



The Added Advantages to Your Business from Cash Profit-Sharing

David Craddock is a recognised authority in the UK and worldwide on employee share schemes and cash profit-sharing systems and is the author of ***Tolley's Guide to Employee Share Schemes***. In this article, David identifies the role that cash profit-sharing systems can fulfil in making a significant contribution to the growth of a business, drawing on his own experience of leading projects dating back to the 1980s and 1990s when he spearheaded the introduction of cash profit-sharing into a series of market leader quoted companies in the UK to his most recent case study experience in acting as adviser to the private company, Nomad Goods, Inc, a dynamically led and fast growing business based in Santa Barbara, California.

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The Multi-Dimensional Benefits of Cash Profit-Sharing Systems

The opportunity for a cash profit-sharing system to contribute to the strength of a business lies in the multi-dimensional benefits that it has the capacity to deliver for any business – whether a company, a partnership, or even a sole trader. To embrace profit-sharing indicates an awareness on the part of the employer of the delight that is given to the human spirit, in this case that of the employees, when the contribution that they have made to the profit resulting from their work endeavours is recognised in tangible form. The profit-sharing cash pay-out gives them part-ownership of the profits. Furthermore, the invitation to employees to join in a profit-sharing initiative acts as a unifier across all departments, divisions, and geographical regions of the business as all employees are aligned towards the objective of growing the value of the business.

Properly implemented and consistently communicated, profit-sharing acts as a bulwark against any tendencies that

may exist in the business towards the destructive effects of departmental protectionism, it brings into focus a clear vision of the objectives of the business and it drives the



quest within the employee workforce for more efficient and effective ways of working. How can all this be achieved through cash profit-sharing? Well, by providing the motivation, supported by consistent communications from management who have belief in the concept, towards creating higher levels of profit, thereby generating, by definition, a bigger profit share pool, and a more substantial distribution to the employees. The most effective profit-sharing systems are those based on a pre-set percentage of annual profit, operating without a ceiling and, therefore, with the perception of no limitations which as a factor in itself has a powerful impact on the employees' business mindset. Yes, the monetary reward is real and very gratefully received. Additionally, though, in the process of this wealth-creation activity the employees have built character, individually and as a team, growing as they delve into their inner mental recesses to discover ideas and innovations that support their own continual improvement and continuous development while at the same time enhancing the commercial status of the business.

Some High-Profile Examples and Policy Initiatives of Cash Profit-Sharing

The prime ceramics company, *Josiah Wedgwood & Sons Limited*, under my

guidance, embraced profit-sharing in the 1980s, and credited its success to the myriad of supportive worker participation policies that it introduced over the course of that decade, from works committees, quality circles and suggestion boxes to a total quality management programme and a progressive approach to employee training, development, and performance management. Probably the most high-profile case in the UK is that of *The John Lewis Partnership* that operates its own impressive array of human resources policies to support the development of the business that each year delivers profit share to its employees. The moral of the story is that to maximise its benefits to the business the profit-sharing system should not be expected to operate in isolation but rather be part of a suite of policies designed to stimulate belief and confidence, resolve and direction in the minds of the employees, individually and as a team. The outcome is a team result from the combined personal contributions from all employees with an individual reward and recognition given to each employee.

For the business owners, profit-sharing invariably is perceived as removing the mental barriers between employer and employee, between management and the wider

workforce, establishing harmony in the workplace and improved industrial relations, especially when in a unionised company this policy initiative is made with the support of the trade unions. Furthermore, there is substantial evidence that the business antennae of the overall workforce is heightened as they share in the rewards of the business through profit-sharing. This is particularly the case when supported by the sister human resources policies which lead them to become more educated about the business, more alert to cost savings and the elimination of waste and where, in more recent decades, the sister policies have included health benefits – from health checks to health programmes to gym facilities – to become a healthier workforce. With the employees attaching greater value to their workplace, the business benefits from a reduced rate of labour turnover with a more stabilised workforce, less absenteeism, and a reduction in the costs of recruitment as well as the costs associated with having to train and assimilate new employees.

The Historical Origins of Cash Profit-Sharing Systems

The historical development of profit-sharing is fascinating and intensely practical as a steady stream of businesses in successive generations





have sought to unlock the benefits that derive from a successful implementation of the concept. Seminal in the development of profit-sharing was ***The International Congress on Profit Sharing*** that was held in Paris in 1889 and which provided a definitional position which has survived to this day as embodying the nature of profit-sharing and containing practical indicators on its key essential components. The Paris Congress concluded that: "Profit-sharing is an agreement (formal or informal) freely entered into by which the employees receive a share, fixed in advance, of the profits" and established that: "The idea is very simple. The principle is that all workers shall become partners in the business in which they work: such partnership will confer the right to share in prosperity or profit, to share in the ownership of capital on a pre-determined basis fixed well in advance, and to come into knowledge and consultation about the operations of the business, as a statement of principle." The moral right of the employees to own part of the profits combined with the practical application

of an advanced commitment from the employer, usually at the start of the financial year for which the profit share will be declared, are to this day the benchmark principles for a successful profit-sharing system. In principle, a cash profit-sharing system is straightforward to implement for the employer and easy to communicate to the employees.

