

A LOOK AT THE USE OF PROFIT AND GAIN SHARING PROGRAMS (INDICATORS) TO LEVERAGE CORPORATE MANAGEMENT

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ABSTRACT

Although profit-sharing programs have a one hundred year history on the global level, they were first planned in Brazil in 1919 and officially became part of the Brazilian constitution in 1946. But they effectively became a part of the life of Brazilians around the year 2000, when efforts began to regulate the application of profit- and gain-sharing programs, through government decrees known as provisional measures. The subject is of strong interest to various social, political and scientific groups. This is because it raises issues that involve the lives of citizens, as well as economic, social and scientific development. The issue is rich in research opportunities, and although there are few existing articles about profit sharing, the existing studies allow identifying understandings and or various applications of profit and gain sharing. Profit and gain sharing is now regulated by law in Brazil, and the program can take the form of simple profit sharing, or gain sharing. This study involved bibliographic studies of a qualitative nature, which evaluated descriptive aspects resulting from evaluations obtained by scientometrics. The study presents a history of the creation of profit- and gain-sharing programs until today. Different concepts and types of remuneration and their consequences for profit- and gain-sharing programs are presented. The results of bibliometric studies on the Capes database are presented, related to changes in the number of articles published about profit- and gain-sharing plans.

Keywords: profit sharing, gain sharing, quality indicators.

1. INTRODUCTION

The success and performance of companies are intrinsically linked to the capacity of managers to foresee opportunities and take pro-active steps that place them in the vanguard of the market in which they operate.

The way that they manage these requirements is through the constant evaluation of organizational performance, because this provides managers with the information needed to steer a company in the proper direction, correct its course, create opportunities and improve the organization.

The use of indicators is suitable for conducting a variety of comparisons: they are used to measure personnel expenses in relation to sales, the rate of productivity, and sales margins in relation to revenue, etc. Therefore, these indicators provide an image of productivity. Non-financial indicators have recently gained greater emphasis, given that they allow managers to more deeply understand causes and effects. Non-financial indicators must be clearly established in relation to the organizational architecture. This should be done to minimize conflicts and more quickly obtain information about efforts involved in the creation of value for the organization. (ELENA, 2012)

The main purpose of business organizations is to increase profitability and the central task of employees is to provide greater gains through their work. The satisfaction of these two elements leads to social development, for which reason profit- and gain-sharing programs present an opportunity for Brazilian society.

Profit and gain sharing allows workers to earn benefits when their companies have good income, motivating their dedication to their activities and increasing commitment to company results. Some authors believe that this is one of the most participatory management schemes and consequently has greater opportunities for success. In countries where this system is adopted, noticeable improvements have been perceived in productivity at companies. (CORRÊA & LIMA, 2006)

The issue of profit and gain sharing in Brazil has been included in the text of constitutions since 1946, and is thus nothing new to corporations, although its application is recent. This is seen through the history of how Brazilian constitutions have treated the issue, with the theme having undergone various discussions until its recent enactment.

The application of profit and gain sharing requires suitable choices and interpretations of the indicators to be used by companies. Each company that decides to negotiate profit and gain sharing must analyze which indicators to use and how to achieve the company objectives and provide employees the opportunity to be compensated for their contributions if they achieve the objectives agreed to.

In an article published in 2011, the authors BARROS, TEODORO and ESPEJO mentioned that the issue of profit and gain sharing provides many opportunities for research.

In the preparation of this study, various articles about the issue were identified that focus on legal and accounting aspects. Nevertheless, the studies indicate the low number of articles that focus on issues of management, while they only deal with performance indicators related to profit and gain sharing. The main purpose of this article is to work with this poorly explored niche and the bibliographic studies validate the hypothesis about the number of articles about the issue.

The purpose of this article is to discuss aspects of the application of profit and gain sharing as a way to leverage organizational performance to achieve results. As an additional contribution, it presents data from the history of profit and gain sharing, so that it can serve as a management tool in planning and support for future actions.

2. REVIEW OF THE LITERATURE

Historic aspects of the development of profit- and gain-sharing plans are presented as well as related conceptual issues. The concepts of indicators and aspects of their formation are also discussed.

2.1 Profit- and Gain-Sharing Plans

There are various forms of profit and gain sharing found in the literature. Although they all result in payments to workers, they have distinct characteristics.

The table below presents a condensed history of profit and gain-sharing programs, from the first applications at a global level until the recent approval of laws for dissemination of the programs in Brazil.

