A new model of payment of the company partners based on a symmetry of interest in profits and wage mass to induce employment and other growth

In the context of this long and depth crisis … we come back on "Solidarity" - a short paper published on April 27th, 2009 by CFO News, to give more explanation on the evocated "model" and especially to underline what a well balanced distribution of the added value between companies insiders and outsiders can bring to employment and growth…

The model [(1)]

The model presentation can lean on two kinds of company partners, shareholders and wage-earners… The first are characterized by a specific element of their payment always called the (new) dividends [D], the seconds by a specific element of their payment always called the (new) wage mass [S].

But following this (new) model of payments, the total payment of the shareholders [R_a], is built from the (new) dividends, to which a trust bonus linked on the (new) wage mass, is added. The first index-linking coefficient being α, and:

$R_a = D + \alpha . S$ (1)

Symmetrically, the wage-earners' total payment [R_s] is built from the (new) wage mass, to which a participation to the results bonus, linked on the (new) dividends, is added. The second index-linking coefficient being β, and:

$R_s = S + \beta . D$ (2)

Negotiation

Putting the new model into practice requires a negotiation during which partners define the optimal rate of their payments called k_m (= R_a / R_s) and their reference value for D and S…

Is shown that if the nominal value of D and S are such that the ratio D / S is also equal to k_m (which is very likely), then the ratio R_a / R_s will also be equal to k_m, whatever the values of α, when β is equal to α / k_m^2. For all these cases, it is said that what we call the "initial equity" is checked.

If we look for the "durable equity", then the model is said to be "ideal" and whatever are D and S, we get $R_a / R_s = k_m$ … But to get this we have to choose α equal to k_m (and β equal to $1 / k_m$).

Of course, the nearest to k_m the value of α (with β equal to α / k_m^2), the nearest to the ideal model we are, more independent from D and S, the R_a / R_s ratio is… and close to k_m.

« New » dividends and a « new » wage mass

Compared to the traditional payment model, the "new" model induces "new" dividends D (as they no longer represent the total of the benefits B), and a "new" wage mass S (as it no longer represents the total of the predetermined or preset charges F). And now we note:

$B = (1 + \beta) . D$ (3)
$F = (1 + \alpha) . S$ (4)

The initial (or durable) equity being respected, it is shown, for any company characterized along the traditional payment system, by dividends D* (then representing the total benefits) and predetermined wage charges S* (then representing the total predetermined wage charges), and counting more wage charges than benefits (S*>D* - that is to say nearly all of them!) that, respecting a same added value (D* + S* = B + F) :

- the benefits B defined according to the proposed new model, exceed those of the traditional model : $B = (1 + \beta) . D$ is > D*
- the predetermined charges F defined according to the proposed new model are below those from the traditional model : $F = (1 + \alpha) . S$ is < S*

Negotiation and flexibility of payments

The point of view of the company arises as the values D, S, α, β influence - as shown by equations 3 and 4 - the distribution of the total added value between the predetermined charges (F) and the benefits (B).

The more we are close to the durable equity, the more flexible is the payment of wage-earners, while the payment of shareholders undertakes the opposite evolution to more security…

But, on one side, are wage-earners ready to agree with a large flexibility of their payments?
On the other side, the most gambling shareholders may regret the former payment!

… The psychological impact induced on the partners, now jointly liable, by this payment modality is probably the most important aspect of the model change.

From a strict psychological point of view, it is understood that, for each party, the positive look that the specific paying element of the other party does not induce a necessarily strong index-linking. The model is firstly federative, to induce very open negotiations focusing more co-operation and more mutual trust between company insiders and outsiders.

A new distribution of risks

Shareholders, become slightly wage-earners, have their payments develop, for a part index-linked on the payment of work, in a narrower way with a wage-like reserve, thus safer. From a traditional payment with a maximum risk, this new formula, which differently distributes the results between shareholders and wage-earners, delays the emergence of losses for the shareholders and limits their risks.

