financial rewards and employment security to the employee (Tyson 1996). However, critics argue that such plans are often implemented to simply shift business risk to employees, by substituting uncertain variable wages for certain fixed wages, or to weaken unions by increasing employee loyalty to the firm at the expense of loyalty to the union. Indeed, opposition to profit sharing was a key factor in the breakaway of the Canadian Auto Workers Union from its U.S. counterpart in 1985 (Katz and Meltz 1991).

Clearly, the intentions of those who are implementing profit sharing plans may well affect the consequences of these plans, so it is important to understand why these plans are being implemented in such large numbers. But on the other side of the coin, it should be noted that most firms have *not* implemented profit sharing. If profit sharing really does bring the advantages that proponents claim, it is also important to know why so many firms have not implemented profit sharing. However, in his landmark work on profit sharing, Kruse (1993) notes that relatively little is currently known about the factors that hinder or precipitate the adoption of profit sharing, and calls for more research on this issue. This call is supported by Chaykowski and Lewis (1995), who suggest that understanding the reasons for the adoption of nontraditional pay systems in Canada is a key research issue.

In examining this question, the approach taken by virtually all previous studies has been to relate a number of contextual variables to the presence or absence of profit sharing, and then to infer possible motives from these relationships. However, this approach has not been very successful, because few contextual variables have been found to consistently relate to profit sharing. Indeed, Kruse (1996: 533) concludes that this may indicate "a large role played by employer discretion and/or specific workplace cultures and characteristics" in the adoption of profit sharing.

A more direct approach is to simply ask companies why they have or have not adopted profit sharing. However, a major drawback to this approach is that this question needs to be posed directly to those who have either been responsible for the decision to implement profit sharing, or have had the authority to do so, which is obviously a very difficult process. This study attempts to address this problem through a telephone survey of Canadian chief executive officers (CEOs).

As a part of this process, data on some of the usual contextual variables were also collected. However, beyond this, an attempt was made to ascertain the school of management thought held by the CEO. The argument

here is that the attitude that CEOs hold toward profit sharing may be, at least in part, a function of their personal managerial philosophy. If so, this may help explain why the usual contextual variables have relatively little utility in explaining the presence or absence of profit sharing.

This study is unique in several ways. First, in asking chief executive officers directly why they do or do not have profit sharing. Second, in asking those firms without profit sharing whether they are planning to introduce it in the near future. This makes it possible to compare the motives and contextual variables of firms that already have profit sharing to those that are intending to implement it, to determine whether motives may be changing. Third, this study is the first of its kind to attempt to relate managerial school of thought to the presence of profit sharing.

POSSIBLE MOTIVES FOR AND PREDICTORS OF PROFIT SHARING

Why do firms choose to adopt profit sharing? This question is complicated by the fact that there are a large number of possible motives for adopting profit sharing.

Advocates of profit sharing argue that by aligning the interests of employees with those of the employer, employees may be more motivated to help improve company productivity (Bell and Hanson 1987). They also argue that a group incentive such as profit sharing is likely to help build a more cooperative, team-oriented atmosphere in the organization (Florkowski 1987). If managers believe that PS can deliver these outcomes, these may be important motives.

Numerous theorists (Argyris 1964; Lawler 1988, 1992) have argued that reward systems that align the interests of employees and the company should serve as a substitute for hierarchical control by promoting internalized commitment to company goals. This internalized commitment should reduce the costs of supervision, along with building commitment to remain with the firm. Both of these may be relevant motives.

In addition to these arguments, which are based on social psychological theory, a branch of economic theory (agency theory) also serves as a theoretical basis for the argument that profit sharing will substitute for hierarchy (Barney 1990). Since the interests of the principals (i.e. owners) and their agents (i.e. employees) are in greater harmony when utilizing systems such as profit sharing, less monitoring and surveillance of employees will be necessary under profit sharing, decreasing the need for external controls and supervision for employees (Welbourne, Balkin, and Gomez-Mejia 1995).

Two Canadian studies have in fact indicated that organizations with profit sharing are less hierarchical than those without it (Long 1994; Wagar and Long 1995). One of these studies also found that firms with either profit sharing or gain sharing had 31% fewer supervisors and managers than those without either of these (Long 1994). If anticipated by CEOs, this reduction in the cost of management could be a real motive for PS.

Related to this, another motive for implementation may be as part of a strategy to promote high employee involvement and participation in the business. Indeed, some commentators (Lawler 1992) argue that payment plans based on company performance are a crucial part of this process. In fact, Wagar and Long (1995) did find a relationship between the extent of self-directed work teams and the presence of profit sharing. In his research on U.S. firms, Kruse (1996) found that profit sharing was more likely to be found in firms that practised job enrichment, another high involvement practice.

