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Solving the Problem of Poverty

Steve Mariotti
President and Founder, National
Foundation for Teaching Entrepreneurship

Steve Mariotti is the founder and president of the National Foundation for Teaching Entrepreneurship (NFTE), a nonprofit organization with programs in cities across the United States. Since 1988, NFTE has taught more than 20,000 youths how to start their own small businesses.

Mr. Mariotti has been the subject of special profiles on virtually all the major news networks and in such

publications as the *Wall Street Journal*, the *New York Times*, the *Boston Globe*, *Inc* magazine, *Success*, *Entrepreneur*, *U.S. News & World Report*, and *Investor's Business Daily*. Among the awards he has received are the Leavey Award for Outstanding Achievement in the Field of Free Enterprise Education, and NFTE's Best Business

Teacher of the Year Award.

Mr. Mariotti received an M.B.A. in 1977 from the University of Michigan and has pursued additional studies at Harvard, Stanford, and Brooklyn College. He has co-authored *Entrepreneurs in Profile* (1990) and *The Young Entrepreneur's Guide to Starting and Running a Business* (1996). ▲



After years of teaching public high school in such notorious areas as Bedford-Stuyvesant in Brooklyn and Fort Apache in the South Bronx, Steve Mariotti discovered that teaching inner-city students how to start their own businesses is not only the most effective way to help them learn basic skills but also to help them overcome disillusionment, disaffection, and dependency.

This presentation was delivered last May at Hillsdale's Shavano Institute for National Leadership seminar, "The Future of American Business," in Memphis, Tennessee.

I know a secret which, if fully understood by our government, business, and community leaders, could have enormous positive implications for the future of our society. Simply put, the secret is this: Children born into poverty have special gifts that prepare them for business formation and wealth creation. They are mentally strong, resilient, and full of chutzpah. They are skeptical of hierarchies and the status quo. They are long-suffering in the face of adversity. They are comfortable with risk and uncertainty. They know how to deal with stress and conflict.

These are the attitudes and abilities that make them ideally suited for breaking out of the cycle of dependency that so often comes with poverty and for getting ahead in the marketplace. In short, poor kids are "street smart," or what we at the National Foundation for Teaching Entrepreneurship (NFTE) call "business smart." Precisely because of their poverty—that is, because of their experience surviving in a challenging world—they are able to perceive and pursue fleeting opportunities that others, more content with their lot in life, tend to miss.

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Destructive Welfare Programs and Tax Laws

Children born into poverty have all the characteristics of the classic entrepreneurs like Henry Ford, Andrew Carnegie, and Thomas Edison—the heroes of our capitalist system. It stands to reason, therefore, that as a society we should make special efforts to encourage the development of entrepreneurial skills among low-income youths. But we have done just the opposite, spending over \$1.5 trillion since the beginning of the “War on Poverty” in the 1960s on public assistance programs that are actually designed to protect children *from* the free enterprise system.

In today’s dollars, \$1.5 trillion would be enough to purchase half of all the Fortune 500 companies in America. Such a colossal malinvestment has cost millions of dollars in lost revenue, and it has also discouraged millions of would-be young entrepreneurs from ever entering the marketplace.

This is a particular personal tragedy for children born into poverty, for, as the Nobel Prize winning economist F. A. Hayek once noted, the free market offers the most effective way of identifying what we are good at and how our comparative advantages can be developed. Public assistance limits and, in many cases even prevents, its recipients from engaging in this vital process of self-discovery. As a result, generation after generation of children born into poverty are settling for the security of welfare while missing out on the thrills and challenges of competition. Properly developed, their skills might be highly valued in the marketplace—but they will never find out.

Even more misguided than our national welfare strategy is our 7.5-million-word tax code. Even the most respected tax experts can’t claim to understand fully this maze of vague and often contradictory rules that runs no less than 38,000 pages. How can we expect young people who have never even seen a W-2 form to make sense out of the thousands of tax regulations that apply to starting and running a business? The U. S. tax code has been a terrible burden for the business community, but for low-income youths it has been absolutely devastating.

Besides the length of the tax code, there is something even more insidious: The code itself changes all the time. There is no constant body of information that can be regarded as definite and

enduring. For this reason, studying the current tax laws is like studying alchemy and finding that there are no basic principles!

To summarize, the financial loss represented by the \$1.5 trillion I mentioned earlier has been minimal in comparison with the psychological damage to millions of people who have been told, in effect, by welfare and tax bureaucrats that they are “worthless goods” in the marketplace and that they will be rewarded for unproductive behavior.

