

DO PROFIT SHARING AND OTHER ALTERNATIVE WORK PRACTICES ACTUALLY WORK?

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A recent Statistics Canada research paper¹ concludes that alternative work practices might work for some of the people some of the time, but definitely do not work for all of the people all of the time.

Employee stock option plans, employee profit sharing plans, teamwork, flex-time, working at home and other innovative work practices became mandatory for high tech companies during the late 1990s. Naturally, these notions spread to other industries. More importantly, they spread from newly public companies to start ups and other privately owned enterprises. While much of the enthusiasm for stock options fell by the wayside following the stock market correction, the interest in alternative work practices (“AWPs”) continues. Key questions include: Do they work? And if so, which ones?

These are not new issues. During much of the 1990s and in many different industries this question kept coming up. Selected case studies seemed very hopeful.² However, there was no shortage of skeptics.³ Empirical studies have been conducted from time to time since 1991, generally favouring the impact of AWP on employee turnover, but not without many important questions still lingering.⁴

Interesting and recent Canadian results.

A new Statistics Canada study has been completed.⁵ It attempts to address some of those lingering questions. In particular, it focuses on quit rates by industry, and a proposed methodology which attempts isolate the impact of AWP from basic pay and company specific management/cultural issues. The AWP considered include teamwork, formal training on teamwork, flexible job design, profit sharing, and merit pay/skill based pay.

Some of the authors’ conclusions include:

- There is strong evidence that AWP have a very positive impact on quit rates for companies with more than 10 employees providing high-skill services.
- However, the authors caution against interpreting the data to conclude that AWP necessarily improve quit rates in high-skill services, and suggest other equally plausible alternatives including higher rates of pay in those industries, a more highly educated work force in those industries, and potentially better quality management in high-skill service companies offering AWP.
- AWP have some positive impact on quit rates in low-skill service industries, however a formal policy of information sharing is just as likely to have a positive impact on retention in low-skill service industries as other AWP.

- In low-skill service industries, the authors' interpretation is that employers who send a clear signal they are interested in the well-being of their employees will do just as well at retention as employers who implement AWP.
- AWP in general have no positive impact on retention in the manufacturing sector – in fact, manufacturers with AWP had a higher quit rate than those with no AWP at all.

The problem with quit rates – Just who is quitting?

This study does not purport to answer all the questions, and leaves some issues unexplored. For example, in my reading of the report I did not see where the methodology considered who was quitting or when. After all, high quit rates can still be acceptable if the “keepers” are staying but the “non-keepers” are weeding themselves out early on in their employment.

The lessons for owner managers?

Nevertheless, the study is a warning to owner managers to be cautious in their enthusiasm for AWP, especially compensation based plans⁶:

- Beware of the assumption that what motivates you will also motivate your employees.
- Understand what works in your industry and what works for your workforce, and tailor your plans accordingly.
- Work first on base salary and benefits, on letting your employees know that you generally care for their well-being, and on initiatives around information sharing and teamwork..
- If you decide to implement stock option plans or profit sharing plans or other innovative compensation programs, do so in conjunction with other integrated initiatives, in order to give the whole program the best chance of success.

¹ Morissette, René and Rosa, Julio Miguel, *Alternative Work Practices and Quit Rates: Methodological Issues and Empirical Evidence for Canada*, Statistics Canada (2003).

² For example: Stayer, Ralph, *How I Learned to Let My Workers Lead*, Harvard Business Review (November-December, 1990), a remarkable and inspiring story for owner managers.

³ For example: Welles, Edward O., *Stock Options*, Inc. Magazine (February, 1998).

⁴ Summarized in the Statistics Canada publication referred to in footnote 1 above.

⁵ See footnote 1 above.

⁶ See articles on my website – www.thompsonlaw.ca - with respect to issues to consider and address in developing employee profit sharing plans and employee stock option plans in owner managed businesses.