Lincoln electric venturing abroad essay

Lincoln Electric Executive Summary Michael Gillespie, The Lincoln Electric Company’s new president for the Asia Region, was “ encouraged to develop plans to open welding consumables factories in several Asian countries” by the new CEO, Anthony Massaro, and Gillespie had specifically “ turned his attention to plans for Indonesia [O’Connell,[1] main reference, p 1]. ” We worked with Gillespie to prepare for the September 1996 meeting with Massaro and the presidents of the other worldwide regions.

We analyzed Lincoln’s current capabilities and its past experiences and prepared a transformative plan based on business concept innovation [Hamel[2], ch 3], documented by this report, with a three pronged approach for the Asia Region. The first prong would be to execute Massaro’s strategy, to grow revenue in the less-developed countries, by building a factory in Indonesia in a joint venture with SSHJ as a pilot step, to be followed by further expansion to other South East Asian countries, and to China.

The second prong would be to build on Lincoln’s strengths as an organization, including its technical innovativeness and incentive system and its people, to prepare Lincoln for the expansion effort ahead. The third prong would be to extend Lincoln’s competencies to the level of a living system [Senge[3], ch 12] that learns, from the Asia Region expansion experience and from all aspects of its future existence, how to grow sustainably [Kaplan[4], ch 4]. Current Status Lincoln was financially sound at this time to undertake the planned international expansion.

After having been remarkably successful for nearly a century of existence, Lincoln started to slide in 1988 toward bankruptcy with a steep drop in cash from $61 million to $23. 9 million, with $17. 5 million from long term debt [p 19]. Return-on-sales dropped from 6. 2% in 1987 to 1. 7% in 1991 [Exhibit A. Financial Ratios]. Similarly, return-on-equity and return-on-assets, respectively, dropped from 13. 5% and 9. 4% in 1987 to 5. 5% and 3. 3% in 1991. Restructuring efforts between 1992 and 1994 [p 19] and the associated management changes [p 7] succeeded in the ensuing financial turnaround to return to pre-1987 status with 6. % ROS, 18. 6% ROE, and 11. 2% ROA in 2005. A 40% equity public offering in 1995 [p 1] injected approximately $132 million[a]. With the financial leverage at 2. 15x and quick ratio, current ratio, interest coverage, and long-term-debt/total-assets of respectively 0. 9x, 2. 1x, 9. 1x, and 15. 2%, Lincoln should be able to finance the Asian expansion. Four Lessons Learned A major element for any organization to sustain success and to continue growth would be to build and maintain an institutional ability to learn.

Because Lincoln had encountered failures in its previous attempt to expand internationally, Lincoln had the unique opportunity to learn lessons from these failures. 1. The Incentive Plan[b] should be implemented within the context in which it was grounded. The governing principle[c] from which the Incentive Plan was created was stated by James Lincoln in that “ All those involved must be satisfied that they are properly recognized [p 2]. ” Thus the question one should ask was not “ Should we implement the Incentive Plan? Rather, the question to ask should be “ How the Incentive Plan may be utilized to properly recognize customers, workers, management, owners, community, and society? " From 1987 to 1995, the Incentive Plan system had ensured exceptional productivity that resulted in gross-profit-margins within a range of 35. 2 to 38. 5. And yet, during the same nine year span, the three major profitability indices of ROS, ROA, and ROE had dipped into the red. Thus, the strict application of the Incentive Plan failed to properly recognize at least the owners.

And, Lincoln's poor overall financial performance during that period would have led to continued total incentives decline and to ultimate demise if Lincoln had depended solely on the Incentive Plan. Non-Incentive Plan initiatives had contributed to the turnaround and non-Incentive Plan initiatives would be needed to ensure the successful Asiaexpansion. 2. Lincoln needed continued organizational development just as Lincoln's equipment needed continued maintenance to remain viable. James Lincoln was a principled visionary and an organizational development innovator[d].

