

Leading With Capitalism

by Timothy O’Keeffe

Publisher’s Note: *American Fastener Journal* is proud to bring you the first installment in a series of articles written by Timothy O’Keeffe about leadership. O’Keeffe was a subject of a popular AFJ biopic article last year entitled “A Life of Learning.” Tim is a self-described lifelong learner and practitioner of professional management. We think you will enjoy reading Tim’s articles, and we hope they will provide inspiration for your fastener industry career and beyond.

Capitalism has been demonized over the past 30 years or so, in large part blamed for income and wealth inequality. This demonization has been driven by misunderstanding of what capitalism really is.

As an economic system, capitalism is unique in that it is a process-driven system and not an outcome-driven system. All other economic systems are outcome-driven. For political and business leaders, correcting this misunderstanding would go far in improving the prospects for our economy. In your company, practicing capitalism will most likely improve the quality of your management and leadership.

As an economic system, capitalism allocates resources on the basis of “from each according to their ability, to each according to their ability.” Note that there is no consideration for outcome. You earn what you contribute. That compares to socialism in which resources are allocated, “from each according to their ability to each according to need.” Socialism ignores process and seeks to allocate resources based on needs. For participants in a Socialistic system, the motivation moves from a focus on the process of contribution, to the outcome of being needy. Participants are driven to increasingly prove greater need over one another in order to gain a greater share of resources.

Communism allocates resources based on equality, as in, “from each according to their ability to each equally.” It is very difficult to make everything equal. For participants in both socialism and communism, elaborate systems are constructed to divide resources so as to measure needs and equality. Persons who criticize Capitalistic systems are lured into the intellectual temptation of believing that capitalists are people who do

not care for equality or taking care of needy people. That is a flawed line of thinking.

The framers of the U.S. Constitution saw the value of capitalism when they wrote: “We the people of the United States, in order to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America.” Those words were preceded 13 years earlier when our Founding Fathers wrote: “We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are life, liberty and the pursuit of happiness.”

Note that nowhere in these writings is a guarantee of outcome—only a guarantee of process. In the United States, people do not have a right to earn a living—they have a right to be treated equally and a right to pursue life, liberty, and happiness.

At its core, capitalism thrives in a free market. Free markets are grounded in the following assumptions:

- **Perfect information** Buyers know all sellers and sellers know all buyers.
- **Perfect competition** There are many sellers and no one seller is sufficiently large enough to have the power to affect prices. Prices are set by supply and demand.
- **Perfect mobility** Capital and labor are free to go elsewhere if they don’t like conditions. Buyers and sellers are free to

buy and sell from one another.

When these conditions exist, the markets will drive the best results. Buyers will enjoy low prices and have the most choices, the most product features, and the best quality. Capitalism is distorted when the conditions for a free market are disrupted. When a free market exists, the price for goods and services is equal to its cost. Thus, the participants in a free market will seek to gain advantage by distorting the market. The sellers will acquire other sellers so as to gain more power over supply. Sellers will attempt to restrict information or restrain trade by authorizing distributors.

On the buy side, buyers may form alliances or associations so as to increase their own power and influence over suppliers. The internet has arguably had the most profound effect on capitalism since Adam Smith published the *Wealth of Nations* in 1776. The internet has transformed the fastener industry in recent years by supporting the free market goal of perfect information. Buyers can now more easily see sellers in the market. As free trade has developed around the globe, there is more perfect competition and more perfect mobility. Thomas Friedman summarized many of these dynamics in his 2005 book, *The World is Flat: A Brief History of the Twenty-First Century*.

Today’s fastener capitalist can visualize the free market through the lens of the internet, and hop on a de-regulated airline and fly to the Orient for just hundreds of dollars. Goods can be shipped on planes, trains, and

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The Capitalist Leader not only recognizes the importance of rewarding contribution within the firm, but also the value in the corporation's ability to contribute to people's lives and to society in general. Corporate contribution builds loyalty, brand, and culture. Tom's Shoes™, Starbucks™, and Patagonia™ are examples of firms with notoriously high customer and employee engagement and appreciation. For spiritual persons, corporate contribution is morally required, and emotionally rewarding. The idea of giving back to society elevates the meaning and purpose of the corporation. More meaning generally translates to greater commitment. Greater commitment yields greater engagement, which often leads to greater results. It can be inferred that the greatest beneficiary of charity is the giver and not the receiver.