Founding NFTE

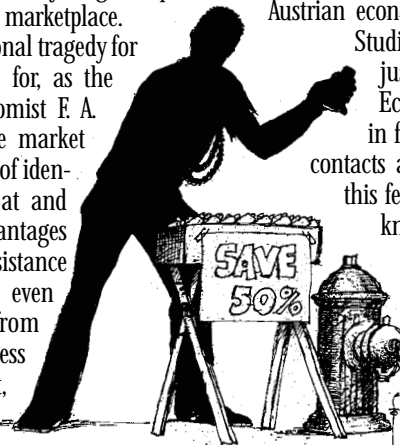
I founded the National Foundation for Teaching Entrepreneurship (NFTE) on the premise, which is still a secret to most, that children born into poverty have enormous potential in business. Let me share with you some of the history of NFTE.

After receiving an M.B.A. from the University of Michigan, I won a Liberty Fund fellowship to study Austrian economics at the Institute for Humane Studies (IHS) with F. A. Hayek, who had just won the Nobel Peace Prize in Economics. Although I was well versed in free market principles because of my contacts at places such as Hillsdale College, this fellowship enabled me to increase my knowledge of Austrian trade cycle theory and international finance.

After leaving IHS, I spent the next 30 months at Ford Motor Company as the South African and Latin American treasury analyst. Then I pulled up stakes and moved to New York to open an import-export firm specializing in African small businesses. This was great fun, and my business was profitable. But, as it happened, in 1981, I was robbed and beaten by a group of young men.

As a way of working through this traumatic event, I began a career as a special education teacher in New York’s most difficult impoverished neighborhoods. My first year was almost as traumatic as the mugging. I was assigned remedial students. In each of my classes, there was a group of six or seven students whose behavior was so disruptive that I had to stop the class every five minutes to get them to quiet down. On one occasion, in my third-period class, I was forced to throw out all the boys.

Ironically, it was these “troublemakers” who provided me with the valuable insight that set me on the road to teaching entrepreneurship. I took them out to dinner one evening and asked them why they had acted so badly in class. They said my class was boring and that I had nothing to teach



them.* I asked if anything I taught in class interested them. One fellow responded that I had caught his attention when I had discussed my import-export business. He rattled off various figures I had mentioned in class, calculated my profit margin, and concluded that my business was doing well.

I was dazzled to find such business smarts in a student whom the public schools had labeled “borderline retarded.” This was my first inkling that something was wrong not only with my teaching but also with the standard remedial education curriculum.

Meanwhile, the situation at school worsened. I began to lose control of my classroom, almost on a daily basis. One student set fire to the back of another student’s coat—the student with the coat was as astonished as I was. In a rage, I ordered the arsonist out of class, and he was expelled the same day. Days later, I was locked out of my eighth-period class. The students wouldn’t open the door. Finally, just as I was going to admit defeat and find a security guard, one of the girls took pity on me and opened it.

I didn’t know how to deal with this kind of nightmarish situation. I wanted to walk out of school and call it quits. After a minute or two, I realized that I couldn’t do that. I stepped into the hallway to regain my composure. I thought about my dinner with the young men from my third-period class. They had said I was boring—except when I talked about business and about making money. I walked back into the classroom and, without any introductory comments, launched a mock sales pitch, selling my own watch to the class. I enumerated the benefits of the watch. I explained why the students should purchase it from me at the low price of only six dollars. The students quieted down and became interested in hearing what I had to say. I didn’t know it at the time, but this incident, born of desperation, was pointing me toward my real vocation—teaching entrepreneurship to low-income youths.

After I had gained the students’ attention, I moved from the sales talk into a conventional arithmetic lesson: If you buy a watch at three dollars and sell it for six dollars, your profit is three dollars, or 100 percent. Without realizing it, I was touching on the business fundamental concept of

* This account is adapted from *The Young Entrepreneur’s Guide to Starting and Running a Business*, co-authored by Steve Mariotti.

“buy low/sell high,” and on the more advanced concept of “return on investment.”

Before long, I began offering a special class, “How to Start, Finance, and Manage a Small Business—A Guide for the Urban Entrepreneur.” During the next seven years, this course became so successful that even the most challenging and disruptive students settled down and learned a great deal. In my last teaching assignment in the Fort Apache area of the South Bronx, 100 percent of my students started small businesses and reported that

they experienced major positive changes in their lives. The difference teaching entrepreneurship seemed to be making in regard to student behavior was incredible; I noticed among my students that chronic problems such as absenteeism, dropping out, pregnancy, drug use, drug dealing, and violent behavior seemed to be significantly alleviated.