1794	U.S. Treasury Secretary distributes a part of glass industry profits to workers	(Martins – 1996).
1812	Napoleão Bonaparte grants a bonus to artists of the French comedy.	(SUSSEKIND, 1997)
1891	Pope Leo XIII sanctions encyclical <i>Rerum Novarum</i> , which calls for profit sharing for workers.	(OLIVEIRA, SUPERTI-2006)
1919	Brazil begins to discuss the issue of profit or gain- sharing.	(AROUCA, 2008).
1946	The idea of Deodato da Silva Maia is included in the Brazilian constitution.	(AROUCA, 2008).
1967	The obligation for direct participation is removed from the constitution and profit and gain sharing becomes only a means for integrating workers to a company.	(AROUCA, 2008).
1969	The new constitution repeats the same idea found in the 1967 constitution.	(RUSSOMANO, 2002).
1975	“PIS” and “PASEP” were combined to form PIS-PASEP	(AROUCA, 2008).
2000	Law n.º 10.101, concerning profit and gain sharing is passed, incorporating elements found in various Provisional Measures enacted since 1994.	(BARROS, 2007, p. 777).
2012	MP 597/2012 in addition to Law 10.101/2000, determined that labor or social security fees do not apply to profit and gain sharing earnings and created a progressive table for income tax.	Lei 10.101/2000
2013	Law nº 12.832 is approved on June 20, 2013. Goals referring to health and safety at work are not applied. The law ratified aspects of MP 597/2012.	Lei nº 12.832

The items above are historic references, obtained in the research of articles and from Brazilian legislation. The history is rich, and has many other facts that are part of the current state of the art. This is thus a summary of important elements of this history.

Lourenço, 2012, defined salary or remuneration as a set of financial and social advantages offered to employees, in compensation for the services of the employee. The difference between the terms is the fact that salary is payment only in money, while remuneration also encompasses other benefits such as meals, housing, clothing and others.

Motta, 2005, cites three sources of income of an employee, total remuneration and are divided in fixed remuneration, variable remuneration and benefits.

Fixed remuneration includes: the monthly salary; a 13th month salary; vacation pay, an employee receives one month salary without working plus an additional 1/3 of the salary; the National Social Security Institute (INSS) (monthly), the company pays to INSS a contribution of 20% of the amount of the employee’s salary and discounts an 8% - 11% contribution from the employee according to a table established by the Ministry of Social Security (MPS); the Guaranteed Fund for Time of Service (FGTS) (monthly), the company pays an amount equivalent to 8% of a workers salary to the FGTS. A company also retains Labor Accident Insurance (from 1% - 3% of salary); Contribution for third parties (Industrial Social Service (SESI), National Industrial Education Service (SENAI), etc.), which varies according to the activity.

Benefits include: a healthcare plan; food assistance; life-insurance; complement for support during illness; dental plan; pharmaceutical plan; social security, loans, check-up; special programs for retirees and flexible benefits.

Variable remuneration includes: Award and bonus (fixed amount or percentage of the salary of an employee who achieves certain goals); gratification (amount that the employer pays to the employee), not linked to any goal; Commission (percentage on sales made by an employee); stock options, the employee receives the option to purchase company shares at a pre-established price, profiting with the appreciation of the shares; Awards and

bonus (fixed amount or percentage of salary of employee who meets certain goals), in a period normally above one year; sharing in company profits or gains.

Dessler, 1997, highlights that competitive advantage does not reside in machinery or patents but in people who are capable of improvising, innovating and investing in themselves to advance their companies. In an environment of countless changes, employees involved with the company become its competitive margin. Through profit and gain sharing, employees feel stimulated to achieve better results. For these reasons, organizations adopt this system of remuneration. In Brazil profit and gain sharing are strengthened by law, which exempts companies from paying fees on amounts paid to employees under these plans.

Motta, 2005, affirms that, participation in profits and gains are quite closely related, although there are different interpretations. The first works with a system of compensation, based on profits earned by the organization and the other through previously established performance goals. To establish a commitment from employees, the performance indicators must be previously established, understood and controlled by their legal representatives. According to Davis & Newstrom, 1992, profit sharing is a system of variable remuneration that distributes to employees a part of profits obtained from business, right after the completion of the fiscal year, or at a previously agreed upon date. Meanwhile, for Wood & Picarelli, 1999, profit-sharing is different from gain-sharing because it does not use formulas, linking performance indicators to respective awards and also because the award is distributed according to the general gains of the company and not by specific goals.

Four types of variable remuneration are currently used, according to Motta, 2005, they are: “Stock options” (program to purchase stocks); “EVA” (Economic value added); flexible benefits; and “profit or gain sharing. It can be affirmed that there truly is a duality between profit-sharing and gain-sharing, according to the literature.

2.2 Indicators:

Indicators are management tools that are essential for monitoring and evaluating organizations. Indicators make it possible to evaluate the scope of goals, verify advances, quality improvements, the correction of problems, changes in direction and other factors. Indicators should be identified by measurements, which should provide administrators information to take decisions that allow them to achieve previously established objectives. Objectives are formalizations of strategies to achieve brands, targets or the vision of the organization. (SARAIVA & CAMILO, 2011)

The indicators can be classified as: Simple, Relative and Complex. Simple indicators are expressed in absolute values and can only be compared to outside parameters. Relative indicators are proportional and can be compared in time and space. Complex indicators combine a set of dimensions and their respective variables, they are synthetic and multidimensional. (RUA, 2004)

Performance indicators can be divided into two broad categories: financial and non-financial. Recently, concerns have grown over environmental impacts, which has led to the development of a third group of indicators to measure them. (SOUZA e CORRÊA, 2011)

Financial indicators, according to the specialized literature, are related to company performance and are presented in three large categories:

- Accounting results and derived indicators. This is a basic indicator that can be explained through a structural analysis of profits and losses, that is, an analysis of the intermediary balances of the administration.
- Traditional productivity indicators. These inform about productivity, that is, they are reported based on the amount of assets invested.
- A new category of financial indicators. A representative indicator is Economic Value Added, for which a positive amount indicates that the company added value from a strictly financial perspective, after payment of all contributions of capital and particularly after payment of shareholders.

