



HOUSE OF COMMONS  
CANADA

**REPORT OF THE SUB-COMMITTEE  
TO PROMOTE  
PROFIT-SHARING  
BY EMPLOYEES IN BUSINESS**

**STANDING COMMITTEE  
ON  
FINANCE, TRADE AND ECONOMIC AFFAIRS**

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**SUB-COMMITTEE**

**TO PROMOTE  
PROFIT-SHARING BY EMPLOYEES IN BUSINESS**

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Chairperson: Mrs. Hervieux-Payette, M.P.

Présidente: M<sup>me</sup> Hervieux-Payette, député

*Minutes of Proceedings and Evidence  
of the Sub-committee*

*Procès-verbaux et témoignages  
du Sous-comité*

# To Promote Profit-sharing by Employees in Business

# Visant à promouvoir la participation des employés aux profits des entreprises

*of the Standing Committee on Finance, Trade  
and Economic Affairs*

*du Comité permanent des finances, du commerce  
et des questions économiques*

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The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

## FIFTEENTH REPORT

In accordance with its Order of Reference of Friday, July 3, 1981, your Committee assigned responsibility for the study of the subject-matter of Bill C-225, an Act to promote profit-sharing by employees in business, to a Sub-committee.

The Sub-committee has submitted its final report to the Committee. Your Committee has adopted this report without amendment and asks that the Government consider the advisability of implementing the recommendation contained in the report. The full text of the report appears in Issue No. 5 of the Sub-committee.

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## INTRODUCTION

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On 25 February 1982, by resolution of the Standing Committee on Finance, Trade and Economic Affairs, it was established that a Sub-Committee consisting of four members be formed to examine the subject-matter of Bill C-225, an Act to promote greater participation by corporate employees in the profits and management of corporations.

Bill C-225 received first reading on 2 May 1980. Its basic purpose is to improve employer/employee relations and enhance the productivity of business enterprises. To this effect, Bill C-225 proposes to amend Section 24 of the Canada Business Corporations Act so as to require any federally-incorporated corporation with more than one hundred employees to provide a class of shares to be held exclusively by its employees. This class of shares would provide a pre-emptive right over ordinary shares to receive dividends, which could be paid in the form of money, property or fully paid shares of the corporation.

In addition, Bill C-225 proposes to amend Section 97 of the Canada Business Corporations Act to require corporations with more than one hundred employees to elect two employees to the board of directors. Further more, resolutions made by the directors concerning the declaration of dividends, the distribution of property or money of the corporation would have to receive at least two-thirds consent.

The terms of reference establishing the Sub-Committee read as follows:

- (1) Study the means by which the Canadian Government could improve the knowledge of its citizens of our economic system by explaining the fundamental function of the financing of business;
- (2) Study and make the necessary recommendations of profit-sharing models encouraged by other governments in Canada and elsewhere (foreign) to examine the specific effects of the redistribution of profits through stock ownership by employees;

- (3) Study and make the necessary recommendations on the fiscal structure for government and on the different mechanisms of financing business with the view of increasing the productivity of investments;
- (4) Study alternate forms of employee participation on boards of directors and in company decision-making generally.

In the context of Bill C-225, the Sub-Committee's terms of reference were viewed as being quite extensive and it was agreed that emphasis should be given to items (2) and (4) of the above. This meant that the Sub-Committee would primarily examine employee financial participation through models of profit-sharing and stock ownership as well as employee participation in company decision-making.

During the month of April and the first week of May (Phase I), the Sub-Committee held meetings with representatives of the Toronto and Montreal stock exchanges, representatives of labour organizations and specialists in the areas of employee profit-sharing and participation in decision-making. This period provided the members of the Sub-Committee with an informal forum to better acquaint themselves with the issues before holding public hearings (Phase II).

Through advertisements in newspapers across Canada, the Sub-Committee invited written submissions on the subject of employee profit sharing and received 30 submissions in response to its advertisement. The Sub-Committee began its public hearings in the second week of May and, during this period, received testimony from a number of interested parties, including representatives of business and labour. Due to a very tight time-frame, the public hearings ended in the middle of June in order to allow the Sub-Committee time to prepare its report.

While the majority of representations to the Sub-Committee expressed support for the broad objectives of Bill C-225, there was strong opposition to those provisions of the Bill which would create a special class of employee shares with pre-emptive rights on dividends and compulsory employee representation on boards of directors. The apparent consensus was that the Federal Government's role in this matter should be one of encouragement and cooperation rather than mandatory action.

The clear message received by the Sub-Committee during its public hearings was that Canada stands to gain a great deal from some form of employee participation in profits, equity and decision-making in business. The Sub-Committee also shares this view. Unfortunately, time limitations did not allow an opportunity to fully address all aspects of this wide-ranging issue. The following, therefore, is the Sub-Committee's recommendation.

### **Recommendation**

The members of the Sub-Committee to Promote Profit-Sharing by Employees in Business recommend that the Parliament of Canada establish a Parliamentary Task Force to undertake a comprehensive examination of employee profit sharing, employee participation in equity and employee participation in decision-making and report within a period of one year.

This issue involves a number of practical as well as economic considerations. A Parliamentary Task Force, in the event that one is established, might consider studying: the impact of employee profit-sharing and employee stock ownership plans on a number of economic variables; the impact on existing shareholders' equity; the treatment of traded and non-traded securities; the use of tax measures and other incentive mechanisms; jurisdictional questions; ways of facilitating the capital-raising capacity of business, particularly that of small- and medium-sized businesses; other productivity improvement plans; and ways of facilitating greater communication and cooperation between employers and employees.

The members of the Sub-Committee would like to thank all of those who took the time and effort to present their views to us. For those who were prepared to address this matter personally, but for one reason or another were unable to do so, the Sub-Committee regrets not having more time to extend its deliberations on this matter.

