

Worker participation *in company profits* or operating results *in Latin America*

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This article analyses the systems of worker participation in company profits or operating results applied in Latin America and their capacity to meet the needs of the economic context in which companies operate. After an introduction (section I), a brief outline of variable wage systems is presented and the main features of the participation systems used in four Latin American countries (Chile, Mexico, Peru and Venezuela) are described (section II). The characteristics of these systems are then compared with each other and with those of the system adopted in Brazil since 1994 (section III). The application of these forms of participation is then evaluated, and information on the Mexican profit sharing system is presented to this end (section IV). On the basis of still rather fragmentary information, some aspects which seem important for making a preliminary evaluation of the Brazilian system are then discussed (section V). By way of conclusion, the desirability of applying such participation instruments in the new economic and labour context is analysed (section VI).

I

Introduction

Most of the Latin American countries which have legislation on financial participation by workers in their companies have systems of sharing in the profits (sometimes called gains, earnings or other terms). In principle, profit-sharing programmes consist of additional payments made to workers as a function of the achievement of a certain level of profits by their firms. Generally speaking, in these countries such systems were introduced through compulsory legislation laying down the percentage of profit-sharing, the definition of profits to be used, the workers included in and excluded from the system, and sometimes also the way in which the amount thus established should be shared out among the workers. It is therefore essentially a variable payment seeking to link a part of workers' total remuneration to the success of their companies, as measured by their profits.

Originally, at the beginning of the twentieth century, profit-sharing systems were implemented on a voluntary basis by companies which wanted to establish good labour relations and to share part of the fruits of their success with their workers (Perry and Kegley, 1990). A modest redistributive intention underlay this attitude. Later on, some countries decided to make this principle obligatory, extending these benefits to most workers. In a context of full employment and sustained growth, this distributive policy seemed in line with the economic and labour context.

In recent years, however, the situation has undoubtedly undergone substantial changes. The labour market is no longer marked by indefinite contractual

relationships, but rather the rapid growth of more precarious forms of employment, and companies seem to have entered on a process of endless restructuring because of the need to maintain their competitiveness, now at international levels. We may therefore wonder if, in this new context, workers' profit-sharing continues to be a suitable instrument in the form in which it was originally formulated.

This mechanism is no novelty in the region. Chile, Mexico, Peru and Venezuela, among other countries, have various forms of legislation regulating such profit-sharing, with a common basic original objective: to express the right of workers to share in the financial results of their companies, with an obvious redistributive intention.

Departing from this predominant Latin American approach, Brazil has recently taken a different attitude to worker participation. Provisional Measure No. 794, introduced late in 1994, provides for sharing by workers in the profits or results of their companies.¹ This Provisional Measure regulates for the first time a Constitutional provision which has existed since 1946 and has been ratified in successive Brazilian Constitutions. Its terms are quite flexible: the social actors can lay down the criteria for profit-sharing through negotiation and can choose between systems linked to the company's profits, to specific results, or to mixed indicators. Since this legal instrument has now been in force for over three years, some experience has been built up in its application which could be useful for evaluating the virtues of this new approach.

□ A preliminary version of this paper was presented at the tripartite seminar on "Experiences in workers' profit-sharing", held in São Paulo in August 1997. The views expressed in this article are the exclusive responsibility of the author and their publication does not necessarily mean that they are authorized by the ILO.

¹ According to the Brazilian Constitution, in important and urgent cases the President of the Republic can adopt provisional measures which have the status of laws, but must submit them immediately to the National Congress for approval. The measures remain valid for thirty days, and if not converted into laws they lose their validity. In order to prevent this from happening, Provisional Measures may be reissued with a new number, as has occurred in the case of the measure in question so far.

II

Variable remuneration systems

Although worker participation in profits or operating results may be considered as forming part of variable remuneration systems, in addition to differences in the way they are implemented they have quite different potential and objectives, which should be clarified at this point.

Profit-sharing systems with payment in money (like all those of the Latin American countries) are fundamentally income distribution systems which, at best, increase a worker's identification with his firm to some extent.² In most cases, however, they merely represent an "extra cost" (although of a variable nature) in the production process. The fact that the cost is variable does, of course, represent an advantage over other labour costs, since at times of crisis, when the company's profits fall, this component adjusts itself downward automatically.

This flexibility of labour costs forms the main theoretical argument in Martin Weitzman's proposal. In his view, linking a significant part of total remuneration to company profits can lead to increased employment and a reduction in the inflationary pressures exerted by wages (Weitzman, 1984). As regards employment, linking a substantial part of remuneration to the financial performance of companies can stimulate new recruitment, as it reduces both business risks and the cost of the newly hired staff who will share in the total amount of profits fixed in advance. As regards inflation, linking part of wage increases to profits restricts the wage component of inflation.