One of the possible reasons for adoption of profit sharing is to create a more flexible system of wages. According to economic theory, in volatile industries firms will be reluctant to give wage increases in times of high profitability, since it will be difficult to reduce wages in ensuing periods of low profitability (Kruse 1993), and they will therefore prefer profit sharing to wage increases. However, this argument has received mixed support. For example, Wagar and Long (1995) found no relationship between environmental turbulence and presence of profit sharing. But Kruse (1996: 528) did find that "companies experiencing higher variability in profits and increases in stock prices were more likely to adopt profit sharing," as did Estrin and Wilson (1989) and Kruse (1993), although not Cheadle (1989).

A number of contextual variables may be relevant. In Canada, one such factor is union status. In general, Canadian union leaders have been skeptical of profit sharing for two main reasons. First, profit sharing represents an uncertain and risky reward, which may be subject to managerial manipulation, in comparison to the negotiation of fixed wages. Second, they worry that profit sharing may undermine member commitment to the union by increasing commitment to the company. According to Kruse (1993), profit sharing has in fact been used as a mechanism for union avoidance in the United States.

Studies in Canada have consistently found a negative link between unionization and presence of profit sharing (Long 1989; Jones and Pliskin 1991; McMullen, Leckie and Caron 1993; Betcherman et al. 1994; Wagar and Long 1995). However, in other countries the relationship is not as clear. For example, in the United States, three studies showed a negative relationship between unionization and profit sharing (Cheadle 1989; Kim 1993; Cooke 1994), another (Kruse 1993) found a positive association, and

a fifth (Kruse 1991) found no association. In Britain, one study showed a negative relationship (Poole 1989), another showed a positive association (Gregg and Machin 1988), and a third showed no association (Estrin and Wilson 1989). A German study (Carstensen, Gerlach, and Hubler 1992) also showed no association.

The apparent antipathy of unions towards profit sharing in Canada is borne out by examination of collective agreements. Although the *proportion* of collective agreements containing profit sharing provisions doubled between 1987 and 1993, only about two percent of collective agreements actually had these provisions as of 1993 (Chaykowski and Lewis 1995). Of course, it is not absolutely clear whether this low incidence is entirely due to resistance by unions to profit sharing, or to a lack of desire on the part of unionized employers to extend profit sharing to their employees. It may also be that unionized firms have less profits to share, as there is considerable evidence that unionized firms have lower profitability than comparable nonunion firms (see Laporta and Jenkins, 1996, for a review of the evidence on this issue).

Another organizational factor frequently thought to be important is organization size. Many commentators — especially those with a traditional economics perspective — believe that profit sharing will be most effective as a motivator in smaller firms, where the linkage between individual employee effort, company performance and individual rewards should be most apparent. Given this, smaller firms would be more likely to be attracted to profit sharing than larger firms (Kruse 1993). However, Wagar and Long (1995) found no association between firm size and the presence of PS in their sample of medium to large Canadian companies, nor did Long (1989) in his analysis of data collected by the Economic Council of Canada. Other studies have produced inconsistent results, as Gregg and Machin (1988), Poole (1989), Carstensen, Gerlach, and Hubler (1992), and Fitzroy and Kraft (1995) have found a *positive* association, while Estrin and Wilson (1989) found a negative association, and Cheadle (1989) found no association.

A variety of other contextual variables may also be relevant. For example, Poole and Jenkins (1990) found profit sharing more common in rapidly growing companies. Age of the firm may also be relevant as older firms might be expected to be more traditional in their management, and therefore less likely to implement profit sharing. Labour force profile may also be relevant. For example, firms with a high proportion of professional employees may be more likely to have profit sharing both because of a perceived need to retain these employees, and also because top management may believe that the performance of these employees can have a strong influence on company performance. The reverse may be true for firms with a high proportion of blue collar workers.

Finally, one contextual variable that has not previously been explored is the impact of the managerial philosophy of top management. Miles (1975) has argued that three main schools of managerial thought can be identified – the classical school, the human relations school, and the human resources school (referred to in this paper as the "industrial humanism" school to avoid confusion). The *classical manager* assumes that people are motivated only by economic self-interest, and will do as little as possible while still maximizing their economic gain. These managers will tend to practice a traditional, tightly controlled approach to management, with individual jobs fragmented into tiny pieces in order to allow easy supervision and replacement of employees.