Non-financial indicators –non-financial evaluation indicators identify the deep causes of the effects of results, assisting administrators to take the best decisions. They also help establish coherence between the strategy and a suitable decision. As a result, they represent a mechanism that adjusts, controls and evaluates performance, given that they are much more adapted than financial criteria. (ELENA, 2011)

The formulation of indicators should follow some structured steps and can be verified in the flow chart below:

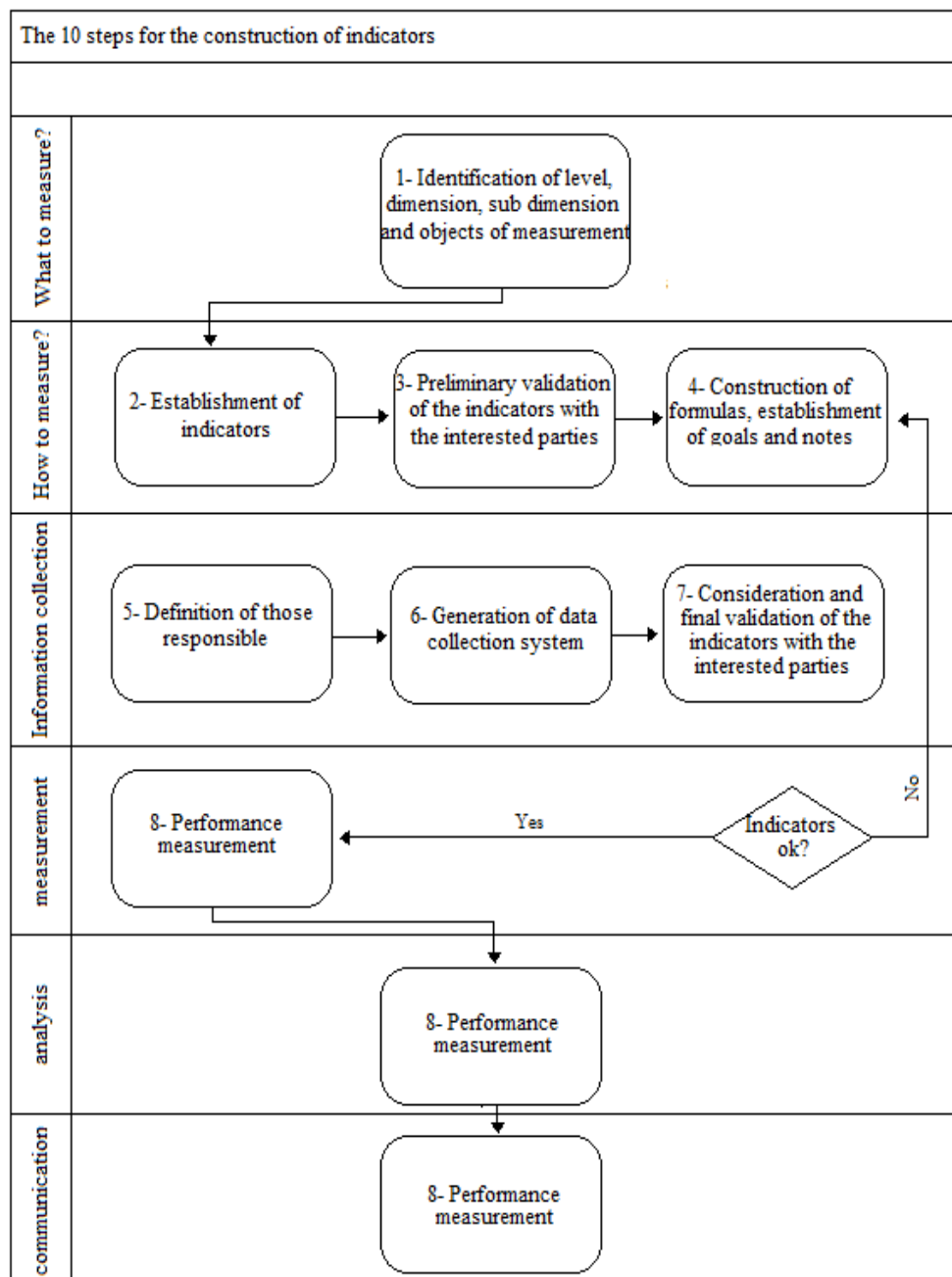


Figure 1, Source: Martins & Marini. Guide to governance for results, 2010.

3. METHODOLOGY

This study has descriptive-exploratory characteristics, and the research sources are documents, laws, dissertations, articles and books.

The study was undertaken by conducting bibliometric research in websites and journals. The themes were researched using keywords. For the studies of Brazilian journals the search terms used were: “Participação em lucros e resultados” [profit and gain sharing] and “Indicadores de desempenho” [“performance indicators”]. For the research of international journals the words used were: “Profit sharing” and “Gain sharing”, associated to “Employee stock options” and “Current income”.

