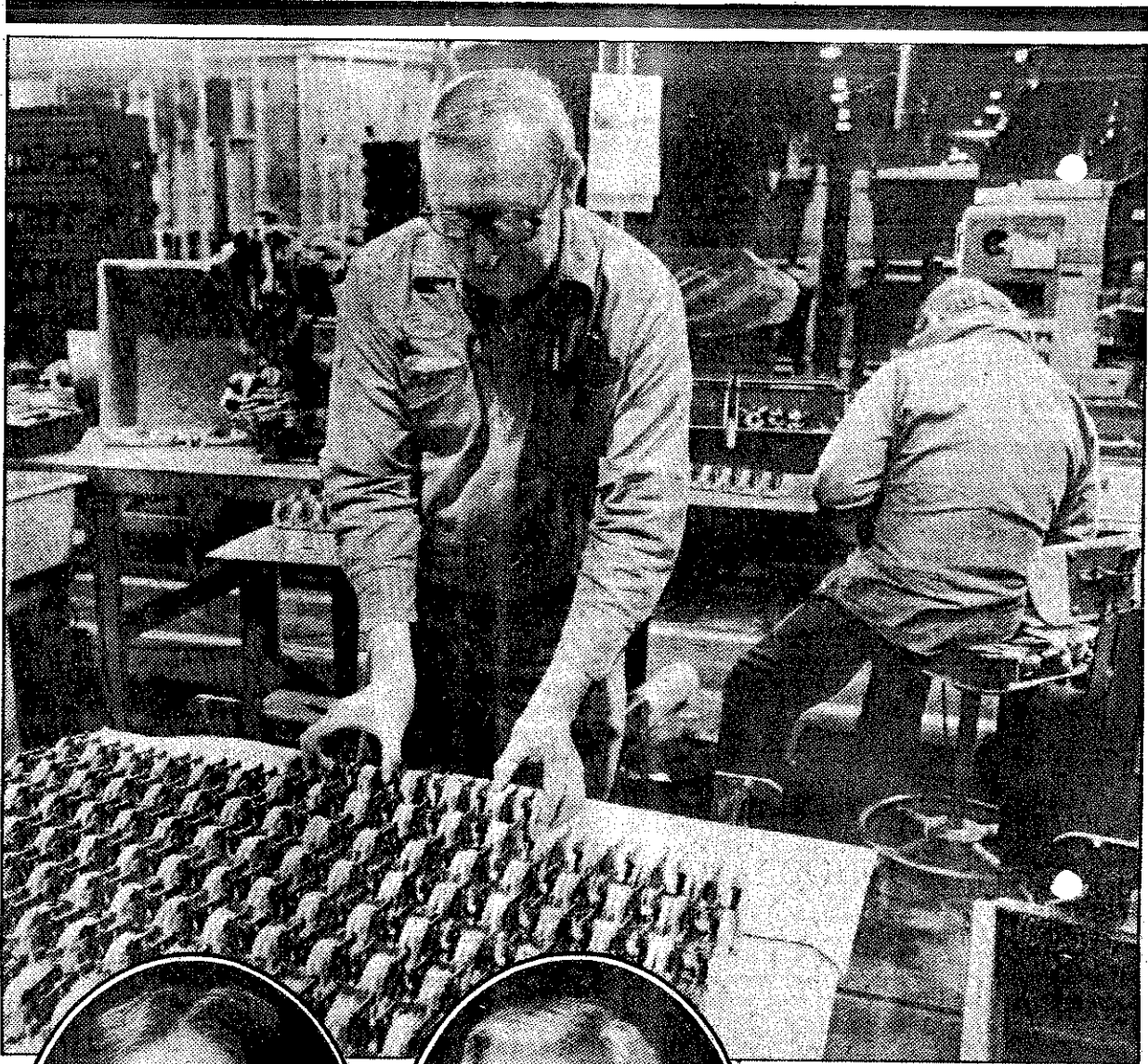


The Way That Works at Lincoln

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Employees at Lincoln's Euclid, Ohio, plant work under policies begun by founding brothers John C., left, and James F. Lincoln.

Its labor approach paid off in the welding industry. Can more follow?

By WILLIAM SERRIN

EUCLID, OHIO

TWO years ago, when the Lincoln Electric Company's sales were sagging because of the recession, 50 factory workers volunteered to help out.

After a quick sales training course, they took to the road, their only compensation 18½ cents a mile for expenses, with no money for lodging or meals. Their objective: to help sell the company's Model SP200, a small welder introduced a couple years earlier for use in small machine shops and auto body shops.

The tactic worked. People who had been plant workers all their lives walked into body shops all over the country and said: "Hi. I'm a factory worker from Lincoln Electric. I've got a welder I'd like to sell you." The pitch brought in \$10 million in new sales and the small arc welder is now one of Lincoln's best-selling items.

An unusual scenario, perhaps, in American industry where, often as not, a company and its workers are at odds. But from its earliest years, 90-year-old Lincoln has charted a unique course in worker-management relations — featuring high wages, guaranteed employment, few supervisors, a lucrative bonus incentive system and piecework compensation.