Our report is broken down into four sections:

- 1) the aims and objectives of employee participation in profits, equity and decision-making;
- 2) an overview of employee participation in profits, equity and decision-making in Canada;
- 3) other models of employee participation in the western world; and
- 4) the major issues raised through representations made by the public to the Sub-Committee.



## Chapter 1

### **AIMS AND OBJECTIVES OF EMPLOYEE PARTICIPATION IN PROFITS, EQUITY AND DECISION-MAKING**

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1. Employee profit-sharing is a plan whereby an employer distributes a portion of profits, usually a fixed percentage, in cash or some other form of property to employees on an annual or more frequent basis. Equity participation is a plan whereby an employer makes available to employees stock in the capital of the company. Participation in decision-making is a means which provides employees with a direct voice in matters related to operations of the company in which they are employed. Participation in this context can occur at a number of levels ranging from the board of directors down to the "shop floor". In the former case, employees have input into decisions affecting the broad aspects of corporate policy. In the latter case, employees generally have input on matters related directly to the work environment and production.

2. Productivity growth in Canada, as measured by real gross domestic product per employed person, has dropped off sharply since 1976. In 1976, productivity increased by 3.71% over the previous year. However, since then, annual percentage increases in productivity have fallen below 1% and, in fact, decreased by 1.62% and 1.19% in 1980 and 1981 respectively. This compares with an average annual growth in productivity of about 2.5% over the post-war period. Productivity measured in this manner includes all factors of production and cannot be interpreted as an indication of employee effort in the workplace. Many factors affect productivity growth, but capital investment is crucial. Annual percentage changes in real net fixed capital formation in corporate and government business enterprises have, except for 1980, been negative since 1976.

3. Serious concerns have also been expressed as to the state of industrial relations in Canada. Canada's level of industrial conflict, as measured by the number of man-days lost due to strikes and lockouts, continues to be one of the highest in the western world.

4. Employee participation in profits, equity and decision-making is seen by some as representing a partial solution to these problems. Relating employees' earnings directly to

productivity performance can be a powerful incentive for improvements in output and productivity. Profit-sharing may also lower production costs by reducing wastage, turnover and absenteeism.

5. Employee profit-sharing and participation in decision-making can improve employer/employee relations. By establishing a working environment which stresses communication, cooperation and teamwork, employers and employees can both function in an atmosphere which is less adversarial.

6. Employee equity participation can provide firms with an additional source of investment capital, thereby improving their capital-raising capacity. Also, the potential for broader ownership is likely to create a greater interest among employees in the financial operations of the business and, more generally, to lead to a greater understanding of our economic system.

7. Equity participation by employees provide them with a means to own capital and share in the risks and rewards associated with that investment. Profit-sharing may also provide employees with an additional source of income while working and during retirement.

8. A majority of the submissions and testimony presented to the Sub-Committee substantiated support for greater employee participation in profits, equity and/or decision-making citing one or more of the above mentioned benefits. Unfortunately, there is no conclusive evidence to support the claim that the benefits described would necessarily flow from these plans. The Sub-Committee's reporting deadline prevented it from attempting an accurate assessment of these benefits and related issues.

## Chapter 2

### MODELS OF EMPLOYEE PARTICIPATION IN CANADA

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#### 1. Employee Participation in Decision-Making

9. Employees in Canada possess a certain degree of influence over decisions affecting their circumstances in the workplace. For the most part, this has been done through the collective bargaining process. This process has developed considerably over the years and collective agreements today are likely to contain provisions relating to employee benefits, wages, income maintenance, holidays, hours of work, leave, layoffs, working conditions and safety. Decisions on these matters are determined through employer/employee negotiations which, by nature, are generally adversarial.

10. While there exists an undercurrent of resistance toward changing the status quo, this adversarial model of decision-making has become a very powerful and frequently disruptive feature of economic life in Canada. Also, collective bargaining only covers slightly over 35% of the non-agricultural paid workforce and consequently excludes a vast number of employees. The need to refine and develop this model to reduce industrial conflict, and to facilitate a greater degree of cooperation in the workplace, has received serious attention since the early 1970s. Some advocated the West German model. The West German approach is called co-determination and refers to a form of employer/employee decision-making which stresses consensus through joint consultation.

11. It must be emphasized, however, that co-determination has not supplanted collective bargaining in West Germany. Contentious issues, most notably remuneration, are still normally dealt with through collective bargaining. To properly assess the suitability of co-determination for use in Canada, one must keep in mind that co-determination in West Germany arose in response to conditions specific to that country. The union structure in West Germany is highly centralized and the degree of representation afforded organized employees at the local level is considerably less than for unionized employees in Canada. Consequently, employees in West Germany have sought an alternative form of localized

decision-making power and have tried to achieve this by way of representation in the boardroom as well as on the "shop floor".

12. In a 1976 study commissioned by the Department of Labour to examine ways of improving Canadian industrial relations, the author, Charles J. Connaghan, proposed the formation of a multipartite decision-making body at the national level; more input from labour and management on matters related to labour legislation; the development of a centralized bargaining structure, preferably at the industry level; and, greater participation at the "shop floor" level with a view to developing greater trust between collective bargaining agents.

13. While the adversarial structure of employee participation in decision-making has not deviated much over the years, some gains have been made to allow for greater consideration of employees in the workplace. For example, as of October 1980, 23.7% (501,200 employees) of major agreements (those involving 500 or more employees, excluding the construction industry) contained provisions establishing labour-management committees to deal with technological change. A somewhat smaller proportion, approximately 1% (14,000 employees) had provisions for the establishment of a committee on the quality of worklife. A precise definition of this concept is rather difficult since it relates to virtually every aspect of work. For example, it would cover issues pertaining to work attitudes, work relationships, job satisfaction and work conditions among a myriad of others. Most quality of worklife experiments to date have generally involved attempts to redesign, enlarge, or rotate jobs to provide employees with more satisfying work as well as increase efficiency.