The *human relations manager* also assumes that work is inherently distasteful, but they believe that employees can best be induced to work by the social rewards that the organization can provide. They will still practice a control-oriented approach to management, with fragmented jobs, but control will be exercised through development of positive group work norms, which will flow from an employee-oriented, paternalistic approach practised by management. Finally, the *industrial humanism manager* assumes that employees can be self-motivated if their work is challenging and interesting, if they are given sufficient autonomy and organizational support to perform it as they see fit, and if employee goals are integrated with those of the organization. Lawler (1992) terms this third approach the "high involvement" approach to management.

These three schools are analogous, respectively, to the "industrial", "salaried", and "high performance" approaches to management identified by Betcherman et al. (1994) in their study of Canadian organizations. Numerous commentators (Long and Warner 1987; Lawler 1992; Betcherman et al. 1994) argue that only this third approach to management has the ability to cope effectively with the increasingly turbulent and complex business environment in North America. The other two approaches, they argue, are too rigid, and do not mobilize and utilize employee skills and abilities to the extent necessary to deal effectively with this type of environment.

How will school of management thought likely affect a CEO's desire for implementing profit sharing? Classical managers will likely avoid profit sharing because it does not tie rewards to individual performance, and offers too much opportunity (in their view) for "free-riders" – employees who enjoy the benefits of profit sharing while doing nothing extra to help increase profits. In this respect, their views may parallel those of traditional economists, who have never been enthusiastic about profit sharing, since they tend to view profit sharing primarily as an economic incentive. If viewed strictly from this perspective, profit sharing does indeed seem a very poor economic incentive, since the link between individual behaviour and

individual economic rewards is extremely weak. If traditional economists do see any value in profit sharing, it is as a mechanism of making wages more flexible by substituting profit sharing for a portion of fixed wages. But the profit sharing literature indicates that profit sharing is seldom used this way — it is almost always an "add-on" to the wage package (Mitchell, Lewin, and Lawler 1990; Kruse 1993) — and virtually all proponents of profit sharing argue that PS should not substitute for competitive wages (Bell and Hanson 1987; Tyson 1996).

Human relations managers may favour profit sharing if they see it as either a valued part of the fringe benefits package, or as a "gift" from the employer — a token of appreciation — which engenders employee gratitude, loyalty to the firm, and positive group norms, all of which will be highly valued by these employers. But industrial humanism managers are likely to support profit sharing most enthusiastically, since these programs emphasize a unity of goals between the employee and the company. These programs may also serve as a means to improve communication about company performance, increase employee interest in the company, and encourage employee participation in decision making, all of which will be valued by these managers, since these features are needed to create a high involvement organization.

Lawler (1992) argues that the foundation of a high involvement organization is a system that produces knowledgable and informed employees who are empowered to take decisions, motivated by a reward system that ties individual rewards to organizational performance. But these features will be of limited value to human relations managers, who do not really believe in employee participation in decision making, and of little or no value to a classical manager, who would likely see employee participation in decision making as a highly *undesirable* outcome, and would not wish to provide the information and communication upon which many commentators believe that the success of profit sharing will depend (Bell and Hanson 1987; Tyson 1996).

METHODOLOGY

Data Collection and Sample

A key issue for this study was to obtain a representative sample of Canadian business firms. To do so, a list of 1,485 Canadian companies was generated by Dun and Bradstreet. This list included only "for profit" enterprises which had at least twenty employees. This sample was designed to include a broad mix of industrial sectors, types of firms, sizes, and regions, and to be representative of Canadian business in general. The list included

company name, industrial sector, company size, and name and telephone number of the chief executive officer.

The chief executive officer of each company first received a letter explaining the purpose of the study and requesting their cooperation for a telephone interview. This was followed by a telephone call to the CEO, during which a structured interview format was used. After solicitation of some general information about the company, respondents were asked whether or not their company had profit sharing. If it did, they were questioned about the nature of their plans and the motives for implementation. If it did not, they were asked whether they were planning to introduce it, and if so, why. If they were not planning to introduce it, they were asked why not.

All interviews were conducted between May 1989 and June 1990, and were successfully conducted at 626 companies, a response rate of 42.2%. Considering that over 81% of the respondents were indeed CEOs, this was regarded as a very satisfactory response rate. Interestingly, of the firms that had profit sharing, the majority of the plans (58.5%) had actually been introduced by the respondent.

The majority of firms (58%) were from the service sector, with about 29% from the manufacturing sector, and the remainder from the primary and construction sectors. All regions of Canada were represented. Median firm size was 100 employees. The great majority (83%) were private corporations, with the remainder consisting of publicly held corporations, proprietorships, partnerships, and cooperatives. Most (77%) were independently owned firms, not subsidiaries of larger firms. Just under one third (32.4%) were unionized. In all, the firms in this sample employed over 421,000 persons.