Hence an improved truthfulness of capital to the company can be foreseen, offering new strategies possibilities towards ... long term, further accepting more easily investments (in research and development…).

For wage-earners, more flexibility must not be dissuasive. The proposed model, which offers them the possibility to free their potentialities, is also a prospect of improved results for the company, of a higher payment for themselves, in any case a payment with an improved link with their own individual and collective success, with the economical reality of their company.

The model offers also to the company the prospect of delayed difficulties, to avoid early bankruptcy [(2)] because (generally) the model change induces that F is < S* ! When the "new model" is already used, company must open a new negotiation to change the values of α (and β) or/and k_m …

A single analysis of growth

According to the proposed model, shareholders and wage-earners are dual through their payment, each receiving a share of preset payment, and a share of payment linked to the results. So, we demonstrate [(1)] that the formula of growth has the same value whatever the used gauge, being either interested in the macro-economical side, the micro-economical one, the growth of production or of payments, or of the productivity of work… All growth gauges are equal in the case of payments based on the ideal model, or show values the more converging that we are nearer to the ideal model.

Then the converging analysis of growth, whatever the analyst, reinforces the concept that the model generates more co-operation than conflicts between the company partners.

The impact on employment and off-shore manufacturing

As for employment, any decrease of predetermined wage charges has for sure a positive influence on durable paid work, wage-earners being better paid partially according to the company benefits…

It can be predicted that the managers will be better disposed to employ wage-earners, with the support of a new look of shareholders on the wage mass and paid work!

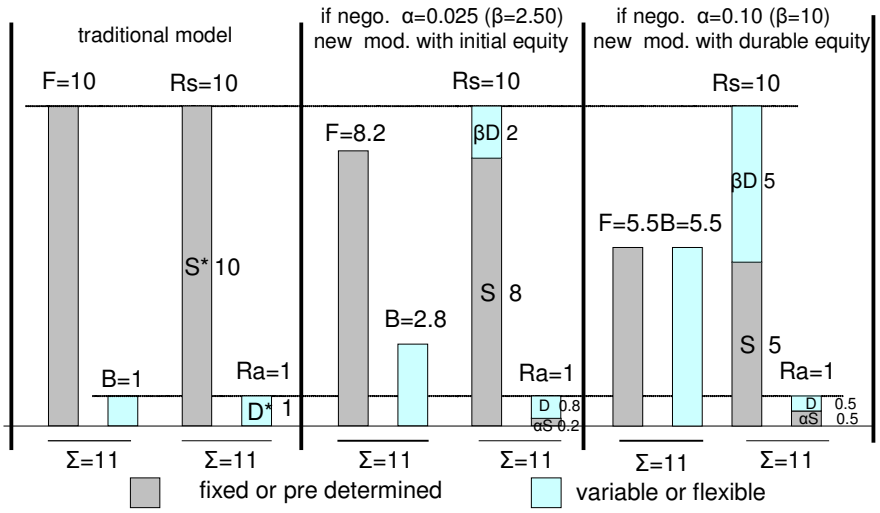
According to this model, the wage mass is a positive data for everybody. It will be understood that generalizing the use of this model leads towards a new equilibrium between economic and social matters, as well for emerging countries as for industrially developed ones.

With the (inevitable and) significant increasing of the oil price in the future (and consequently the increasing of the transport cost over the world), this new model would draw the conditions of the practice of production activity nearer the consumers… everywhere… to finally change the conditions of the competition inside the world market… to go to an other growth.