14. There are also examples of more direct employee participation in decision-making. At the "shop floor" level, for example, the decision-making model practised by Supreme Aluminum of Scarborough, Ont. is conducted by way of a committee consisting of twelve elected employee representatives and six management representatives. This committee jointly decides on matters related to wage rates, production methods, hours of work, safety standards and working conditions. At a much higher level, roughly 22% of the seats on the board of directors at Tembec, a forest products company in Quebec, are held by non-management employees. Since the board of directors at Tembec does not decide on all matters pertaining to company operations, special joint committees have been established to decide on matters related to job classification, technological change, safety and holidays.

15. Most examples of the decision-making models involving joint consultation between managers and employees in Canada are confined to companies which are either individually or collectively owned by employees (worker cooperatives). Worker cooperatives have usually originated in attempts by employees to save their jobs when the firm in which they worked had gone bankrupt or was on the verge of bankruptcy. However there are also cases, for example P.C.L. Construction Limited of Edmonton, Alberta, where employees have purchased the company in order to prevent foreign ownership.

16. While some progress has been made to establish a more cooperative structure in the Canadian workplace, there remains considerable room for improvement. Efforts on the part of both employers and employees to establish participative structures which encourage communication, cooperation and a better understanding of each other's needs could significantly improve labour relations in Canada.



## **2. Employee Participation in Profits and Equity**

### **(i) General Stock Ownership Plans**

17. Canadian models of employee participation in profits and equity generally involve specific companies. However in recent years, two provinces have introduced stock ownership plans with a province-wide dimension. In 1978, the British Columbia government introduced a plan with the twin objectives of returning certain Crown resource companies to the private sector and of providing residents of B.C. with the opportunity to invest directly in their province. A new resource company, British Columbia Resources Investment Corporation, was established in which each "eligible" B.C. resident was entitled to five free shares with the further option of purchasing up to 5,000 additional shares at a fixed price (\$6.00) per share.

18. Another general stock ownership model was introduced by the Quebec government in 1979. The Quebec Share Savings Plan is designed to encourage Quebec residents to purchase shares in Quebec based companies. Under the plan, participants are able to deduct the cost of the stock purchase from their taxable income as long as certain conditions are met: the individual must be the initial purchaser; he must hold the shares for at least two years, unless replaced by other "eligible" securities; and the tax deduction must not exceed 20% of the purchaser's income, to a maximum of \$15,000 less all deductions claimed for contributions to registered pension plans, registered retirement savings plans and registered home ownership plans. Certain companies have already seen fit to issue stock to their employees so that they can take advantage of the substantial tax savings.

### **(ii) Employee Profit-Sharing Plans**

19. There are basically four types of profit-sharing arrangements in Canada. They are called: cash-based profit-sharing plans, employee profit-sharing plans, deferred profit-sharing plans and profit-sharing pension plans.

20. Cash-based profit-sharing plans provide plan members with an immediate payout on an annual or more frequent basis. If plan members do not defer the employer's contribution by placing it in some deferred plan such as a registered retirement savings plan, then recipients are taxed in accordance with their marginal tax rates. Employer contributions are tax deductible and are essentially viewed as an expense not unlike wages and salaries. There is no limit on the size of the employer's contribution; and in this respect cash-based profit sharing is similar to employee profit-sharing plans.

21. Revenue Canada defines employee profit-sharing plans (EPSPs) as: "an arrangement under which payments computed by reference to his profits from his business and profits, if any, from the business of a corporation with whom he does not deal at arm's length are made by an employer to a trustee in trust for the benefit of officers or employees of the employer or of a corporation with whom the employer does not deal at arm's length." Since EPSPs do not have to be registered, there is no record as to their prevalence in this country. Employer's contributions are tax deductible and there is no limit on their size. Under an EPSP, plan members are taxed on employer contributions even though the benefit may not be realized until some future year.

22. Unlike the two profit-sharing plans cited above, deferred profit-sharing plans (DPSPs) must be registered with Revenue Canada and must be accepted by the Minister of National Revenue before becoming eligible for special tax treatment. Employer contributions to a DPSP must be calculated in reference to profits and are tax deductible up to the lesser of \$3,500 minus the employer's contribution to a registered pension fund on behalf of a plan member, or 20% of the salary or wages paid to a plan member during the year. Employees are allowed to contribute to a DPSP; however, their contributions are not tax deductible.

23. Contributing employers are not allowed to use contributions, which are placed in trust on behalf of plan members, for their own benefit. Two exceptions to this general rule are: where payment is made for shares in the company of the contributing employer; and where the amount of trust property appropriated to the employer is repaid within one year in which the appropriation was made.

24. The number of DPSPs has been growing steadily in recent years. DPSPs numbered 31,803 at 31 December 1981 compared to 12,270 at 31 December 1975, an increase of almost 160%.

25. A profit-sharing pension plan in many respects resembles a registered pension plan. This is a plan whereby employer contributions are based on some formula related to profits. Employer contributions are tax deductible, but must exceed 1% of participating employees' remuneration in the year the contribution is made. Unlike other profit-sharing plans, employee contributions to a profit-sharing pension plan are tax deductible.

26. In Canada, profit-sharing plans are often provided in lieu of formalized pension plans or as pension supplements to help maintain the real value of non-indexed pensions. There are a number of cases, however, where these plans are mainly used as worker productivity enhancing instruments. Canadian firms offering employees non-cash profit-sharing plans include, among others, Canadian Tire, Dofasco, Shoppers Drug Mart, Simpsons, and Supreme Aluminum.

### **(iii) Employee Stock Purchase Plans**

27. There are currently four basic types of employee stock purchase or equity participation plans in Canada. The first type is a plan whereby employers enable employees to purchase shares in the company through ordinary payroll deduction. In this case, the employee pays the market price for the stock, but the employer pays the brokerage fees. In a second type of plan called a company contribution plan, the employer matches, sometimes up to 100%, an employee's contribution to purchase company stock. In this case, stock is usually held in trust and vested in the employee after a certain period of time. Under a third type of plan employers make stock available to employees at some discount price. In a fourth type of stock ownership plan, the employer provides an employee with a low interest loan to purchase stock in the company. Terms of repayment of the loan are flexible and vary with individual plan agreements.