The Capitalist Leader is well advised to incorporate giving and charity into corporate strategy. For privately-held firms, such strategy can be included in an Owner's Plan, a plan separate and distinct from the strategic plan. The Owner's Plan answers the question, "Why do we own this business?" In public firms, charity and giving can be established through foundations. In such moves, the giving process is compartmentalized from management, so that shareholder activists have greater difficulty in challenging the company's giving tactics. Following is a guide on how the Capitalist Leader can craft a strategy to contribute to the greater good in society.

| CAPITALIST LEADER CONTRIBUTIONS | | | |
|----------------------------------|-----------------------|---------------------|--|
| STRATEGY | TACTIC | SOURCE OF FUNDS | EXAMPLES |
| Safety Net | Accident Protection | Operating Statement | <ul style="list-style-type: none"> • Company match to employee donation of PTO to a co-worker. • Company grant for auto insurance deductible, subject to experience rating. • Company grant for home owner's insurance deductible, subject to experience rating. • Corporate subsidy of short term and long term disability insurance. |
| Support for Disadvantaged | Income Subsidy | Operating Statement | <ul style="list-style-type: none"> • Guarantee a living wage based for the local market. • Christmas bonus for low wage workers. • Create and fill physically accommodated positions. • Recognize non-traditional guardians (i.e. grandparents) for benefits eligibility. • Provide use of company vehicles for household or collegiate move. • Company day care center. |
| Opportunity Creation | Skills Enhancement | Operating Statement | <ul style="list-style-type: none"> • Tuition subsidy or reimbursement for employees and family. • Personal finance training. • Home ownership down payment subsidy or incentive. • Management facilitated book circles. |
| Community Development | Employee Activism | Operating Statement | <ul style="list-style-type: none"> • Habitat for Humanity project. • Breast Cancer Walk for Life team, or similar athletic team-based participation. • Employer match of employee charitable contribution. • United Way campaign. • Lunch time religious study. |
| Charity | Financial Support | Operating Statement | <ul style="list-style-type: none"> • Pledge of share of sales or units sold to charity or pet cause (Example: Tom's Shoes). • Customer match program for customer donations (Example: Ronald McDonald House). |
| Charity | Community Development | Balance Sheet | <ul style="list-style-type: none"> • Large donation with naming rights to elevate brand awareness. • Loan/grant program to persons and organizations that meet charity goals. • Donation of stock. • Owner/shareholder estate planning. |

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automobiles, including over the Mexico border, absent a wall or much in the way of significant regulation and tariffs. The net result is that prices are dropping and choices are increasing, and the channel concepts of “distributor,” “manufacturer,” “agent,” and “representative” are being blown up.

THE EXECUTIVE SHOULD PROMOTE CAPITALISM IN THE WORKPLACE BY PROMOTING EQUALITY AND FAIRNESS IN PROCESS.

Set against these challenges, how does the fastener executive manage in these times of change? First, lead your organization with capitalism. Start by promoting the value of work and contribution. As the famed management professor Peter Drucker stated in his book, *The Effective Executive*, the executive should not ask, “What can I achieve?” but rather, “What can I contribute?” Notice that the word “contribute” is process-driven, while the word “achieve” is outcome-based.

People can contribute to an organization in three ways. They can contribute production, as in the number of bolts, screws, or nuts that are manufactured in an hour. They can contribute skill, as in the skill to set up a machine, a website, or provide engineering guidance to a customer. Or they can provide responsibility for others in the organization. Notice the use of the words “for others” versus “over others.” The capitalist leader promotes managers that work for the team and not the other way around.