Numerical examples…

Model switching
(in the continuation of the payments)

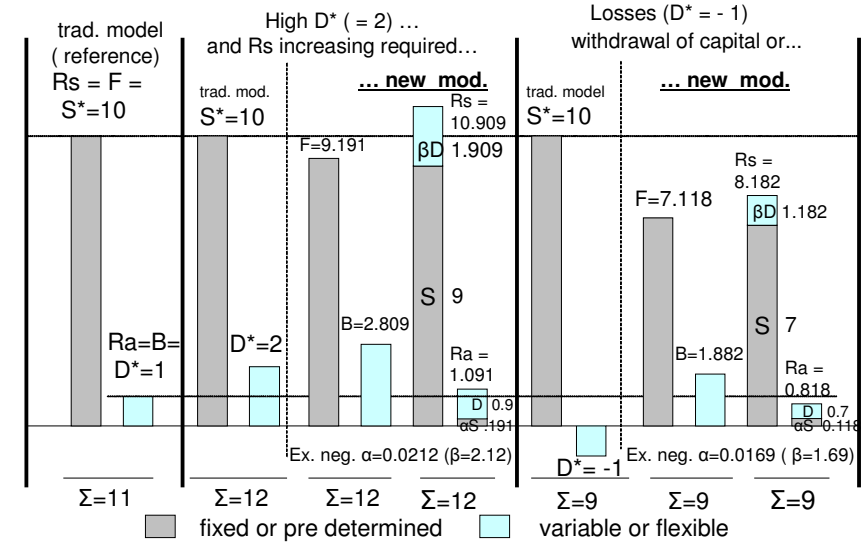
hypothesis : km = S / D = 0.10



It is shown the flexible part of the payment of wage-earners increases with the value of α (or β), contrarily to that of the shareholders where a safe part appears… Beside this, the values of F decreases, as that of B increases with the value of α (and $\beta = \alpha / k_m^2$.)… to $\alpha = k_m$.(and β = 10).
Here, the payment continuity is satisfied (respectively 10 and 1) and the added value is maintained (always 11).

When the share of results is no longer accepted and induces a model change

hypothesis : the negotiation ends at km = S / D = 0.10 and the initial equity is respected



When dividends largely exceeding their nominal value induce wage-earners to require an increase of their payment and if the new model is considered, it is shown in this example that, as the negotiation ends at $\alpha = 0.0212$ (or $\beta = 2.12$), the expectations of wage-earners are met when they agree with a decrease of the set part of their payment and some flexible income, as the shareholders agree with a decrease of their normally flexible payment to the cost of a consolidated payment reserve ... as the company reduces its set charges and increases its benefits. The value of α (and β) insure a new distribution of the added value between partners… between set and flexible payments, between set charges and benefits, the amount of the added value always being, here, equal to $10 + 1 = 12$.

When losses occur ($D^* = -1$), the new model can change the deal. Here, for example, the negotiation resulting in $\alpha = 0.0169$ (or $\beta = 1.69$), the situation can be saved, wage-earners agreeing with a sufficient flexible part and a sufficient payment decreases… to induce the shareholders to stay until the company is beneficial again. The value of α (or β) always defines the distribution between partners, between set and flexible parts of the payment, between set charges and benefits, the amount of the actual added value to be distributed being equal to $10 – 1 = 9$.

Extension of the model… when more than two partners are in the deal…

But other actors, with some specific self interests, can be identified as other company partners, such as managers [(3)]…

The proposed model can be widened to these outlines with three kinds of actors… (or more!).

G being the specific part of the payment of managers, the payment of each kind of actor will be made of three elements, firstly its specific element to which both other are added - they will always be called "bonus" and are index-linked respectively on both specific masses to the two other kinds of actors.

Depending on the case, the G element will be considered as of the predetermined kind or on the contrary of the flexible kind. Here the capital input by the managers could be deciding.
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The same model can be also used in other context… as to study the "deal" of the brokers (traders)… facing risks and shareholders interests [(4)]…

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(1) Complete explanation in the book « Pour plus de solidarité entre le capital et le travail ou de nouvelles chances pour l'emploi » by Rémi Guillet, L'harmattan édition 2004 et 2009 (e-book presentation)
(2) See on *CFO news* site « Un modèle de rémunération solidaire et équitable comme alternative à la faillite de l'entreprise »
(3) See on *CFO news* site « A propos de rémunération des dirigeants : une proposition équitable »
(4) See on *CFO news* site « La fidélisation des actionnaires passe aussi par la rémunération des traders »