Why ‘The Principle’ Base Employee Profit Sharing is Good for Business
Oscar P. Chan

Abstract

This is a study of a profit sharing system that was based on ‘The Principle’ stated by Pope Leo XIII in 1891 in his encyclical RERUM NOVARUM (Rights and Duties of Capital and Labor). ‘The Principle’ is "Each needs the other: capital cannot do without labor, nor labor without capital." One cannot set-up a business if it’s all capital or if it’s all employees. The two always goes together. It is a profit sharing system with a principle as a basis for allocating the percentage share of profits between employees and capital. The period of study was from 1982 to the present. ‘The Principle’ was ‘discovered’ in 1987. We believed the study can contribute to The Lord's mission "ON RECONSTRUCTION OF THE SOCIAL ORDER." You will also understand why ‘The Principle’ base employee profit sharing is good for business.

Background

In 1795 Albert Gallatin, U.S. Secretary of Treasury under Thomas Jefferson, instituted profit sharing in his glassworks factory. Gallatin advocated profit sharing on the grounds that the “democratic principle upon which this nation was founded should not be restricted to the political processes but should be applied to the industrial operations” He believed that such a system was important in the new developing U.S. democracy.¹

The practice of profit sharing as recorded since the time of Albert Gallatin had a slow growth until the present time when it hovered around 20% of U.S. firms. The prevalence in Canada and France appear similar to the U.S; 8% of firms in the U.K. share profit to employees, 7.4% in the Netherlands; 5% in Germany; 3% in Ireland, Italy and Spain.²

During this time, two theories invited much discussion. First was the Productivity Theory of profit sharing: it says that when the interest of workers and owners are aligned, the productivity-reducing conflict is minimized and the productivity-enhancing cooperation and innovation are encouraged. The second theory was the Stability Theory of Martin Weitzman: it holds that profit sharing changes the incentive of firms to hire and retain workers and that it can aid economic stability and decrease unemployment.

Here are some of the more important findings on the numerous studies on profit sharing:

1. In the U.S., bonuses paid were around 3% to 10% of pay.³ The bonuses in Japan are around 25% of pay, and in Korea and Taiwan its 15% of pay.⁴

² Ibid., pp.7-13.
³ Blanchflower and Oswald, 1987
⁴ Weitzman and Kruse, 1990
2. Firms were more profitable the more equity is held by employees.\(^5\)

3. The effect was stronger when more employees were included in the plan.\(^6\)

4. An overview of the empirical literature suggests that the case for a positive link between employee ownership and productivity is weaker than the case for a positive link between profit sharing and productivity.\(^7\)

5. Ninety six percent of those surveyed said that they agreed or strongly agreed that profit sharing should not be seen as a substitute for an adequate wage.\(^8\)

6. Profit sharing effects on company financial results are mixed but generally positive.\(^9\)

7. The available evidence on the connection between profit sharing and productivity is not definitive. Yet it is also not neutral – many sources point toward a positive link; the only quarrel seems to be over magnitudes.\(^10\)

8. Despite the consensus, knowledge about the economic effects of these plans remains incomplete. No empirical study to date has solved completely the sample selection bias.\(^11\)

9. Among those firms who share profits to employees, result were significantly more favorable when a) they had a high involvement managerial philosophy b) they communicated extensively the plan, and c) they based their bonus on employee performance.\(^12\)

10. Possibly information gathering, exhortation, financial incentives, or other forms of social encouragement maybe warranted. At this stage, it seems premature to speculate much further in that direction. More basic, empirical, data-oriented research is needed so that we can better understand the productivity effect of profit sharing and other group incentives.\(^13\)

11. By giving workers across the economic spectrum a share of the profit and company stocks, shared capitalism could perhaps play a role in mitigating the rising inequality in income and wealth that has characterized the United States since the 1970s and 1980s. The reason is that capital income has risen more than wages, with labor share of national income falling in the 2000s.\(^14\)

‘The Principle’

‘The Principle’ was first mentioned by Pope Leo XIII in 1891 in his encyclical RERUM NOVARUM (Rights and Duties of Capital and Labor) — ‘19. Each needs the other: capital cannot do without labor, nor labor without capital. Mutual agreement results in the beauty of