Variable Measures

Profit Sharing

The definition of profit sharing used in this study was stringent. Previous research suggests that up to half of the firms that claim to have profit sharing do not in fact have plans that would meet recognized criteria (Conte 1992).

The following criteria were used in this study. First, if a company reported that their profit sharing plan was not broad based, it was not deemed to have profit sharing. For example, firms that extended profit sharing only to managerial employees were not deemed to have profit sharing. Plans which limited participation to designated employees were considered broad based only if these plans included at least some non-managerial employees. Informal bonus programs, or individual incentive

programs (such as sales commissions) were not included. To qualify as having profit sharing, a firm must have had a formal program in which payments are made to a wide cross-section of employees, on a regular basis, based on the overall profitability of the firm, or of a major business unit.

Motives for Having or Not Having Profit Sharing

If a firm was deemed to have profit sharing, respondents were asked why it had been introduced. This was a simple open-ended question, and no categories or suggestions were provided. For those firms that were intending to introduce profit sharing, a similar question was posed. For those firms that neither had nor were intending to introduce profit sharing, respondents were asked why not, in another open-ended question.

Contextual Variables

"Size" was measured in terms of number of full-time equivalent employees and total sales revenue in the most recent fiscal year. "Employment growth" was the percentage change in employment compared to five years previously, and "sales growth" was the percentage change in sales compared to five years previously. "Union status" was a dummy variable with "0" indicating no union and "1" a union, while "proportion unionized" was the percentage of the total employment who were union members. "Proportion professional" was the percentage of total employment who were professional or technical employees, while "proportion blue collar" was percentage of total employment who did not hold professional, technical, clerical, or managerial jobs.

School of Management Thought

Ascertaining the respondent's school of managerial thought during a brief telephone interview in which many other questions had to be asked was a challenge, particularly since accepted measures for school of thought do not exist. It was decided to measure school of thought by tapping into the underlying assumptions of the CEO. Therefore, the following question was asked:

"The following question attempts to help us understand your own philosophy of management. Please indicate whether you agree with the following statements:

In your experience, most people work because:

a. they are paid to do so [classical school of thought]

b. they enjoy the challenge and learning the job provides [industrial humanism]

c. they enjoy the opportunity for social contact the job provides" [human relations]

After indicating their agreement with each item on a one to seven scale, each CEO was then asked to rank the three in order of their strength of agreement.

This ranking procedure appeared to work quite well in identifying managers with either a classical or industrial humanism school of thought, as large numbers selected item "a" or "b" as the most important. However, very few selected item "c" as most important. Therefore, two scales were used, a classical and an industrial humanism. If a manager indicated item "a" was most reflective of their beliefs, they were assigned a "1" on the classical scale, "0" otherwise. If item "b" was most reflective, they were assigned a "1" on the industrial humanism scale, "0" otherwise.

RESULTS

Incidence of Profit Sharing

Overall, 17.3% of the firms in the sample were deemed to have profit sharing. Another nine percent indicated that they intended to introduce profit sharing during the next two years. If all of these were to follow through, this would mean a 50% increase in the number of profit sharing plans in a two-year period. Although it is unlikely that all will end up doing so, this does suggest a large amount of latent support for the concept.

The presence of profit sharing varied considerably across the industrial sectors, from a high of 30.7% in the primary sector to a low of 10% in the business services sector. Sectors which also had a relatively high incidence of profit sharing included transportation/communications/utilities (28.6%), and manufacturing (20.2%), while sectors with a relatively low incidence included wholesale trade (13.5%), retail trade (13.8%), and miscellaneous services (14.5%). The finance/insurance/real estate sector (18.9%) was close to the average, as was the construction sector (15.5%).

Incidence of profit sharing also varied significantly between publicly traded corporations and private corporations. Some 30% of public corporations had employee profit sharing, compared to only about 15% of private corporations. (Further detail regarding the incidence of profit sharing in this sample can be found in Long 1992.)

Motives for Profit Sharing

The most commonly cited motives for having profit sharing are summarized in Table 1. As can be seen, the most frequently cited motive was to "improve employee motivation", cited by nearly half (44.3%) of those firms with PS plans. This was followed by "rewarding loyal employees", cited by about one-third of these respondents, and "improving company performance", cited by about a quarter of these respondents. The other frequently cited motives were "retaining current employees", "helping employees understand the business", "promoting teamwork/cooperation", "improving the compensation package", "building employee commitment", and "philosophical reasons". ("Philosophical reasons" centred around the notion that it is "only fair" for employees to share in the profits they helped to create.) Interestingly, not one respondent cited anything along the lines of "making pay more variable" or "reducing fixed wages", and none gave any answer that suggested "union avoidance" or "weakening the union" as a motive.

