The Lincoln Electric Company*

> People are our most valuable asset. They must feel secure, important, challenged, in control of their destiny, confident in their leadership, be responsive to common goals, believe they are being treated fairly, have easy access to authority and open lines of communication in all possible directions. Perhaps the most important task Lincoln employees face today is that of establishing an example for others in the Lincoln organization in other parts of the world. We need to maximize the benefits of cooperation and teamwork, fusing high technology with human talent, so that we here in the USA and all our subsidiary and joint venture operations will be in a position to realize our full potential.
>
> —George Willis, former CEO, The Lincoln Electric Company

Today, The Lincoln Electric Company under the leadership of Donald Hastings, is the world's largest manufacturer of arc welding products and a leading producer of industrial electric motors. The firm employs almost 4,000 workers in three U.S. factories near Cleveland and almost an equal number in factories located in other countries. This does not include the field sales force of more than 200. The company's U.S. market share (for arc-welding products) is estimated at more than 40 percent.[1]

The Lincoln incentive management plan has been well known for many years. Many college management texts make reference to the Lincoln plan as a model for achieving higher worker productivity. Certainly, the firm has been successful according to the usual measures.

James F. Lincoln died in 1965 and there was some concern, even among employees, that the management system would fall into disarray, that profits would decline, and that year-end bonuses might be discounted. Quite the contrary—since Lincoln's death, the company appears as strong as ever. Each year, except the recession years 1982 and 1983, has seen high profits and bonuses. In 1995, Lincoln Electric's centennial, sales for the first time surpassed $1 billion. While there was some employee discontent about relatively flat bonuses in 1995, employee morale and productivity remain very good.[2] Employee turnover is almost nonexistent except for retirements. Lincoln's market share is stable. The historically high stock dividends continue.

A Historical Sketch

In 1895, after being "frozen out" of the depression-ravaged Elliot-Lincoln Company, a maker of Lincoln-designed electric motors, John C. Lincoln took out his second patent and began to manufacture his improved motor. He opened his new business, unincorporated, with $200 he had earned redesigning a motor for young Herbert Henry Dow, who later founded the Dow Chemical Company.

Started during an economic depression and cursed by a major fire after only one year in business, the company grew, but hardly prospered, through its first quarter century. In 1906, John C. Lincoln incorporated the business and moved from his one-room, fourth-floor factory to a new three-story building he erected in east Cleveland. He expanded his workforce to 30 and sales grew to over $50,000 a year. John preferred being an engineer and inventor rather than a manager, though, and it was to be left to another Lincoln to manage the company through its years of success. In 1907, after a bout of typhoid fever forced him from Ohio State University in his senior year, James F. Lincoln, John's brother, joined

* This case was written by Arthur Sharplin. It is adapted here by R.S. Schuler and used with the permission of Arthur D. Sharplin.

the fledgling company. In 1914 he became the active head of the firm, with the titles of General Manager and Vice President. John remained president of the company for some years but became more involved in other business ventures and in his work as an inventor.

One of James Lincoln's early actions was to ask the employees to elect representatives to a committee which would advise him on company operations. This "Advisory Board" has met with the chief executive officer every two weeks since that time. This was only the first of a series of innovative personnel policies which have, over the years, distinguished Lincoln Electric from its contemporaries.

The first year the Advisory Board was in existence, working hours were reduced from 55 per week, then standard, to 50 hours a week. In 1915, the company gave each employee a paid-up life insurance policy. A welding school, which continues today, was begun in 1917. In 1918, an employee bonus plan was attempted. It was not continued, but the idea was to resurface later.

The Lincoln Electric Employees Association was formed in 1919 to provide health benefits and social activities. This organization continues today and has assumed several additional functions over the years. In 1923, a piecework pay system was in effect: employees got two weeks paid vacation each year, and wages were adjusted for changes in the Consumer Price Index. Approximately 30 percent of the common stock was set aside for key employees in 1914. A stock purchase plan for all employees was begun in 1925.

The Board of Directors voted to start a suggestion system in 1929. The program is still in effect, but cash awards, a part of the early program, were discontinued several years ago. Now, suggestions are rewarded by "additional points" which affect year-end bonuses.

The legendary Lincoln bonus plan was proposed by the Advisory Board and accepted on a trial basis in 1934. The first annual bonus amounted to about 25 percent of wages. There has been a bonus every year since then. The bonus plan has been a cornerstone of the Lincoln management system and recent bonuses have approximated annual wages.

By 1944, Lincoln employees enjoyed a pension plan, a policy of promotion from within, and continuous employment. Base pay rates were determined by formal job evaluation and a merit rating system was in effect.

In the prologue of James F. Lincoln's last book, Charles G. Herbruck writes regarding the foregoing personnel innovations:

They were not to buy good behavior. They were not efforts to increase profits. They were not antidotes to labor difficulties. They did not constitute a "do-gooder" program. They were expression of mutual respect for each person's importance to the job to be done. All of them reflect the leadership of James Lincoln, under whom they were nurtured and propagated.

During World War II, Lincoln prospered as never before. By the start of the war, the company was the world's largest manufacturer of arc-welding products. Sales of about $4,000,000 in 1934 grew to $24,000,000 by 1941. Productivity per employee more than doubled during the same period. The Navy's Price Review Board challenged the high profits. And the Internal Revenue Service questioned the tax deductibility of employee bonuses, arguing they were not "ordinary and necessary" costs of doing business. But the forceful and articulate James Lincoln was able to overcome the objections.

Certainly since 1935 and probably for several years before that, Lincoln's productivity has been well above the average for similar companies. The company claims levels of productivity more than twice those for other manufacturers from 1945 onward. Information available from outside sources tends to support these claims.

Company Philosophy

James F. Lincoln was the son of a Congregational minister, and Christian principles were at the center of his business philosophy. The confidence that he had in the efficacy of Christ's teachings is illustrated by the following remark taken from one of his books:

The Christian ethic should control our acts. If it did control our acts, the savings in cost of distribution would be tremendous. Advertising would be a contact of the expert consultant with the customer, in order to give the customer the best product available when all of the customer's needs are considered. Competition then would be in improving the quality of products and increasing efficiency in producing and distributing them; not in deception, as is now too customary. Pricing would reflect efficiency of production; it would not be a selling dodge that the customer may be sorry he accepted. It would be proper for all concerned and rewarding for the ability used in producing the product.

There is no indication that Lincoln attempted to evangelize his employees or customers—or the general public for that matter. Neither the former chairman of the board and chief executive, George Willis, nor the current one, Donald F. Hastings, mention the Christian gospel in their recent speeches and interviews. The company motto, "The actual is limited, the possible is immense," is prominently displayed, but there is no display of religious slogans, and there is no company chapel.

Attitude Toward the Customer

James Lincoln saw the customer's needs as the raison d'etre for every company. "When any company has achieved success so that it is attractive as an investment," he wrote, "all money usually needed for expansion is supplied by the customer in retained earnings. It is obvious that the customer's interests, not the stockholder's, should come first." In 1947 he said, "Care should be taken . . . not to rivet attention on profit. Between 'How much do I get?' and 'How do I make this better, cheaper, more useful?' the difference is fundamental and decisive." Willis, too, ranks the customer as management's most important constituency. This is reflected in Lincoln's policy to "at all times price on the basis of cost and at all times keep pressure on our cost. . . ." Lincoln's goal, often stated, is "to build a better and better product at a lower and lower price." James Lincoln said, "It is obvious that the customer's interests should be the first goal of industry."