With the data gathered, graphs and tables were prepared to study the trends in the articles published.

The study also examined 56 contracts that include profit- and gain-sharing agreements, found on various union Internet sites. The analyses of the various contracts were conducted through the tabulations and groupings in families, which allowed obtaining the maximum information possible from the data gathered.

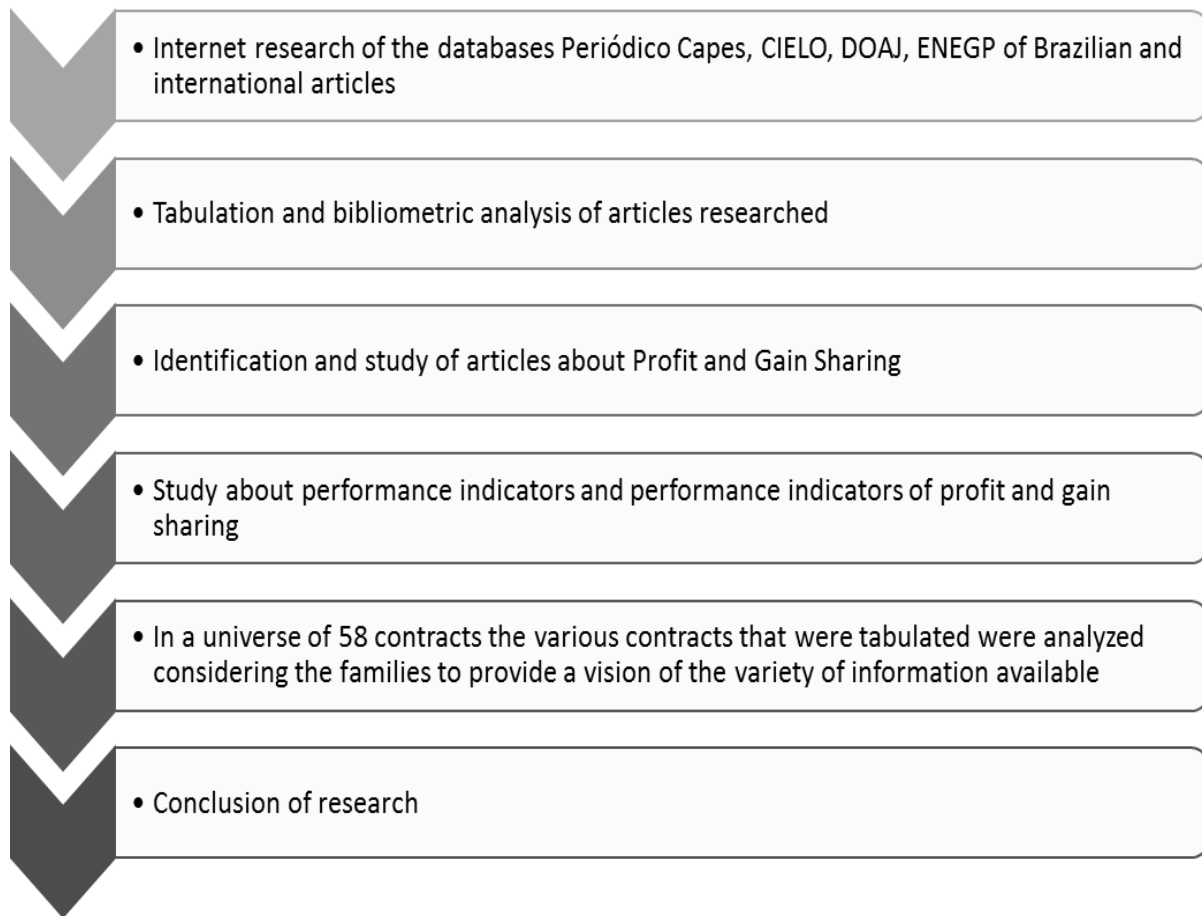


Figure 2

Figure 2, above was created by the authors of this article and its objective is to describe in a methodological form the steps followed in the study.

The research seeks to study, through an analysis of trends, the articles about the issues identified in Brazilian and international journals, published from 1996 to 2014. The studies were conducted in Brazilian and international journals found at the portals: ENEGEP, Periódicos CAPES, Scielo and DOAJ.