Systems of worker participation in the company's operating results, however, can generate or stimulate changes in workers' behaviour and their use of the factors of production, with possible benefits for both the company and themselves. Through conversations between the management and the

workers, measurable targets are fixed for variables which are under the control of the latter, together with a scale of rewards for their achievement. In order to increase the degree of motivation, the corresponding payments should be made as often as possible, so as to relate them clearly with improvements in performance. Programmes of this type can be aimed at stimulating individual effort (raising productivity in the strict sense), improving product quality, saving on resource use, reducing waste and lost time, reducing accidents, etc., or even promoting more than one of these aspects at the same time.

The feature of profit-sharing systems which fits in best with the present economic context is the fact that they are variable. Payments in respect of profit-sharing form part of workers' total remuneration, but unlike their basic wage or other benefits which are paid on a regular basis ("thirteenth month", holidays) or which depend on their individual characteristics (family allowances, seniority), these payments are only made if the profits effectively materialize. Otherwise, no payment whatever is made in this respect. Consequently, this variable component of total remuneration is an instrument which automatically adjusts labour costs and can give the company greater flexibility for dealing with fluctuations in demand for its products and help to obviate unnecessary dismissals of staff.³

Various studies have sought to determine the relation between profit-sharing and productivity. A review of the literature on this matter came to the conclusion that there is a positive albeit moderate

² We will not deal here with deferred-payment participation systems, which can have a positive impact on the rate of domestic saving. The fact that wage levels are mostly very low in the countries studied would make their application extremely difficult, however.

³ The existence of a variable, automatically adjusting component may not be enough in the event of an acute crisis, however. In the Argentine motor industry, for example, more drastic measures had to be taken after the 1997 Asian crisis, even though a significant part of the workers' remunerations were of a variable nature. Thus, in addition to the cost cuts brought about by the automatic adjustment mechanism, overtime was reduced, there were suspensions and cuts in working hours, and programmes of accelerated voluntary retirement and outright dismissals were applied (Soifer and Tomada, 1999).

relation (Weitzman and Kruse, 1990), but Card (1990) found that the effect of profit-sharing on productivity would occur at the time of initiation of the programmes, so that it would be a non-repetitive effect.

At all events, worker participation in company profits does not seem to affect their motivation significantly. This would limit the usefulness of this instrument at times when organizational restructuring processes in firms need the collaboration and active participation of the workers. In this sense, worker participation in the operating results would appear to be a more suitable instrument, since in this case the variable payment is linked to the achievement of specific goals which are of interest to the firm and which have been previously agreed between manage-

ment and workers. Furthermore, in a context of growing competitiveness, participation in the operating results is not limited to the mere reduction of labour costs but also seeks to improve the firm's position by making the workers participants in the formulation and implementation of the necessary changes.

Unlike profit-sharing, participation in the operating results cannot be decided at the central level, since it is only at the enterprise level that the most suitable approaches to its situation can be determined. Consequently, the authorities can only intervene indirectly by promoting the adoption of such programmes through, for example, fiscal incentives, or exempting them from some social security payments.

Box 1

MAIN DIFFERENCES BETWEEN PROFIT SHARING AND PARTICIPATION IN OPERATING RESULTS

	<i>Profit sharing</i>	<i>Participation in operating results</i>
Objective.	To link remuneration to the success of the enterprise. To promote identification of workers with the objectives of the firm (to increase profits).	May be designed to: Encourage individual effort. Improve product quality. Save on use of resources. Stimulate cooperation and teamwork.
Factor remunerated.	Profits.	Productivity (measured in terms of one or more indicators).
Unit remunerated.	The company as a whole, or particular production units.	Individuals or work groups.
Frequency of remuneration.	Yearly or twice-yearly.	Monthly, quarterly or twice-yearly.
Availability of rewards.	Immediate (paid in cash, without additional social security benefits for the worker). Deferred (deferred payment, with additional social security benefits for the worker).	Immediate (paid in cash, without additional social security benefits for the worker).
Main advantages.	In periods when the company makes a profit, part of the latter is received by the workers. In periods of recession, labour costs are reduced automatically, thus easing the adjustment process.	Workers have more influence and control over the results than in the case of profit-sharing schemes.
Main disadvantages.	Some important factors are not under the control of the workers (such as management decisions or macroeconomic factors).	It is sometimes difficult to determine and measure the most suitable indicators. Efforts must be made to prevent the incentives from having undesirable effects on other aspects.

Source: Marinakis (1997).

III

The profit-sharing systems of some Latin American countries as compared with the Brazilian system

As already noted, a number of Latin American countries have legislation laying down the forms of participation by workers in their companies' profits. The systems are different in various aspects, so that their effects are also different.

In Mexico, the profit-sharing system takes as its base the taxable income of enterprises, 10% of which must be shared out among the workers under this concept.⁴ It is important to note that companies can not deduct losses from previous years in determining the profits to be shared among the workers. Since 1988 there has been a discrepancy between the base for determination of the workers' share in the profits and the base used for calculating income tax, because of an adjustment for inflation which was applied only in the latter case. Because of this difference, the effective share of the workers is smaller than originally provided for in the legislation.