The overwhelming success of this class gave me the confidence to launch the National Foundation for Teaching Entrepreneurship (NFTE) in 1988. NFTE’s mission is to teach low-income youths the basics of starting their own businesses by creating a curriculum, training teachers, and providing graduate services. NFTE has year-round programs in eight cities and license agreements in Scotland, Belgium, and soon, Argentina. We have 21,000 graduates, all of whom have learned the basics of the free enterprise economy.

Testing NFTE’s Impact

In 1993, in conjunction with the Heller School at Brandeis University, we completed a study which found that NFTE program graduates were far more likely than their peers to start a business. Here are some specifics: 32 times more NFTE graduates than nongraduates were running a business, and a post-program survey found that 33 percent of those graduates were still running a business. And in 1998, the David H. Koch Charitable Foundation sponsored one of the most comprehensive examinations of entrepreneurship training ever conducted. An organization known as Research & Evaluation for Philanthropy tracked

How can we expect young people who have never even seen a W-2 form to make sense out of the thousands of tax regulations that apply to starting and running a business?

two different randomly selected groups: one comprised of 120 low-income Washington, D.C. residents between the ages of 18 and 30 who had completed the NFTE program and one comprised of 152 of their peers who had received no training. Here are some of the highlights of the Koch study:

- 91 percent of the NFTE alumni stated that they wanted to start their own business, compared with 75 percent of the comparison group and 50 percent of the U. S. public.
- NFTE alumni were two times more likely to be current business owners (12 percent in the NFTE group vs. 5 percent in the comparison group). In fact, the rate of business formation was substantially higher than the 1-3 percent rate for minority adults nationwide.
- NFTE participation increased the likelihood of starting a business four-fold.
- NFTE increased high school students' exposure to business and entrepreneurship training fourteen-fold.
- 88 percent of NFTE alumni stated that they gave serious consideration to going into business after completing the program.
- 99 percent of NFTE alumni indicated that the program gave them a more positive view of business, and they were two times more likely to predict that they would own a business in five years.
- 68 percent of NFTE alumni were the first in their families to start a business.
- 97 percent of NFTE alumni reported improved business skills and knowledge.
- 100 percent said they would recommend the program to others.
- NFTE alumni were two times less likely to prefer government employment over business ownership and corporate management.

Going to Scale

This study demonstrates that teaching about the free enterprise system and encouraging children to start businesses and create wealth are powerful tools that promote independence and self-sufficiency.

Today, we at NFTE are confident that our program is adding significant value to thousands of young people's lives. We plan to "go to scale" and create a national movement in which every low-income child is taught entrepreneurial skills and elementary business principles.

Our plan is two-fold. First, we intend to recruit the best business and academic minds to help us in our efforts. NFTE's board and sponsors now include some of America's leading businessmen and philanthropists.

Second, we intend to use high technology in all of NFTE's teaching models. This will help our students to compete in the 21st century. Through an exciting partnership with Microsoft, NFTE has developed BizTech, a state-of-the-art learning site that offers an on-line curriculum. BizTech lets students anywhere in the world access information on entrepreneurship 24 hours a day, seven days a week. Under the direction of NFTE's CEO, Michael J. Caslin III, BizTech will also enable them to begin trading on-line.

BizTech is currently operating as a pilot program in dozens of schools, and it has generated a huge positive response. Fortunately, we are now able to deliver much of our program at a fraction of the initial cost. And a great selling point for the program is the fact that the administrative record-keeping function is on-line, which liberates the teacher from cumbersome paperwork and allows him to become a true guide and coach. Perhaps most exciting is the news that NFTE, in cooperation with some of the country's leading educators, is developing state-of-the-art lesson plans that fully integrate information technology into a classroom environment.

At NFTE, the future is bright for low-income youths. By combining the most recent technology with the time-tested principles of capitalism, we are developing solutions for one of the most serious threats to our society: poverty. Sure, we are small, but we are growing like a mustard seed.

One of our greatest strengths is the unquenchable optimism of the young men and women we serve. As one of NFTE's graduates put it so aptly, "My dream is not to die in poverty, but to have poverty die in me." ♣

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The 21st-Century Company

John D. Correnti

Vice Chairman, President and CEO Nucor Corporation

John D. Correnti is vice chairman, president, and chief executive officer of the Nucor Corporation, one of the largest steel manufacturers in the United States.