\(^5\) Blanchflower and Oswald, 1987
\(^6\) Weitzman and Kruse, 1990
\(^7\) Weitzman and Kruse, 1990 / Blanchflower and Oswald, 1987
\(^8\) Blanchflower and Oswald, 1987
\(^9\) Kaufman and Russel, 1995
\(^10\) Weitzman and Kruse, 1990
\(^11\) Kaufman and Russell, 1995
\(^12\) Long, 2000
\(^13\) Weitzman and Kruse, 1990
good order, while perpetual conflict necessarily produces confusion and savage barbarity.” It was mentioned next, forty years later by Pope Pius XI in 1931, in his encyclical QUADRAGESIMO ANNO (ON RECONSTRUCTION OF THE SOCIAL ORDER) — “100. The Encyclical of Our Predecessor of happy memory had in view chiefly that economic system, where in, generally, some provide capital while others provide labor for joint economic activity. And in a happy phrase he described it thus: Neither capital can do without labor, nor labor without capital.”

In 1961, Pope John XXIII has this to say in his encyclical, MATER ET MAGISTRA (The Church as Mother and Teacher) — “77. Every effort must be made that at least in future a just share only of the fruits of production be permitted to accumulate in the hands of the wealthy, and that an ample sufficiency be supplied to the workers. 229. The transition from theory to practice is of its very nature difficult; and it is especially so when one tries to reduce to concrete terms a social doctrine such as that of the Church. There are several reasons why this is so, among them we can mention man's deep-rooted selfishness, the materialism in which modern society is steeped, and the difficulty of determining sometimes what precisely the demands of justice are in a given instance. 230. Consequently, a purely theoretical instruction in man's social and economic obligations is inadequate. People must also be shown ways in which they can properly fulfill these obligations. 231. In our view, therefore, formal instruction, to be successful, must be supplemented by the students' active co-operation in their own training. They must gain an experimental knowledge of the subject, and that by their own positive action. 253. In the name of God, therefore, and for the sake of the material and spiritual interests of men, we call upon all, public authorities, employers and workers, to observe the precepts of God and His Church and to remember their grave responsibilities.”

In November 2013, Pope Francis has this to say in his apostolic exhortation, EVANGELII GAUDIUM — “59. Today in many places we hear a call for greater security. But until exclusion and inequality in society and between people are reversed, it will be impossible to eliminate violence.”

Since the start of operation, our company was already sharing profits to employees, but the percentage was arbitrary. Between 1982 (the year our company was established) to 1987, I was searching for something where to base the percentage share both for the company and the employees. In 1987 I came across the idea that in any economic activity or business enterprise, there are always two partners, labor and capital, and one cannot exist without the other. One cannot set-up a business if it’s all capital or if it’s all employees. The two always goes together. Thus, both deserved a share on the fruits of their partnership.

Our company was not aware, till 2011 that this same ‘Principle’ was in the Popes’ social encyclicals.

If employee profit share is a ‘Right’ (from ‘The Principle’, it is) then the employees by the very nature of the economic arrangement are entitled to a share in the profits.

The next thing we did was to work on the mechanics of applying ‘The Principle’. 

**Operating Principles:**
1.) ‘The Principle’ — in any economic activity or business enterprise, there are always two partners that are necessary. They are the employees and capital. One cannot exist without the other. Thus, both deserve a share in the fruits of their partnership.

2.) The similarity of both partners is that before we can talk of profit sharing, we first have to satisfy the basic needs of each partner. Employees need to receive a regular income or salary to meet their daily expenses. This is important since there are times when the company is not profitable. Without it, employees will not be able to maintain their physical and mental health. Similarly with capital, it has to receive some kind of additional funds to correct its value due to inflation. Because of inflation the quantity of raw materials we can buy at the end of the year will be less than the quantity we can purchase at the start of the year.

3.) In any business organization, weight of responsibility differs on each category of position. Supervisor has more responsibility than his subordinates. Auditor has more responsibility than a clerk. Also, since there are many factors that affect individual performance such as talents, motivation, skills, attitude, age and physical condition, each individual differs in performance from each other. Thus compensation to employees should also be based on performance and job levels.

**Accounting System**

From the above operating principles, we designed an accounting system with the following major features:

1.) Since neither employees nor capital can exist without the other, a logical profit sharing would be 50-50.