However, he did not prepare successors for assuming the critical role that continued organizational development. Neither of his successors, first William Irrgang and later Georges Willis, had contributed anything of note in developing the organization to meet Lincoln's changing environmental demands. In particular, during Willis's tenure, Lincoln did not even practice organizational maintenance: " By 1992, nearly all of the newly acquired plants, plus France, were operating in the red [and corporate executives] paid little attention [p 7]. Lincoln needed to develop the Asian organization and to develop the entirety ofLincoln as a wholly integrated organization in order to meet the demands of its expansion effort. 3. Lincoln's culture could not be imposed but must be nurtured. " Willis retained the existing managers of most of the acquired companies to take advantage of their local knowledge, but directed them to implement [underlined by author]Lincoln's incentive and manufacturing systems [p 6]. While Willis appreciated the benefits of implementing Lincoln's systems, he did not consider James Lincoln's caveat that " All those involved must be satisfied that they are properly recognized or they will not cooperate – and cooperation is essential to any and all successful application of incentives [p 2]. " The failure to properly recognize all resulted in " Resistance from many quarters hindered the implementation of key elements of the incentive system, however [p 7]. Lincoln would need to adjust its Incentive Plan system to balance the " proper recognition" of all ofLincoln's employees and management, whether domestic or international, in order to nurture all. 4. Cleveland did not know all and Lincoln could learn from all. It was self-defeating for Willis to retain existing managers for " their local knowledge" and then " To help them, he sent out U. S. managers who knew the system in Cleveland, and also linked overseas supervisors and foremen with mentors among their U. S. counterparts. Beyond this, however, corporate headquarters largely left the new subsidiaries to manage on their own [p 6]. How would the " local knowledge" be transferred to Lincoln so that the retained managers could have been properly recognized? Lincoln could benefit by revising the Incentive Plan to incorporate elements of collaborative learning in order to " Know yourself, know your adversary; win every battle [SunZi[5]]. " Lincoln's adversaries were not limited to business competitors and must include all forms of challenges which would be outside of Lincoln's control. Aligning Strategy The decision to manufacture in Indonesia was predicated on a risk and benefits assessment and the Four Lessons Learned.

Gillespie’s concerns were threefold [p 1]: the political and economic conditions, the nature of the market, and the competitive situation in Indonesia. 1. While the political and economic conditions in Indonesia did pose some risks, taking calculated risks would be part of doing business. Although the 1965 coup was very bloody and that 10 buildings were burned during a riot in July [p 11], the risks of destruction of Lincoln’s properties in future riots could be reduced by working toward the common good and by creating well-paying jobs for a population with 43% unemployment or underemployment. Exhibit 8] In addition, Lincoln, based on ethical and risk avoiding reasons, would need to avoid contributing to the corrupt government such as forming a partnership with Tira, who had “ high-level relationships with government officials. ” [p 12]Moreover, given the base nature of Suharto’s government, it was also more than likely that a more progressive and responsive government would replace the Suharto government and stabilize or improve the economic condition. By entering a joint venture with SSHJ Lincoln could reduce its own investment and thereby reduce its financial risk.

By properly recognizing (Lesson 3) and by learning from (Lesson 4) all – including SSHJ, the community, and the society –Lincoln should be able to weather any political and economic storm and come through stronger. 2. The nature of Indonesia’s market actually offered opportunities rather than posed risks when viewed from a “ bottle is half full” perspective. By producing consumables locally and given Lincoln’s manufacturing excellence, Lincolnwould have had the lowest prices in all three consumables segments.

And in the automatic and semi-automatic consumables segments Lincoln's cost advantage would have been even more pronounced because its competitors would have incurred the additional import costs.

Moreover, Lincoln would be able to offer complete solutions and increase its market share for all equipment sales, according to Ray Bender. [p 10] Lastly, as Indonesia's economy developed, its welding needs would have become more sophisticated and Lincoln could have cultivated more customer awareness of the benefits of Lincoln's automatic and semi-automatic equipment.

A learning Lincoln would be able to sense competitors' weaknesses and market opportunities and exploit them with agility and efficacy. 3. As for the competitive situation, although it may have seemed that competitors had a stranglehold on the consumables market, a closer analysis revealed weaknesses that Lincoln could explore to its advantage. International Company #1 seemed to be the most vulnerable because it only sold consumables. Import Company #2 seemed vulnerable in semi-automatic consumables (20%) because they were mostly imported. Exhibit 7, Note a] And, imports by other companies, considering the import costs, seemed to indicate the existence of some supply opportunities in automatic (20%) and semi-automatic (40%) consumables for Lincoln's locally produced products. The potential benefits for manufacturing in Indonesia were revenue growth, reduced logistics costs, and improved access for expanding into other parts of the Asia market. The market was growing at 9 – 12% per year and when combined with the expected market share gains against competitors the Asia Region should be able to meet or exceed revenue growth expectations.