Mr. Correnti earned a civil engineering degree in 1969 from Clarkson University prior to joining the United States Steel Corporation, where he was employed in construction management from 1969 to 1980. He began in Nucor in 1980 as manager of construction and worked his way up the corporate ladder to president and chief operating officer in 1991 and vice chairman and chief executive officer in 1996.



Mr. Correnti is a director not only of the Nucor Corporation but also of the Harnischfeger Corporation and the Navistar Corporation. In addition, he serves on the board of the Steel Manufacturer's Association, the First National Bank of Blytheville and Clarkson University.

One of the nation's most innovative companies, widely referred to as the "model for the 21st century," is the Nucor Corporation, which manufactures steel through the latest high-tech methods. In this essay, based on his remarks at the May 1998 Shavano seminar in Memphis, Nucor head John D. Correnti explains what it is that successful businesses must do differently than in the past: decentralize, empower employees, streamline operations, and stick to basic principles.

Nucor Corporation has a record of 30 years of profitability. In 1997, Nucor's sales exceeded \$4.2 billion, with a profit of \$294 million. We have never closed a plant or laid off any of our 6,900 employees. Not bad for a U. S. steel company—the second largest steel producer (9.8 million tons annually) in the United States.

The key to Nucor's success is the culture of our

company—one that we plan to extend into the next century. Our philosophy, particularly in regard to management and employees, is that management has the obligation to provide its employees with the opportunity to earn *according to their productivity* and to manage the company properly so that if employees work hard and do their job properly, their job security is assured.

Creating Incentives

Money cannot be the only incentive to increase productivity, but it certainly is the best. Employees who have trouble maintaining a modest standard of living and who do not know how many weeks they are going to work in a given year will be less productive in order to extend their stay and their paychecks—a lethal trend in a capital-intensive industry such as steel, where fixed assets are so high that the amount of tons produced is critical. But when employees see that working hard means they are not working themselves out of a job and are actually enhancing their job security, their productivity will rise. As such, Nucor offers a variety of incentive programs to enhance productivity.

The most important is our production incentive program, which focuses on groups of 40 to 60 people rather than on individuals. Nucor establishes a minimum acceptable level of tons produced and pays a bonus based on the degree to which people exceed that standard. There are usually seven different bonus groups—three for melting the steel, three for rolling the steel, and one for the maintenance department.

Our philosophy is that we put each bonus group into business for itself. We provide the training, capital, know-how, and equipment, but what each group makes is directly proportional to its own productivity and how it runs its business. When equipment breaks down or lightning strikes the substation and we are not running, a group's bonus may be zero. It is a no-excuse system based solely on quality tons produced every week. Does this sound harsh? Think again: The average hourly Nucor employee makes about \$10 per hour base pay. Last year, with bonuses running anywhere from 150 to 200 percent, the average hourly employee made \$60,000!

We also have incentive programs for people

who are not directly in production, such as draftsmen, clerks, accountants, and engineers. Our measurement of their performance is return on assets. Again, if minimum standards are exceeded, secretaries, clerks, and accountants can receive as much as 28 percent in bonuses, and department managers can receive as much as 82 percent.

Taking Stock of the Company

Even more shocking, perhaps, is the fact that our senior officers are not offered employment contracts, golden parachutes, or pension and retirement plans. Instead, they are offered Nucor stock. This benefit program is solely based on the job we do for the real owners of the company. The minimum is 8.5 percent; the maximum is 22 percent. One-sixth of my annual remuneration is fixed; the rest is at risk, based on return stockholder equity. Three-fourths is paid in cash and the rest in Nucor stock.

Wake up Wall Street: This is a precedent other companies should be following. They should also consider duplicating our employee profit-sharing plan. Understand, please, if there is no profit, nothing goes into the profit-sharing trust. But, so far, that has not been a problem. In 1997, Nucor contributed \$46 million—10 percent of pre-tax profits—to the employees' trust, which was then distributed among all 6,900 employees. Some long-term Nucor employees currently have in excess of \$500,000 in their profit-sharing accounts!

Rebuilding the Corporate Architecture

Another key to improving productivity is Nucor's unique organizational structure. Within our entire organization, there are only five levels—the chief executive officer, vice presidents and general managers who run their own businesses, department managers, supervisors, and professionals, and hourly employees. We have no assistant managers, group managers, or executive vice presidents.

