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Discussion

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DISCUSSION AFTER THE SPEECHES OF DONALD HASTINGS AND MICHAEL McDERMOTT

QUESTION, *Professor King*: I have one or two questions before we start the program. John, you mentioned various factors that were important in terms of employee motivation. You mentioned permanent employment. You mentioned the bonus, the participation in profit. If you had to select out of this group of factors, which do you think is the most important, in terms of Lincoln's working experience in motivating people to do as well as they have for Lincoln or with Lincoln?

ANSWER, *Mr. Hastings*: I do not think any one factor is that much more important than another. To explain it a little bit further, we have the 19th century concept of piecework. In other words, we pay only for good parts and good products. The workers can earn as much as they decide they want to earn within that capability of time. They can substantially increase their earnings by coming in a half hour early. Some work through their lunch hours and eat while they are working. As far as we are concerned, the more that they earn the more the company earns.

The people are also rated twice a year on four factors. One is the quantity of their output. Equally important is the quality of the output because the QA department rates each worker. Then we consider how they cooperate; how many new ideas they come forth with, and how dependable they are. That it is a competitive basis. We rate strictly on the curve, just like every law school does. Someone gets over a hundred and someone gets under a hundred. It is a very competitive atmosphere. At the same time, twenty-five percent of that rating is based upon teamwork and cooperation.

I do not think there is any one factor that does it. It is a combination. When they know that they can control their piecework earnings; that they can control their rating; if everyone works together and we truly satisfy the customers, the bonus pool becomes bigger, and, therefore, the total income rises.

QUESTION, *Professor King*: I have a question for Michael. On the stock funds the market goes up and down. I have had some experience with the market, and I was wondering where the employees get into this venture capital? Are they fully aware of the risks, or have you had some bad experiences? Has it all gone up? Is it money that they would count on, or are you on the stairway to the stars?

ANSWER, *Mr. McDermott*: Other than the information in the background notes provided and the reference I made in my remarks to some criticisms of low returns, I have no specific details with me on how individual funds have performed.

QUESTION, *Mr. Powers*: Mr. Hastings, does your company ever terminate people for misconduct and, if so, are there any differences if someone is terminated? Are they losing a lifetime of work rather than just work itself?

ANSWER, *Mr. Hastings*: That is a good point. Our guaranteed employment does not cover misconduct. Nor does it cover work performance. If someone is caught stealing, they are terminated. It is based upon economic conditions that would affect the total corporation rather than individual performance. Individuals still have to perform. They are not there to do things that are not acceptable in the workplace.

QUESTION, *Mr. McKennirey*: Mike, there has been an issue in the United States regarding employee participation schemes and the formation of company and in-house unions under the structure of the NLRA. Could you comment on the difference between Canada and the United States in that respect?

QUESTION, *Mr. McDermott*: Is this the Electromation situation?

COMMENT, *Mr. McKennirey*: Yes.

ANSWER, *Mr. McDermott*: Well, we do not have that situation. We do not have the Electromation situation under our laws. And there is a very interesting, relatively recent decision by the Canada Labour Relations Board. It is one in which the company initiated some kind of a committee or program that it was going to set up. The union was not consulted on that occasion. There was a complaint to the labour board. In a very good decision, Vice-Chair Hornung said, look, in a unionized setting, you should involve the union. But the union then cannot simply say "no" and stop anything from happening. They have a responsibility to respond. If they do not, and have no good reason for doing so, then the company can go ahead. It is a very succinct decision, however, it is quite distinct from the Electromation situation.

QUESTION, *Mr. Halpern*: Mr. Hastings, first I want to congratulate you. I think Lincoln has done an outstanding job as a model for many companies. But I do have a few short questions. One, are you currently unionized or have you ever been challenged in terms of having a union?

ANSWER, *Mr. Hastings*: We have no union in the United States or Canada. We are unionized in Mexico, Spain, and France.

QUESTION, *Mr. Halpern*: Two, with respect to quality, I have read or heard that in the manufacturing area, if an employee produces a defective part, he or she has to repair it on his own time. Is that correct?

ANSWER, *Mr. Hastings*: That is correct.

QUESTION, *Mr. Halpern*: Do you still use that system today?

ANSWER, *Mr. Hastings*: Yes. By the way, if other employees

felt that it was out of that person's control, teams of people often come and repair parts to help out the individual. They do get a communal family relationship many times.

