

Profit Sharing Plans to Promote Ownership Mindset

Profit Sharing Plans to Promote the “Ownership” Mindset with your Employees

Savvy CEOs understand that high levels of employee performance are directly tied to how much they feel a sense of ownership toward the company (whether fiscal or based only on dedication). With a profit sharing plan, employees participate in a share of the profits from the company but employee profit sharing is typically distinct from actual equity ownership, which will be discussed in a future article.

As we have discussed various ways you can incentivize employees over [these past few articles](#), a clear pattern has emerged: Employees are not always most motivated by money. However, it is interesting to note that when it comes to “profit sharing plans”, there can be a clear exception...but again, this motivation doesn’t have as much to do with money as you might think.

Because your employee profit sharing plan is tied directly to the company actually making a profit,



the strongest motivator for employees is that sense of ownership they get by participating in the profit sharing plan. The bottom line is that if they can help improve profits, they also get to reap the rewards. When your employees adopt a sense of ownership in your company, you virtually always see increases in productivity and a reduction in costs and expenses, which in turn leads to increased profits.

How Do You Implement an Employee Profit Sharing Plan?

The first and most important step prior to implementing any profit sharing plan is to be sure that you are clear about what you want to accomplish with it. Do you want the profit sharing plan to function as part of a retirement benefit? Are you more interested in a long-term motivation tool? Or does it make sense to keep it simple and structure your plan as a “bonus” cash distribution?

Although there are many variations on profit sharing plans, there are generally two primary methods of profit sharing to consider (terminology can vary depending on the information source):

1. **The “Retirement” Plan Version** – This method offers employees the opportunity to contribute a predetermined amount of their annual profits into a deferred payment vehicle (deferred profit sharing plan), such as a trust that the employee can access upon retirement from the company in much the same way that they would make a contribution to a standard retirement plan, such as an IRA or 401(k). While this is not the same as the employee’s retirement plan, this profit sharing plan structure is still subject to regulation by the IRS and has specific parameters for implementation. This plan can also take the form of a “Cross-Tested” that favors companies with an aging work force who are considering how they will fund their retirement.
2. **The “Basic” Plan** – This plan has become increasingly common in recent years and involves a relatively simple allocation of funds providing essentially the same percentage or dollar amount to each employee who is participating or who is vested in the plan. This is the least costly to administer.

What Are the Qualification for Your Profit Sharing Plan?

Another important consideration as you implement your profit sharing plan is how you will qualify employees to participate. There are many different criteria you can use.

Here are a few suggestions and ideas you can use to create your qualification criteria:

- What is the employee level in the company? (i.e., supervisor, manager, executive, etc.)
- How many years has the employee been with the company?
- How is the employee’s attendance record?
- How has the employee done in the most recent performance review?
- Will you include a “special performance” multiplier for employees who do something special or who consistently produce desired results?

You will also need to consider how often you will pay out on the profit sharing plan. At what point can you pay out on the plan so it really feels like a big enough reward to keep employees motivated?

A profit sharing plan can be a powerful motivator and greatly enhance employee performance, along with helping you to keep your employee “enrolled” in the process of creating company success. The primary challenge to overcome in implementing a profit sharing plan is the planning and decisions surrounding how to structure your plan. Once implemented, consider creating an event around announcing the new program to your employees and kick off the new plan with a high level of engagement. In the end, you will likely reap great rewards by implementing a profit sharing plan in your company.