Incentives and Compensation Done Right

Many companies struggle with creating bonus structures that are fair, even and widely adopted by the personnel. One company who has been getting this formula right for the last 118+ years is Lincoln Electric, in Euclid, Ohio. Lincoln is also known for its decades-long no-layoff track record in the North American economy and it’s extremely generous bonus program.

2013 was Lincoln Electric’s 80th consecutive profit-sharing bonus, distributed to approximately 3,000 employees.

Some stats:

80 = uninterrupted years of paying an employee bonus (i.e. profitable every year since 1934.)

$33,029 = average 2013 bonus per U.S. employee (roughly 3,000)

$81,366 = average 2013 total earnings per U.S. employee (= wages-or-salary + bonus)

$100.7 million = total pre-tax profit shared with employees

0 = number of layoffs in 2013 (65 years without any layoffs)

AND .... Lincoln remains #1 in the global marketplace (LECO: Nasdaq, currently at an all-time high).

These figures once again provide convincing and reassuring evidence that it is possible to run a very profitable, very large, technologically superior multinational business based in North America while honoring your obligations to employees, customers, investors and society at large. This need not be a zero-sum game, a delusion embraced by far too many, especially in the past few years.

Lincoln Electric has roughly 3,000 employees in the US, 264 in Canada and 7,500 more around the world. The firm remains in 2013, as it has since the 1930s, the dominant player in the global electric welding industry and yet, it refuses to lay off its employees in tough times. The Guaranteed Continuous Employment Policy remains unbroken since at least 1948. That’s 65 years! (The no-layoff track record may in fact go as far back as 1925.) No one has been laid off for lack of work through the Great Depression, wars and now the Great Recession.

Since 1948, Lincoln Electric Co., the world leader and innovator in arc welding equipment and supplies, has adhered to a policy of not laying off permanent workers (those with three or more years of service) during slow periods and recessions. Instead the company reduces its bonuses, cuts hours and even cuts the salaries of top management. In the current "great recession," Lincoln Electric has resorted to buyouts for highly compensated employees -- many of them at or near retirement age.
Workers at Lincoln Electric even spruce up the grimy Cleveland area plants during slow periods. Everybody enters the plant from the same door and there are no special parking spots for the management. Everybody eats in a spartan cafeteria that reminds one of those in "correctional facilities." The company doesn't even pay for medical coverage for its employees, although it requires them to have health insurance. With typical annual shop floor salaries north of $90,000, Lincoln Electric reasons that employees can afford the premiums. Just before Christmas, Lincoln Electric distributes annual bonuses that can exceed the yearly wages of most employees.

It should be emphasized is that Lincoln Electric is not just a small company in Rust-Belt Cleveland. It's a global concern, with 39 manufacturing locations in 20 countries. Among the operations, manufacturing alliances and joint ventures in those countries are plants in such low-cost producers as China and India. Lincoln Electric is truly a company upon which the sun never sets, with distributors and sales offices covering more than 160 countries.

Chances are pretty good that if you look at an auto body shop, a repair garage, a farmer's workshop or a do-it-yourselfer's shop, you'll find a Lincoln Electric arc welder in the workplace. The company's most popular portable welder was even featured in John Hughes's hit movie "Home Alone!"

While factories across the Midwest shutter their doors, Lincoln Electric has thrived for more than a century. In addition to being profitable and technologically innovative, through good times and bad, the company has fulfilled its unique promise of "guaranteed continuous employment." Workers are viewed as assets—not liabilities. Through flexible hours and job assignments, as well as a merit-based bonus system, Lincoln Electric's employment policies have proven healthy for the company's bottom line its employees and its shareholders.

Job security can inspire powerful growth and prosperity in our communities, which in our hollowed-out manufacturing base is especially relevant.

Unfortunately for America's workers, the Lincoln Model is heavily studied, but not put in practice by many companies. Southwest Airlines, founded in 1971 and based in Dallas, TX, that adheres to this policy.

Maybe it’s time you look at your operations to see if you’ve properly incented your employees and given them a reason to care and work hard (besides a paycheck).