The form of distribution is also laid down in the law. Half of the profits to be shared out among the workers are distributed according to the wages of each worker (the idea being to provide incentives for the higher-paid staff), while the other half are shared out equally among all the workers in identical amounts (the aim being to redistribute income, as in relative terms these amounts are more important to the lower-paid workers). Among the types of companies exempted from applying such profit-sharing are new companies, during their first year of operation; new companies in the mining sector during the period of prospection; non-profit-making companies, and companies with a turnover of less than 6 million pesos per year.

In Chile the "liquid profits" are used as the base for determining the workers' share in the profits.⁵

The "liquid profits" are the result of deducting 10% from the amount subject to income tax (without deduction of losses from previous years) for "remuneration of the employer's own capital". Only companies which are obliged by law to present their statements of accounts are subject to this system.

Although the legislation stipulates that 30% of these profits must be distributed among the workers, the Chilean Labour Code opens up an alternative which frees companies from the foregoing requirement: the possibility of paying workers a proportion of their annual wages (25%), with a ceiling of 4.75 Official Minimum Wages per worker. This alternative permits highly profitable companies to keep the amount distributed under profit-sharing down to quite a low maximum level: workers with wages over 1.60 Official Minimum Wages would receive less than 25% of their annual wages. The workers' shares are proportional to their wages.

In practice, the predominant form of profit-sharing is this system based on a proportion of the workers' annual wages, subject to a ceiling. According to one survey, this system is used in 76% of all cases, while that involving the payment of 30% of profits is used in only 10% of the firms (Espinosa and Damianovic, 1999).

The Peruvian legislation on profit-sharing differs from that of Mexico and Chile in that losses from previous years can be deducted,⁶ and it also lays down different percentage shares according to the type of activity of the firms. Thus, in mining companies, commercial establishments and restaurants the workers' share is 8% of the profits; in fisheries, manufacturing companies and telecommunications it is 10%, and in all other companies it is 5%. In Peru, too, there is a ceiling on profit-sharing, but it is quite

⁴ Mexico, Ley Federal del Trabajo, Título 3º, chap. VIII, articles 117-131.

⁵ Chile, Código del Trabajo, chap. V: Remuneration.

⁶ Peru, Gobierno (1996).

high (18 monthly wages). As in Mexico, 50% of the total is shared out among all the workers in equal amounts, while the remaining 50% is distributed in accordance with each worker's wage. Cooperatives, non-profit-making institutions and firms with 20 or fewer workers are exempt from this legislation.

Unlike the other countries mentioned here, the profit-sharing system applied in Venezuela has both a floor level and a ceiling.⁷ The floor or minimum level, which is equivalent to 15 days' wages, is applicable to all firms, including non-profit-making institutions and firms which are exempted from giving workers a share in the profits (although this may sound like a contradiction in terms). At the other extreme, there is a ceiling level differentiated according to whether the company has 50 workers or more (in which case it is four months' wages) or less than 50 (two months' wages).

In this case, profit-sharing –which is a concept that ought to mean variable payments– becomes in practice merely a further fixed cost whose value depends on the sector in which the company operates. The explicit introduction of floor and ceiling levels has undoubtedly contributed to this result. Furthermore, the size of these payments is quite significant, since although the floor level represents only 4.16% of the annual wage, the ceiling level is equivalent to 16.7% for firms with fewer than 50 workers and 33% for those with over 50.

Among the Latin American profit-sharing systems (figure 1), that of Mexico seems to be the "purest", as the payments made under this system vary according to the company's profits. In the case of Chile, the establishment of a ceiling level is designed to restrict workers' shares in the profits in companies and sectors where the rate of profit is very high (this is not so clear in the case of Peru, where the ceiling seems quite high). Instead of limiting the workers' share in these sectors by fixing a lower percentage rate, it was preferred in Chile to limit it to a certain number of official minimum wages. At the other extreme, Venezuela's establishment of floor and ceiling levels represents the distortion of an instrument which should be linked to the company's actual profits: the inherent features of the legislation mean that it is applied as though it were just another fixed

⁷ Venezuela, Ley Orgánica del Trabajo, chap. III: Profit-sharing, articles 174-184.

FIGURE 1

Profit-sharing systems

"Pure" systems	⇒	Mexico
Systems with a "ceiling"	⇒	Chile (4.75 official minimum wages) Peru (18 official wages)
Systems with both an upper and lower limit	⇒	Venezuela (Lower: 15 days' wages; upper: up to 2 or 4 months' wages)

payment whose size depends (within the set ranges) on the company's general capacity to pay but which is generally speaking not variable.

Though the system of worker participation in profits is applied all over Latin America, and almost all the countries studied have companies, especially in the modern sector, that have systems of worker participation in the operating results,⁸ Brazil is the only country in the region where the legislation offers the possibility of choosing between these two systems, which enjoy the same incentives in terms of exemptions from employers' contributions.