2.) However before we declare a 50-50 profit share, we need to satisfy the maintenance needs of both partners:
   A. For employees, there should be a regular salary enough to maintain their physical and mental health. The salary of the employee at the lowest levels should however not exceed what is enough to satisfy his basic need, with some extra for emergency, otherwise, the second principle will be violated. (If the owner of the business is also acting as the manager, he is entitled to a salary as an employee)
   B. For capital, an inflation allowance shall be provided equivalent to the inflation rate multiplied by the owner’s equity. This inflation allowance shall have to be deducted first before the 50-50 profit sharing is computed.

3.) The difference between the compensation, both salary and profit share, of the highest and lowest ranking employees should be reasonable. (As a practice, we are using a maximum of 10 times but other companies may differ depending on their size and other factors.)

4.) Benefits to employees such as Social Security employer contribution, medical assistance and Christmas party expenses are already part of the 50% employee share and therefore do not anymore form part of operating expenses.

5.) If and when the company incurs a loss or when the employees’ benefits exceed the 50% share for the employees in a particular year, the losses (which include the inflation factor) will be a receivable of the company from the net profit of the next
profitable year(s). A maximum of 50% of the net profit for distribution shall be used to pay for the losses of the previous years.

Coverage

All employees from the lowest to the highest level including non-regular employees. (If the owner of the business is at the same time the manager of the company, he is also entitled to the employees’ profit sharing)

Basis for Profit Sharing Distribution to Employees

1.) Performance (values, capabilities, productivity, attendance)
2.) Level of Responsibilities

Important Factors to Ensure Effectiveness of the System

1.) In line with the principles of proper governance, the owner should use the company’s resources only for legitimate business related purposes and there should be proper accounting for this.
2.) There should be transparency in the financial statements.
3.) As indicated in the Canadian research of Richard Long, (2000), results were significantly more favorable when the company:
   a) Employs participatory form of management.
   b) Communicates extensively the profit sharing plan.
   c) The sharing of profit is based on performance.
4.) As a rule, the employees’ benefit should be minimized so as to retain ample sufficiency for cash distribution. We suggest employees benefits should not exceed 30% of the employees’ profit share, otherwise employees may be less motivated on the system.
5.) Also, employees benefits should be minimized so as to prevent accumulation of receivables for recovery during years of losses and/or years when the employees profit share is less than the advances on benefits.

Examples of comparative income statement using the conventional accounting system versus the 50% profit share accounting system:

A) When the company is profitable and the employees’ profit share can more than cover the advances on benefits.
<table>
<thead>
<tr>
<th></th>
<th>Conventional Accounting system</th>
<th>Accounting System W/ 50% Profit Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>U.S. $ 1,748,565 100%</td>
<td>U.S. $ 1,748,565 100%</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>1,049,139 60%</td>
<td>1,049,139 60%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>699,426 40%</td>
<td>699,426 40%</td>
</tr>
<tr>
<td>Less Operating Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Salaries &amp; Wages</td>
<td>211,630</td>
<td>211,630</td>
</tr>
<tr>
<td>Rental Expense</td>
<td>68,650</td>
<td>68,650</td>
</tr>
<tr>
<td>Others</td>
<td>190,980 471,260 27%</td>
<td>190,980 471,260 27%</td>
</tr>
<tr>
<td>B. Employees Benefits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security employer share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company Outing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Christmas party</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Benefits</td>
<td>17,715 1%</td>
<td></td>
</tr>
<tr>
<td>Net Profit/(Loss) Before tax</td>
<td>$ 210,451 12%</td>
<td>228,166</td>
</tr>
<tr>
<td>for Conventional Accounting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>System</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Inflation Factor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>( Equity X [ Inflation Rate/ Tax Provision ] )</td>
<td></td>
<td>14,530</td>
</tr>
<tr>
<td>Net Profit/(Loss) Before tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>before Profit sharing after</td>
<td></td>
<td></td>
</tr>
<tr>
<td>inflation factor</td>
<td>213,636</td>
<td></td>
</tr>
<tr>
<td>Percentage Sharing:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50% Employer share</td>
<td>106,818</td>
<td></td>
</tr>
<tr>
<td>50% Employees share</td>
<td>106,818</td>
<td></td>
</tr>
<tr>
<td>Net profit share for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>distribution to employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees Share</td>
<td>106,818</td>
<td></td>
</tr>
<tr>
<td>Less: Employees Benefits</td>
<td>17,715 1%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>U.S. $ 89,103 5%</td>
<td></td>
</tr>
<tr>
<td>Net profit share for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>distribution to employer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer Share</td>
<td>106,818</td>
<td></td>
</tr>
<tr>
<td>Inflation Factor</td>
<td>14,530</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>U.S. $ 121,348 7%</td>
<td></td>
</tr>
</tbody>
</table>