This priority, and the priority given to other groups, is reflected in the Mission and Values Statement and the set of Goals shown in Appendix A.

Attitude Toward Stockholders

Stockholders are given last priority at Lincoln. This is a continuation of James Lincoln's philosophy: "The last group to be considered is the stockholders who own stock because they think it will be more profitable than investing money in any other way." Concerning division of the largess produced by incentive management, he wrote, "The absentee stockholder also will get his share, even if undeserved, out of the greatly increased profit that the efficiency produces."

Attitude Toward Unionism

There has never been a serious effort to organize Lincoln employees. While James Lincoln criticized the labor movement for "selfishly attempting to better its position at the expense of the people it must serve," he still had kind words for union members. He excused abuses of union power as "the natural reactions of human beings to the abuses to which management has subjected them." Lincoln's idea of the correct relationship between workers and managers is shown by this comment: "Labor and management are properly not warring camps; they are parts of one organization in which they must, and should, cooperate fully and happily."

Beliefs and Assumptions About Employees

If fulfilling customer needs is the desired goal of business, then employee performance and productivity are the means by which this goal can best be achieved. It is the Lincoln attitude toward employees, reflected in the following comments by James Lincoln, which is credited by many with creating the success the company has experienced:

He is just as eager as any manager is to be part of a team that is properly organized and working for the advancement of our economy. . . . He has no desire to make profits for those who do not hold up their end in production, as is true of absentee stockholders and inactive people in the company.

If money is to be used as an incentive, the program must provide that what is paid to the worker is what he has earned. The earnings of each must be in accordance with accomplishment.

Status is of great importance in all human relationships. The greatest incentive that money has, usually, is that it is a symbol of success. The resulting status is the real incentive. . . . Money alone can be an incentive to the miser only.

There must be complete honesty and understanding between the hourly worker and management if high efficiency is to be obtained.

These beliefs and assumptions have helped shaped Lincoln's human resource objectives. These are shown in Appendix B.

Lincoln's Business

Arc-welding has been the standard joining method in shipbuilding for decades. It is the predominant way of connecting steel in the construction industry. Most industrial plants have their own welding shops for maintenance and construction. Manufacturers of tractors and all kinds of heavy equipment use arc-welding extensively in the manufacturing process. Many hobbyists have their own welding machines and use them for making metal items such as patio furniture and barbecue pits. The popularity of welded sculpture as an art form is growing.

While advances in welding technology have been frequent, arc-welding products, in the main, have hardly changed. Lincoln's Innershield process is a notable exception. This process, described later, lowers welding cost and improves quality and speed in many applications. The most widely used Lincoln electrode, the Fleetweld 5P, has been virtually the same since the 1930s. The most popular engine-driven welder in the world, the Lincoln SA-200, has been a gray-colored assembly including a four-cylinder continental Red Seal engine and a 200 ampere direct-current generator with two current-control knobs for at least four decades. A 1989 model SA-200 even weighs almost the same as the 1950 model, and it certainly is little changed in appearance.

The company's share of the U.S. arc-welding products market appears to have been about 40 percent for many years. The welding products market has grown somewhat faster than the level of industry in general. The market is highly price-competitive, with variations in prices of standard items normally amounting to only a percent or two. Lincoln's products are sold directly by its engineering-oriented sales force and indirectly through its distributor organization. Advertising expenditures amount to less than three-fourths of a percent of sales. Research and development expenditures typically range from $10 million to $12 million, considerably more than competitors.

The other major welding process, flame-welding, has not been competitive with arc-welding since the 1930s. However, plasma-arc-welding, a relatively new process which uses a conducting stream of super heated gas (plasma) to confine the welding current to a small area, has made some inroads, especially in metal tubing manufacturing, in recent years. Major advances in technology which will produce an alternative superior to arc-welding within the next decade or so appear unlikely. Also, it seems likely that changes in the machines and techniques used in arc-welding will be evolutionary rather than revolutionary.

It is also reasonable to observe that Lincoln Electric's business objectives, shown in Appendix C, are likely to change in an evolutionary rather than a revolutionary way.

Products

The company is primarily engaged in the manufacture and sale of arc-welding products—electric welding machines and metal electrodes. Lincoln also produces electric motors ranging from one-half horsepower to 200 horsepower. Motors constitute about eight to ten percent of total sales. Several million dollars have recently been invested in automated equipment that will double Lincoln's manufacturing capacity for one-half to 20 horsepower electric motors. The electric welding machines, some consisting of a transformer or motor and generator arrangement powered by commercial electricity and others consisting of an internal combustion engine and generator, are designed to produce 30 to 1,500 amperes of electrical power. This electrical current is used to melt a consumable metal electrode with the molten metal being transferred in super hot spray to the metal joint being welded. Very high temperatures and hot sparks are produced, and operators usually must wear special eye and face protection and leather gloves, often along with leather aprons and sleeves. Lincoln and its competitors now market a wide range of general purpose and specialty electrodes for welding mild steel, aluminum, cast iron, and stainless and special steels. Most of these electrodes are designed to meet the standards of the American Welding Society, a trade association. They are thus essentially the same as to size and composition from one manufacturer to another. Every electrode manufacturer has a limited number of unique products, but these typically constitute only a small percentage of total sales.

Welding electrodes are of two basic types: coated "stick" electrodes and coiled wire. Coated "stick" electrodes, usually 14 inches long and smaller than a pencil in diameter, which are held in a special insulated holder by the operator, who must manipulate the electrode in order to maintain a proper arc-width and pattern of deposition of the metal being transferred. Stick electrodes are packaged in 6- to 50-pound boxes.

Coiled wire, ranging in diameter from 0.035' to 0.219', is designed to be fed continuously to the welding arc through a "gun" held by the operator or positioned by automatic positioning equipment. The wire is packaged in coils, reels, and drums weighing from 14 to 1,000 pounds and may be solid or flux-cored. For more information on products visit the Web site **http://www.Lincolnelectric.com**.

Manufacturing Process

The main plant is in Euclid, Ohio, a suburb on Cleveland's east side. The layout of this plant is shown in Exhibit 1. There are no warehouses. Materials flow from the half-mile long dock on the north side of the plant through the production lines to a very limited storage and loading area on the south side.

Materials used on each work station are stored as close as possible to the work station. The administrative offices, near the center of the factory, are entirely functional. A corridor below the main level provides access to the factory floor from the main entrance near the center of the plan. *Fortune* recently declared the Euclid facility one of America's 10 best-managed factories, and compared it with a General Electric plant also on the list:

Stepping into G.E.'s spanking new dishwasher plant, an awed supplier said, is like stepping "into the Hyatt Regency." By comparison, stepping into Lincoln Electric's 33-year-old, cavernous, dimly lit factory is like stumbling into a dingy big-city YMCA. It's only when one starts looking at how these factories do things that similarities become apparent. They have found ways to merge design with manufacturing, build in quality, make wise choices about automation, get close to customers, and handle their workforces.