If we compare the Brazilian system with the other Latin American systems, we see first of all that the Brazilian system is not linked only to profits, as it is possible to choose a system of participation linked to operating results. Although the degree of participation in profits can be regulated (generally by fixing percentages), participation in the operating results cannot be regulated by the central authorities, as it is eminently within the domain of the companies (although in some cases the parties have arrived at collective agreements by branches or sectors).

Another, less important, difference is that in Brazil the authorities do not lay down any compulsory forms of distribution among the workers, precisely in order to give greater freedom to companies that choose the system of participation in the operating results. For example, if the results obtained by a

⁸ For example, an ECLAC study reports on a number of cases of participative wage systems in large Chilean firms where the variable proportion of wages is a significant percentage of total remuneration. The same study also includes some examples of Brazilian companies that were already applying such participation programmes even before the adoption of Provisional Measure 794 (ECLAC, 1992).

work group are taken as the reference value and it is desired to promote solidarity among the members of the group, the employers may prefer to make equal payments to all the workers in the group. If, however, it is desired to give priority to individual productivity, then the most appropriate form of distribution would depend on the wages earned by each worker. These problems do not arise when it is a question of sharing out the profits.

Furthermore, the Brazilian system only expressly excludes non-profit-making institutions, so that it may be described as a universal system. As Provisional Measure 794 lays down that all firms must negotiate the participation of their workers, either in profits or in the operating results, this measure can cover the most diverse types of companies

—smaller, bigger; newer, older; with greater or smaller market shares; with greater or smaller profits— because in each case the company's special features will be taken into account.

This latter aspect is probably the most distinctive feature of the Brazilian system: it emphasizes the need for negotiation between the parties, whereas the other systems lay down a very clear form of calculation and application which does not allow for much discussion. In this respect, there is a very marked difference from the Chilean system, where the choice between giving workers a share in a percentage of the profits or making limited payments based on the workers' wages is entirely up to the employer, who will normally choose the option which is cheapest for his firm.

IV

Appraisal of a "pure" profit-sharing system: the Mexican system

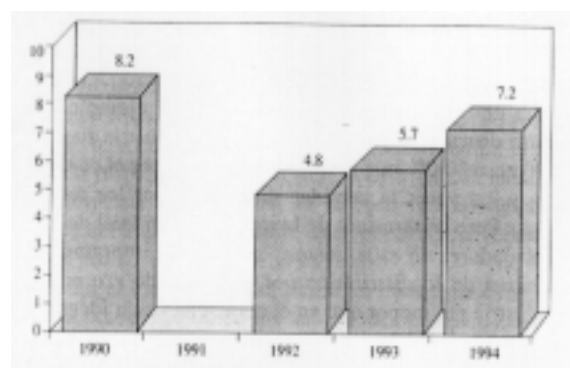
Like any other legal instrument, profit-sharing systems can only be assessed on the basis of the way they actually operate. In the following paragraphs, details will be given of some of the criteria used in 1996 in Mexico by a tripartite commission responsible for reviewing the percentage share of workers in the profits of their firms (PSP).⁹ In Mexico, a commission must meet every 10 years for the sole purpose of adjusting that percentage, to which end a secretariat is set up which prepares studies based on existing or specially collected data and analyses the answers of the social actors to questionnaires designed to find out the views of workers and employers. The purpose of the commission seems rather limited, as it cannot suggest changes or improvements in the legislation or its forms of application. At all events, the criteria used by the commission can provide background information and serve as food for thought.

According to data from the Ministry of Finance on taxable profits and the share of workers in the

proportion to be distributed, although the law lays down that at least 10% of the profits must be distributed, this percentage was never attained in the 1990s. The year which came closest was 1990, when 8.2% of the profits was distributed (figure 2).

FIGURE 2

Mexico: Workers' shares in profits, 1990-1994
(As a percentage of taxable profits)



⁹ The information given in this section is based on the records of the commission in question.

Part of the difference between the percentage laid down by law and the share actually distributed is due to accounting discrepancies between the base used for determining income tax payments, which is adjusted for inflation, and the base for determining workers' participation, which is not so adjusted. Another part of the difference is due to under-estimation of the PSP. This appears to show that, in practice, the minimum amount of 10% of profits is not being distributed.

Data from the Institute of Statistics show that the profits for distribution differ greatly from one sector of the economy to another. Most of the PSP in Mexico has always been distributed in the industrial sector: 69% of the total in 1993 and 64% in 1995. In commerce, the PSP went down appreciably between those years, sinking from 24% to 17% of the total, while in the services sector it went up slightly (from 12% to 15%).

However, this information is not really the most appropriate, as the industrial sector is also the biggest formal-sector employer. A more appropriate indicator would therefore be the profits distributed per employed worker, that is to say, per worker in the formal segment which is obliged to report company profits. In 1994 the number of workers in this situation was 10.7 million, out of an economically active population of a little over 35 million.

