

The Profit Sharing Organization : An Effective Work Force Driven Organization

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ABSTRACT

In the modern era, organizations face numerous problems in their day to day work life. HR managers and experts put in immense efforts to solve organizational issues, but the problems prevail in organizations. The major challengeable problems are employee turnover and employee grievances. Furthermore, the important need of any organization is employing and training a motivated employee for increasing work productivity. A Profit Sharing Organization is a novel organization that exists for an ideal and common goal, wherein, the employer and the employees work as family members, share the profits equally and enjoy more benefits. Thus, Profit Sharing Organizations exhibit less number of employee grievances, low employee turnover rate, high level of employee motivation and performance, proper employee maintenance and good relationship among employees, which shows the path for organizational growth. This paper highlights the major problems faced by a contemporary organization, and elucidates the advantages and opportunities available in a Profit Sharing Organization. The time period of the study was from September 2011 – February 2012.

Keywords: Organization, Employee Turnover, Profit Sharing Organization, Motivation, Productivity, HRM

INTRODUCTION

Organizations are created by human resources and human resources are united by organizations. Modern science and technology have changed the human mind. Now a days, in organizations, employees anticipate high social recognition and more needs that create a number of problems. Thus, HR experts are continuously solving continual and intermittent problems in their day to day work life. No organization can sustain without any issues. In this continuous complexity, the organizational efficiencies and overall productivity diminishes, which in turn, affects organizational growth. In modern organizations, the perpetual problems like turnover of employees, grievances, etc., are critical to solve and there are no exceptions in this case for either small or big organizations facing such kind of problems. Conventionally, the organizational experts conduct problem analysis, find solutions and apply solutions to HR problems, but they often fail to attain the required outcomes. Some philosophies of contemporary organizations act as bottlenecks and create fundamental problems. Hence, novel policies and procedures of profit sharing organizations can crystallize those unsolved issues. According to US law & legal profit sharing definition, "A company's vesting policy is written into the plan document and is designed to motivate employees and reduce turnover." (Strom, 2006). Thus, the profit-sharing organization policies help the HR experts to discover solutions for chronic problems.

THE CONTEMPORARY PROFIT SHARING ORGANIZATION

According to Fiffner and Sherwood, "*An organization is the pattern of ways in which a large number of people - too many to have intimate face to face contact with all others and engaged in a complexity of tasks - relate themselves to each other in a conscious, systematic establishment and work upon the accomplishment of a mutually agreed purpose.*" (Aquinas, 2007)

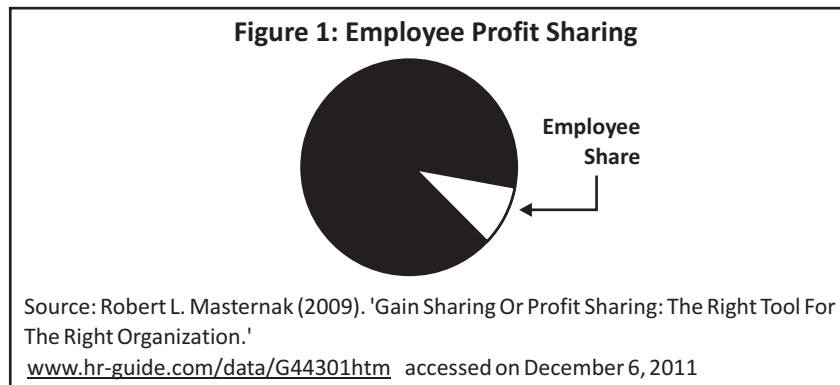
Generally, in an organization, the human resource department hires workers and employers by conducting several

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interviews and tests to investigate their capabilities and finally involves them in training and deploys them at proper workplaces. Training is a pivotal tool for an organization for infusing knowledge and skill among employees that shapes the employee attitude and sharpens their work activity. The well-known IBM system lab services and training helps infuse intelligence in the way the world's information technology works. IBM focuses on driving down costs by designing flexible infrastructures, while at the same time managing risk through the use of deep technical skills and training expertise (IBM System and Technology Group, 2010). Apart from training, there are also several areas such as employee motivation and employee retention in which the HR experts strive hard to increase the organizational efficiency and attain a target growth. The evolution of the contemporary organization from the 20th century organization is due to management styles that emerge from cultural, economic and technological changes. In the changing global scenario, numerous organizations established and expanded their business activities in other countries. Such changes stimulated and forced the contemporary organizational experts to infuse versatile knowledge and skill among their employees. A Profit Sharing Organization is a well-known concept, where an organization commences its business for the employees' mutual benefits and organizational growth. A Profit Sharing Organization is formed by the loyalty, confidence and zeal of its employees, and in turn, the organization fosters the welfare and growth of its employees. The profit sharing plans are based on predetermined economic sharing rules that define the split of gains between the company as a principal and the employee as an agent (Wikipedia, 2009). Hence, a Profit Sharing Organization is an advanced form of a contemporary organization, and it has a small number of HR issues and problems.