TABLE 1

Motives for Implementing Profit Sharing

Motive	*Firms with Profit Sharing (n=108)*		*Firms Intending Profit Sharing (n=56)*	
	Number of Firms	*% of Firms*	*Number of Firms*	*% of Firms*
Improve employee motivation	47	44.3%	18	32.1%
Reward loyal employees	36	34.0%	6	10.7%
Improve company performance	28	26.7%	17	30.4%
Retain current employees	24	22.6%	20	35.7%
Help employees understand business	21	19.8%	6	10.7%
Promote teamwork/cooperation	20	18.9%	9	16.1%
Improve compensation package	20	18.9%	4	7.1%
Build employee commitment	19	17.9%	6	10.7%
Philosophical reasons	18	17.0%	6	10.7%
Attract new employees	8	7.5%	3	5.4%
Improve industrial relations	5	4.7%	4	7.1%
Employees demanded it	1	0.9%	1	1.8%
Tax advantages	0	–	2	3.6%
Other reasons	5	4.7%	10	17.9%

Table 1 also shows the motives for firms that do not currently have but are intending to introduce profit sharing. For them, "retaining employees"

was the most important motive, cited by slightly more than a third, followed by "improving employee motivation" and "improving company performance", each cited by just under a third. Most of the other motives were rarely cited. A striking difference between this group and those firms which already had profit sharing was the relatively low value placed on "rewarding loyal employees" by firms intending to implement PS. Again, none of the comments suggested "variable pay" or "union avoidance" as a motive.

Reasons for Not Having Profit Sharing

Table 2 displays the most commonly cited reasons for *not* having profit sharing, among the 418 firms that neither had nor intended to implement profit sharing. In general, the responses seem to fall into one of three main categories. One set of objections centres around the perception that profit sharing will not really bring any significant benefits to the firm, or that the benefits will be outweighed by the costs: "employees don't need profit sharing if they are already paid well" (the most frequent reason), "it is too complex to administer", "it is too costly for the benefits received". The second set of objections centred around the perception that conditions are not right for the concept at the present time: "the company is too small and/or too new for profit sharing", "the firm has no profits to share", "union is opposed to profit sharing", and "profits are too variable or unstable". Finally, the third set of reasons for not having PS seemed to reflect simple lack of consideration of the concept: "never thought of it", "don't know enough about it". Rather surprisingly, just 2.6% of the respondents admitted to not knowing enough about the concept, so most respondents appear to believe they know enough about PS to be able to make a rational decision not to implement it.

Of the 127 unionized firms without PS, 16.5% cited "union opposition" as a reason for not having profit sharing, which placed it slightly ahead of "employees don't need it if paid well" (14.2%) as the most commonly cited reason in this group. Otherwise, the pattern of results was quite similar to that for the overall group, except that "no profits to share" and "company too small/too new", were cited less frequently (by 3.9% and 7.9% of firms, respectively).

Regression Results

Correlation analysis was first used to determine which contextual variables may be related to the presence of, or intention to implement, profit sharing. The intercorrelations among the contextual variables are shown in Table 3, and the correlations between these variables and the presence of profit sharing and the intent to implement profit sharing are shown in Table 4. As

TABLE 2

Reasons for *Not* Having Profit Sharing

Reason	*# Firms*	*%*
Employees don't need it if paid well	62	14.8%
Company too small/too new	60	14.4%
No profits to share	49	11.7%
Never thought of it	43	10.3%
Too complex to administer	41	9.8%
Too costly for benefits received	25	6.0%
Union opposed to it	23	5.5%
No clear reason/inertia	20	4.8%
Pay should be based on individual performance	18	4.3%
Profits too variable/unstable	16	3.8%
Currently considering it	13	3.1%
Don't know enough about it	11	2.6%
Don't know why	6	1.4%

Note: "n" = 418.

Table 4 shows, age of the firm and both indicators of size were significantly related to presence of profit sharing, as were both indicators of managerial school of thought. As expected, firms in which their CEOs adhered to the classical school of management thought were less likely to have profit sharing, while firms with CEOs that adhered to the industrial humanism school of thought were more likely to have profit sharing. However, contrary to expectations, size and age of firm were *positively* related to presence of PS. Also contrary to expectations, unionization or lack of it had virtually no bearing on whether a firm had profit sharing. Nor did work force composition, nor growth in sales or employment.