The industrial sector has always distributed a larger amount per employed worker than the other sectors of the economy (table 1), and in recent years this difference has been increasing: in 1985 the amount in pesos distributed in industry was 1.5 times greater than that distributed in commerce, but in 1993 it was 3.5 times greater. There was also a trend towards convergence between commerce and services, basically because of the decline in the amount

TABLE 1

Mexico: Profits distributed per worker
(In 1994 pesos)

Sectors	1985	1988	1993
Industry	690.2	812.2	713.1
Commerce	463.2	349.9	204.1
Services	293.0	211.9	207.2
Industry/commerce	1.5	2.3	3.5
Industry/services	2.4	3.8	3.4

Source: Mexico, Government (1996).

of profits distributed per worker in the commercial sector.

What percentage of total remuneration in each sector do the amounts of profits distributed among the workers represent? To take an example, in 1985 the amount distributed per worker in industry was 690 pesos (50% more than in commerce and 2.4 times as much as in services). As a percentage of the total remuneration of the workers in each of these sectors, however, the relative size of the amount distributed under profit-sharing in industry was less than in commerce and almost the same as in services, simply because the average wage in industry was much higher than in the other two sectors.

In order to evaluate the real impact of a system of participation in profits or operating results, however, it is important not only to know the amount of profits distributed per employed worker, but also to know what proportion they represent of total remuneration or of the basic wage. In 1993, for example, although the amount distributed per worker in com-

TABLE 2

Mexico: Workers' shares in profits, as a proportion of total remuneration
(Percentages)

Sector	1985	1988	1993
Industry	2.8	4.0	3.2
Commerce	4.2	4.3	2.1
Services	2.4	2.3	1.5
Total, nationwide	3.0	3.8	2.5

Source: Mexico, Government (1996).

TABLE 3

Mexico: Workers' shares in profits, as a proportion of total remuneration
(Percentages)

Industry	1984	1988	1991
Manufacturing	2.6	5.4	4.9
Foodstuffs	3.5	5.5	5.2
Textiles	2.6	2.6	1.6
Paper	2.6	9.0	7.8
Chemicals and petroleum products	4.3	8.0	6.2
Basic metals	1.1	3.1	3.4
Wood	1.3	2.1	2.8

Source: Mexico, Government (1996).

merce was practically the same as in services, the proportion of total remuneration distributed in this way was greater in commerce, where it represented 2.1% of total remuneration (table 2).

The percentages given in that table, which range from 1.5% to 4%, give the impression that the proportion distributed is very low. It should be noted, however, that on the one hand these average figures conceal great differences within each sector, industry or company: in manufacturing, for example, workers in the food products and chemicals branches received a larger amount in profit-sharing than the average for

industry in the three years studied, while the amounts received by workers in the wood and textile industries were below the average (table 3). On the other hand, the average figures were depressed by the inclusion of workers who received little or nothing under profit-sharing because their companies did not make a profit. In view of this, the amounts distributed by companies which did make a profit in such branches as foodstuffs, paper, chemical products and petroleum products may be considered as significant, since they are estimated to come to over 10% of annual remuneration.

V

A preliminary appraisal of the Brazilian system

Although Provisional Measure No. 794 is not the definitive law, it has been applied for the last five years. There is therefore some practical experience of worker participation in profits and operating results which allows us to make a preliminary appraisal of the positive and negative aspects of the measure and the effectiveness of its provisions.

In order to make a proper appraisal of the Brazilian system it is necessary first of all to know how far employers have complied with the few compulsory provisions of this measure, for which purpose we need macroeconomic information on the situation and, to a lesser extent, information on what happens within the firms themselves.

Secondly, we need to know what happens with the aspects which are open to negotiation and whether the results are in line with those desired by the legislators, trade unions, employers and authorities. Although some aggregate data can be used for this purpose, what we really need to know is what happens at the company level.

1. Fulfillment of compulsory provisions

In order to determine the degree of fulfillment of these provisions it is important to know the number of companies (and the number of workers) which have successfully negotiated arrangements for sharing in profits or operating results; the number of

companies where negotiations have not reached a successful conclusion (and, among these companies, the number where the process is under mediation and arbitration), and the number of companies which have not yet negotiated these matters.

This information, when compared with the potential universe, will show if the requirement for negotiation laid down in article 2 of the Provisional Measure is being fulfilled or not.¹⁰ This is particularly important because the Provisional Measure does not lay down time limits for the negotiations or penalties if one of the parties refuses to negotiate. On the basis of this information, we can determine if these problems occur in particular in some specific regions, in some sector of the economy, or in some particular type of enterprise, classified according to size, for example.