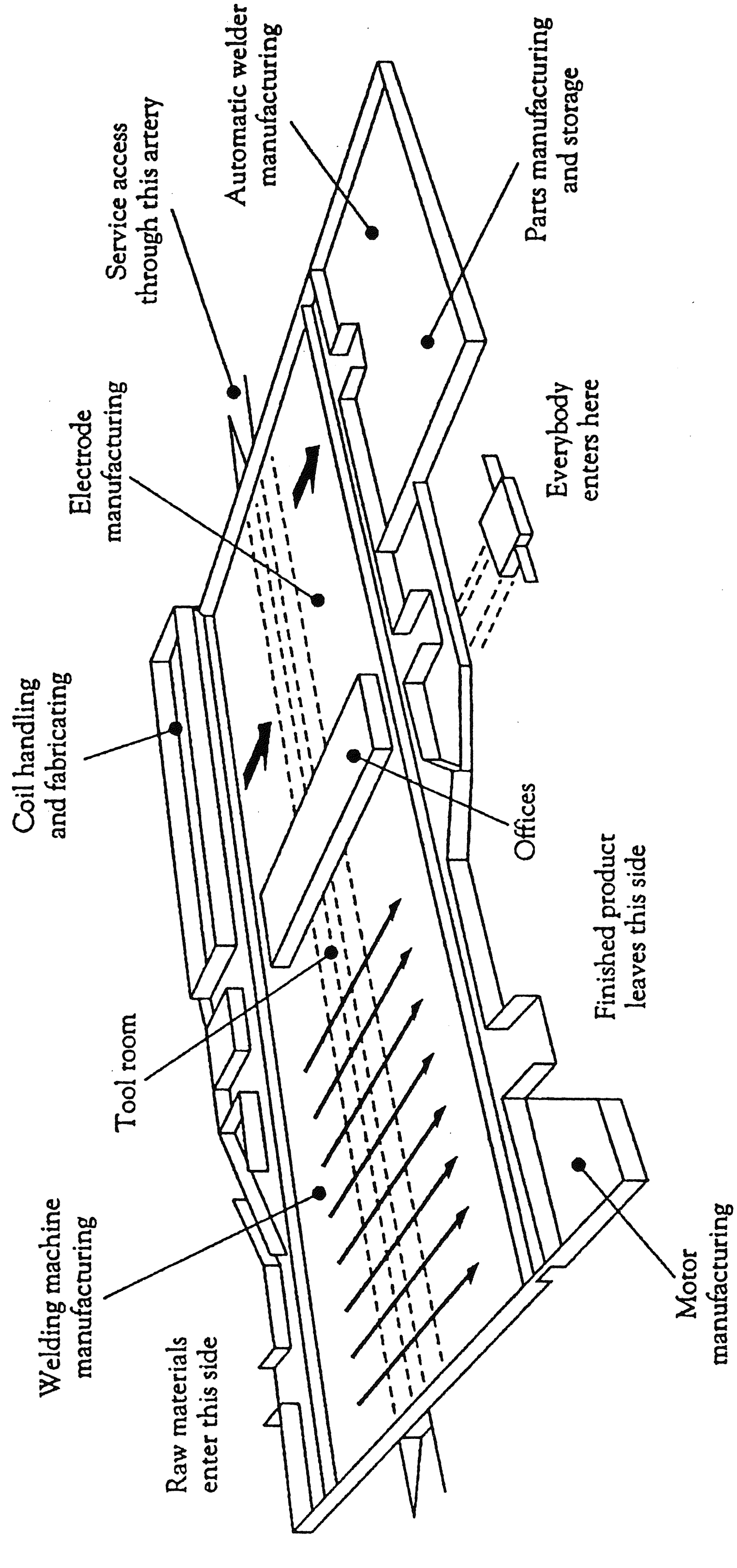

EXHIBIT 1
Main Factory
Layout

Another Lincoln plant, in Mentor, Ohio, houses some of the electrode production operations, which were moved from the main plant. Electrode manufacturing is highly capital intensive. Metal rods purchased from steel producers are drawn down to smaller diameters, cut to length, and coated with pressed-powder "flux" for stick electrodes or plated with copper (for conductivity) and put into coils or spools for wire. Lincoln's Innershield wire is hollow and filled with a material similar to that used to coat stick electrodes. As mentioned earlier, this represented a major innovation in welding technology when it was introduced. The company is highly secretive about its electrode production processes, and outsiders are not given access to the details of those processes.

Lincoln welding machines and electric motors are made on a series of assembly lines. Gasoline and diesel engines are purchased partially assembled but practically all other components are made from basic industrial products, e.g., steel bars and sheets and bar copper conductor wire.

Individual components, such as gasoline tanks for engine-driven welders and steel shafts for motors and generators, are made by numerous small "factories within a factory." The shaft for a certain generator, for example, is made from raw steel bar by one operator who uses five large machines, all running continuously. A saw cuts the bar to length, a digital lathe machines different sections to varying diameters, a special mining machine cuts a slot for the keyway, and so forth, until a finished shaft is produced. The operator moves the shafts from machine to machine and makes necessary adjustments. Another operator punches, shapes, and paints sheetmetal cowling parts. One assembles steel laminations onto a rotor shaft, then winds, insulates, and tests the rotors. Finished components are moved by crane operators to the nearby assembly lines.

Worker Performance and Attitude

Exceptional worker performance at Lincoln is a matter of record. The typical Lincoln employee earns about twice as much as other factory workers in the Cleveland area. Yet the company's labor cost per sales dollar is well below industry averages. Worker turnover is practically nonexistent except for retirements and departures by new employees. Turnover is less than 4% for employees who have been on the jobs for at least 18 months.[3]

Sales per Lincoln factory employee currently exceed $150,000. An observer at the factory quickly sees why this figure is so high. Each worker is proceeding busily and thoughtfully about the task at hand. There is no idle chatter. Most workers take no coffee breaks. Many operate several machines and make a substantial component unaided. The supervisors are busy with planning and recordkeeping duties and hardly glance at the people they "supervise." The manufacturing procedures appear efficient—no unnecessary steps, no wasted motions, no wasted materials. Finished components move smoothly to subsequent work stations. Appendix D includes summaries of interviews with employees.

Organizational Structure

Lincoln has never allowed development of a formal organization chart. The objective of this policy is to ensure maximum flexibility. An open door policy is practiced throughout the company, and personnel are encouraged to take problems to the persons most capable of resolving them. Once, Harvard Business School researchers prepared an organization chart reflecting the implied relationships at Lincoln. The chart became available within the company, and present management feels that had a disruptive effect. Therefore, no organizational chart appears in this report.

Perhaps because of the quality and enthusiasm of the Lincoln workforce, routine supervision is almost nonexistent. A typical production foreman, for example, supervises as many as 100 workers, a span-of-control which does not allow more than infrequent worker-supervisor interaction.

Position titles and traditional flows of authority do imply something of an organizational structure, however. For example, the Vice President, Sales, and the Vice

President, Electrode Division, report to the President, as do various staff assistants such as the Personnel Director and the Director of Purchasing.

Using such implied relationships, it has been determined that production workers have two or, at most, three levels of supervision between themselves and the President.