## Chapter 3

### MODELS OF EMPLOYEE PARTICIPATION IN THE WESTERN WORLD

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28. A variety of models pertaining to employee participation in profits, equity and decision-making have been introduced or proposed throughout the western world. This section is intended to present a brief overview of these models as they relate to the United States, United Kingdom, West Germany, France, Sweden and Japan.

#### 1. The United States

29. As in Canada, the most prominent model of employee participation in decision-making practised in the United States is collective bargaining. However, other arrangements for joint employer-employee consultation have also been tried. For instance, in 1971, 250 joint advisory committees were established in the steel industry to examine ways of improving productivity, increasing sales and reviewing matters regarding collective bargaining. In 1973, General Motors and the United Auto Workers established a national committee to examine ways of improving the work environment. The most notable change in the United States to date regarding employee participation in decision-making occurred in June 1980, when Douglas Fraser, President of the United Automobile Workers, was elected to the board of directors of the Chrysler Corporation. As his first proposal, Fraser suggested the establishment of a committee to examine plant closings and the economic impact of dislocation on workers.

30. Profit-sharing has existed in the United States since 1897. Recently, however, profit-sharing through equity participation has greatly advanced under employee stock ownership plans (ESOPs). Under the Economic Recovery Tax Act of 1981, ESOPs refer to a tax incentive plan in which stock is held by a tax exempt trust and employees are not taxed until the stock is distributed. There are two types of ESOPs which qualify for special tax treatment. The first is called a tax credit ESOP and this refers to a plan in which the

employer contributes stock in order to qualify for a credit against income tax liability. Under current provisions an employer is allowed an additional 1% investment tax credit if he contributes to a tax credit ESOP. Stock must remain in the employees' accounts for seven years before being distributed.

31. The second and more popular type of plan is called a leveraged ESOP. Under this plan, an employer borrows in order to contribute stock to the plan. Since a leveraged ESOP is deemed to be an employee benefit, tax law in the United States allows the employer to write off both the loan's principal and interest against taxable income. With respect to payments made on the loan's principal, present tax law allows employers to deduct annually from taxable income a maximum amount equivalent to 25% of the annual compensation costs of employees covered under the plan. In addition, total annual interest payments may be deducted from the employer's taxable income. After the loan is fully repaid, employees assume ownership of the stock and it is distributed according to some pre-arranged formula.

## **2. The United Kingdom**

32. Britain's model of employee participation in decision-making has also relied heavily on collective bargaining and, to some extent, has influenced collective bargaining in both Canada and the United States. Changes may be forthcoming however, as a result of a 1975 European Economic Community directive which called for an extension of employee participation in firms operating in member countries.

33. In response to this directive, the British Government established the Bullock Commission to examine matters related to employee participation in decision-making. One recommendation of the Bullock report was that employees should receive representation on boards of directors in equal proportion to that of shareholders in companies with more than 2,000 employees. In addition, boards of directors should also contain "neutral" members appointed jointly by employee and shareholder representatives. This proposal brought considerable opposition from employers and, as yet, a new model of employee participation in decision-making has not been adopted in Britain.

34. In 1978, the British Government attempted to change the non-cash profit-sharing view of employees by introducing new tax legislation. During that year, a new Finance Act was passed which provided special tax treatment to both employers and employees involved in non-cash profit-sharing plans. For the plan to be valid, a company must allocate a certain portion of company profits to a trustee who in turn purchases company stock on behalf of the employees. While shares do not have to be equally distributed among participants, a limit of £ 500 worth of shares (not of a special class) per employee is allowed annually. Employers may deduct the full amount of their contributions from taxable income.

35. Employees can realize a tax advantage, only if they hold their shares for at least five years. If shares are disposed of within a period of five to seven years after appropriation, the individual must pay tax on 50% of their current value. The shares' taxable value falls in relation to the length of time during which the shares are held, until full exemption is reached at fifteen years.

### **3. West Germany**

36. The German model of employee participation in decision-making has evolved over the last 150 years, but much of its development has occurred since 1922. Currently, companies in the coal and steel (Montan) sector with more than 1,000 employees are required by legislation to have employee representatives on their boards of directors in numbers equal to that of shareholder representatives. Non-Montan companies employing more than 2,000 employees are also required by legislation to have employee representatives on boards of directors in numbers equal to that of shareholder representatives. In non-Montan companies employing more than 500 but less than 2,000 employees, employees are allowed one-third the representation of that given to shareholders on boards of directors.

37. In addition to representation on boards, employees have the right to form works councils in companies which employ at least five employees. Works councils and employers jointly determine solutions to issues related to employment, promotions and the work environment; and collaborate on matters related to productivity, safety and social issues. These councils play a very important role in West Germany, since union development at the local level is practically non-existent. Wages and fringe benefits are matters for collective bargaining, and negotiations occur between national unions and employer associations at the industry level.

38. Profit-sharing was formally introduced in West Germany when the government initiated its "investment wage" plan (DM 624 Law) in 1961. Under this plan, employers are required to allocate a portion of their total wage bill to an investment fund on behalf of their employees. Sums so allocated are deducted from taxable income. In conjunction with the employer's contribution, the government provides an additional amount ranging anywhere from 30% to 63% of the employer's contribution. Employees may use both the employer's and government's contributions to purchase company stock or invest in a number of other options. Employees in West Germany are also allowed to contribute up to a maximum of 624 DM toward the "investment wage" plan. Employee contributions are tax deductible and may be invested in non-company assets provided union approval is given. While the "investment wage" plan was intended to facilitate capital formation and employee share ownership, a large number of the participants preferred to deposit these funds in personal savings accounts. Some estimates suggest that only 10% of the contributions were used to purchase company stock.

39. In light of this, the West German Government began work on a new proposal which would adopt a more general form of employee share ownership and require firms earning profits in excess of a given amount to contribute toward an investment fund for the benefit of all employees. However, this proposal is still being developed and discussed, and it remains to be seen what direction employee profit-sharing will take in West Germany.