(Note: The maintenance need of both partners was satisfied before the 50/50 percent sharing of profit: Employees salaries and wages was a total of $211,630 and capital's inflation allowance was $14,530)

B) When the company is profitable but the employees profit share cannot cover the employees' advances on benefits.
### Conventional Accounting System W/ 50% Profit Share

<table>
<thead>
<tr>
<th></th>
<th>Sales</th>
<th>Cost of Sales</th>
<th>Gross Profit</th>
<th>Less Operating Expenses</th>
<th>Net Profit/(Loss) Before tax for</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.S. $ 1,271,375 100%</td>
<td>U.S. $ 762,825 60%</td>
<td>U.S. $ 508,550 40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sales</strong></td>
<td>U.S. $ 1,271,375 100%</td>
<td>U.S. $ 762,825 60%</td>
<td>U.S. $ 508,550 40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cost of Sales</strong></td>
<td>762,825 60%</td>
<td>68,650</td>
<td>190,980 37%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>508,550 40%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Less Operating Expenses

* **A. Salaries & Wages**
  - Employees Benefits:
    - Social Security employer share
    - Company Outing
    - Christmas party
    - Other Benefits
  - Employees Share:
    - Rental Expense
    - Others
  - Total:

<table>
<thead>
<tr>
<th></th>
<th>Conventional Accounting System</th>
<th>Accounting System</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Salaries &amp; Wages</strong></td>
<td>211,630</td>
<td>211,630</td>
</tr>
<tr>
<td><strong>B. Employees Benefits:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less: Inflation Factor</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Profit/(Loss) Before tax for</strong></td>
<td>$ 19,575 2%</td>
<td>37,290</td>
</tr>
</tbody>
</table>

#### Percentage Sharing:

- Employer - 50%
  - 11,380
- Employees - 50%
  - 11,380

**Negative advances of employee benefits for recovery**

- Employees Share
  - 11,380
- Less: Employees Benefits
  - 17,715 1%

**Total**

<table>
<thead>
<tr>
<th></th>
<th>U.S. $ (6,335)</th>
</tr>
</thead>
</table>

**Net profit for distribution to Employer**

- Employer Share
  - 11,380
- Inflation Factor
  - 14,530

**Total**

<table>
<thead>
<tr>
<th></th>
<th>U.S. $ 25,910 2%</th>
</tr>
</thead>
</table>

(Note: The maintenance need of both partners was satisfied before the 50/50 percent sharing of profit: Employees salaries and wages was a total of $ 211,630 and capital's inflation allowance was $ 14,530)

### C) The company has a small profit but the profit share of the employees is not enough to cover the inflationary allowance due to equity, as well as the employees’ advances on benefits.
### Conventional Accounting System

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>U.S. $1,202,295</td>
<td>100%</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>U.S. $721,377</td>
<td>60%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>U.S. $480,918</td>
<td>40%</td>
</tr>
<tr>
<td>Less Operating Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Salaries &amp; Wages</td>
<td>U.S. $211,630</td>
<td></td>
</tr>
<tr>
<td>Rental Expense</td>
<td>U.S. $68,650</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>U.S. $190,980</td>
<td>39%</td>
</tr>
<tr>
<td>B. Employees Benefits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security employer share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company Outing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Christmas party</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Benefits</td>
<td>U.S. $17,715</td>
<td>1%</td>
</tr>
<tr>
<td>Net Profit/(Loss) Before tax for</td>
<td>U.S. $(8,057)</td>
<td>9,658</td>
</tr>
</tbody>
</table>

#### Less: Inflation Factor

\[
\text{Less: Inflation Factor} = \left(\frac{\text{Inflation Rate}}{\text{Tax Provision}}\right) \times \text{Equity} = \left(\frac{2.8\%}{0.67}\right) \times U.S. \$347,700 = U.S. \$14,530
\]