QUESTION, *Mr. Halpern*: Thirdly, how do you provide incentives to your non-manufacturing and non-sales personnel?

ANSWER, *Mr. Hastings*: Let us take engineers in R & D. It is very difficult, of course, to measure how good they are in any given rating period because if they are working, particularly in research, they probably work for years and do not produce anything. Then they come up with something marvelous. It is quite judgmental. It is still on a rating basis. The individual knows that the more he puts into his work, the more he will make. It is not just a make-work thing. The supervisors are hands-on people who are, generally, working with the engineering group so that they know what is going on and whether there is progress being made on anything. However, it is a very judgmental thing.

QUESTION, *Mr. Langmack*: Don, in my case, we had a company about twenty-five years ago. We were doing fairly well as far as the company was concerned. But we realized that we could improve. We said to the employees, if this incentive is going to work for you, it is going to work for us. So we instituted a profit-sharing plan where we took ten percent of our profit and paid the employees. Well, the union said, no, you cannot do that. We did it for three years until the employees had a nice nest egg. The employees then went to the union, which is a tough union, and said we want this profit sharing. But the union said we should just pay everybody. We had to stop the profit-sharing plan completely. Am I old hat? This was about twenty-five years ago. Are the international unions accepting profit-sharing plans?

QUESTION, *Mr. Hastings*: You mean in the United States?

COMMENT, *Mr. Langmack*: Yes.

ANSWER, *Mr. Hastings*: I think it has changed drastically in that period of time.

COMMENT, *Mr. Langmack*: Yes, it has.

ANSWER, *Mr. Hastings*: We open our shop once a month and let anybody come in and talk about the incentive system. It is about a five-hour tour around the explanation and details of the program. We have had lots of labor unions come in, along with some of the management and human resource departments trying to find ways to work together. We now have profit sharing in the automotive companies. I think it is going to continue; I think it is going to expand.

I think that with this crazy corporate downsizing that is going on right now, there is going to be a backlash against companies worldwide. Hopefully, it will not be due to new government regulations, but I think there is going to be a backlash against corporations themselves.

QUESTION, *Mr. Langmack*: But are the international unions ac-

cepting and are they encouraging the profit-sharing plan?

ANSWER, *Mr. Hastings*: Remember when General Motors was shutting down twenty-one plants? They were going to shut them down a few years ago. We were buying their Delco motor manufacturing plant in Dayton. Dayton is, of course, very unionized. That is where GM recently had their troubles. GM said, if you buy this plant you are going to have to buy the union, too. We have an agreement that we will not sell it to anyone that did not accept the unionization of employees.

We decided to go ahead and do this, even though Dayton is not very far from Cleveland. The international union vice president came in from Washington to attend one of our first meetings. He had no problem with profit sharing; he had no problem with piecework; he had no problem with our talking directly to the employees, rather than going through the bargaining unit. His concern was that he wanted members.

I believe if unions in the United States are going to stop the continuous aggravation of their membership, they are going to have to accept profit sharing. They are going to have to accept the incentives and let the employees have more empowerment. And I think that there is a trend in that direction with the unions here.

COMMENT, *Mr. McDermott*: I think that there are a number of Canadian unions, including international unions, that have accepted gain sharing as part of the package. And there are some that still formally reject it. But the difference for the unionized sector is that they see it as one element. Unions like the Canadian Communications Energy and Paper Workers, for example, or the Steelworkers, have adopted policies where they say fine, we will take part in these kinds of programs. But, we also want to have some say in the direction the company is taking. So it is not just a compensation scheme. They want a true involvement scheme as well.

QUESTION, *Mr. Barrett*: Mr. Hastings, you described employment for life. You also mentioned the performance ratings. People are graded on a curve, a competitive situation. In terms of the fact that you fire people for cause when they are not producing quality materials, are you routinely firing a significant number of people at the bottom who just are unacceptable, or is it the exception? Are there people who just do not cut it — is it the exception rather than the rule. Is there a significant turnover at the bottom?