For those firms intending to implement profit sharing, the results are similar in some ways, but different in others. Of the variables that were significantly related to *presence* of PS, only one — management school of thought — was significantly related to *intention* to implement PS. Neither indicator of firm size was significant nor was age of the firm. Indeed, the only other variable significantly related to intention to implement PS was sales growth, while employment growth fell just short of the .05 level of significance.

In order to determine the relative importance of each of these contextual variables, all contextual variables were inserted into two multiple regression equations, the first predicting presence of profit sharing and the second predicting intention to implement profit sharing. Two variables each

TABLE 3

Intercorrelations Among Contextual Variables

	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*
1. Number of Employees	–										
2. Annual Sales Revenue	.75***	–									
3. Employment Growth	–.01	.02	–								
4. Sales Growth	–.02	.00	.84***	–							
5. Union Status	.20***	.25***	–.06	–.06	–						
6. Proportion Unionized	.08*	.10*	–.05	–.04	.85***	–					
7. Proportion Professional	–.05	–.04	.04	.09	–.19***	–.23***	–				
8. Proportion Blue Collar	.02	.00	–.08	–.09*	.24***	.30***	–.81***	–			
9. Age of Firm	.19***	.18***	–.09	–.12*	.20***	.12*	–.08	–.02	–		
10. Classical Management	–.03	–.06	.00	–.01	–.04	.00	–.19***	.16***	–.08	–	
11. Industrial Humanism Mgt.	.03	.07	.01	.03	.03	.00	.21***	–.19***	.08	–.94***	–

* p<.05, ** p<.01, *** p<.001, two tailed tests.

TABLE 4

Correlations Between Contextual Variables and Presence of and Intention to Implement Profit Sharing

Contextual Variables	*Presence of Profit Sharing*		*Intention to Implement Profit Sharing*	
	r	*p* <	*r*	*p* <
Number of Employees	**.10**	**.012**	-.05	.144
Annual Sales Revenue	**.11**	**.006**	-.05	.140
Employment Growth	-.03	.252	.08	.054
Sales Growth	-.03	.245	**.16**	**.001**
Union Status	.04	.199	-.05	.155
Proportion Unionized	.00	.495	-.03	.275
Proportion Professional	.07	.063	-.02	.331
Proportion Blue Collar	-.06	.068	.02	.371
Age of Firm	**.11**	**.013**	-.07	.096
Classical Management	**-.15**	**.001**	-.08	.051
Industrial Humanism Mgt	**.14**	**.001**	**.09**	**.022**

Note: Significance tests are one tailed.

predicted a significant independent amount of the variance in presence of profit sharing: classical management (beta = -.14; p < .01) and annual sales (beta = .11; p < .038). For intention to implement PS, there were two significant predictors: sales growth (beta = .35; p < .002) and employment growth (beta = -.22; p < .033). Note that the sign on employment growth has become negative — firms with high sales growth, but low employment growth, show the greatest intention of introducing profit sharing.

DISCUSSION AND CONCLUSIONS

The findings of this study confirmed expectations in some ways, but not in others. As hypothesized, management school of thought was a significant factor in predicting the presence of profit sharing. Indeed, multiple regression analysis indicated that school of thought was one of only two significant predictors, and the most important of the two. This supports Kruse (1996), who has argued that managerial discretion may play a major role in the incidence of profit sharing, and helps to explain why studies that have not included managerial school of thought have failed to uncover the determinants of profit sharing. The importance of managerial philosophy is highlighted by the finding that few other contextual variables played a significant role in predicting the presence of profit sharing.

The other significant predictor was size (in terms of annual sales), which was *positively* related to presence of PS. This is contrary to expectations based on traditional economic theory, and to previous Canadian studies that found no association between the two variables, but consistent with some studies in other countries, as cited earlier in the paper. It may be that larger firms are more likely to have PS because they have the resources to design, implement, and administer a profit sharing plan, or are simply more sophisticated in their human resource practices. But since implementation of profit sharing plans is voluntary in Canada, and provides no significant tax benefits, it seems that these large firms must believe that there is some value added by profit sharing.

The key predictors of intention to introduce profit sharing were different from those predicting presence of PS. It appears that firms with high growth in sales, but low growth in employees, are most likely to be planning to implement profit sharing. It is possible that these firms may see profit sharing as a way of rewarding employees for the additional burden that is apparently being borne by them. In line with this, "retaining current employees" was the most important reason for profit sharing among those intending to implement profit sharing. Another possible explanation is that the apparently increasing productivity enjoyed by the firm may lead to high profitability, which makes the notion of profit sharing much more relevant than when there is little or no profit to be shared.