4. RESULTS AND DISCUSSIONS

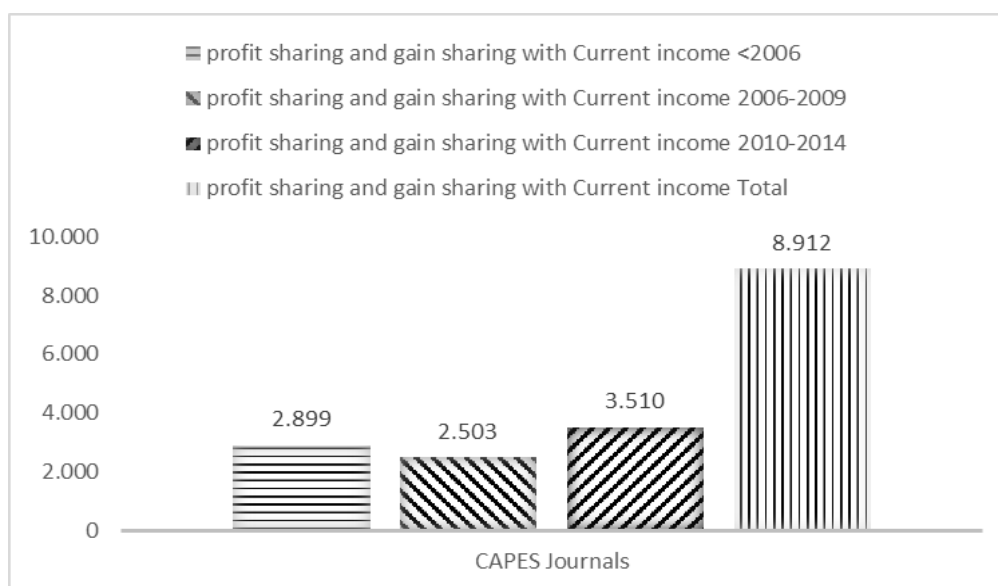
4.1 Analysis of the issue Profit and Gain Sharing

The search terms “*profit sharing and gain sharing*” were used for research in international journals. On the CAPES portal a search of these expressions identified more than 39,000 articles on a wide variety of issues. To be more objective, an advanced study was conducted by adding another term; “*employee stock options*”. These involve the distribution of company shares to employees in an *employee stock ownership plan* (ESOP). This plan has government incentives in the United States and seeks to promote the interest of employees in the company at which they work. (ECKHARDT, 2012) The other search term used in the study was “*current income*”, which refers to payments to employees in the form of remuneration. After the establishment of these conditioning terms, the studies found 2,144 articles with *ESOP* and 8,912 articles with the term “*current income*”. A search for the expression “*bonus options*” identified 1,101 articles and the expression “*employee stock or bonus options*”, found 547 articles. The expression “*current income*”, indicated greater compatibility with the nature of this study. With the conditioners established, no articles were found on other portals and for this reason the study was focused on the CAPES portal.

Words	Period	CAPES Journals	Words	Period	CAPES Journals
profit sharing and gain sharing with ESOP	<2006	1.157	profit sharing and gain sharing with Current Income	<2006	2.899
	2006-2009	546		2006-2009	2.503
	2010-2014	441		2010-2014	3.510
	Total	2.144		8.912	

Table 1

As can be seen in table 1 above, there was a large number of articles prior to 2006, 1,157 articles (54%), from 2006 and 2009, there were 546 articles (25%) and after 2010, there were 441 articles (21%). This shows a slight drop in the number of articles about the issue on an international level, which can be seen in graph 1, below.



Graph 1

The expression: “Participação em lucros e resultados” [profit and gain sharing] was used to search Brazilian journals. Considering that the other sites studied had a much smaller number of articles (5%) and some of the articles were on the CAPES portal, it was decided to concentrate the studies on this site.

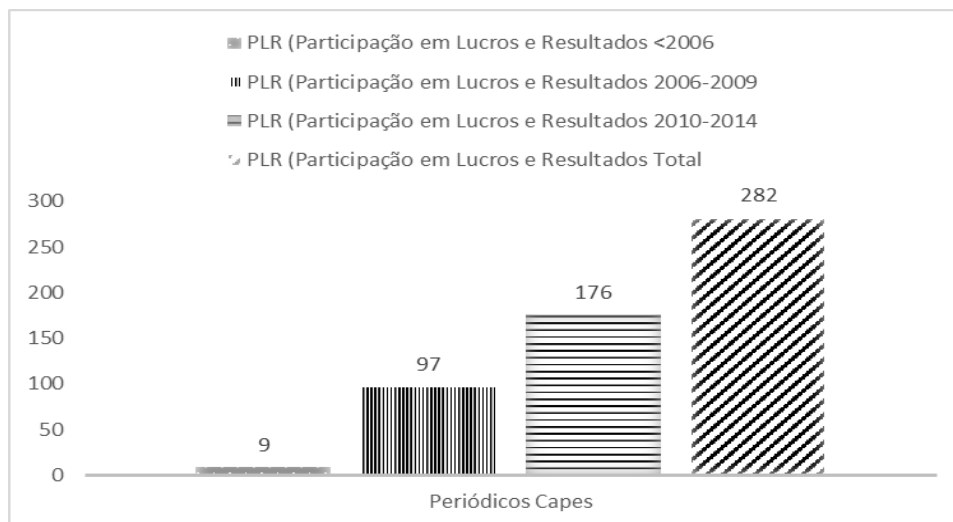
Words	Period	ENEGEP	CAPES Journals
PLR (Participação em Lucros e Resultados)	<2006	5	9
	2006-2009	4	97
	2010-2014	3	176
	Total	12	282

Table 2

As we can see in table 2, the number of articles published in Brazilian journals has been increasing. Prior to 2006, there were 9 articles (3%) of the total, between 2006 and 2009 there were 97 (34%) and from 2010 to 2014 there were 176 articles, which represent 62% of the articles published about the issue.

This demonstrates an apparent growth in the publication of articles about the issue, as we can see in graph 2, below.