ANSWER, *Mr. Hastings*: That is a very good question. During the first 90 to 120 days, we have experienced in the last couple of years almost fifty percent turnover of the new hires. I think we are one of the few larger manufacturing companies in Northeast Ohio that has been hiring a lot of factory workers in the last couple of years. This is considerably higher than we have experienced in the past. Normally our attrition rate in the first, say, 120 days runs around twenty-three percent, then it jumps. Of course, we are finding that the problem is asso-

ciated with what we call Generation X, who do not feel they really want to get involved in the factory as much as their parents or grandparents did.

One of the things that we found is that when they come in through high school, they are into higher education. We are not getting the achievers into the factory elements. We have really had to work at that. We are actually going into the junior high schools and are trying to get the thinking started.

I met with Mayor White yesterday morning. His father was a machinist at Chase Brass. He is going to be talking — when he is talking about education — about the dignity of factory labor. Many of the innercity people need to get good jobs like that.

The attrition rate is high at the beginning. Once they get past that initial phase and into the flow of it, our attrition rate is probably one of the lowest in the country. They stay.

What do we do with those who get low ratings? If anyone gets a seventy-five or below, we have a committee of superintendents who work with that person to develop a plan to try to improve him. We do not try to cut him out. Once we feel that he is an employee that we have spent some time training, we do everything we possibly can to upgrade his performance so that he can start getting into the higher ratings. If it continues over a long period of time, then he, generally, by peer pressure, will leave on his own volition. We do not fire that many employees.

QUESTION, *Mr. O'Grady*: I am interested in this idea of whether there should be some legislative impediments to massive layoffs. I listened to Secretary Reich who said he felt that the government had to go along with the theory that the flexibility is unavoidable. But the government wanted to soften the blow by making pensions and health insurance affordable. It seems that if you go beyond that, some of these massive downsizings are not justified in economic terms. Some may even result from conflicts in interest whereby executives, with stock options or stocks, want to drive up the market price on Wall Street. It seems to me there is going to be some pressure to think in terms of things like legislative severance packages, legislative pension packages, legislative contribution to the Social Security costs and so forth. I wonder what the speakers think.

ANSWER, *Mr. Hastings*: I think that is a real possibility. If the American public does react negatively to this, legislation and some of these ideas could come forth. I am not in favor of them because one of the great advantages in America is the free enterprise system. I think we have to come forth and appreciate and teach corporate responsibility. What these corporations are doing is completely irresponsible. It is not in the best interest of American competitiveness.

COMMENT, *Mr. McDermott*: The Canadian experience, gener-

ally, is legislation governing notice of group terminations rather than acting on severance. Certainly, the federal jurisdiction and Ontario have fairly lengthy notices for group terminations. But the purpose is to try to negotiate some type of adjustment plan.

However, in terms of severance, that is taken care of in the world of collective bargaining. Given that the incidence of collective bargaining is that much higher in Canada, it takes some of the pressure off the legislative body for additional legislation.

QUESTION, *Professor King*: I have one other question for Don. On profit sharing, do you ever get into arguments with the workers as to how you calculate profits?

ANSWER, *Mr. Hastings*: You bet. Is that enough of an answer?

COMMENT, *Professor King*: Well, I do not mind throwing a hook once in a while.

ANSWER, *Mr. Hastings*: There are two separate issues. One is that there can be disagreement as to the rating. And we have a refined process where the individual ratings are looked at right on up the ladder. In fact, anyone who gets a seventy-five or below is looked at by executive officers. Anyone who gets over 110 has to have an individually written letter which is looked at by corporate officers. We are trying to make absolutely sure that there is no favoritism or prejudice against someone who gets into the rating system. We try to maintain it as accurately and fairly as we possibly can.

We have an open-door policy. Anyone can challenge the rating. They can come in and see their supervisor. If they are not satisfied there, they can come into my office.

We had some issues arise this year because we paid a record dollar amount in bonuses. We paid approximately \$64 million to 3,400 people. The actual average was \$19,900. However, we had more people this year because we have been hiring. Consequently, the average last year, with a lower dollar payout, was \$18,900.

There was a drop in the amount an individual employee received, even though the company paid a record dollar amount. That caused some fear for a few weeks. We got a couple articles in *The Plain Dealer*. We had some turmoil. I spent nineteen hours with employees in group meetings during a two-week period going through exactly what had happened, why it happened, and making sure that there was a communing effect. There was a threat that an employee was going to bring in the UAW, but only nineteen people showed up out of 3,400. We have not had any more difficulties since.