The company, the world's largest maker of arc welding equipment, has 2,650 employees in the United States, the bulk of them blue-collar workers. There are no unions. An old production man, like Henry Ford, or a traditional time and motion man, like Frederick Winslow Taylor, probably would feel at home at Lincoln, for the place, in its way, has old-fashioned charm.

The Euclid plant is not air-conditioned, and while the company's products are technologically advanced, much of its equipment and its production line layouts have changed little since World War II.

The largely windowless plant is a bit dark in places. Workers seem to move about quickly, and work stations, while clean, are often jumbled, for the company — predating the Japanese system — eschews warehousing. Wherever possible it has materials delivered directly to production areas.

There are no frills in the executive offices, either — no executive automobiles, club memberships or management retreats. The company's 75-year-old chairman and chief executive, William Irrgang, who started as a production worker in 1929, eats with the rest of the work force in the company cafeteria. The furniture in his office dates to the 1950's.

But its humble aspect belies Lincoln's success. Lincoln has, in large part, driven competitors like Westinghouse and General Electric from the arc welding business. So secure is the company in its niche that, for all practical purposes, Lincoln is the arc welding business.

Its place in its industry, some experts believe, insulates Lincoln from many of the competitive risks facing players in other markets and would make its labor-management practices difficult to transfer to other industries.

But Robert Zager, a vice president of Work in America Inc., a private research institute in Scarsdale, N.Y., believes that many of Lincoln's practices are transferable to other companies. He calls the system "a work of genius."

The company's executives describe Lincoln a bit more modestly, saying it always follows an old dictum of the late James F. Lincoln: simplicity. It's a tradition that started with his brother, John, back in 1895.

SON of a Congregational preacher with strict views on individualism and morality, John C. Lincoln started the company with \$150 in borrowed capital. In 1907 he asked his brother to be sales director at \$50 a month. James Lincoln was a husky, energetic man who worked until the day before he died in 1965 at age 82. He had been a fullback on the Ohio State University football team, and in his senior year, when he was captain, the team's goal line was never crossed. When he became Lincoln's general manager in 1914, he said he wanted his employees to show the same exuberance for work that he had seen athletes show for sport. So he decided to give workers responsibility and to stress competition.

He asked workers to elect representatives from each department to advise him and other executives. This became the company's advisory board, which has met twice a month ever since with Lincoln's top officers, and its suggestions have helped shape the company's success.

While few analysts follow the arc welding industry, and the company itself declines to talk about its market share, "it's substantial," according to Richard S. Sabo, manager of publicity and education.

Arc welders use electrical current to heat metals to a molten state and fuse them together. The company prices its equipment according to costs, and says that its reasonable prices and its reputation for quality are responsible for the dearth of competition from other American producers and the absence of foreign competition in arc welding in this country.

But the company has not been tempted to diversify. It makes only arc welding equipment, both manual and automatic, and industrial engines, as it has for decades. It has two factories, one at corporate headquarters here in this Cleveland suburb and the other nearby, and it maintains sales and distribution offices in Canada, France and Australia.

In 1981, a typical year, Lincoln had net income of \$39.8 million, or \$28.95 a share, on sales of \$527 million.

In recessionary 1982, the company slipped to net income of \$21.4 million, or \$15.82 a share, on sales of \$377.7 million.

Workers have shared in the company's fortunes. Under an employee stock purchase plan, about 75 percent of the workers own about 40 percent of the stock, which must be sold back to the company when an employee quits or retires. Most of the rest of the stock is owned by members of the Lincoln family. Only one, James F. Lincoln Jr., is now active in the company, as a director and assistant to the vice president for sales. The company is publicly held, with its stock traded over-the-counter.

Despite such a record, company executives have kept a low public profile. "We do a lot of things differently from other companies and the differences are what give us our competitive edge," said Mr. Sabo.

Among the innovative management practices that set Lincoln apart are these:

- Guaranteed employment for all full-time workers with more than two years' service, and no mandatory retirement. No worker has been laid off in more than 40 years, except for some temporary workers at the end of World War II.

- High wages, which include a substantial annual bonus based on the company's profits. While the average Lincoln worker earned about \$44,000 in the industry's last good year, 1981, half of that was bonus. In 1983, a troubled year in which employees worked 30 hours a week under the company's traditional work-sharing plan that means no one had to be laid off, average pay was about \$20,000 — half in bonus.

Lincoln has never had a strike and has not missed a bonus since the system was instituted in 1934 to spur production and to enable it to pay more to its workers, hard-pressed by the Depression. Individual bonuses are set by a complicated formula that judges workers on four points: ideas and cooperation, output, ability to work without supervision and work quality.

- **Piecework.** More than half of Lincoln's production workers are paid according to what they produce, rather than an hourly or weekly wage. If a worker is sick, he does not get paid. Workers with serious illnesses must use state workers' compensation, personal insurance through a plan administered by the company's employee association, or income protection insurance. Labor unions have long objected to piecework, but here, the company and most workers believe, it has meant improved productivity and higher pay.