Looking at the motives for profit sharing expressed by firms that already use the practice, it is apparent that CEOs, by and large, do not see profit sharing in the same way as economists. Not one CEO cited the concept of "variable pay" as a motive for implementing profit sharing. Nor did they appear to see profit sharing as a weapon for weakening or avoiding the union. Instead, they tended to see profit sharing as a bonus or benefit provided to employees in the expectation of receiving some type of benefit for the firm in return. Profit sharing was seen as either a way to increase company performance, through "improving employee motivation", "promoting teamwork", and "helping employees understand the business", or as a way to provide better rewards to employees, thus increasing their loyalty and commitment to the firm ("reward loyal employees", "improve compensation package", "retain employees", "build employee commitment").

This line of thought is also supported by examination of the motives of those not intending to introduce PS. Most nonadopters believed either that potential benefits to the firm (if any) would be less than the costs associated with the concept, or that conditions at their firm were not right for profit sharing.

For those who wish to promote profit sharing, the implications are quite clear. To increase the uptake of profit sharing, perceptions about the

balance between the costs and benefits must be addressed, along with a clarification of the viable conditions for the implementation of profit sharing. Numerous instances could be found where CEOs believed that circumstances in their firms were not conducive to profit sharing, but firms in similar circumstances had successfully adopted profit sharing. The most receptive group on which to focus will be CEOs with an industrial humanistic management school of thought.

Perhaps the most surprising finding is that unionization was not related to presence of profit sharing or intention to implement profit sharing in this sample. Although this finding has been found in other countries, previous Canadian studies have consistently found a negative correlation between unionization and profit sharing. But the only hint of that in this study is the finding that about 16% of unionized firms without PS cited union opposition as a reason not to implement profit sharing. Although this was the most frequently cited impediment among unionized firms, it remains that the great majority of unionized firms did *not* cite the union as an impediment.

The underlying explanation for this finding is not obvious. Could it be that Canadian unions' traditional resistance to the concept is declining, or could it simply be due to some characteristic of the current sample? For example, the sample used in this paper had a stronger representation of smaller firms (and therefore reflected the Canadian economy more closely) than most other studies. This finding might also be due to the stringent definition of profit sharing used in this study. Perhaps unions are not opposed to broad based, nondiscretionary, profit sharing plans that are more in tune with what many consider the "true nature" of the concept. In the United States, Kruse (1996) found a positive relationship between unionization and cash-based profit sharing plans, which predominate in Canada, but not in the U.S. (Long 1992). Future research is necessary to clarify this issue.

To sum up, Canadian CEOs do not generally see profit sharing as a tool for making wages more variable, or as a weapon for attacking the union. Instead, they view profit sharing in terms of an exchange. They are willing to provide profit sharing *if* they perceive it as benefiting the firm by either stimulating greater employee motivation, teamwork, and performance, and/or by inducing greater employee loyalty and commitment. Their managerial philosophy likely plays a major role in the extent to which they perceive that profit sharing will cause these benefits will materialize.

Indeed, although there is no direct empirical evidence, it seems quite likely that the benefits of profit sharing will in fact materialize most strongly in industrial humanism firms (where PS fits most closely with and supports other aspects of their managerial system and organization culture), less strongly in human relations firms (where there is less fit), and possibly not

at all in classical firms (where profit sharing runs counter to other aspects of their managerial system, such as restricted communication, and autocratic decision making). Classical managers may well be correct in their perception that profit sharing will be of little or no benefit to their organizations. But to the extent that organizations characterized by industrial humanism become increasingly common, due to their perceived superiority in coping with turbulent and complex environments, we can expect profit sharing, and similar reward systems, to continue to increase in popularity.

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RÉSUMÉ

La participation aux profits dans les entreprises canadiennes

La participation des employés aux profits (PAP) a connu une explosion de popularité au Canada dans les dernières années (Long 1992 ; Chaykowski et Lewis 1995). Par exemple, les résultats de deux études comparatives (Betcherman et McMullen 1996 ; Wagar et Long 1995) démontrent que la proportion de compagnies canadiennes avec de tels programmes de PAP a doublé entre 1985 et 1993.