Profit and Gain Sharing - Total



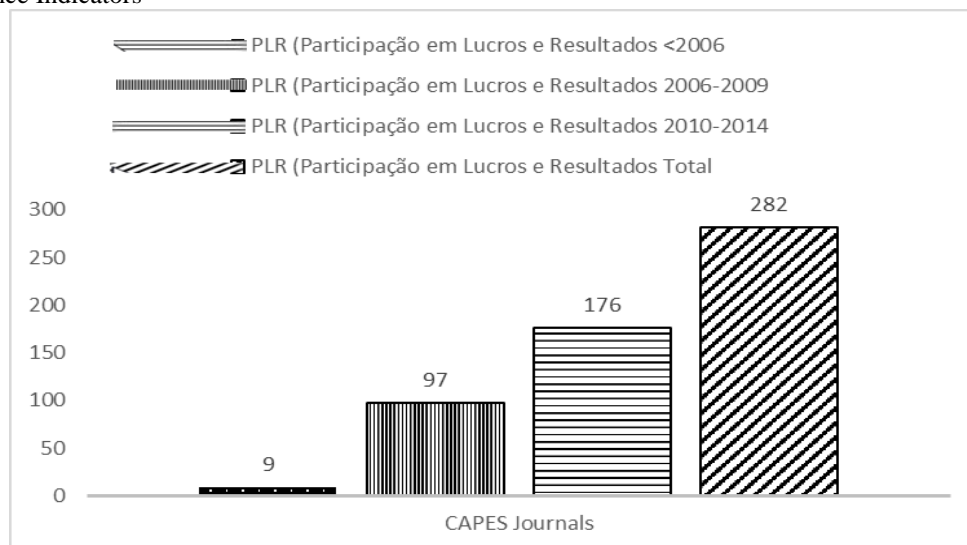
Graph 2

4.2 Analysis of the issue “Performance Indicators”

The search terms “Indicadores de desempenho” [performance indicators] were used in a search of Brazilian journals. On the CAPES portal 1,947 articles were identified, and 657 articles in events of ENEGEP, and 94 and 77 articles respectively on Scielo and DOAJ.

Table 3

Performance Indicators



Graph 3

The publication of articles about “Performance Indicators” has increased during the years studied. Prior to 2006 there were 137 articles (7%), from 2006 and 2009 there were 638 articles (33%) and after 2010 there were 1,172 articles (60%). Although there are other ways to confirm the hypothesis, the data presented indicate an increase in the number of publications about the issue. Table 3 and Graph 3 illustrate the aspects presented.

4.3 Analysis of correlations

In searches for the terms, “participação nos lucros e resultados associado a indicadores” [profit and gain sharing associated to performance indicators], only two articles were found, one on the CAPES portal.

4.4 Analysis of the profit- and gain-sharing contracts.

The data were obtained by research conducted on the Internet, on the sites of unions, where 56 contracts were identified that included profit- and gain-sharing agreements. The contracts were analyzed and the data about the parameters included in the agreements were tabulated, considering aspects with similarity of issues. Aspects related to finance, production, internal processes and human resources (personnel) issues were grouped together.