Unfortunately, so far there is no source which processes all the agreements signed, but it seems reasonable to assume that the application of arrangements for participation in profits or operating results is still very limited outside the large and me-

¹⁰ For the purposes of the Provisional Measure, physical persons and non-profit-making institutions (the only exceptions from the requirement for negotiations between the company and its workers) are not considered to be equivalent to "enterprises".

dium-sized manufacturing enterprises of Southeast Brazil.

Another compulsory provision refers to the frequency of payment of the workers' shares. In this respect, the Provisional Measure lays down a minimum period of six months. We need to see whether this minimum frequency is being observed or if annual distribution is preferred, and we also need to see whether distribution is concentrated in some particular time of year, which could have some economic significance because of its effect on consumption.

In the case of Brazil, right from the start the authorities were concerned to ensure that payments in respect of participation in profits or operating results were not used to avoid making payments that should form part of the basic wage (thus taking advantage of the exemption from social welfare contributions). In the Provisional Measure this concern was reflected in the establishment of a minimum period of six months between payments of workers' shares, on the assumption that it would not be possible to postpone the payment of sums corresponding to the basic wage for so long. Within the broad liberty of negotiation laid down in the Provisional Measure, this requirement is one of the few that is compulsory.

However, analysis of some of the agreements on participation in profits or operating results reveals that this provision is not being complied with in all cases, as some agreements provide for frequencies of less than six months. According to a study made by the Inter-Union Department of Statistics and Socio-Economic Studies (DIEESE), based on 448 agreements signed in 1996, 6% of them provided for payment three times a year, and 2% provided for more than three such payments (DIEESE, 1996). In a non-systematic review of agreements for participation in profits or operating results, Professor Hélio Zylberstajn found that nearly 20% of them had distribution frequencies of less than six months (22% in 1995 and 17% in 1996).¹¹ Furthermore, it is not unusual to give advances in respect of such participation, which is equivalent to more frequent payments than those provided for in PM 794. If this practice

¹¹ This information was presented by Professor Zylberstajn at the seminar on experience in worker participation in company profits or operating results, held at São Paulo on 14 August 1997. The references to "Zylberstajn" made below refer to his statements at that seminar.

were to become general it would undermine the financing of social services as well as reducing the role of wages proper in the economy, thus weakening the fiscal position¹² and distorting wage structures.

It would therefore appear that this is one of the aspects that should be carefully monitored as long as this provision remains in force. Another option would be to establish a maximum limit (as a percentage of the basic wage) for the amount eligible for exemption from the payment of social welfare and social security charges, while leaving the frequency of distribution of workers' shares in profits or operating results to be negotiated in each firm.

Nor is information available on the possible impact of concentration of workers' participation payments in some particular period of the year. According to the DIEESE sample, in 1996 some 750 million reales were distributed under this concept. These figures show that, if worker participation arrangements spread, the amount distributed in this way could be such as to represent an important factor at the macroeconomic level.

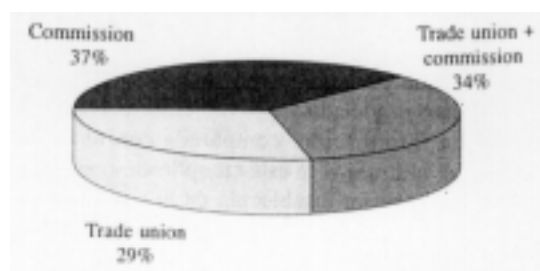
2. Negotiations in Brazil

Since in Brazil the adoption of programmes for worker participation in profits or operating results is subject to negotiation between the parties, it would be of interest to know who actually carries out the negotiations. To begin with, the Provisional Measure left the representation of the workers in the negotiating process to a worker committee elected for this purpose. Only recently have the trade unions been given a role in this process, through the amendment made to PM 794 in August 1997.¹³ Despite this gap in the legislation, it is worth noting that in most cases the negotiations which have taken place have in fact included the trade unions. Furthermore, in a number of cases it was the trade unions which promoted the

¹² This assertion is all the more serious because the companies which apply programmes of worker participation in their profits or operating results are generally large manufacturing enterprises which are also among the largest taxpayers. If this group of firms reduces its contributions, the fiscal impact could be very severe.

¹³ "Participation in profits or operating results shall be subject to negotiation between the company and its employees, through a committee elected by the latter and also including a representative designated by the trade union for the respective category of activities" (article 2).

FIGURE 3

Brazil: Representation of workers in negotiations, 1996

holding of negotiations on worker participation, sometimes even calling strikes for this reason.

Zylberstajn found that in the agreements signed in 1996 the party negotiating with the employers was the trade union in 29% of the cases and the trade union in conjunction with the workers' committee in 34% (figure 3). Thus, the workers' committees negotiated and signed the agreements on behalf of the staff in only one-third of the cases analysed.