MOUNTING HR PROBLEMS IN CONTEMPORARY ORGANIZATIONS

❖ **Limited Employee Compensation And Benefits** : Any employee has the desire to work in an organization for better compensation and benefits. The major factors influencing the employee wage structure are supply and demand of labour, prevailing market rate, the organization's ability to pay, cost of living, productivity, and trade union bargaining. Most of the organizations adopt a wage structure that depends upon an individual organization's productivity and its ability to pay for workers and employers. Though India has a huge labour force, the compensation plan is deceptive for workers as compared to developed countries. Though the labour force makes collective bargaining and approaches the trade union for bargaining, they get diverted by organizations. The consequences of low compensation plans bring about a conflict between the management and the workers, and sometimes, it leads to strikes and lock outs. The employees get a lot of benefits from the organizations in the form of life insurance, several kinds of leaves, medical health care coverage, pension, maternity leave and so on. However, by and large, such benefits are not relative with other foreign countries and are unsatisfactory for many Indian employees. Hence, most of the organizations stagger to determine a flawless compensation plan for their workers, and even big organizations face pay issues and are not achieving success in this regard. Even American retail giant Walmart has faced a torrent of lawsuits and issues on low compensation with regard to its workforce (Wikipedia, 2010).

The Table 1 lists the average compensation of employees per hour in Purchasing Power Parity (PPP) in respective countries, which includes wages and salaries .

The figures were calculated from data published by the OECD (Wikipedia, 2011).

Country Rank (2007)	\$ PPP
USA	\$33.0
Netherlands	\$31.5
Norway	\$31.1
France	\$30.4
Austria	\$28.0
Germany	\$27.8
Sweden	\$26.2
Denmark	\$24.8
Canada	\$23.5
Finland	\$22.6

Source: Wikipedia., 2011, List of countries by employee compensation (per hour), [en.wikipedia.org/wiki/List_of_countries_by_employee_compensation_\(per_hour\)](http://en.wikipedia.org/wiki/List_of_countries_by_employee_compensation_(per_hour)) accessed on September 28, 2011.

❖ **Unsolved Employee Grievances** : Every employee expects some basic benefits from the organization. When the employees' basic needs are not fulfilled, they feel discontent, and ultimately, employee grievances reflect and affect productivity, and hence, the organizations manage redressal cells for solving grievances. The major causes for employee grievances are bonus, poor physical condition of the work place, poor quality of materials, unfair rules, bias, favoritism, safety methods, promotion, transfer, leave, medical facilities and so on. Grievances stem from management policies and practices, particularly when they lack consistency, fair play and the desired level of flexibility (Power Finance Corporation Consultant, 2010). HR experts having professional knowledge and experiences settle some worker problems smoothly, but several problems occur frequently at workplaces, so the necessity and functioning of a grievance cell is important, and it occupies a permanent place in many organizations.

❖ **Employee Turnover And Training Cost** : Employee absenteeism and turnover is a big issue in modern days. Organizational managers exert to minimize turnover rate, but it is mostly beyond the control of HR managers. Individual employees often get frustrated as their expectations are not complemented, and over a period of time, they develop an indisposition towards their job due to depression or other psychological problems. Consequently, the individual employee disobeys the superiors, takes more number of leaves than granted leaves. Then, the employee's performance gradually decreases, and finally, he leaves his present job and joins another organization that relatively fulfills his needs. Retaining the performing employees is one of the biggest problems that plagues companies in today's competitive market place (Nagesh and Sherif, 2010). Furthermore, recruiting a new employee is not an easy task for an organization as it incurs a lot of costs such as advertisement cost, recruitment cost and training cost and also results in loss of production caused by the discharged employee. One basic reason for employee turnover is recruitment itself ; the interviewer mainly examines the individual's knowledge and skill for performing a task, but ignores their expectations and needs. The other significant reason for employee turnover is the attitude of the new-

Countries	Turn over Rate (in %)
India	13.8%
Australia	11%
New Zealand	10.3%
China	10.3%

Source: Global HR Consultancy Hewitt Associates, 2010, Annual Asia Pacific salary survey 2009-2010, articles.economicstimes.indiatimes.com/2009-10-25/news/27657241_1_talent_attrition_employee_turnover accessed on October 22, 2011.

generation employees (Khatri, Budhwar & et al., 1999), the youth are ready to leave their existing job and go for jobs which offer fat paychecks. Hence, the modern lifestyle of employees is also a big challenge for the HR experts in a contemporary organization. Probably, employee turnover and absenteeism cannot be avoided, but it can be controlled to a large extent. Despite the economic uncertainty, Indian firms continue to see a double-digit attrition rate, this time of 13.8%, the highest in the Asia Pacific region (Global HR Consultancy, Hewitt Associates, 2010).