Each of our vice presidents and general managers is an officer of the plant that he runs. These can be divisions that generate anywhere from \$200 million to \$900 million in annual revenue. With the exception of financial management, the vice presidents and general managers run the businesses themselves. The only things they cannot do are sell assets, borrow money in the name of the corporation, or authorize a major capital expenditure without corporate approval. Other than that, they have their own sales, marketing, engineering, credit, col-

lections, purchasing, and production authority.

Our headquarters in Charlotte, North Carolina, has a total staff of twenty-four. We have no engineering staff, marketing staff, purchasing staff, sales staff, or legal staff. And within our narrow corporate structure, we make very little distinction between various levels. All employees—from the CEO to the lowest hourly employee—have the same benefits: group insurance, holidays, vacation time, etc. Furthermore, we do not own company cars, planes, or boats; we have no executive dining rooms or restrooms and no reserved parking spaces. Everyone in the company flies in coach class.

Why are we so different from other companies? We believe that, to a large degree, the success of any incentive program is based on mutual respect and trust, and these can only be established through just actions. Once there is confidence between management and employees, the results are priceless.

Organizations of the Future

Aside from Nucor's generous incentive program and stripped-down organization, we also have a variety of special attributes that distinguish us as the prototype for organizations of the future:

- The lines of communication at Nucor are open and informal. Employees can pick up the phone and call the CEO anytime to discuss their concerns. Employees and management trust each other (sounds crazy, doesn't it?). We discuss small and big decisions with employees openly and honestly. And once we have made up our minds, we don't change them because of pressure or threats from unions, bureaucrats, or other special interests.

- Many companies think they have to be located in major cities because of their large populations. Nucor thinks the opposite: We have gone to rural America, and not because the labor there is cheap. For example, we employ 450 people in our plant in Leon County, Texas, which has a population of 17,000. When we built it in 1975, we received more than 5,000 job applications from people in Houston, Dallas, and San Antonio—people who had been forced to move away from Leon County because there were no jobs. The real reason companies go to the cities is because that is where executives want to live, where the nice amenities in life are. So, companies locate there to satisfy the minority and subsequently dissatisfy the majority of employees. If a company can provide a good-paying, stable, secure environment, anyone would love to stay in his hometown.

- For every five years of employment, we reward employees with five shares of stock; 10 years, 10

shares; 15 years, 15 shares; 20 years, 20 shares, and so on. We want all our employees be owners of Nucor.

The Nucor scholarship plan provides every child of every employee with \$2,200 per year, for up to four years, to attend college. Nucor spends about \$1.5 million a year on this program. Almost 1,000 children of employees are enrolled in about 300 institutions, ranging from the most exclusive universities to small beauty colleges and trade schools. The money goes first to tuition; if there is any left over, it is allocated to room, board, books, and supplies.

•We have no time clocks because they imply that the employee is a thief who is going to steal time from the company. In essence, time clocks penalize the vast majority of employees in order to catch that very small percentage who are going to try to cheat. Our employees keep their own record sheet of when they arrive and leave.

•Rules for absenteeism are simple. We allow four grace days a year for things like a death in the family, or a closing on a house, or a child's field trip. When employees miss a day, they lose their bonus

for the week. If they are late for work, they miss their bonus for the day.

The Benefits of Home

Nucor is quite comfortable restricting its production operations to within U. S. borders rather than exporting jobs to Europe or Asia. We have relied on American workers to catapult us to the heights of our industry. We manufacture a wide array of top-quality products, including carbon and alloy steel, 409 stainless steel, steel joists, steel deck, cold finished steel, steel grinding balls, steel fasteners, steel bearing products and metal building systems.

And whether you are considering steel alone or all industry, we are undoubtedly one of the most successful commercial enterprises in the country. In 1997, 6,900 employees generated \$622,554 in sales *per employee*. All Nucor has to do to continue such success is keep treating our employees fairly. In return, they will do amazing things for us. 🏠

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IMPRIMIS (im-pri-mis), taking its name from the Latin term "in the first place," is the monthly publication of Hillsdale College. Executive Editor, Ronald L. Trowbridge; Managing Editor, Lissa Roche; Assistant, Patricia A. DuBois. Illustrations by Tom Curtis. The opinions expressed in IMPRIMIS may be, but are not necessarily, the views of Hillsdale College and its External Programs division. Copyright © 1998. Permission to reprint in whole or part is hereby granted, provided a version of the following credit line is used: "Reprinted by permission from IMPRIMIS, the monthly journal of Hillsdale College." **Subscription free upon request.** ISSN 0277-8432. IMPRIMIS trademark registered in U.S. Patent and Trade Office #1563325.

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