#### Net Profit/(Loss) Before tax before Profit sharing after inflation factor

\[
\text{Net Profit/(Loss) Before tax before Profit sharing after inflation factor} = (4,872)
\]

#### Negative advances of employee benefits and inflation allowance for recovery

Inflation allowance shortage (4,872)

Less: Employees Benefits (17,715)

Total U.S. $(22,587)

#### Net Profit for the Employer

Employer Share -

Inflation Factor U.S. $14,530

Total U.S. $14,530 1%

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**D)** When the company experienced a net loss.
<table>
<thead>
<tr>
<th></th>
<th>Conventional Accounting system</th>
<th>Accounting System W/ 50% Profit Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>U.S. $ 1,100,238 100%</td>
<td>U.S. $ 1,100,238 100%</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>660,143 60%</td>
<td>660,143 60%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>440,095 40%</td>
<td>440,095 40%</td>
</tr>
</tbody>
</table>

Less Operating Expenses

A. Salaries & Wages             | 211,630                        | 211,630                               |
                                  | Rental Expense                 | 68,650                                |
                                  | Others                         | 190,980 471,260 43%                  |
B. Employees Benefits:
    Social Security employer share
    Company Outing
    Christmas party
    Other Benefits 17,715 2%......

Net Profit/(Loss) Before tax for

Conventional Accounting System $ (48,880) (31,165)

Less: Inflation Factor
( Equity X [ Inflation Rate/ Tax Provision ] )
( $ 347,700 X [ 2.8% / 0.67 ] ) 14,530

Net Profit/(Loss) Before tax before Profit sharing after inflation factor (45,695)

Losses plus inflation allowance plus employees benefits for recovery
Losses plus inflation allowance (45,695)
Less: Employees Benefits (17,715)
Total U.S. $ (63,410)

Net profit for the Employer
Employer Share -
Inflation Factor 14,530
Total U.S. $ 14,530 1%

E) When the company is again profitable after a year (s) of negative performance.
## Conventional Accounting System

### Accounting System W/ 50% Profit Share

<table>
<thead>
<tr>
<th></th>
<th>Conventional Accounting system</th>
<th>Accounting System W/ 50% Profit Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>U.S. $ 1,509,720 100%</td>
<td>U.S. $ 1,509,720 100%</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>905,832 60%</td>
<td>905,832 60%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>603,888 40%</td>
<td>603,888 40%</td>
</tr>
</tbody>
</table>

### Less Operating Expenses

**A. Salaries & Wages**
- 211,630

**Rental Expense**
- 68,650

**Others**
- 190,980

**B. Employees Benefits:**
  - Social Security employer share
  - Company Outing
  - Christmas party
  - Other Benefits
    - 17,715 1%

### Net Profit/(Loss) Before tax for

**Conventional Accounting System**
- $ 114,913 8%

#### Less: Inflation Factor

( Equity X [ Inflation Rate/ Tax Provision ])

- ( $ 347,700 X [ 2.8% / 0.67 ] )
  - 14,530

### Net Profit/(Loss) Before tax before Prior Year Losses

- 118,098

#### Less: Recovery of prior year loss

(Max of 50% net profit allocation or Prior years loss, whichever is lower)

- 59,049

### Net Profit/(Loss) Before tax before Profit sharing after inflation factor

- 59,049

#### Percentage Sharing

- 50% Employer share
  - 29,525

- 50% Employees share
  - 29,525

### Net profit share for distribution to employees

- Employees Share
  - 29,525

- Less: Employees Benefits
  - 17,715 1%

**Total**

- U.S. $ 11,810 1%

### Net profit share for distribution to employer

- Employer Share
  - 29,525

- Inflation Factor
  - 14,530

- Recovered losses or advances
  - 59,049

**Total**

- U.S. $ 103,104 7%

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Note: From example A, it looks like there is a big difference in the net profit for the company ( $210,451 vs. $121,348 ) between conventional accounting system and the
accounting system with 50% profit share. We believe however that in a few short years, the effect of synergy will more than offset this initial effect. We believe the company will be more profitable.