Human Resource Policies

As mentioned earlier, it is Lincoln's remarkable human resource practices that are credited by many with the company's success.

Recruitment and Selection

Every job opening is advertised internally on company bulletin boards and any employee can apply for any job so advertised. External hiring is permitted only for entry-level positions. Selection for these jobs is done on the basis of personal interviews—there is no aptitude or psychological testing. A committee consisting of vice presidents and supervisors interviews candidates initially cleared by the personnel department. Final selection is made by the supervisor who has a job opening. Nonetheless, it is increasingly desirable that factory workers have some advanced math skills and understand the use of computers. Out of over 20,000 applications received by the personnel department during a recent period, relatively few were hired in 1994–1995. Consequently Lincoln's expansion is becoming increasingly dependent upon getting employees qualified to work in the Lincoln environment, within the famous incentive system.[4]

Job Security

In 1958 Lincoln formalized its guaranteed continuous employment policy, which had already been in effect for many years. There have been no layoffs since World War II. Since 1958, every worker with over two year's longevity has been guaranteed at least 30 hours per week, 49 weeks per year.

The Policy has never been so severely tested as during the 1981 to 1983 recession. As a manufacturer of capital goods, Lincoln's business is highly cyclical. In previous recessions the company was able to avoid major sales declines. However, sales plummeted 32 percent in 1982 and another 16 percent the next year. Few companies could withstand such a revenue collapse and remain profitable. Yet Lincoln not only earned profits, but no employee was laid off and year-end incentive bonuses continued. To weather the storm, management cut most of the nonsalaried workers back to 30 hours a week for varying periods of time. Many employees were reassigned and the total workforce was slightly reduced through normal attrition and restricted hiring. Many employees grumbled at their unexpected misfortune, probably to the surprise and dismay of some Lincoln managers. However, sales and profits—and employee bonuses—soon rebounded and all was well again.

Performance Evaluations

Each supervisor formally evaluates subordinates twice a year using the cards shown in Exhibit 2. The employee performance criteria, "quality," "dependability," "ideas and cooperation," and "output" are considered to be independent of each other. Marks on the cards are converted to numerical scores which are forced to average 100 for each evaluating supervisor. Individual merit rating scores normally range from 80 to 110. Any score over 110 requires a special letter to top management. These scores (over 110) are not considered in computing the required 100-point average for each evaluating supervisor.

Suggestions for improvements often result in recommendations for exceptionally high performance scores. Supervisors discuss individual performance marks with the employees concerned. Each warranty claim is traced to the individual employee whose work caused the defect. The employee's performance score may be reduced, or the worker may be required to repay the cost of servicing the warranty claim by working without pay.

EXHIBIT 2 Merit Rating Cards

→ Increasing Quality →

This card rates the QUALITY of work you do.

It also reflects your success in eliminating errors and in reducing scrap and waste.

QUALITY

This rating has been done jointly by your department head and the inspection department in the shop and with other department heads in the office and engineering.

→ Increasing Dependability →

This card rates how well your supervisors have been able to depend on you to do those things that have been expected of you without supervision.

It also reflects your ability to supervise yourself including your work safety performance, your orderliness, care of equipment, and the effective use you make of your skills.

DEPENDABILITY

This rating has been done by your department head.

→ Increasing Output →

This card rates your Cooperation, Ideas, and Initiative.

IDEAS & COOPERATION

→ Increasing Output →

Days Absent

This card rates HOW MUCH PRODUCTIVE WORK you actually turn out. It also reflects your willingness not to hold back and recognizes your attendance record.

New ideas and new methods are important to your company in our continuing effort to reduce costs, increase output, improve quality, work safety, and improve our relationship with our customers. This card credits you for your ideas initiative used to help in this direction.

It also rates your cooperation—how you work with others as a team. Such factors as your attitude toward supervision, co-workers and the company, your efforts to share knowledge with others, and your cooperation in installing new methods smoothly, are considered here.

OUTPUT

This rating has been done jointly by your department head and the production control department in the shop and with other department heads in the office and engineering.

Compensation

Basic wage levels for jobs at Lincoln are determined by a wage survey of similar jobs in the Cleveland area.[5] These rates are adjusted quarterly in accordance with changes in the Cleveland area wage index. Insofar as possible, base wage rates are translated into piece rates. Today the average Lincoln factory worker earns $16.54 an hour vs. the average $14.25 manufacturing wage in the Cleveland area. Practically all production workers and many others—for example, some forklift operators—are paid by piece rate. Once established, piece rates are never changed unless a substantive change in the way a job is done results from a source other than the worker doing the job.

In December of each year, a portion of annual profits is distributed to employees as bonuses. Incentive bonuses since 1934 have averaged about 90 percent of annual wages. The average bonus for 1995 was $18,887. Even for the recession years 1982 and 1983, bonuses had averaged $13,998 and $8,557, respectively. Individual bonuses are proportional to merit-rating scores. For example, assume the amount set aside for bonuses is 80 percent of total wages paid to eligible employees. A person whose performance score is 95 will receive a bonus of 76 percent (0.80×0.95) of annual wages. While these percentages have often resulted in high total compensation, some employees believe that their bonuses are not rising fast enough, despite rising profits. This reflects the firm's decision to use the money to expand the operations rather than put them into higher bonuses. It also reflects the fact that there are more workers today sharing in a bonus pool that is only a little higher than in many years in the 1980s.[6]

Vacations

The company is shut down for two weeks in August and two weeks during the Christmas season. Vacations are taken during these periods. For employees with over 25 years of service, a fifth week of vacation may be taken at a time acceptable to superiors.

Work Assignment

Management has authority to transfer workers and to switch between overtime and short time as required. Supervisors have undisputed authority to assign specific parts to individual workers, who may have their own preferences due to variations in piece rates. During the 1982–1983 recession, 50 factory workers volunteered to join sales teams and fanned out across the country to sell a new welder designed for automobile body shops and small machine shops. The result: $10 million in sales and a hot new product.

Employee Participation in Decision Making

Thinking of participative management usually evokes a vision of a relaxed, non-authoritarian atmosphere. This is not the case at Lincoln. Formal authority is quite strong. "We're very authoritarian around here," says Willis. James F. Lincoln placed a good deal of stress on protecting management's authority. "Management in all successful departments of industry must have complete power," he said. "Management is the coach who must be obeyed. The men, however, are the players who alone can win the game." Despite this attitude, there are several ways in which employees participate in management at Lincoln.

Richard Sabo, Assistant to the Chief Executive Officer, relates job enlargement/enrichment to participation. He said, "The most important participative technique that we use is giving more responsibility to employees. We give a high school graduate more responsibility than other companies give their foremen." Management puts limits on the degree of participation that is allowed, however. In Sabo's words:

When you use 'participation,' put quotes around it. Because we believe that each person should participate only in those decisions he is most knowledgeable about. I don't think *production employees should control the decisions of the chairman. They don't know as much as he does about the decisions he is involved in.*

The Advisory Board, elected by the workers, meets with the chairman and the president every two weeks to discuss ways of improving operations. As noted earlier, this board has been in existence since 1914 and has contributed to many innovations. The incentive bonuses, for example, were first recommended by this committee. Every employee has access to Advisory Board members, and answers to all Advisory Board suggestions are promised by the following meeting. Both Willis and Hastings are quick to point out, though, that the Advisory Board only recommends actions. "They do not have direct authority," Willis says, "And when they bring up something that management thinks is not to the benefit of the company, it will be rejected."