### **4. France**

40. In 1945, the French Government passed a law which required companies employing at least 50 employees to establish works councils. The number of employee representatives on these councils usually ranges from three to eleven, although these figures can be raised through collective bargaining. Works councils in France have not appeared to play a very

important role and, in fact, many companies legally bound to establish them have not done so. In 1974, the Sudreau Commission was established to determine ways of enhancing employee participation in decision-making in France. In its findings, the Commission recommended that works councils be redefined so as to broaden consultation between employers and employees. This would include involving employees in matters related to working conditions, training and financial data pertaining to the company. While unions in France would prefer to have unilateral decision-making powers, they were receptive to the Sudreau Report.

41. An optional plan to advance employee profit-sharing, raise capital and improve productivity was introduced in 1959. In 1967, a mandatory plan was introduced under General de Gaulle which required companies employing more than 100 employees to establish a special reserve fund for the benefit of employees. An agreement between the employer and employees determines the terms and conditions for managing employees' property which may take the form of shares, bonds or term investments in other companies. Funds in the reserve are locked in for a period of five years. Employer contributions are tax deductible and, in addition, employers are exempt from contributions to social security, family allowance as well as government sponsored training schemes.

42. In 1978, another law was passed which required companies registered on the stock exchange to distribute free shares to their employees on a one-time basis. Providing that a company had paid dividends at least twice over the period, 1975-77, it was required to distribute 3% of its stock to employees, but not to exceed an amount equivalent to 5,000 FF per employee. The Sudreau Report, mentioned above, also made recommendations aimed at employee financial participation in business. While several recommendations are still under study, the report did mention the need to make the terms and conditions of profit-sharing more flexible.

## **5. Sweden**

43. Until 1946, Sweden's model of employee participation in decision-making consisted mainly of collective bargaining. However, under the Works Council Agreement of that year, employees were provided with a forum to consult with management before decisions were implemented at the "shop-floor" level. This agreement was broadened in 1966 and required employers to consult with employees on matters of personnel and technological change as well as to provide employee representatives with the same financial information made available to shareholders. In 1973, companies with more than 100 employees were required to have employee representation on the board of directors.

44. In 1977, the Joint Regulation in Working Life Act was passed. This Act greatly expanded Sweden's model of collective bargaining and now covers virtually every aspect related to a company's operations, whether contained in a collective agreement or not. Even if a collective agreement does not exist, employers must consult with employees before deciding on changes in the workplace. As well, employee representatives have complete access to company information and employers are obliged to keep employees informed on company financial matters. While the Swedish model of employee participation in decision-making leans heavily toward collective bargaining, it must also be recognized that the level of industrial conflict in Sweden has been relatively low.

45. Employee profit-sharing and equity participation is not as pronounced in Sweden as elsewhere. Apart from some voluntary schemes offered by individual companies, the Swedish Government has yet to adopt measures which would encourage its widespread use. The most notable proposal to promote employee financial participation in business to date occurred in 1975 under the auspices of the Meidner Report. This Report recommended the creation of an investment fund by way of a levy on gross profits. Although employers would be the only source of finance, the fund would be totally administered and controlled by organized labour. However, property in the fund would not be distributed to employees. Therefore, although the Meidner plan calls for a redistribution of profits, no single employee may realize personal gain. If Sweden is to adopt a Meidner-like plan, employee participation in profits would follow a model based on collectivity rather than individualism: the latter being a more common approach in most other western industrialized countries.

## 6. Japan

46. Japan's model of employee participation in decision-making is usually associated with concepts such as enterprise unionism and lifetime employment. Over the years, Japanese employers have come to accept their employees as partners, and labour organizations see their role as being one of cooperation within the enterprise.

47. Rapid technological change, higher standards of living and increased aspirations of workers, among other influences, have exerted strong pressure on the Japanese model which consequently has been forced to undergo continuous and significant adaptations over the years. In 1973, the Quality of Working Life Committee was established to examine worklife reform in Japan. Skill diversification, job postings, one-man production, job enrichment as well as group production teams were all touted as ways of initiating positive change in the workplace. At the industry level, joint employee-management councils have been established and these are like "shadow boards" and act in an advisory capacity to boards of directors. At the "shop-floor" level, "quality circles" have been established to devise ways of improving product quality as well as production. Not unlike those of other countries, the Japanese model will continue to develop and, it is agreed by most, its direction will emphasize greater worker participation and influence in corporate decisions on a voluntary basis.

48. Formalized profit-sharing plans are not very widespread in Japan, although there are a number of companies which distribute cash bonuses to their employees as part of the employee's remuneration package. Stock ownership plans are much more pronounced in Japan. Employees may purchase stock through ordinary payroll deductions and, in some cases, employers will supplement the employee's contribution to purchase stock in the company.





## Chapter 4

### **PUBLIC VIEWS ON EMPLOYEE PARTICIPATION IN PROFITS, EQUITY AND DECISION-MAKING**

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49. Public response to the Sub-Committee on the issue of employee participation in profits, equity and decision-making demonstrated an interest in the subject and its potential for improving profits, productivity, investment and industrial relations in Canada. Many witnesses stressed that employee participation plans should not be viewed as a cure-all solution to overcoming our economic problems. For example, several representations indicated that profit-sharing does not necessarily lead to higher levels of profit since the latter is a function of a number of variables, some of which are beyond the control of the enterprise.

50. Generally, however, most submissions agreed that employee participation in profits, equity and decision-making has the potential to provide benefits to both employers and employees. Establishing a plan that enhances employee interest in company operations and employer interest in employees can lead to more efficient and rewarding methods of production. The potential for productivity improvement is further stimulated by providing employees with an incentive, by way of a share in profits and/or ownership in the company, to work more diligently, improve work attendance and product quality. The potential for an improved working relationship based on cooperation and teamwork is further strengthened when employees participate in decisions and share in the financial rewards of their efforts. While it was generally agreed that much could be done to improve industrial relations in Canada, it is important to mention that representations made to the Sub-Committee did not blame either employers or employees for the lack of cooperation that exists in today's workplace.