The executive should not only promote the value of work and contribution, but they should display capitalism and not material-

ism in the workplace. Recognize contribution. The artifacts that lie about your plant should reflect your value system, notably who is contributing. If they reflect materialism in the form of fancy cars in assigned parking spaces nearest the door, you might be sending a materialist message and not a capitalistic one.

Finally, the executive should promote capitalism in the organization by promoting equality and fairness in process. Be diligent in ensuring that minorities and women are given the same opportunities as everyone else. A quick view of the attendees at the National Industrial Fastener and Mill Supply Expo generally reflects an over-representation of white males among North American-based firms. Can we do better in promoting women and minorities in our industry?

In addition to leading with capitalism, the fastener executive should manage with capitalism. First and foremost, align incentives based on contribution. You must develop systems that measure contribution, which can be elusive, in that some measures of contribution are subjective. Work diligently to standardize subjective assessment. If it can be done in diving and figure skating, it can be done for management and technical contribution.

Manage your strategy based on capitalism. Recognize the tendency of the fastener industry to move toward commoditization. That means that you must manage your organization to become a low cost producer,

or with differentiation in product and services. These strategies will require you to stay at the forefront of technology. With pending developments in additive manufacturing, artificial intelligence, and improvements in voice-recognition and character recognition, these changes will be costly and daunting. There is a day in our near future where orders will be machine picked or pick tickets for humans will be delivered via an earpiece, and job set-up will reduce to just seconds in manufacturing.

In managing as a capitalist, recognize as a seller who your “buyers” really are: Customers are not your only buyer. Employees are your buyers as well. Employees “buy” your employment by agreeing to work for you. Ideally in a free market, those employees are free agents, so if you want the best employees, you must work to become the most attractive seller of jobs. Thus, the capitalist manager must work to improve the corporation’s value proposition to customers and employees alike.

Capitalism is not a dirty word. Capitalism is the most effective and efficient means to manage resources, and when free markets exist, choices and benefits to the buyer are optimized. While Karl Marx said in the Communist Manifesto, “Workers of the world, unite!” I offer this manifesto to managers and executives, “Capitalists of the world, take flight!” ■

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Henry Ford — A Capitalist

HENRY FORD GIVES \$10,000,000 IN 1914 PROFITS TO HIS EMPLOYEES

DOUBLES PAY OF 25,000 IN AUTO WORKS

— Headline from *The Detroit Journal*, January 5, 1914

On January 5, 1914, Henry Ford shocked the business world when he instituted a minimum wage scale of \$5.00 per day and reduced shift times from nine hours to eight hours. For many of his workers, wages more than doubled from prior levels. In addition, Ford declared that no employee would “be discharged except for proved unfaithfulness or irremediable inefficiency.” James Couzens, Ford Motor Company’s Treasurer, noted: “It is our belief that social justice begins at home. We want those who have helped us to produce this great institution and are helping to maintain it to share our prosperity. We want them to have present profits and future prospects. ... Believing as we do, that a division

of our earnings between capital and labor is unequal, we have sought a plan of relief suitable for our business.” Subsequent scrutiny revealed that part of the wage increase was tied to profit sharing, provided that the employee “lived a clean lifestyle.”

This move created controversy with *The Wall Street Journal*, proclaiming that Ford was bringing “biblical or spiritual principles into a field where they do not belong.” In reality, Ford was suffering from high turnover and poor attendance. According to Stephen Meyer, a labor historian and professor emeritus at the University of Wisconsin–Milwaukee, Ford’s turnover rate in 1913 was

370 percent, and absenteeism was 10 percent or more per day. Henry Ford and his management team saw the high costs of training for new hires, and the high costs of absenteeism in reduced productivity on their evolving production line concepts. In addition, Ford wanted to create a new consumer class for his own cars—his employees.

The net result was a smashing success, as Ford’s profits doubled from \$30 million to \$60 million in 1916, and public goodwill was fortified as Ford’s management communicated the concept as a social justice program, aligned to the comments of James Couzens.