Under the early suggestion program, employees were awarded one-half of the first year's savings attributable to their suggestions. Now, however, the value of suggestions is reflected in performance evaluation scores, which determine individual incentive bonus amounts.

Training and Education

Production workers are given a short period of on-the-job training and then placed on a piecework pay system. Lincoln does not pay for off-site education, unless very specific company needs are identified. The idea behind this latter policy, according to Sabo, is that everyone cannot take advantage of such a program, and it is unfair to expend company funds for an advantage to which there is unequal access. Recruits for sales jobs, already college graduates, are given on-the-job training in the plant followed by a period of work and training at one of the regional sales offices.

Fringe Benefits and Executive Perquisites

A medical plan and a company-paid retirement program have been in effect for many years. A plant cafeteria, operated on a break-even basis, serves meals at about 60 percent of usual costs. The Employee Association, to which the company does not contribute, provides disability insurance and social and athletic activities. The employee stock ownership program has resulted in employee ownership of about 50 percent of the common stock. Under this program, each employee with more than two years of service may purchase stock in the corporation. The price of these shares is established at book value. Stock purchased through this plan may be held by employees only. Dividends and voting rights are the same as for stock that is owned outside the plan. Approximately 75 percent of the employees own Lincoln stock.

As to executive perquisites, there are none—crowded, austere offices, no executive washrooms or lunchrooms, and no reserved parking spaces. Even the top executives pay for their own meals and eat in the employee cafeteria. On one recent day, Willis arrived at work late due to a breakfast speaking engagement and had to park far away from the factory entrance.

Financial Policies

James F. Lincoln felt strongly that financing for company growth should come from within the company—through initial cash investment by the founders, through retention of earnings, and through stock purchases by those who work in the business. He saw the following advantages of this approach:

1. Ownership of stock by employees strengthens team spirit. "If they are mutually anxious to make it succeed, the future of the company is bright."
2. Ownership of stock provides individual incentive because employees feel that they will benefit from company profitability.

3. "Ownership is educational." Owner-employees "will know how profits are made and lost; how success is won and lost. . . . There are few socialists in the list of stockholders of the nation's industries."
4. "Capital available from within controls expansion." Unwarranted expansion would not occur, Lincoln believed, under his financing plan.
5. "The greatest advantage would be the development of the individual worker. Under the incentive of ownership, he would become a greater man."
6. "Stock ownership is one of the steps that can be taken that will make the worker feel that there is less of a gulf between him and the boss. . . . Stock ownership will help the worker to recognize his responsibility in the game and the importance of victory."

Until 1980, Lincoln Electric borrowed no money. Even now, the company's liabilities consist mainly of accounts payable and short-term accruals. The unusual pricing policy at Lincoln is succinctly stated by Willis: "At all times price on the basis of cost and at all times keep pressure on our cost." This policy resulted in the price for the most popular welding electrode then in use going from 16 cents a pound in 1929 to 4.7 cents in 1938. More recently, the SA-200 welder, Lincoln's largest selling portable machine, decreased in price from 1958 through 1965. According to Dr. C. Jackson Grayson of the American Productivity Center in Houston, Texas, Lincoln's prices increased only one-fifth as fast as the Consumer Price Index from 1934 to about 1970. This resulted in a welding-products market in which Lincoln became the undisputed price leader for the products it manufactures. Not even the major Japanese manufacturers, such as Nippon Steel for welding electrodes and Saka Transformer for welding machines, were able to penetrate this market.

Substantial cash balances accumulated each year preparatory to paying the year-end bonuses. Modest success with international expansion put some pressure on what was basically a conservative financial philosophy. However, the company borrowed money in 1992 to pay for employee bonuses in the United States. In 1995 Lincoln issued $119 million of new stock. This sale created greater public ownership. As a consequence, Don Hastings remarked that the company must now consider not only the employees but its shareholders, customers, and suppliers.[7] For more current financial information visit Lincoln's Web site.

How Well Does Lincoln Serve Its Stakeholders?

Lincoln Electric differs from most other companies in the importance it assigns to each of the groups it serves. Hastings identifies these groups, in the order of priority ascribed to them, as: 1) customers, 2) employees, and 3) stockholders. As suggested, the 1995 stock issue increased the salience of the stockholders.

Certainly the firm's customers have fared well over the years. Lincoln prices for welding machines and welding electrodes are acknowledged to be the lowest in the marketplace. Quality has consistently been high. The cost of field failures for Lincoln products was recently determined to be a remarkable 0.04 percent of revenues. The "Fleetweld" electrodes and SA-200 welders have been the standard in the pipeline and refinery construction industry, where price is hardly a criterion, for decades. A Lincoln distributor in Monroe, Louisiana, says that he has sold several hundred of the popular AC-225 welders, which are warranted for one year, but has never handled a warranty claim.

Perhaps best served of all management constituencies have been the employees. Not the least of their benefits, of course, are the year-end bonuses, which effectively double an already average compensation level. The foregoing description of the personnel program and the comments in Appendix D further illustrate the desirability of a Lincoln job.

While stockholders were relegated to an inferior status by James F. Lincoln, they have done very well indeed. Recent dividends exceeded $11 a share and earnings per share have approached $30. In January 1980, the price of restricted stock, committed to employees, was $117 a share. By 1989, the stated value, at which the company will repurchase the stock if tendered, was $201. A check with the New York office of Merrill Lynch, Pierce, Fenner and Smith at that time revealed an estimated price on Lincoln stock of $270 a share, with none being offered for sale. Technically, this price applies only to the unrestricted stock owned by the Lincoln family, a few other major holders, and employees who have purchased it on the open market. Risk associated with Lincoln stock, a major determinant of stock value, is minimal because of the small amount of debt in the capital structure, because of an extremely stable earnings record, and because of Lincoln's practice of purchasing the restricted stock whenever employees offer it for sale. The 1995 stock sale has changed this situation dramatically. The stock now trades freely on the NASDAQ stock exchange.

A Concluding Comment

It is easy to believe that the reason for Lincoln's success is the excellent attitude of the employees and their willingness to work harder, faster, and more intelligently than other industrial workers. However, Sabo suggests that appropriate credit be given to Lincoln executives, whom he credits with carrying out the following policies:

1. Management has limited research, development, and manufacturing to a standard product line designed to meet the major needs of the welding industry.
2. New products must be reviewed by manufacturing and all producing costs verified before being approved by management.
3. Purchasing is challenged to not only procure materials at the lowest cost, but also to work closely with engineering and manufacturing to assure that the latest innovations are implemented.
4. Manufacturing supervision and all personnel are held accountable for reduction of scrap, energy conservation, and maintenance of product quality.
5. Production control, material handling, and methods engineering are closely supervised by top management.
6. Management has made cost reduction a way of life at Lincoln, and definite programs are established in many areas, including traffic and shipping, where tremendous savings can result.
7. Management has established a sales department that is technically trained to reduce customer welding costs. This sales approach and other real customer services have eliminated nonessential frills and resulted in long-term benefits to all concerned.
8. Management has encouraged education, technical publishing, and long-range programs that have resulted in industry growth, thereby assuring market potential for The Lincoln Electric Company.

