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THE ROLE OF INCENTIVES, PROFIT SHARING, AND EMPLOYEE PARTICIPATION IN THE DEVELOPMENT OF HUMAN RESOURCES IN THE UNITED STATES

*Donald Hastings**

A NATION OF WIMPS, W-I-M-P-S, that is what Tom Peters has called the corporate leaders of America.

Before I talk about Lincoln Electric, I would like to mention the International Trade Alliance and the World Trade Center and their relationship with the Cleveland World Trade Association.

I am the new chairman of the International Trade Alliance and the World Trade Center. I thought I would give you a little rundown on that because we are really moving forward very strongly right now.

The International Trade Alliance was established in 1991 by four partners: the city, the county, the port authority, and the Growth Association. The fifth partner, Cleveland Tomorrow, was added in 1994.

It is a true public/private partnership dedicated to increasing exports from the Northern Ohio area, encouraging foreign investment here, and internationalizing Cleveland. We thought that the best way to achieve this was to get a world trade center franchise from the World Trade Center in New York. That was opened in late 1994.

The World Trade Center Cleveland, we believe, is going to be a very powerful force in our area for companies to access ideas or export growth. Its mission is to maintain and help our region and its companies compete in the international marketplace. This export assistance will be provided in a variety of ways.

First of all, World Trade Center Cleveland (WTCC) is a place to find help. It is an export hot line that operates during regular office hours. It offers on-site counseling. People will come out, as experts, to different companies wanting to expand or to begin exporting throughout the world.

They also have a unique program dedicated to assisting minority-owned firms on a special Department of Commerce grant. Sandra Morgan is at the center working directly with minority businesses. They also offer trade missions to certain markets that will be going to Chile and Argentina soon. That will be in July. They have already been to Germany, Japan, and Mexico.

* Donald Hastings is the Chairman of the Board and Chief Executive Officer of The Lincoln Electric Company in Cleveland, Ohio. Lincoln Electric has a world-famous incentive program and is well-known for its sense of employee participation.

Right now membership in the World Trade Center Cleveland entitles you to membership in the Cleveland World Trade Association. So you can see that the Cleveland area is gearing up to provide real export assistance to our companies in the area. The ultimate objective, however, is to create employment and to expand the Greater Cleveland international presence.

Going back to where I started, I stated that Tom Peters, the author of *In Search of Excellence*, called the executives that were downsizing a whole nation of "wimps." They were taking the easy way out. They were just cutting employment, cutting people, putting them on the street rather than trying to be creative and keep their people employed.

I do not think it takes a lot of creativity or, I am going to use the word *intelligence*, to call in your department managers and say, all right, by next Friday, give me the names of the people that you will layoff. I want your department downsized by twenty-five to thirty percent. But that is what is happening in so many areas of this country. They drop these bombs on their employees annihilating hundreds of thousands of jobs.

Let me give you a couple of examples. I am sure you have been reading about this. There were 11,000 people let go at Scott Paper; 15,000 at Delta Airlines; 17,000 at GTE; and, of course, the one we are all reading about almost daily, 40,000 at AT&T. The stock price of AT&T jumped. The CEO is going to make between sixteen and seventeen million dollars because of the annihilation of 40,000 jobs. There were 50,000 jobs lost at Sears; 60,000 at IBM; and, of course, we all remember GM cutting down 74,000.

I believe the massive layoffs are a sign of a catastrophic failure on the part of management. When past and present management miscalculations have led a company into severe financial troubles, is it fair to make the workers pay with their jobs? What responsibilities do managers have to their employees? Is corporate America only responsible to Wall Street?

We at Lincoln do not feel that way. Many corporations argue that they get into these massive layoffs because they have too many people. As we look at it, they just have too few managers who know how to lead workers to generate higher levels of productivity and profitability.

Senior executives in such corporations are reminiscent of the unfortunate military leader in Vietnam who announced that he had to destroy the village to save it. With these massive layoffs, they are not just cutting flesh and bone, they are cutting the heart and soul out of these organizations. When you cut that out of the organization, it is eventually going to hurt it. In fact, I think in many cases, they will destroy it, even though quarterly reports and quarterly earnings may look better for a temporary period of time.

We have been in business for a hundred years now, and we feel that treating people as you want to be treated is a simple, easy way to do business in the long run. We have been watching with amazement the millions of people whose jobs once seemed secure, the remaining workers, their wages squeezed, as Wall Street saluted the downsizers by bidding up their stocks. CEO pay has soared. But we at Lincoln are doing a lot more than watching. In 1995, our centennial year, we broke through the one billion dollar barrier in sales. Simultaneously we dramatically increased our profits. Then we launched a public stock offering that significantly reduced our corporate debt and provided capital for future expansion.

Expansion, that is an unfamiliar word to many of today's businesses, particularly the large businesses. In the past year, Lincoln significantly expanded its worldwide manufacturing capacity. We opened a new electric motor facility in Euclid, Ohio, and added over 800 manufacturing jobs to meet the growing demand for our products. We are especially proud that 1995 marked Lincoln's forty-eighth consecutive year of operating without a single layoff. In fact, the last such time a layoff occurred was the same year as the Truman/Dewey race for the U.S. presidency. As far as our relationship to corporate America goes, we are being told that we are out of step, that we are not "hip" to the new ways of doing business. But we believe that those who seek to justify mass downsizing as essential to competitiveness are out of touch with the long-term economic realities, and what we believe to be sound business practice.