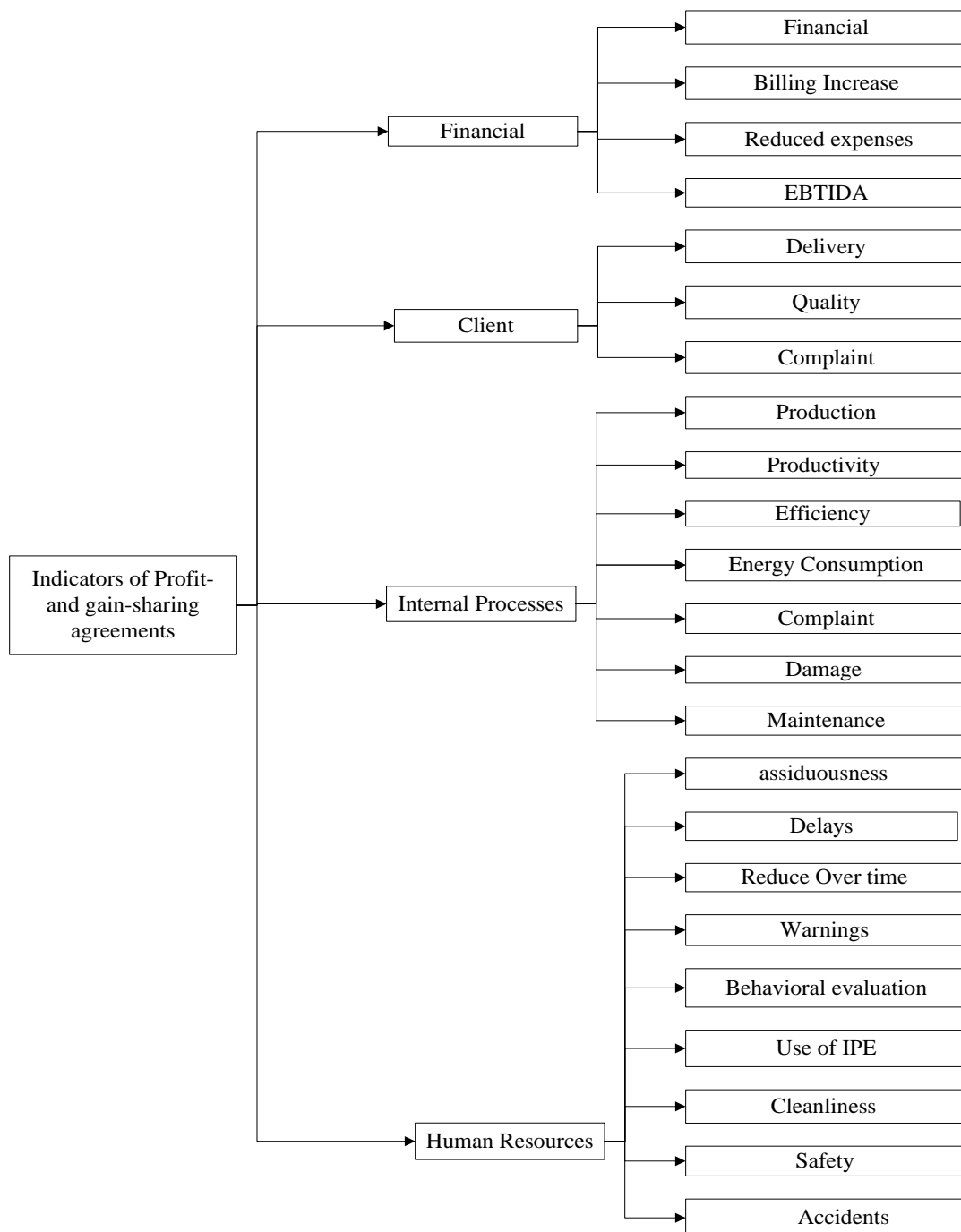
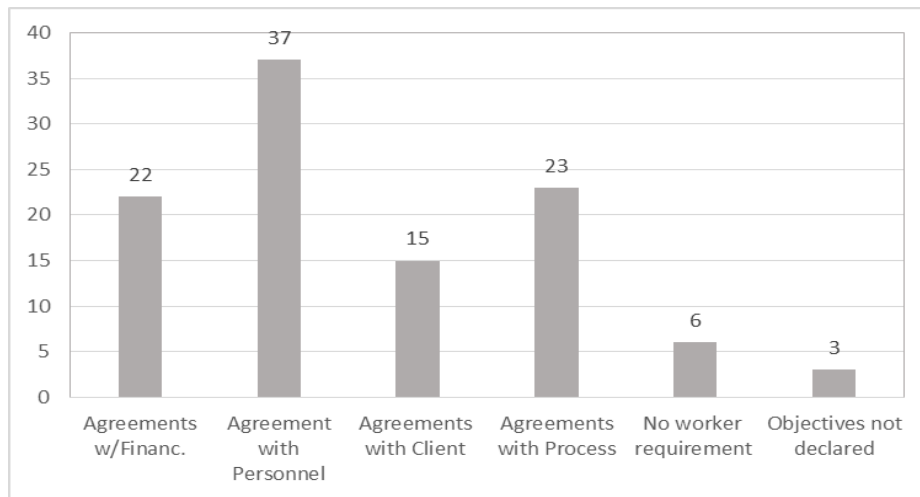


Figure 3, created by the author

Of the 56 agreements analyzed, 9 consider the 4 aspects selected, 6 consider 3 aspects, 13 consider 2 aspects and 17 consider 1 aspect and 11 do not touch on any of the factors selected.

Of the 17 agreements that consider only 1 aspect, 6 agreements are of a financial character, 11 agreements are of a personal character. Of these 11 agreements, 9 are about the issue of assiduousness and the other two are about lateness and warnings.

The graph below demonstrates the number of aspects that appear in the contracts of the agreements analyzed. Each column represents one of the aspects selected, which refer to: Finance, Clients, processes and personnel. There are also 6 agreements without a requirements placed on workers, this means that the company paid a bonus without making any agreement about performance results. There are also 3 agreements which mention that performance indicators were agreed to although they are not declared in the contracts and in the graphs are identified as: non-declared objectives.