Sabo writes, "It is in a very real sense a personal and group experience in faith—a belief that together we can achieve results which alone would not be possible. It is not a perfect system and it is not easy. It requires tremendous dedication and hard work. However, it does work and the results are worth the effort."

Appendix A

Mission and Values Statement

The mission of The Lincoln Electric Company is to earn and retain global leadership as a total quality supplier of superior products and services.

Our Core Values

As a responsible and successful company in partnership with our customers, distributors, employees, shareholders, suppliers and our host communities, we pledge ourselves to conduct our business in accordance with these core values:

- Respond to our customers' needs and expectations with quality, integrity and value
- Recognize people as our most valuable asset
- Maintain and expand the Lincoln Incentive Management philosophy
- Practice prudent and responsible financial management
- Strive continually to be environmentally responsible
- Support communities where we operate and industries in which we participate

To Realize our Mission and Support our Core Values, We Have Established the Following Goals:

Respond to Our Customers' Needs and Expectations with Quality, Integrity and Value

- Assure value through innovative, functional and reliable products and services in all the markets we serve around the world.
- Exceed global standards for products and service quality.
- Provide our customers with personalized technical support that helps them achieve improvements in cost reduction, productivity and quality.
- Lead the industry in aggressive application of advanced technology to meet customer requirements.
- Invest constantly in creative research and development dedicated to maintaining our position of market leadership.
- Achieve and maintain the leading market share position in our major markets around the world.

Recognize People as Our Most Valuable Asset

- Maintain a safe, clean and healthy environment for our employees.
- Promote employee training, education and development, and broaden skills through multi-departmental and international assignments.
- Maintain an affirmative action program and provide all employees with opportunities for advancement commensurate with their abilities and performance regardless of race, religion, national origin, sex, age or disability.
- Maintain an environment that fosters ethical behavior, mutual trust, equal opportunity, open communication, personal growth and creativity.
- Demand integrity, discipline and professional conduct from our employees in every aspect of our business and conduct our operations ethically and in accordance with the law.
- Reward employees through recognition, "pay for performance," and by sharing our profits with incentive bonus compensation based on extraordinary achievement.

Maintain and Expand the Lincoln Incentive Management Philosophy

Promote dynamic teamwork and incentive as the most profitable and cost-effective way of achieving:

- A committed work ethic and positive employee attitudes throughout the Company.
- High-quality, low-cost manufacturing.
- Efficient and innovative engineering.
- Customer-oriented operation and administration.
- A dedicated and knowledgeable sales and service force.
- A total organization responsive to the needs of our worldwide customers.

Practice Prudent and Responsible Financial Management

- Establish attainable goals, strategic planning, and accountability for results that enhance shareholder value.

- Promote the process of employee involvement in cost reductions and quality improvements.
- Recognize profit as the resource that enables our Company to serve our customers.

Strive Continually to Be Environmentally Responsible
- Continue to pursue the most environmentally sound operating practices, processes and products to protect the global environment.
- Maintain a clean and healthy environment in our host communities.

Support Communities Where We Operate and Industries in Which We Participate
- Invest prudently in social, cultural, educational and charitable activities.
- Contribute to the industries we serve and society as a whole by continuing our leadership role in professional organizations and education.
- Encourage and support appropriate employee involvement in community activities.

Appendix B

What Are the HR Objectives of Lincoln Electric?

- To "maintain and expand the Lincoln Incentive Management Philosophy"
- To "recognize people as [their] most valuable asset"
- To promote training, education and development that broaden employee skills
- To "maintain an affirmative action program and provide all employees with opportunities for advancement commensurate with their abilities and performance regardless of race, religion, national origin, sex, age or disability"

Appendix C

Business Objectives of Lincoln Electric:

- To be a global leader in price and quality and serve the customers first
- To "earn and retain global leadership as a total quality supplier of superior products and services"
- To "respond to [their] customers, integrity and value"
- To "practice prudent and responsible financial management"
- To "strive continually to be environmentally responsible"
- To "support communities where [they] operate and industries in which [they] participate"
- To "maintain an environment that fosters ethical behavior, mutual trust, equal opportunity, open communication, personal growth and creativity"
- To promote feedback
- To "demand integrity, discipline and professional conduct from [their] employees in every aspect of [their] business and conduct [their] operations ethically and in accordance with the law"
- To "reward employees through recognition, 'pay for performance,' and by sharing [their] profits with incentive bonus compensation based on extraordinary achievement" as a means of motivation
- To "promote dynamic teamwork and incentive"

Appendix D

Employee Interviews

Typical questions and answers from employee interviews are presented below. In order to maintain each employee's personal privacy, fictitious names are given to the interviewees.

Interview 1

Betty Stewart, a 52-year-old high school graduate who had been with Lincoln 13 years was working as a cost accounting clerk at the time of the interview.

Q: What jobs have you held here besides the one you have now?
A: I worked in payroll for awhile, and then this job came open and I took it.
Q: How much money did you make last year, including your bonus?
A: I would say roughly around $25,000, but I was off for back surgery for a while.
Q: You weren't paid while you were off for back surgery?
A: No.
Q: Did the Employees Association help out?
A: Yes. The company doesn't furnish that, though. We pay $8 a month into the Employee Association. I think my check from them was $130.00 a week.
Q: How was your performance rating last year?
A: It was around 100 points, but I lost some points for attendance for my back problem.
Q: How did you get your job at Lincoln?
A: I was bored silly where I was working, and I had heard that Lincoln kept their people busy. So I applied and got the job the next day.
Q: Do you think you make more money than similar workers in Cleveland?
A: I know I do.
Q: What have you done with your money?
A: We have purchased a better home. Also, my son is going to the University of Chicago, which costs $13,000 a year. I buy the Lincoln stock that is offered each year, and I have a little bit of gold.
Q: Have you ever visited with any of the senior executives, like Mr. Willis or Mr. Hastings?
A: I have known Mr. Willis for a long time.
Q: Does he call you by name?
A: Yes. In fact he was very instrumental in my going to the doctor that I am going to with my back. He knows the director of the clinic.
Q: Do you know Mr. Hastings?
A: I know him to speak to him, and he always speaks, always. But I have known Mr. Willis for a good many years. When I did Plant Two accounting I did not understand how the plant operated. Of course you are not allowed in Plant Two, because that's the Electrode Division. I told my boss about the problem one day and the next thing I knew Mr. Willis came by and said, "Come on, Betty, we're going to Plant Two." He spent an hour and a half showing me the plant.
Q: Do you think Lincoln employees produce more than those in other companies?
A: I think with the incentive program the way that it is, if you want to work and achieve, then you will do it. If you don't want to work and achieve, you will not do it no matter where you are. Just because you are merit rated and have a bonus, if you really don't want to work hard, then you're not going to. You will accept your 90 points or 92 or 85, because even with that you make more money than people on the outside.
Q: Do you think Lincoln employees will ever join a union?
A: I don't know why they would.
Q: So you say that money is a very major advantage?
A: Money is a major advantage, but it's not just the money. It's the fact that having the incentive, you do wish to work a little harder. I'm sure that there are a lot of men here who, if they worked some other place, would not work as hard as they do here. Not that they are overworked—I don't mean that—but I'm sure they wouldn't push.
Q: Is there anything that you would like to add?
A: I do like working here. I am better off being pushed mentally. In another company if you pushed too hard you would feel a little bit of pressure, and someone might say, "Hey, slow down, don't try so hard." But here you are encouraged, not discouraged.