51. Witnesses and other interested parties generally agreed that benefits offered by employee participation in profits, equity and decision-making should not be used in lieu of wages. In order to attain the desired results, plans should provide a well defined system of rewards. Plans should also provide employers and employees with an equitable distribution of the benefits. Most importantly, representations made to the Sub-Committee stressed the

fact that these plans, to be successful, must involve open and frequent communication between employers and employees.

52. Some representations made to the Sub-Committee pointed out that employee participation in equity can, by way of voting privileges, enhance employee participation in decision-making. In this regard, however, an overwhelming majority expressed disagreement with the provision in Bill C-225 that makes it compulsory for firms with more than 100 employees to elect two employee representatives to the board of directors. Representatives from business proposed that employees' participation in decision-making at the board level be proportional to their degree of ownership in the company. Union representatives suggested that employees would be reluctant to participate at the board level unless the issues in which they will have decision-making input are clearly specified. As well, it was pointed out that even if employees owned equity in a company, the election and number of employee representatives on boards would have to take into account the fact that in some cases several unions, plants and different provincial laws would be involved.

53. Regardless of the model's structure, it was generally agreed that the success of employee participation in decision-making hinges on both parties' willingness, desire and interest in establishing a participation scheme. When employees have an ownership interest in the company, employers must be willing to exchange pertinent information to allow employees to fully participate in the decision-making process. On the other hand, testimony also stressed the fact that employees must be willing to merge their interests as owners with those of employers, and bear the risks associated with owning capital.

54. A major factor contributing to higher productivity performance is capital investment. For some businesses, particularly small and medium-sized companies, investment financing is a major impediment to expansion and greater efficiency. While it was generally agreed that employee participation in equity deserves much closer examination, several witnesses stressed the fact that employees' participation in equity has the potential to expand a company's equity capital base and thereby provide an internal source of investment financing. It was also mentioned that plans of this type can broaden an employee's understanding of, and interest in, the problems of financing business.

55. One of the provisions of Bill C-225 was for a special class of shares with pre-emptive rights on dividends to be made available to employees. Most representations were opposed to this concept. It was generally agreed that a special class of shares would likely hinder the capital-raising capacity of Canadian business. Other considerations related to equity participation raised by the public included the impact of widespread use of these plans on existing shareholders and, problems associated with determining share prices and share disposition in non-traded stock plans. With respect to the latter, some witnesses and other interested parties suggested that employee equity participation plans are more desirable in public companies because fewer problems exist and shareholders' rights are better protected.

56. Much of the testimony and a majority of the submissions presented to the Sub-Committee viewed the government's role in employee participation in profits, equity and decision-making as being one of encouragement and leadership. A majority of the witnesses were against mandatory action in this area. Frequent statements were made to the effect that compulsory measures would further strain industrial relations as well as reduce a plan's chances for success. Rather than imposing such measures on employers and

employees, many suggested the government could play a major role in promoting and educating interested groups and individuals. In the area of promotion, it was suggested that the Federal Government organize a national conference, establish a tripartite committee or establish a permanent task force to initiate discussion on the subject of employee participation in profits, equity and decision-making. In the area of education, one witness suggested that the Federal Government should find a way of making the public aware of successful cases of profit sharing by employees in business.

57. By and large, however, most of the representations made to the Sub-Committee viewed the government's role as being one of encouragement, primarily through the tax system. This would allow employers and employees a certain degree of flexibility to tailor plans to meet their individual needs. Some witnesses suggested raising employers' deductible contributions to DPSPs above the current limit of \$3,500. Several took issue with the November 1981 budget provisions related to profit-sharing and stock purchase plans. For example, the Toronto Stock Exchange indicated that many listed companies are moving away from the loan subsidy stock purchase plan. Other representations pertaining to tax provisions included proposals for similar tax treatment as that afforded to ESOPs in the United States. Implementation of a share savings plan like that of Quebec and provisions for a registered share ownership plan along the lines of a registered retirement savings plan were also suggested.

58. Finally, in order to fully assess the benefits of employee participation in profits, equity and decision-making, most witnesses believed that we need to know much more about the subject than is presently known. As well, it was suggested that there is a need for more and better data. For example, the Toronto Stock Exchange is currently attempting to construct a data base on profit-sharing and stock purchase plans offered by companies listed on that exchange. This work should be completed within the year.

59. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 1 to 4*) is tabled.

Respectfully submitted,

Céline Hervieux-Payette,  
*Chairperson*

OFFICIAL MEETINGS

MAY 12 1982

From the Profit Sharing Council of Canada

— Mr. Herb Brown, President

— Mr. Reginald C. Sault, Vice-President (Finance)

— Mr. Al King, Director



# Appendix A

## WITNESSES

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The following individuals testified before the Sub-Committee:

### INFORMAL MEETINGS

APRIL 28, 1982

*From the Montreal Stock Exchange:*

—Mr. Pierre Lortie, President

MAY 4, 1982

*From the Toronto Stock Exchange:*

—Ms. Pamela Sloan, Vice-President, Economic and Public Affairs

—Ms. Diane Urquhart, Director, Economics Department

MAY 5, 1982

*From the University of Manitoba:*

—Professor Roy H. Vogt, Acting Director, Economics Department

*From the United Steel Workers of America:*

—Mr. Emile Vallé, Member of the Union

### OFFICIAL MEETINGS

MAY 12, 1982

*From the Profit Sharing Council of Canada:*

—Mr. Herb Brown, President

—Mr. Reginald C. Smith, Vice-President (Finance)