FUNDAMENTALS OF A PROFIT SHARING ORGANIZATION

Charles Babbage (1791-1871) was an eminent author, and his contribution to the management field was the concept of profit sharing in organizations (Sarwo, 2007). A Profit Sharing Organization is a novel organization that exists for an ideal and common goal, where the employer and employees work as family members, share their profits equally and enjoy more benefits. The mission of the organization stands up for the development of employee welfare and organizational productivity. The employees are provided with well furnished quarters, food and uniform and also, the work environment is situated in close proximity to the employee's residential area. Hence, employees work as family members and shutout favoritism. The members enjoy profits from the total earnings of the business and share their profits equally; hence, there is no bias among employees. The members also make use of valuable benefits such as holiday pay, company vehicle, medical care and recreational facilities in the organization. The purpose of profit sharing is to share the financial success of the total organization and to encourage employee's identity with the company's success (Masternak, 2009).

VALUABLE OPPORTUNITIES AND ADVANTAGES IN A PROFIT SHARING ORGANIZATION

❖ **High Motivational Level And Effective Performance** : In a Profit Sharing Organization, the situations requiring motivation are less as compared to other organizations. The employees realize that the organization is sharing the profits earned by it with them, and that they are enjoying the benefits that accompany the organizations's growth and consequently, they show up high motivation that meets standard work performance. In such an organization, the employee also clearly identifies his duties and responsibilities, and acts according to the organizational norms and procedures. For all the championing of alternative motivators, money still occupies a major place in the mix of motivators. The sharing of a company's profit gives an incentive to employees to produce a quality product, perform a quality service or improve the quality of processes within the company (Encyclopedia of Small Businesses, 2002).

❖ **Proper Employee Maintenance** : In a Profit Sharing Organization, employee satisfaction is very high and good in level. Profit sharing promotes higher productivity, improves satisfaction and reduces turnover among employees (Flor, 1987). The top management strives hard to improve the employees' standard of living and economic conditions by laying policies and procedures for their benefit. The employees work in a pleasant work environment and employee morale and discipline are highly developed and maintained over a period. The organizational policies also give importance to job security of the employees, hence, there is less probability for occurrence of conflicts among workers. Thus, the HR Managers safeguards the interest of the labour and the management. Profit sharing companies hold the belief that sharing profit would unite the workers and the management in the pursuit of the same common goal (Masternak, 2009).

PROFIT SHARING ORGANIZATION - REAL LIFE EXAMPLES

❖ **The Starbucks Case**: Starbucks opened in Seattle in 1971. Howard Schultz came to Starbucks in 1982. Part of the success of Starbucks undoubtedly lies in its product and services, and its relentless commitment to providing customers with the richest possible sensory experiences. However, another key is the enlightened sense of responsibility that manifests itself in a number of different ways. Schultz believes that to exceed the expectations of customers, it is first necessary to exceed the expectations of employees. As far back as 1990, Starbucks provided comprehensive health care to all employees, including part timers. Health insurance now costs Starbucks more each year than Coffee. The firm also introduced a stock option plan called Bean Stock, which allows Starbucks's employees to participate in the company's financial success. The mission of the foundation is to create hope, discovery and

opportunity in communities where Starbucks partners (employees) live and work (Kotler, 2009).

❖ **The Procter & Gamble Case:** Procter & Gamble, a consumer product company has 1,29,000 employees and has nearly 20 million stores across the world. In 1887, before P&G was even a publicly traded company, William Cooper Procter introduced a profit sharing program for employees. At the time he said, we should let the employees share in the firm's earnings. That will give them an incentive to increase earnings. He revised that program in 1903 to have the profit sharing be awarded in the form of actual P&G stocks. He reasoned that as employees became stockholders, their economic interests and those of the company would be bound more closely together. That program still exists today with a large part of each US employee's retirement consisting of P&G stocks. Additionally, virtually all employees own P&G stocks or stock rights via various investment programs (P&G Company, 2011). P&G pioneered a profit sharing program that gives employees an ownership stake in the company. These significant innovations help employees connect their vital roles with the company's success (P&G Company, 2011). The topmost magazine 'Fortune' ranked P&G at the fifth place of the world's most admired companies list.

CONCLUSION

Starbucks, DuPont Fibres, Procter & Gamble and PepsiCo are some of the successful and familiar profit sharing organizations. The empirical evidence on profit-sharing plans, in fact, generally paints a positive picture with organizations using profit sharing having higher productivity on an average than organizations that do not use profit sharing (Gerhart, Harvey & et al., 1994). Profit Sharing Organizations seem to be better than other organizations, since they provide a lot of advantages and opportunities for the whole organization. The fundamental concept of a profit sharing organization clearly indicates its organizational objective that is based on employee welfare and organizational growth. The organizational climate nurtures the employees' knowledge and skill by providing satisfactory remuneration and valuable benefits, hence, the employees' satisfaction and motivation are high and commendable. The employee discipline and morale are developed over a short time period and is maintained. Furthermore, HR issues and employee grievances are less in number in such an organization. Thus, profit sharing organizations exist for the development of both the employee and the organization.

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