Interview 2

Ed Sanderson, a 23-year-old high school graduate who had been with Lincoln four years, was a machine operator in the Electrode Division at the time of the interview.

Q: How did you happen to get this job?
A: My wife was pregnant, and I was making three bucks an hour and one day I came here and applied. That was it. I kept calling to let them know I was still interested.
Q: Roughly what were your earnings last year including your bonus?
A: $45,000.
Q: What have you done with your money since you have been here?
A: Well, we've lived pretty well and we bought a condominium.
Q: Have you paid for the condominium?
A: No, but I could.
Q: Have you bought your Lincoln stock this year?
A: No, I haven't bought any Lincoln stock yet.
Q: Do you get the feeling that the executives here are pretty well thought of?
A: I think they are. To get where they are today, they had to really work.
Q: Wouldn't that be true anywhere?
A: I think more so here because seniority really doesn't mean anything. If you work with a guy who has 20 years here, and you have two months and you're doing a better job, you will get advanced before he will.
Q: Are you paid on a piece rate basis?
A: My gang does. There are nine of us who make the bare electrode, and the whole group gets paid based on how much electrode we make.
Q: Do you think you work harder than workers in other factories in the Cleveland area?
A: Yes, I would say I probably work harder.
Q: Do you think it hurts anybody?
A: No, a little hard work never hurts anybody.
Q: If you could choose, do you think you would be as happy earning a little less money and being able to slow down a little?
A: No, it doesn't bother me. If it bothered me, I wouldn't do it.
Q: Why do you think Lincoln employees produce more than workers in other plants?
A: That's the way the company is set up. The more you put out, the more you're going to make.
Q: Do you think it's the piece rate and bonus together?
A: I don't think people would work here if they didn't know that they would be rewarded at the end of the year.
Q: Do you think Lincoln employees will ever join a union?
A: No.
Q: What are the major advantages of working for Lincoln?
A: Money.
Q: Are there any other advantages?
A: Yes, we don't have a union shop. I don't think I could work in a union shop.
Q: Do you think you are a career man with Lincoln at this time?
A: Yes.

Interview 3

Roger Lewis, a 23-year-old Purdue graduate in mechanical engineering who had been in the Lincoln sales program for 15 months, was working in the Cleveland sales office at the time of the interview.

Q. How did you get your job at Lincoln?

A: I saw that Lincoln was interviewing on campus at Purdue, and I went by. I later came to Cleveland for a plant tour and was offered a job.
Q: Do you know any of the senior executives? Would they know you by name?
A: Yes, I know all of them—Mr. Hastings, Mr. Willis, Mr. Sabo.
Q: Do you think Lincoln sales representatives work harder than those in other companies?
A: Yes. I don't think there are many sales reps for other companies who are putting in 50- to 60-hour weeks. Everybody here works harder. You can go out in the plant, or you can go upstairs, and there's nobody sitting around.
Q: Do you see any real disadvantage of working at Lincoln?
A: I don't know if it's a disadvantage, but Lincoln is a spartan company, a very thrifty company. I like that. The sales offices are functional, not fancy.
Q: Why do you think Lincoln employees have such high productivity?
A: Piecework has a lot to do with it. Lincoln is smaller than many plants, too; you can stand in one place and see the materials come in one side and the product go out the other. You feel a part of the company. The chance to get ahead is important, too. They have a strict policy of promoting from within, so you know you have a chance. I think in a lot of other places you may not get as fair a shake as you do here. The sales offices are on a smaller scale, too. I like that. I tell someone that we have two people in the Baltimore office, and they say "You've got to be kidding." It's smaller and more personal. Pay is the most important thing. I have heard that this is the highest paying factory in the world.

Interview 4

Jimmy Roberts, a 47-year-old high school graduate who had been with Lincoln 17 years, was working as a multiple-drill press operator at the time of the interview.

Q: What jobs have you had at Lincoln?
A: I started out cleaning the men's locker room in 1967. After about a year I got a job in the flux department, where we make the coating for welding rods. I worked there for seven or eight years and then got my present job.
Q: Do you make one particular part?
A: No, there are a variety of parts I make—at least 25.
Q: Each one has a different piece rate attached to it?
A: Yes.
Q: Are some piece rates better than others?
A: Yes.
Q: How do you determine which ones you are going to do?
A: You don't. Your supervisor assigns them.
Q: How much money did you make last year?
A: $53,000.
Q: Have you ever received any kind of award or citation?
A: No.
Q: Was your rating ever over 110?
A: Yes. For the past five years, probably, I made over 110 points.
Q: Is there any attempt to let the others know. . .?
A: The kind of points I get? No.
Q: Do you know what they are making?
A: No. There are some who might not be too happy with their points and they might make it known. The majority, though, do not make it a point of telling other employees.

Q: Would you be just as happy earning a little less money and working a little slower?
A: I don't think I would, not at this point. I have done piecework all these years, and the fast pace doesn't really bother me.
Q: Why do you think Lincoln productivity is so high?
A: The incentive thing—the bonus distribution. I think that would be the main reason. The paycheck you get every two weeks is important too.
Q: Do you think Lincoln employees would ever join a union?
A: I don't think so. I have never heard anyone mention it.
Q: What is the most important advantage of working here?
A: Amount of money you make. I don't think I could make this type of money anywhere else, especially with only a high school education.
Q: As a black person, do you feel that Lincoln discriminates in any way against blacks?
A: No. I do not think any more so than any other job. Naturally, there is a certain amount of discrimination, regardless of where you are.

Interview 5

Joe Trahan, a 58-year-old high school graduate who had been with Lincoln 39 years, was employed as a working supervisor in the tool room at the time of the interview.

Q: Roughly what was your pay last year?
A: Over $56,000, salary, bonus, stock dividends.
Q: How much was your bonus?
A: About $26,000.
Q: Have you ever gotten a special award of any kind?
A: Not really.
Q: What have you done with your money?
A: My house is paid for, and my two cars. I also have some bonds and the Lincoln stock.
Q: What do you think of the executives at Lincoln?
A: They're really top notch.
Q: What is the major disadvantage of working at Lincoln Electric?
A: I don't know of any disadvantage at all.
Q: Do you think you produce more than most people in similar jobs with other companies?
A: I do believe that.
Q: Why is that? Why do you believe that?
A: We are on the incentive system. Everything we do, we try to improve to make a better product with a minimum of outlay. We try to improve the bonus.
Q: Would you be just as happy making a little less money and not working quite so hard?
A: I don't think so.
Q: Do you think Lincoln employees would ever join a union?
A: I don't think they would ever consider it.
Q: What is the most important advantage of working at Lincoln?
A: Compensation.
Q: Tell me something about Mr. James Lincoln, who died in 1965.
A: You are talking about Jimmy Sr. He always strolled through the shop in his shirt sleeves. Big fellow. Always looked distinguished. Gray hair. Friendly sort of guy. I was a member of the Advisory Board one year. He was there each time.
Q: Did he strike you as really caring?
A: I think he always cared for people.
Q: Did you get any sensation of a religious nature from him?
A: No, not really.