—Mr. Alex King, Director

MAY 26, 1982

*From the l' "École des hautes études commerciales de Montréal":*

—Mr. Jean-Marie Toulouse, Director

*From the University of Ottawa:*

—Professor Clinton Archibald, Department of Political Science

JUNE 2, 1982

*From the "Alliance des travailleurs du Québec":*

—Mr. Jean J. Côté, Président

*From Woods Gordon Management Consultants:*

—Mr. Joe Buckley, Partner

—Mr. Tony Grant, Partner

—Mr. Jim Morrisey, Manager

JUNE 9, 1982

*From the Canadian Federation of Independent Business:*

—Mr. Jim Bennett, Director of Public Affairs

*From Hayden Blake Inc. Business Consultants:*

—Mr. W.D. Hyde, President

## Appendix B

### SUBMISSIONS

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The following groups and individuals submitted written material (briefs, reports, statements) to the Committee:

#### *Individuals*

BERGERON, Lucien  
BLEAU, Jean  
BOONE, G.S.  
CREIGHTON, Aquin; M.R.A.I.C.  
CROW, Stanley  
FORD, Mrs. James A.  
KAHL, Alfred; Professor, University of Ottawa  
MacDONALD, R.A.  
NEIL, Allan E.  
PEREL, Motty  
RITCHIE, Bill; MLA, B.C.  
SAPIRO, Cyril

#### *Companies*

BOMBARDIER INC.  
CANADIAN GENERAL ELECTRIC  
CULINAR INC.  
EBERTS, E.G. INVESTOR RELATIONS ADVISORS  
JOHN LABATT LTD.  
NORMICK PERRON INC.  
PCL CONSTRUCTION  
PACIFIC WESTERN AIRLINES  
PROPAR INSTITUTE  
SAVAGE SHOES LIMITED  
WADE REPRODUCTION SERVICES INC.

#### *Other Organizations*

CANADA JAYCEES  
ECONOMIC COUNCIL OF CANADA  
MONTREAL STOCK EXCHANGE  
RETAIL COUNCIL OF CANADA

SHOP SMALL SHOP, INTERNATIONAL MARKETING BOARD  
 THE CANADIAN INSTITUTE OF PUBLIC REAL ESTATE COMPANIES  
 (CIPREC)  
 THE CANADIAN MANUFACTURERS' ASSOCIATION

From the University of Ottawa

—Professor Claude F. Desautels, Department of Political Science

JUNE 2, 1982

From the "Allways" — Department of Justice

The following groups and individuals submitted written comments (briefs, reports, statements) to the Commission:

From Woods Group — Management Consultants:

— Mr. Joe Smith, Partner

— Mr. Tom Taylor, Partner

— Mr. Jim Murray, Manager

JUNE 3, 1982

From the Canadian Federation of Independent Business

— Mr. Jim Bennett, Director of Public Affairs

From Hayden Blake Inc. Business Consultants:

— Mr. W.D. Hyde, President

- Individuals:
- BREYER, Jason
  - BLAU, Jean
  - BOONE, G.Z.
  - CREIGHTON, Adam, M.B.A., LL.B.
  - CROW, Stanley
  - FORD, Mr. James A.
  - KAHN, Alfred, Professor, University of Ottawa
  - McDONALD, R.A.
  - NEIL, Allan E.
  - PERE, Mory
  - RITCHIE, Bill, M.A., B.C.
  - SAPRO, Carl
- Companies:
- BOMBARDIER INC.
  - CANADIAN GENERAL ELECTRIC
  - CULNAR INC.
  - EBERTS, E.G. INVESTOR RELATIONS ADVISORS
  - JOHN LABATT LTD.
  - NORMICK PERRON INC.
  - PCF CONSTRUCTION
  - PACIFIC WESTERN AIRLINES
  - PROPAR INSTITUTE
  - SAVAGE SHOES LIMITED
  - WADE REPRODUCTION SERVICES INC.
- Other Organizations:
- CANADA JAYCEES
  - ECONOMIC COUNCIL OF CANADA
  - MONTREAL STOCK EXCHANGE
  - RETAIL COUNCIL OF CANADA



## Appendix C

### SUMMARY TABLE OF FEDERAL TAX PROVISIONS PERTAINING TO EMPLOYEE PROFIT-SHARING AND STOCK OWNERSHIP PLANS

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#### *Profit-Sharing Plans*

#### *Major Tax Provisions*

1. Cash-Based Plans
  - employer contributions are tax deductible and unlimited.
  - employee contributions are not tax deductible.
  - benefits received by employees are taxed at their respective marginal tax rates. However, tax on this benefit may be deferred if placed in a deferred income plan, such as a registered retirement savings plan.
2. Employee Profit-Sharing Plans (EPSPs)
  - employer contributions are tax deductible and unlimited.
  - employee contributions are not tax deductible.
  - employee benefits are taxable in the year in which they are allocated.
  - when an individual withdraws amounts from the plan, there is no tax except for that on unrealized capital gains. If the individual elects to receive this in the form of money, then it is taxed at his marginal tax rate. If the individual elects to receive this in the form of property other than money, then tax is only incurred after its disposition and only one-half of the gain is taxable.
  - if an individual forfeits amounts which have already been taxed, then the individual is allowed a 15% tax refund on the amount forfeited.
3. Deferred Profit-Sharing Plans (DPSPs)
  - employer contributions are tax deductible but may not exceed \$3,500 less contributions made to a registered pension plan (on behalf of the same employee) or 20% of an employee's earnings over the year.

## *Profit-Sharing Plans*

## *Major Tax Provisions*

- an employee may contribute a maximum amount of \$5,500 per year, but this is not tax deductible. Over contributions are taxed at a rate of 1% per month and payable by the trust.
- an employee does not pay tax on employer contributions and other income earned by the trust, while in trust.
- on withdrawal of funds, employee benefits are subject to tax at the employee's marginal tax rate. A participant may elect to make withdrawals of equal annual amounts over a period of 10 years. Lumpsum payments are fully taxable but may be rolled over into an RRSP, another DPSP providing it has at least five members, or an income annuity contract to begin no later than the individual's 71st birthday and not have a term exceeding 15 years.
- an employee may not claim a foreign tax deduction or dividend tax credit against realized property from a DPSP.
- a trust is subject to full tax on non-qualified investments in addition to a special tax of 1% per month. When the value of foreign securities held by the trust exceeds 10% of the value of total trust property, the trust is also subject to a special tax of 1% per month on the excess. Finally, the trust is subject to a 50% tax on amounts forfeited when these amounts exceed the total sums of amounts returned to the employer and reallocated to employees.