Graph 4

5 FINAL CONSIDERATIONS

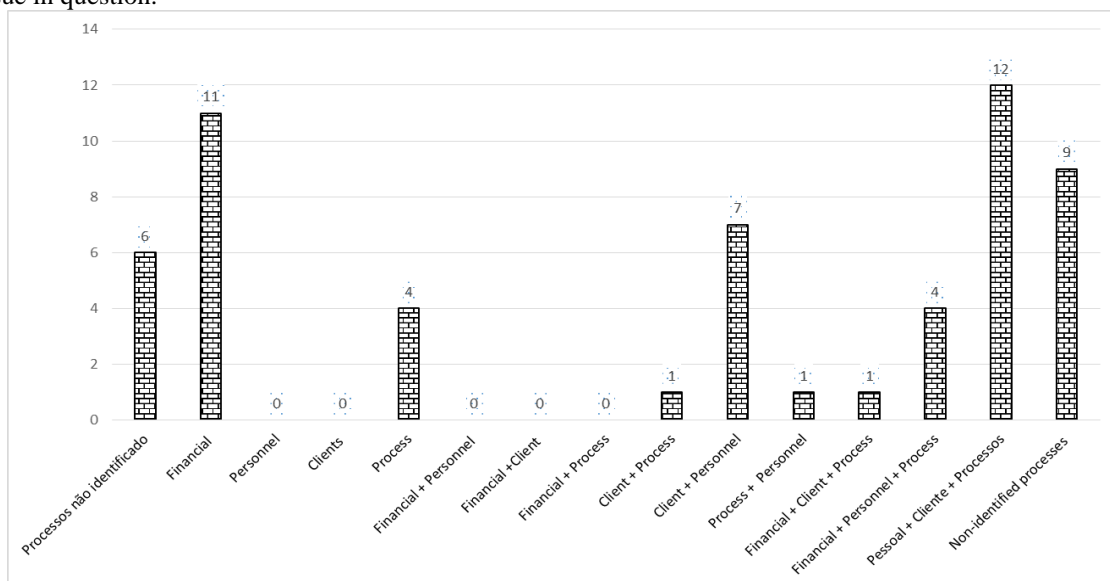
Using scientometric techniques, this study was conducted to identify trends and other information that can be observed in tabulations and graphs about the issues addressed.

The data surveyed allow identifying the correlations existing between the growth of publications about the issue and the outstanding historic events in the history of the issue of PLR in Brazil until a law was approved in 2013. Based on a review of the articles and laws that regulate profit and gain sharing agreements, it can be concluded that profit- and gain-sharing programs, through their indicators, make a significant contribution to process management. Nevertheless, the surveys show a field of opportunities that is little explored due to the incipient nature of publications about the issue.

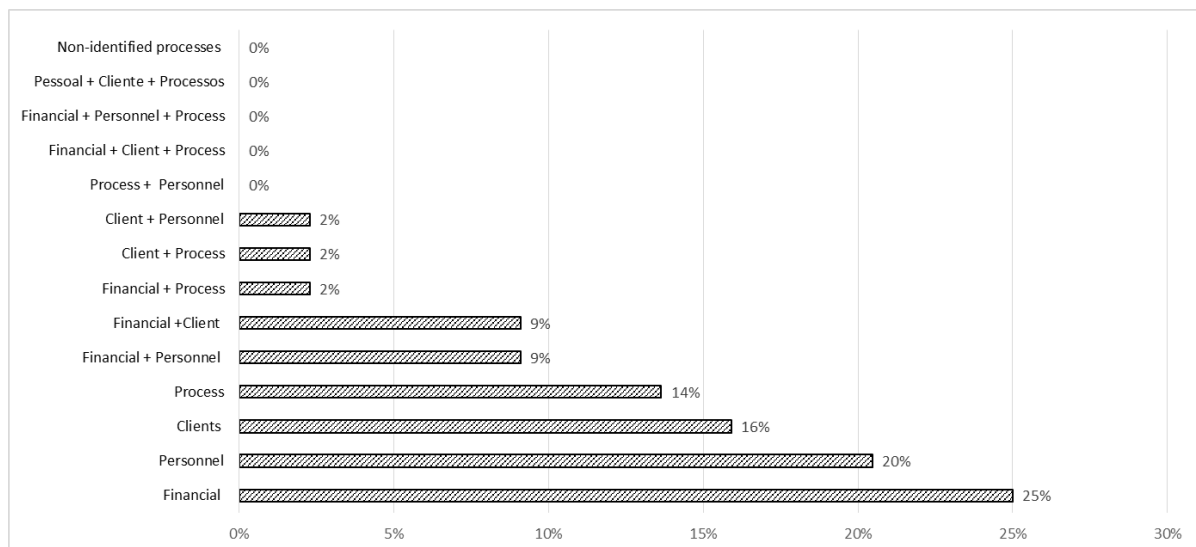
“If you can’t measure it you can’t manage it, you can’t measure what you can’t define, and can’t define what is not understood, There is no success in what is not managed” (DEMING, 1990). Indicators are to administrators what a compass is to navigators, they point to the route to be followed.

Various studies and articles indicate the benefits of profit- and gain-sharing programs provide to productivity, efficiency, quality and costs, that is, in improving organizational results.

A look at the Profit- and Gain-Sharing programs arose to analyze the profit- and gain-sharing indicators that are being used in agreements signed between companies, workers and unions. To explore this field, this article presents a study conducted about a population that cannot be considered to be a sample of the Brazilian universe, but serves as an example of what it is possible to construct from knowledge provided in studies about the issue in question.



Graph 5



Graph 6

The graph above indicates that in the universe analyzed, 56 profit- and gain-sharing agreements between companies, unions and employees, 21% of the contracts do not use any of the processes considered. Aspects related to personnel are responsible for 20% of the profit- and gain-sharing agreements considered. Issues related to internal business processes and personnel together are responsible for 13% of the agreements analyzed. Purely financial aspects are responsible for 11% of the agreements analyzed. We can also mention financial aspects and those concerning personnel, jointly, and also the aspects of personnel, clients and internal business processes jointly, as responsible for 7% of the agreements analyzed.

Only 16% of the agreements analyzed include all the factors considered, clients, personnel, internal business processes and finance. These can be an indication of a field for further research.

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