It would also be desirable to find out what criterion was adopted by the parties to the negotiation: participation in the profits or operating results (and which of these was preferred), or simply the distribution of a fixed amount as the workers' participation, although this amount was not linked in any way with the company's profits or the achievement of any specific results. Although this latter option is not among those envisaged in the Provisional Measure (and moreover is not in keeping with the spirit of that legislation), it may nevertheless be the result of the negotiations between the parties in a company or sector.

The aim of collecting this information is to gain an idea of the possible impact of these forms of participation on the economy. If profits are selected as the main criterion, this places more emphasis on the idea of distribution, and the workers' share will depend on the financial performance of the company. If it is decided to base payment on the operating results, this will probably represent an effort to change some forms of behaviour and thus support the introduction of improvements. Finally, if it is decided to share out a fixed amount simply in order to comply with the Provisional Measure, without taking the trouble to prepare a programme of objectives, this

will merely increase labour costs without the company obtaining anything in particular in return: it does not provide support for changes or desired improvements, nor does it bring the greater flexibility offered by a variable component such as participation linked to company profits. Consequently, out of the three alternatives only that based on operating results can have ongoing effects, as the parameters can be replaced or adjusted over time, thus further improving the working performance and hence the competitiveness of the company. In contrast, the effects of systems based on company profits or a fixed payment will mainly be felt at the macroeconomic level when they are introduced, through an increase in consumption, but they will not improve the competitiveness of the company.

When the Provisional Measure was adopted, employers tended to view worker participation in company profits or operating results as an extra labour cost. There was also a general lack of knowledge of what factors could be considered as operating results and how they could be used, so that the potential of this instrument as a management tool was not clearly perceived. Furthermore, it was assumed that once the concept of payment in respect of participation in profits or operating results had been accepted, these amounts would have to be maintained as bases in subsequent financial years, which is not so, because they represent a variable component of remuneration. The list of doubts would not be complete without mentioning the mutual mistrust between the parties regarding access to information considered to be a business secret (on the employers' side) and regarding the quality of the information provided (especially in the case of financial information), on the part of the workers and unions.

What was clear from the beginning, however, was that payments in respect of participation in company profits or operating results would be exempt from social security contributions. This was a factor which encouraged employers to adopt the first programmes of this type. In the first stage, worker participation in profits or operating results was applied in the most highly unionized companies or sectors, and in most cases payments under this concept consisted of fixed sums bearing no relation to company profits or the achievement of some agreed result. Although this form of application is not in keeping with the spirit of PM 794, it is considered valid because it is the result of negotiations between

the parties. According to a sample taken by the DIEESE, only 12.6% of the agreements analysed included some kind of targets (DIEESE, 1996).

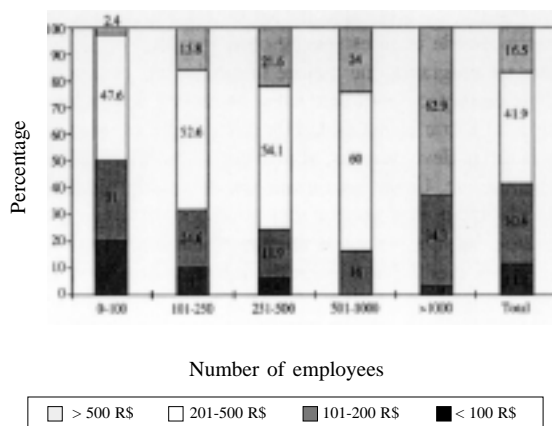
In a second stage, progress was made towards negotiations based on the establishment of targets, with corresponding scales of rewards. In his study, Zylberstajn found that there was a reduction in the number of agreements not subject to the achievement of objectives.¹⁴ It can therefore be considered that the use of the worker participation instrument has made progress in qualitative terms, because it is now an element that can help to raise the companies' level and there is now "genuine financing" of the payments made in respect of participation in profits or operating results.

In a third stage, we need to determine the amounts distributed as a percentage of the total remuneration of the workers in question, in order to see whether there are major differences between companies of different sectors or sizes and to see if this new component of remuneration is gaining in importance or if it is greater than the "desirable" level.

On average, the size of the payments made in respect of worker participation in profits or operating results is very significant compared with the basic wage. A survey made by the Mercer MW consultancy firm, focussed on large domestic or foreign-owned enterprises, found that on average payments under this concept in 1996 were equivalent to 1.16 wages per worker, while payments by companies that gave a fixed amount averaged almost 1,000 reales (approximately US\$ 1,000). It should be noted, how-

FIGURE 4

Brazil: Profit sharing or participation in operating results, by size of enterprise



ever, that the size of payments for worker participation in profits or operating results depends partly on the size of the company (figure 4). The DIEESE sample, which covers a broader range of companies than the Mercer survey, shows this very clearly.

On the one hand, the fact that the payments made are quite large is a positive element, as it means they constitute a genuine incentive for the workers. On the other hand, however, it may indicate that in some cases payments which ought to form part of the basic wage are being diverted to workers' participation payments, which are not subject to social security contributions.