- **Promotion** almost exclusively from within, except for some engineering and sales positions, and according to merit, not seniority. Almost all hiring is at the entry level.

- **Relatively few supervisors.** The company's supervisor-to-worker ratio is 1 to 100, far lower than in much of industry.

- **No break periods.** Smokers receive a 10-minute period in the first shift and another in the second to smoke, a policy suggested by employees during the 1940's. This is the only time anyone may smoke — production workers or executives.

- **Mandatory overtime and job assignments.** Workers must work overtime if ordered during peak production periods, and must agree to job transfers to meet production schedules or to maintain the company's guaranteed employment program.

Another area in which the company's labor practices differ is hiring. Lincoln carefully screens all job applicants to determine how they might fit in with its philosophies. It has never used employment tests, believing they can't predict an employee's performance on the job.

AT A GLANCE

Lincoln Electric

All dollar amounts in thousands, except per share data

Year ended	1982	1981
Dec. 31		
Revenues	\$377,668	\$526,999
Net income	21,436	39,772
Earnings per share	\$15.82	\$28.95

Total assets, Dec. 31, 1982	\$269,707
Current assets	184,607
Current liabilities	42,245
Long-term debt	0
Employees, Dec. 31, 1982	2,610
Headquarters	Cleveland, Ohio

Source: Standard & Poor's

Instead, applicants are judged in interviews by the company's personnel department and, if thought to possess qualities that mark them as good Lincoln workers, are interviewed by a committee of Lincoln vice presidents and plant superintendents whose approval must be unanimous.

"It's pretty much a gut reaction type of thing," Mr. Sabo said in his small, stark office.

The company does not advertise job openings, depending on word of mouth and its reputation to lure applicants. But when Lincoln is hiring, it often gets 100 applicants a day, Mr. Sabo said.

Its allure is not hard to understand. The typical Lincoln production worker, in a good year, earns wages roughly equivalent to wages for similar work elsewhere in the Cleveland area. But the bonuses the company pays make its compensation substantially higher.

Some workers and former employees complain that the company's piecework system and a policy of mandatory overtime during peak production periods can be burdensome and that, as a result, unfriendly, sometimes fierce competitions between workers can result. But most employees seem to enjoy working here. Turnover is usually less than 3 percent a year, including retirements. More than 400 workers have been here over a quarter of a century, some more than 50 years. Only four workers quit in 1983.

"I can't complain about anything," said Paul Bolton, an assembler for six years. He said he was happy at the plant, although the work was often demanding.

Two other workers, Steve Boka and Frank Klima, have worked here for 28 years apiece, and said Lincoln is an exceptional workplace.

"I couldn't think of working some other place," Mr. Boka said. "This is the best there is," Mr. Klima said. "The pay is good. Management is nice to you."

Both said they preferred working in a nonunion plant, and that they were pleased with the piecework system.

Trade union advocates are convinced that many of Lincoln's practices, such as piecework and mandatory overtime, would be abused at most companies, smacking of the harsh management practices that existed before the rise of industrial unionism. But no union has attempted to organize the company.

Lincoln pays health insurance and other benefits, but stresses to workers that this comes out of money that otherwise would go to bonuses. Vacations are taken when Lincoln shuts down for two weeks in August and two weeks at Christmas. Those entitled to just two weeks' vacation do inventory over the holidays.

WHILE some scattered companies elsewhere are trying out some of the worker management features in evidence at Lincoln, no other sizable company appears to have used so many of them — nor for so long.

Norman Berg, a professor of business administration at the Harvard Business School who has studied Lincoln for years, says he has "increasing high regard for what the company is doing." Unlike some efforts at humanistic management, he suggests, Lincoln's management system is not a fad. "If more companies operated like Lincoln Electric," he says, "the country 'would be a lot better off.'"

Robert H. Guest, professor emeritus of organizational behavior at Dartmouth College, said that because of the company's peculiar and selective hiring practices, the philosophy could not be transferred to most other large industrial concerns.

Echoing Mr. Zager of Work in America, Professor Berg said that, while certain practices, like piecework, likely could be installed only with great difficulty at unionized companies, "maybe a dozen" of Lincoln's practices, like guaranteed employment and a policy against management perquisites, could be utilized at other companies, union and nonunion.

He is also impressed that the company has no debt, using its earnings to finance any plant improvements or expansions in its product line. As a result, he says, it "doesn't have to kowtow to the banks."

While the company insists on individual initiative — and pays accordingly to individual effort — it works diligently to foster the notion of teamwork. Long before the Japanese became known for emphasizing such concepts, Lincoln stressed that its workers throughout their lives were part of what it called "the Lincoln family."

If a worker is overly competitive, or, in Mr. Sabo's words, "playing dirty" with fellow employees, the worker is rated poorly in terms of cooperation and team play on his semiannual rating reports. Thus, that worker's bonus will be smaller.

"This is not an easy style to manage," Mr. Sabo says. "It takes a lot of time and a willingness to work with people."