Our founders did not see employees as faceless hired hands; they saw them as individuals who would seize at the opportunity to build better lives for themselves and their families. They believed that they should be awarded not for their status in life, for their seniority, but strictly for the results that they produce each year.

In a company based on these principles, James F. Lincoln, the proponent of our incentive management system, believed that employees could work efficiently, enthusiastically, have fun at their jobs, and be loyal and secure. And because of that, the company prospered because of the employees' productivity and dedication resulting in true customer satisfaction.

Those principles in which we operate are as follows: number one is guaranteeing continuous employment. We have a contract with our employees that is renewed each year by the Board of Directors ensuring employees with three or more years of service that they will be able to work, regardless of economic conditions or technological competitiveness, no less than seventy-five percent of the standard work week, or thirty hours. Pay is based on strict measurement of performance so the more productive the workers are, the higher their pay. They, too, will receive payment of an annual bonus based upon the company's profits.

This system works exceedingly well. Currently Lincoln's employees, by every measure that we have been able to find, are more than twice as productive than their U.S. counterparts in comparable businesses. At the same time, their compensation is almost double the average for U.S. manufacturing.

But perhaps the greatest beneficiaries of our employees' productivity are the customers. That has to be the end result of a business, not just the shareholders, not just the bottom line, not just Wall Street, not just price-oriented ratios, but customers. Our customers receive high-quality products at reasonable prices. We also have to benefit our shareholders long term. And, of course, most of our employees are shareholders. We have a long-term stock purchase plan with them.

One other point, and I guess this may be fortunate from my standpoint, we do not see every employee with graying hair as a potential candidate for early retirement. That is just a glorified layoff. Instead, we place a high value on experience, the experience that comes with age. Currently one-third of our employees have more than twenty years of service. Thirty-four employees have served more than fifty years. Admittedly, we have critics of this plan. They question whether or not this approach would work as well in difficult times. I just want to tell you how it worked during some very difficult times, and what this means when you put your employees on an equal basis with customers and shareholders. How they can respond with dedication, commitment, and loyalty?

In 1992 we about fell off the cliff with our European operations, and for two years we took substantial corporate losses. I became the new CEO just as that occurred and was under heavy pressure from shareholders, Board members, and outsiders who felt that we should cut back sharply on employee benefits and bonuses. In fact, they talked about how we should cut back and lay off. That would have been an easy thing to do, but long-term, we felt that was the wrong thing to do because it would destroy trust on the part of our people.

What we decided to do, going back to what Tom Peters said about not being a nation of wimps, was to manufacture and sell our way out of this and raise the top line so that with fixed costs, we would keep people employed, but then come down to the bottom line in a disproportionate manner. That takes simple math to do. But, of course, the other companies have assumed a basic solid top line, not trying to move forward and get market share, move into exports, or whatever they needed to do. Instead, they wanted to cut the heart and soul out of the organization in order to improve the bottom line.

Our approach is very cross-grained with American conventional wisdom and thinking today. Let me tell you how it worked. We went to our production people and told them to find every bottleneck they possibly could in the organization as far as manufacturing was concerned.

This is before the economy picked up. I think we were somewhat lucky in that there was some movement in the economy. But we just decided we were going to go out and make everything we could make, and then sell it all.

One of the first bottlenecks we found was the need to start hiring more people. Back in '92 and '93, it was pretty easy to hire people because there were a lot of them on the street. And, of course, many of our operations take a lot of skills in order to run the machinery. So we asked our veteran employees to work the bottleneck areas during this period, give up their holidays and vacations. They volunteered in every case where we needed them. There were 614 weeks of vacation that were given up. They worked the 4th of July weekend, Labor Day weekend, and Thanksgiving. We did let them off for Christmas. They were working the bottleneck areas at the same time we were training the new people. They got us through this period where we were able to handle our financial situation globally at the same time — I guess we were offsetting the European losses — without cutting off anybody to try to save the company through the cost reduction of people. They did respond to it, and so it is impossible, in my opinion, to overstate the role of incentives through a dedicated, effective, and productive work force. After all, an economy, a company, and a work force do not operate in a vacuum. As our founders knew, the carrot as an incentive is a much mightier weapon than a stick.

The Lincoln approach, like the free enterprise system, does not ensure that all boats or all employees will float. But it does recognize that the rewards of good performance must not only go to the privileged few that we are reading about today, but to the deserving many.

In my opinion, what the apostles of downsizing sometimes forget is that business is not an island unto itself. Clearly, companies must remain competitive and profitable, but the way to do that is through encouraging productivity and engineering, not through terrorizing and demoralizing employees and devastating communities. It is a matter of common sense. We cannot have healthy businesses with the context of disruptive families in a decaying society.

Now, admittedly, we make no claims to perfection. We make our share of mistakes. However, when we do, our employees, through our advisory board that has been around since 1914, are outspoken enough to bring them to our attention.

There is no disagreement over the fundamental need in business to regard those employees as precious assets, no matter how critical of management they might be. We like to say, look not at what an employee costs, but at what they are worth. It is just turning over the coin. If we adhere to that principle, business can avoid the trauma of downsizing. They can do so by concentrating their energies and making employees more productive and more flexible. If business takes that ap-

proach, as companies such as Lincoln Electric have demonstrated, corporate America can produce prosperity that creates worthwhile jobs and at the same time, energizes our economy.