VI Conclusions

What are the aspects of systems for worker participation in profits or operating results that are best adapted to the economic context in which companies operate, and what are their shortcomings? With regard to "pure" profit-sharing systems, the aspect best adapted to the new demands of the economy is the

downward flexibility of labour costs, which fits in well with short-term "defensive" strategies.¹⁵ When there is a fall in demand which affects their profits, the first reaction of firms is to adjust their costs, and in this case the profit-sharing component adjusts automatically.

¹⁴ This study did not cover the same group of companies in both the years analysed, so the trends identified are only an approximation to what actually occurred.

¹⁵ Such flexibility is not displayed by, for example, the system used in Venezuela, where there is a minimum "floor" level for such payments, which have been converted in practice into fixed bonuses.

The flexibility offered by systems of worker participation in operating results, for its part, does not strictly come from a reduction in absolute costs (although it can result in a reduction in unit costs), but can take other forms. Thus, for example, a programme which improves product quality has an indirect impact on production costs by avoiding the need to remake parts, reducing returns of unsatisfactory goods, reducing customer complaints, etc. As the forms assumed by the programme will be adapted to the particular strategic needs of the firm, it is not a defensive approach but rather a medium- and long-term strategy.

How far do these different approaches fit in with the new realities of the international context? Although a defensive approach may be important at times of crisis, the demands for greater international competitiveness faced by all firms mean that a strategic approach is more important in the long run. In this sense, worker participation in the operating results can be a suitable instrument for speeding up the necessary restructuring in many enterprises, as it makes it possible to combine the achievement of a strategic goal of the enterprise with the incentive to the workers needed in order to attain that objective.

However, the difficulties involved in these programmes must not be under-estimated. It is more difficult to identify the bottlenecks in a firm and find ways of solving them than to merely apply an automatic system of partial cost reductions at times of crisis. Systems of worker participation in operating results are quite complex. The greatest care must be taken both in identifying the factor to be remunerated and in establishing the measurement/assessment parameters, the forms of sharing the rewards among the workers, and the manner of implementation. These are generally long processes, and they must be followed up very carefully.

In view of this, the profit-sharing systems imposed by law in Latin America have clear advantages in terms of simplicity. Their compulsory nature and the general application of a single sharing coefficient make their application an extremely simple process. However, it has been seen that in practice the requirements laid down in the legislation are not always complied with in full, and this sheds some doubt on the effectiveness of these systems as income distribution mechanisms.

Furthermore, the application of a single profit-sharing coefficient for companies of very different types does not seem to be a sufficiently flexible approach. For example, distributing 10% of the profits under participation arrangements is not the same for a company which dominates its market as it is for a firm which operates in an atomized market, nor is it the same for a company which is in the first stages of growth as it is for one which is already consolidated in its sector. The impossibility of adapting this system to the actual situation of each enterprise severely limits its use as an incentive system, as it is more like an established right of the workers.

What type of company could derive most benefit from the application of a programme based on participation in the operating results? Many large companies and regional transnationals are already applying some form of participation in the operating results, even though the national legislation does not promote such systems, and are using these programmes as means of improving management and labour relations. This type of system continues to be little used by medium-sized and small enterprises, however. The introduction of legislation to promote the voluntary adoption of systems of participation in the operating results (for example, by offering some fiscal benefits) could help to spread this type of programme.

It should not be thought that the mere fact of promoting participation in the operating results will lead to the adoption of systems aimed at securing improvements. The experience of Brazil shows that, in view of the difficulty of applying systems based on results, many companies began to distribute extra payments in the form of bonuses which are not, however, conditional on the achievement of any particular result. However, this initial attitude has gradually been changing as companies have gained a better understanding of the potential of participation systems. We can thus see that this is not an instrument which can be expected to work perfectly as soon as it is applied, but rather a system whose effective application requires a learning period.

Systems of participation in profits and in operating results also differ in terms of labour relations and human resources policies. Profit-sharing systems do not require much involvement of the workers or trade unions. In the case of programmes designed at the company level, such involvement may be limited to

the negotiation of the percentage share, the form of distribution and other similar aspects, for which purpose a limited degree of representation of the workers will suffice. In the systems that predominate in Latin America, where the legislation lays down the profit-sharing conditions, worker involvement is virtually non-existent, or is limited to checking on the fulfillment of those conditions. This form of regulation seems typical of a paternalistic view on the part of the State.

Systems of worker participation in the operating results, in contrast, call for the direct involvement of the workers themselves and of the trade unions in

various aspects of the process (from identification of the strategic variables to follow-up of their application). In this sense, the provisions of the Brazilian Provisional Measure are appropriate, since they require the parties to negotiate and agree upon the most suitable programme for each particular case. The essential need for a dialogue between the parties and transparency of the process make these programmes a valuable means of establishing more participative human resources policies and less conflictive labour relations, which are much more in keeping with the need to improve company competitiveness.

(Original: Spanish)

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