



## Profit-Sharing: Does it Make Economic and Spiritual Sense?

Badi Shams

Sharing the profit of any business with its employees pleases my economic side—and my mystic side.

Profit-sharing makes perfect sense to me, so I am going to share my understanding from an economic point of view and a spiritual point of view, as an economist and as a Baha'i.

First of all, profit-sharing is such a generous action. It demonstrates sympathy, fairness, caring and most importantly unity and the recognition of equality, since everyone in the business has a sense of ownership when management shares profits with the workers.

The Baha'i teachings strongly support sharing profits with employees. When owners and management take care of workers it gives them an opportunity to be of service, and of course it is an incentive and a privilege for workers to share in their organization's profits:

It is preferable, then, that some measure of moderation be achieved, and by moderation is meant the enactment of such laws and regulations as would prevent the unwarranted concentration of wealth in the hands of the few and satisfy the essential needs of the many. For instance, the factory owners reap a fortune every day, but the wage the poor workers are paid cannot even meet their daily needs: This is most unfair, and assuredly no just man can accept it. Therefore, laws and regulations should be enacted which would grant the workers both a daily wage and a share in a fourth or fifth of the profits of the factory in accordance with its means, or which would have the workers equitably share in some other way in the profits with the owners. For the capital and the management come from the latter and the toil and labour from the former. The workers could either be granted a wage that adequately meets their daily needs, as well as a right to a share in the revenues of the factory when they are injured, incapacitated, or unable to work, or else a wage could be set that allows the workers to both satisfy their daily needs and save a little for times of weakness and incapacity. – Abdu'l-Baha, *Some Answered Questions*, pp. 316-317.

... the owners of properties, mines and factories should share their incomes with their employees and give a fairly certain percentage of their products to their workmen in order that the employees may receive, beside their wages, some of the general income of the factory so that the employee may strive with his soul in the work. – Abdu'l-Baha, *Foundations of World Unity*, p. 43.

One of the other benefits of profit sharing is the reduction or elimination of strikes. Sharing the earnings creates a sense of togetherness and unity, so the workers will resist the temptation of strikes in favor of friendly negotiations. The employees will have less reason to strike, knowing that as the result of a strike they will lose, too.

Now let's examine the concept of profit-sharing from an economic viewpoint. There have been many studies done in this field, and those studies have found benefits in terms of loyalty, productivity and taxation. Owen E. Richardson in his essay "The Advantages of Profit-Sharing Plans" breaks these down:

- **Loyalty:** Loyalty significantly increases with remuneration. Employees that are offered an opportunity to participate in a profit-sharing plan invest more devotion to their position because of the direct reward associated with it. In addition, it shows the company is invested in the employees and creates a sense of parity rather than a composition of titles and ranks; employees envision themselves as transcending associate status and tend to see themselves as co-owners.
- **Productivity:** Employees invested in a profit-sharing plan begin to take ownership of the business as their work role becomes more defined by their contribution. "A plan that rewards employees with a share of the fruits of their labor draws a direct connection between work and reward," writes Stu Watson for the Edward Lowe Foundation. Productivity maintains higher levels when employees are given the opportunity to share in the profit margin they are creating through their efforts rather than being merely compensated for time on the job.

- **Tax Benefits:** Employees can use a 401k as a tax deduction tool on their personal income taxes, reducing their adjusted gross income by sheltering profit-sharing contributions in a tax-deferred plan. Contributions to a 401k are only taxed at the time of withdrawal, allowing the employee's contributions to grow tax deferred until the funds are withdrawn or dispersed in payments.

For those who want to study more on this subject, the Harvard Business Review recently published an interesting article called "Huawei: A Case Study of When Profit Sharing Works."

But I'm convinced that the emotional, psychological and spiritual benefits of profit-sharing—such as unity, harmony, a happy working environment, a sense of belonging, having a common interest and a reduction of stress levels—exceed even the economic benefits.

Baha'is believe we should recognize and study these factors, and eventually give them paramount importance in any economic system.

This approach, with its combination of spirituality and economics, satisfies my belief that science and religion must coexist in harmony, just as the employer and employee relationship should exist in a state of harmony. If the unity of humanity is a goal for you, then profit sharing can help bring that goal much closer.

#### WRITTEN BY



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