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As an interesting observation on the practical graphics of profit-sharing, in 1833 the famous English mathematician, Charles Babbage, expounded a philosophy of profit-sharing derived from the system that he observed in the coal mines in Cornwall

in which payment was made according to the value of the vein based on the amount of coal extracted therefrom. He simply extrapolated the principle to a business of any size and paying employee remuneration based on the amount of profit generated. However, it was in the USA that enterprising employers became aware of the commercial advantages of profit-sharing. It was there that profit-sharing developed a momentum of its own, unhindered by the class divisions of Europe which its inhabitants had left behind and with the enlightened migrants' resolve to succeed in the new world of the Americas. In the USA, the development of profit-sharing benefited from the demographic advantage of the practical way in which the North American continent became populated. As the immigrants arrived on the east coast they moved west, claiming the land as they travelled but even after all the land had been claimed new immigrants continued to arrive. Rather than engage in conflict over land, the supply of which was now exhausted, the frontier-men established agreements on farming the land

together and sharing the profits and so the tradition of American profit-sharing was born. The introduction of profit-sharing systems in the USA can actually be traced back to 1794 and the influence of Albert Gallatin who was the Treasury Secretary in the administrations of Presidents Jefferson and Madison. It was, though, not until after the American Civil War with the growth in industrialisation that structured profit-sharing came into its own. In 1867 the first US profit-sharing system was registered by the **Bay State Shoe and Leather Company** from Worcester, Massachusetts, based on an ambitious 25% share of the profits to the employees. In 1887 **Proctor and Gamble** established profit-sharing, giving the subject strong profile in the US business community, and opening the door to others, notably profit-sharing in **Sears** in 1916 and **Kodak** the following year.

The Present-Day Case Study: Nomad Based in Santa Barbara, California

So now to the present time with the launch of the Nomad profit-sharing system in January 2022. Nomad is a forward-thinking, minimalist mobile device and mobile lifestyle accessories company led by its co-founder and CEO, Noah Dentzel. Nomad launched on Kickstarter in 2012 with ChargeCard, a USB cable the size and shape of a credit card and has since expanded its range to include iPhone cases and cables, Apple watch straps, portable and wireless chargers, and a range of wallets and travel products. Nomad is headquartered in Santa Barbara, California, and has employees also in Hong Kong, China, and the Philippines.

The commercial drivers for the profit-sharing project were to establish a recognised framework for annual profit-sharing that could be easily implemented and communicated to employees, to create a profit-sharing system that could be applied across all the countries in which the company has employees, to strengthen the sense of unity across the international group, and to motivate the whole workforce towards the creation of economic value for the company that could be shared with all the employees. For the first year, the company agreed a profit share pool calculated as 10% of profits plus an additional amount to give the system an inaugural year bounce. Each employee was awarded profit share units based on salary level, to account for the strength of their contribution to the business, together with profit share units based on length of service, recognising the value of loyalty and service to the company. To develop the system, I acted as the consultant adviser and engaged in a substantial fact-find and employee attitude-gleaning exercise through individual virtual meetings with a range of employees from their headquarters in California, as well as select team members in both Hong Kong and the Philippines. The system was launched through an energetic and enthusiastic virtual meeting at a time that would allow all employees to attend, whatever their time zone. The company is now in discussion with me for advice on sister policies that will enhance further the working of the profit-sharing.

The testimonial from Noah Dentzel for David Craddock Consultancy Services: "In seeking an expert in profit-sharing

systems, we evaluated several large, international firms, yet selected David and his team due to their extensive experience and expertise, yet focused, deeply engaged approach. David was highly consultative in nature and went out of his way to connect with Nomad team members around the world, truly becoming an extension of our team for the purposes of the project. While we were grateful for the deep experience David brought to our project, he was careful to understand our needs and particularities and culture, and to build a system with us that was refined and suited to our business. David always made himself available and bridged the time gap between California and the UK, and we look forward to working with David again in the future."

David Craddock, the Founder and CEO of David Craddock Consultancy Services and David Craddock International, has been advising on employee share schemes and cash profit-sharing arrangements for over 35 years. He advises on every aspect of the implementation process, working personally with the client at each stage, and offering solutions and expertise on all the technical questions that require clarification during the consultation. David is also a member of the Steering Committee of The ESOP Centre and the Educational Director and Fellow of The ESOP Institute.

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