### **4. Profit-Sharing Pension Plans**

- annual employer contributions are tax deductible, but many not exceed \$3,500 per employee.
- employee contributions are tax deductible up to a maximum of \$3,500 per year.
- while contributions and investment income are in trust, the employee is not subject to tax.
- lump-sum payments are taxed as ordinary income.
- the trust is subject to a 1% tax per month on any foreign assets in excess of 10% of the total value of trust property.

## *Stock Purchase Plans*

### **1. Ordinary Payroll Deduction Plans**

- in most cases brokerage fees are a deductible expense for employers.

## Major Tax Provisions

- employees are not taxed on the brokerage fee benefit.
  - employee contributions are not tax deductible.
2. Company Contribution Plans
- if the employer's contribution is made by way of treasury shares, then no deduction is allowed. If however the employer's contribution is made by way of purchasing shares in the market and extended to an employee by way of an employee benefit plan or employee trust, then the employer is usually allowed to deduct the contribution
  - employee contributions are not tax deductible.
  - the employer contribution is considered a benefit and the employee must pay tax either in the year the allocation is made or when the shares are actually acquired, depending on the characteristics of the plan.
3. Discount Stock Purchase Plans
- employers may not deduct the benefit provided to employees through stock options.
  - when an employee exercises an option then the deemed benefit (difference between the market and option price) is taxable in the year in which the shares are received.
  - in the case of stock options pertaining to Canadian-controlled private corporations, employees do not have to pay tax until the shares are sold, providing they are held for at least two years. In this event only one-half of the benefit is taxable.
  - employee contributions are not tax deductible.
4. Loan Subsidies
- employers may not deduct a loan subsidy provided to employees to purchase company stock.
  - employees are taxed on the difference between the market and subsidized rate of interest. However, employees are able to deduct an interest expense.



## Appendix D

### SELECTED BIBLIOGRAPHY

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## MINUTES OF PROCEEDINGS

TUESDAY, JUNE 15, 1982

(11)

[*Translation*]

The Sub-committee to promote profit-sharing by employees in business of the Standing Committee on Finance, Trade and Economic Affairs met this day *in camera* at 9:40 o'clock a.m., the Chairperson, Mrs. Hervieux-Payette, presiding.

*Members of the Committee present:* Mrs. Hervieux-Payette and Mr. Thomson.

*In attendance:* Messrs. Kevin Kerr and Gilles Gauthier, Research Branch, Library of Parliament.

The Sub-committee resumed consideration of its Order of Reference, Thursday, February 25, 1982. (*See Minutes of Proceedings and Evidence, Wednesday, April 17, 1982, Issue No. 1.*)

The Sub-committee proceeded to the consideration of the draft report on profit-sharing by employees in business.

At 11:20 o'clock a.m., the Sub-committee adjourned to the call of the Chair.

TUESDAY, JUNE 22, 1982

(12)

The Sub-committee to promote profit-sharing by employees in business of the Standing Committee on Finance, Trade and Economic Affairs met this day *in camera* at 9:40 o'clock a.m., the Chairperson, Mrs. Hervieux-Payette, presiding.

*Members of the committee present:* Mr. Evans, Mrs. Hervieux-Payette, Messrs. Murphy and Thomson.

*In attendance:* Messrs. Kerr and Gauthier, Research Branch, Library of Parliament.

The Sub-committee resumed consideration of its Order of Reference dated Thursday, February 25, 1982. (*See Minutes of Proceedings and Evidence, Wednesday, April 17, 1982, Issue No. 1.*)

The Sub-committee resumed consideration of its draft report on profit-sharing by employees in business.

At 12:18 o'clock p.m., the Sub-committee adjourned to the call of the Chair.

TUESDAY, JUNE 29, 1982

(13)

The Sub-committee to promote profit-sharing by employees in business of the Standing Committee on Finance, Trade and Economic Affairs met this day *in camera* at 9:40 o'clock a.m., the Chairperson, Mrs. Hervieux-Payette, presiding.

*Members of the committee present:* Mrs. Hervieux-Payette, Messrs. Murphy and Thomson.

*In attendance:* Messrs. Kerr and Gauthier, Research Branch, Library of Parliament.

The Sub-committee resumed consideration of its Order of Reference dated Thursday, February 25, 1982. (*See Minutes of Proceedings and Evidence, Wednesday, April 17, 1982, Issue No. 1.*)

The Sub-committee resumed consideration of its draft report on profit-sharing by employees in business.

Upon motion of Mr. Thomson, the report of the Sub-committee as amended was carried.

*Ordered,*—That the Chairperson report to the Standing Committee.

*Agreed,*—That the report be printed within turnover format and green special cover.

At 9:58 o'clock a.m., the Sub-committee adjourned to the call of the Chair.

Jacques Lahaie  
*Clerk of the Sub-Committee*



STANDING COMMITTEE ON FINANCE, TRADE AND ECONOMIC AFFAIRS

MINUTES OF PROCEEDINGS

THURSDAY, JULY 8, 1982

*EXTRACT:*

Mr. Bloomfield moved,—That the First Report of the Sub-committee on Profit-Sharing by Employees in Business be concurred in.

That the Chairperson of the Sub-committee present the Report as the Committee's Fifteenth Report to the House.

That the Sub-committee print an additional 1,000 copies of Issue No. 5 of its Minutes of Proceedings and Evidence, with a special cover.

The question being put on the said motion, it was agreed to.

*ATTEST*

J.M. Robert Normand,  
*Clerk of the Committee.*