Les tenants de la PAP soutiennent que la présence d'un tel programme peut causer plusieurs conséquences désirables incluant un accroissement

de la productivité (Bell et Hannon 1987) et une plus grande stabilité d'emploi (Weitzman 1984). Ils prétendent que la PAP est une pratique gagnant-gagnant tant pour l'employeur que pour les employés en amenant une plus grande profitabilité aux premiers, et des récompenses financières plus grandes ainsi que la sécurité d'emploi aux seconds (Tyson 1996). Cependant, les détracteurs de cette approche prétendent qu'il s'agit ici simplement d'un moyen pour déplacer les risques d'affaires vers les employés (en substituant des salaires variables incertains en certains salaires fixes) et pour affaiblir les syndicats (en substituant la loyauté syndicale par la loyauté à l'entreprise).

Il est clair qu'en pareille matière, l'intention de l'initiateur a des conséquences sur les résultats. Il est alors important de comprendre pourquoi l'implantation de telles PAP est si populaire. Il faut cependant noter l'autre côté de la médaille ; la majorité des entreprises n'ont pas implanté de PAP. Vu alors les avantages annoncés pour ces PAP, il devient important de connaître les raisons de ces non implantations. Cependant, comme le note Kruse (1993), on en sait peu sur les raisons de telles implantations ou non. Il y a donc lieu d'approfondir cette question.

C'est ce que nous avons tenté de faire ici par des entrevues téléphoniques auprès d'un échantillon représentatif de directeurs généraux de 626 compagnies canadiennes situées d'un océan à l'autre. Notre étude est unique de plusieurs manières. D'abord parce que nous avons directement demandé aux directeurs généraux pourquoi ils avaient ou n'avaient pas de PAP. Ensuite, en s'enquérant auprès des entreprises qui n'avaient pas de PAP, si elles avaient l'intention d'en introduire un à brève échéance. Cela devrait nous permettre de faire des comparaisons utiles au sujet des motifs des uns et des autres. Finalement, notre étude est la première à tenter de relier le type de philosophie de gestion ou école de pensée avec la présence d'un programme de participation aux profits.

Au total, 17,3 % des entreprises de l'échantillon possédaient un système formel de PAP pour les employés exécutants. Un autre 9 % a signalé son intention d'en introduire un dans les deux prochaines années. La présence de PAP varie beaucoup selon les secteurs industriels : de 30,7 % dans le secteur primaire à 10 % dans les services privés. Quelque 30 % des organisations publiques offraient un PAP comparativement à 15 % dans le secteur privé.

Conformément à notre hypothèse, l'école de pensée de gestion est un facteur significatif pour prédire la présence d'un PAP. En effet, l'analyse de régression multiple a indiqué que ce facteur était l'un des deux prédicteurs significatifs et que c'était le plus important. L'autre prédicteur significatif était la taille (en termes de ventes annuelles), étant positivement reliée au PAP, contrairement aux attentes basées sur la théorie économique classique. Cependant les prédicteurs clefs de l'intention d'implanter un PAP étaient

différents de ceux visant la présence d'un PAP. C'est surtout ces entreprises à haut taux de croissance dans les ventes mais à bas taux de croissance de son nombre d'employés qui sont les plus susceptibles de planifier l'implantation d'un PAP.

Les directeurs généraux de ces entreprises qui ont déjà un PAP ne voient pas, pour la plupart, la participation aux profits de la même manière que les économistes. Aucun directeur général n'a référé au concept de « paie variable » comme motif d'implantation d'un PAP. Ils ne voient pas non plus le PAP comme un outil pour affaiblir le syndicat. Au contraire, ils voient un PAP comme un bonus ou bénéfice donné à l'employé en retour d'un bénéfice attendu pour l'entreprise. Un PAP est un moyen d'accroître la performance de la firme et de mieux récompenser les employés, accroissant alors leur loyauté et leur engagement envers l'entreprise.

Notre conclusion est confirmée par l'examen des motifs de ces entreprises n'ayant pas l'intention d'implanter un PAP. En effet, celles-ci croyaient que les bénéfices potentiels pour la firme (s'il en était) d'un PAP étaient moindres que les coûts associés à ce concept ou encore que les conditions prévalantes ne favorisaient pas tel PAP.

La conclusion la plus surprenante est que la syndicalisation n'est aucunement reliée à la présence ou à l'intention d'implanter un PAP. Même si telle conclusion fut déjà tirée dans d'autres pays, les études canadiennes antérieures ont conclu de façon constante à une corrélation négative entre syndicalisation et PAP. La seule indication que nous avons trouvée à l'appui de cette observation est qu'environ 16 % des firmes syndiquées sans PAP réfèrent à l'opposition syndicale à l'implantation d'un tel programme. Il demeure cependant que la grande majorité des entreprises syndiquées dans notre étude n'ont pas cité le syndicat comme étant un obstacle.