**Summary of Results**

<table>
<thead>
<tr>
<th>Company</th>
<th>San Jose Kitchen Cabinets Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average No of employees:</td>
<td>50</td>
</tr>
<tr>
<td>Period of Study:</td>
<td>1982 to the present</td>
</tr>
<tr>
<td>Results:</td>
<td></td>
</tr>
<tr>
<td>1. ‘The Principle’ holds for the last 27 years (1987 to the present)</td>
<td></td>
</tr>
<tr>
<td>2. Average return on equity from 1987 to the present is around 28%.</td>
<td></td>
</tr>
<tr>
<td>3. Cash distributed to employees from 1987 to the present was US$558,139.</td>
<td></td>
</tr>
<tr>
<td>4. Of the 32 years from 1982 to 2014, basing it on the conventional accounting system, 30 years were profitable and 2 years were losing.</td>
<td></td>
</tr>
<tr>
<td>5. Of the 32 years from 1982 to 2014, the employees received profit sharing for 22 years. The 10-years period where employees did not received any share of profits was from 2005 to 2014. Although among these ten years, eight were still profitable for the company, the employees profit share were not enough to pay the advances on benefits and the inflation factor allowance.</td>
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<tr>
<td>6. The total accumulated amount for recovery as of end 2014 is $216,989. These are payables to the Company on the succeeding profitable years.</td>
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</table>

**Advantages and Analysis:**

These are the advantages in using ‘The Principle’ as basis for profit sharing:

1. Benefits extended to employees are minimized, thus running the company, especially in times of low economic activity is less worrisome.
2. Since the basis for sharing profit was a logical principle, it can easily be communicated to all levels of employees. This is very important since the perception of fairness can trigger a significant increase in productivity and other positive behaviors.
3. The 50% share of profits to employees is not big if we consider the fact that this includes already all the other standard benefits that the company is giving, such as the social security company contribution, medical benefits, Christmas Party expenses,
etc. Some company’s total benefits to their employees may in fact be approaching the 50% bracket.

4. The 50% share to the employees will only be applied after deducting the inflationary allowance due to equity. So the 50% share of employees is not 50% if we base it on the conventional accounting system.

5. During the year when the company is losing, the company is entitled to an inflationary allowance as defined in the accounting system with 50% profit share, thus the company by definition will always be profitable year after year by at least the amount of inflation allowance to equity.

6. The 50% is the maximum limit, thus there is no need to negotiate with the labor union (if the company is unionized) on a regular basis.

7. The 50/50 profit share policy will also have a hold on the salary range of employees (see the second operating principle). This is important especially in time when the company is not profitable or in time when the economy is not doing well. It will be easier for the company to maintain the employees instead of instituting a retrenchment program.

8. The idea that employees should own stocks in order to benefit from the business is a matter altogether different (although it is also a good idea). Here the employee benefits from the business by the side of capital, i.e. by being a part owner. The concept of ESOP (Employee Stock Ownership Plan) and 401K in the U.S. are of this nature. On the other hand, the focus of our study is the ‘Right’ of employees to receive a share of the profit as partners.

9. In general this system will make everyone careful on expenses and wastage which will enable the company to be more profitable.

10. By experienced, it is such a joy to manage an organization where the elements of trust and brotherhood prevail in the air.

Conclusion

We have tested ‘The Principle’ since 1987. All these years, ‘The Principle’ holds and the accounting system we have developed. Through this study, companies can avoid the mistakes we have made in the past.

We believe, in the long term, the company will be more profitable.

If ‘The Principle’ is a ‘Right’, then probably it will not go away, until one day we accept it as a ‘Truth’.

We would like to invite our brothers and sisters in the faith to look into this for possible contribution to our Lord’s mission ‘ON RECONSTRUCTION OF THE SOCIAL ORDER’.

For those who have the prerogative of decision, The Lord needs your support, consider it seriously.

For those who have multiple businesses, try it in one of your companies.

About the Author

Oscar Chan is an entrepreneur and a son of a Chinese businessman and Filipino mother. He was in college in Manila in the early 1970’s when the student activism was on the rise. He is an engineering graduate and later took up some business courses. Oscar is a family man with two grown-up children. His conversion and commitment to the Catholic faith began in 1980. Oscar established San Jose Kitchen Cabinet Manufacturing in 1982. He was 2011 president of the
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