Q: And religion is not part of the program now?
A: No.
Q: Do you think Mr. Lincoln was a very intelligent man, or was he just a nice guy?
A: I would say he was pretty well educated. A great talker—always right off the top of his head. He knew what he was talking about all the time.
Q: When were bonuses for beneficial suggestions done away with?
A: About 18 years ago.
Q: Did that hurt very much?
A: I do not think so, because suggestions are still rewarded through the merit rating system.
Q: Is there anything you would like to add?
A: It's a good place to work. The union kind of ties other places down. At other places, electricians only do electrical work, carpenters only do carpentry work. At Lincoln Electric we all pitch in and do whatever needs to be done.
Q: So a major advantage is not having a union?
A: That's right.

Letter from the CEO to Our Shareholders

Each of you is aware that your company faced enormous challenges in 1993. Those challenges required a focused, creative and positive leadership approach on the part of your management team. As I write this, first quarter 1994 results indicate that the domestic economy is continuing its upward surge. Because of the many tough decisions we had to make in 1993, we are now poised to take advantage of an improved economic climate. Even though much of my personal time has been devoted to overseeing the situation in Europe, excellent results are being achieved in the U.S.A. and Canada.

During 1993, a thorough strategic assessment of our foreign operations led to the conclusion that Lincoln Electric lacked the necessary financial resources to continue to support twenty-one manufacturing sites. We did not have the luxury of time to keep those plants operating while working to increase our sales and profitability. As a result, with the endorsement of our financial community, the Board of Directors approved management's recommendation to restructure operations in Europe, Latin America, and Japan.

The restructuring included closing the Messer Lincoln operations in Germany; reducing employment throughout Lincoln Norweld, which operates plants in England, France, the Netherlands, Spain, and Norway; and closing manufacturing plants in Venezuela, Brazil, and Japan. The result was a workforce reduction totaling some 770 employees worldwide. We are not abandoning these markets by any means. Rather, the restructuring will allow us to retain and increase sales while relieving us of the high costs associated with excess manufacturing capacity. Now that the restructuring has been accomplished, we operate fifteen plants in ten countries. This capacity will be adequate to supply the inventory needed to support our customers and an increasingly aggressive marketing strategy. We are internationally recognized for outstanding products and service, and we have been certified to the international quality standard ISO-9002.

It was not easy for Lincoln Electric to eliminate manufacturing capacity and jobs. However, I must point out that the overseas companies were given repeated opportunities to turn their performance around. In all fairness, no one anticipated the depth of the recession that continues to devastate Europe, and particularly Germany. But we could not in good conscience, risk both the continuous erosion of shareholder value and the jobs of our dedicated U.S. employees by remaining unprofitable in these manufacturing operations.

For the second year in the history of this company, it was necessary to take restructuring charges that resulted in a consolidated loss. The restructuring charge totaled

$70,100,000 ($40,900,000 after tax), and contributed to a consolidated net loss for 1993 of $38,100,000, compared to a $45,800,000 consolidated loss in 1992.

In 1993 our U.S. and Canadian operations achieved outstanding results with increased levels of sales and profitability and a significant gain in market share. We made a huge step forward by concentrating on the "Top Line" to meet one of our major goals—manufacturing and selling $2.1 million worth of product from our Ohio company each day from June 1 through the end of the year. Our Canadian company also made significant contributions with a 38 percent increase in sales. The bottom line automatically moved into greater profitability.

These impressive gains were not made without sacrifice. Lincoln manufacturing people voluntarily deferred 614 weeks of vacation, worked holidays, and many employees worked a seven day-a-week schedule to fill the steady stream of orders brought in by the sales department as we capitalized on an emerging domestic economy that we felt was being largely ignored by our major competitors. This remarkable achievement would never have been possible without the expert management of your President and Chief Operating Officer Frederick W. Makenbach. His leadership consistently inspired our employees and management team alike. The U.S. company's extraordinary performance encouraged the Board of Directors to approve a gross bonus of $55 million, and to continue the regular quarterly dividend payment throughout the year. As you know, the usual course of action for a company reporting a consolidated loss is to cut or defer bonuses and dividends. That these were paid is a tribute to our Board and their steadfast belief in the long range, proven benefits of the Incentive Management System. Thinking of the long term is critical to our process in a world that too often seems to demand instant solutions to complex problems. Your Chairman, your Board, and your management team are determined to resist that impulse. Currently, Lincoln people around the world are working diligently to formulate a Strategic Plan that will carry this company into the next century. An important element of this business plan will be our new state-of-the-art motor manufacturing facility, which is on schedule. Furthermore, we have strengthened our international leadership with the addition of executives experienced in global management to our Board and to key management posts.

While your company is indeed emerging from a very challenging period in its history, we project excellent results for 1994, with strong sales, increased profits, and the benefits of those developments accruing to shareholders, customers and employees. As the year proceeds, we will be looking forward to our Centennial in 1995. I am confident that you and I will enjoy celebrating that event together.

Sincerely,

Donald F. Hastings

Chairman and Chief Executive Officer (Retired May 1997)

Postscript: In Lincoln Electric's centennial year, 1995, sales topped $1 billion for the first time. It was also the year that Hastings eliminated the two-tier wage plan that was instituted in 1993. Under this plan, new hires started at 75% of the normal pay rate. This plan increased the turnover rate among the new hires and was regarded as unfair by senior workers. According to one of them, "If an individual shows he can handle the workload, he should be rewarded." As of 1997, Lincoln Electric appears to be back on track, committed as ever to its philosophy and values.[8] Although Donald F. Hastings has been replaced by Anthony A. Massaro, he continues to be an inspiration for the direction and spirit of Lincoln Electric.

Endnotes

1. T.W. Gerdel, "Lincoln Electric Experiences Season of Worker Discontent," *Plain Dealer* [Cleveland] (December 10, 1995).
2. Ibid.
3. Z. Schiller, "A Model Incentive Plan Gets Caught in a Vise," *Business Week* (January 22, 1996): 89, 92.
4. R. Narisetti, "Job Paradox Manufacturers Decry a Shortage of Workers While Rejecting Many," *The Wall Street Journal* (September 8, 1995): A4.
5. Schiller, "A Model Incentive Plan Gets Caught in a Vise," *Business Week* (January 22, 1996): 89, 92.
6. Gerdel, "Lincoln Electric Experiences Season of Worker Discontent," *Plain Dealer* [Cleveland] (December 10, 1995).
7. Ibid.
8. R.M. Hodgetts, "A Conversation with Donald F. Hastings of the Lincoln Electric Company," *Organizational Dynamics* (Winter 1997): 68–74; M. Gleisser, "Lincoln CEO's Formula: Mutual Trust and Loyalty," *Plain Dealer* (June 22, 1996): 2–C.