By manufacturing in Indonesia, the logistics costs for Lincoln’s 50% market share of automatic consumables would be reduced and could increase market share for automatic equipment and consumables. And, Indonesia’s close proximity to the IndochinaPeninsula, to southern China, and to India would reduce transportation costs for finished goods, transport delays, shrinkage, and would improve market access to these areas. By choosing SSHJ as a joint venture partner, Lincoln would be cultivating a valuable long-term strategic partner that would provide more than strong financial support for factory building and to help cover initial operating costs.

While Tira had mixed loyalties and was more loyal to its existing clients in servicing their established needs, SSHJ had demonstrated a strategic approach of creating win-win solutions as Lincoln’s distributor. As a partner, with a share of the profits, SSHJ could only have more incentive to increase sales of Lincoln’s products through its existing operations in Vietnam, Burma, and China, and to expand Lincoln’s market share in those countries and to enter markets in other countries.

Comparing SSHJ to Tira’s ties to the corrupt current government, its weak financial weaknesses, and Lincoln’s small footprint in Tira’s catalog of products, SSHJ would be the natural choice. And Lincoln would be wise to expose some of its normally internal considerations to SSHJ and to invite SSHJ to mutually share knowledge. For example, SSHJ would make an ideal sounding board to help Gillespie determine if and how Lincoln’s incentives system would need to adapt to local customs and mores in order for the system to work effectively in the new factory.

Building on Strengths Any large-scale expansion would be a strenuous effort for an organization, andLincoln, after having just survived a near fatal financial crisis, would need to regain and to further develop all its strengths and to build new strengths. The main source of Lincoln Electric's success was in innovation. Serendipitously, two different and complementary innovations occurred at the early stages of the company – absent one or the other and the enterprise would not have flourished as much as it did.

First, John C. Lincoln was a technical innovator of electric motors and generators and founded Lincoln Electric in 1895 at a time when electric appliances were still an emerging technology. [It was only in 1886 that George Westinghouse had built the first multivoltage AC system and Nikola Tesla patented the AC motor only in 1989.] Second, " James F. Lincoln, John's younger brother, joined in 1907 and complemented his older brother's flair for technical innovation with a proficiency in management and administration [p 1]. James, as described earlier, created an innovative organizational development policy for " incentive management" in Lincoln's " unusual structure of compensation and benefits [p 2]. " While John's technical innovations provided the value proposition, it was James's managerial innovations that created the means for efficacious strategic execution. The industrial society environment at the time of the founding of Lincoln Electric provided the ideal backdrop for the innovations to create phenomenal value both for Lincoln Electric's customers and for its owners and workers.

The emerging knowledge society would require new innovations to create more value. Lincoln's technical innovations continued throughout its 100 years of existence. While the company was founded to " manufacture electric motors and generators" [p 1], it may have experienced what Peter F. Drucker called " the unexpected success" [Drucker[6], ch 3] of its arc welding machine and " eventually became the world leader in sales of welding equipment and supplies [p 1]. In terms of opportunities, Lincoln would need to continue to innovate technically and exploit other potential " unexpected successes" and introduce new products. It would also need to exploit the areas of automation and of IT-enabled processes to reduce cost and to improve efficiency. In terms of threats, Lincoln would need to be vigilant of the possibility of being victimized by " hit them where they ain't [Drucker, ch 17]" assaults from unexpected forces that led to the demise of many world sales leaders, e. g. , Kodak. Therefore, in terms of continued growth, Lincoln would need to become a learning organization.

As for organizational development innovations, James Lincoln continued to innovate throughout his tenure and introduced employee stock ownership plan, paid vacation, " open door", and guaranteed employment [pp 1-4]. However, organizational development innovations had apparently ceased upon James Lincoln's death. Adaptive approaches had been taken on a localized and minor scale. In the meantime, the industrial society was being replaced by the post-industrial society and Lincoln would need to review organizational developmental needs and adjust, enhance, or replace its various policies.

In particular, Lincoln would need to address how its incentives systems could be adjusted as automation and IT-enabled processes transformed manual workers to knowledge workers. Specifically, Lincoln would need to create incentives for sharing best practices and to encourage team collaboration. And, emphasis would need to shift from training manual work to educating knowledge work. While “ open door” communications worked at a local level in Cleveland, Lincoln would need to make available the same “ open door” for its global employees, including those from the Asia Region.

Finally, Lincoln would need to integrate technical and organizational development innovations and create synergies for the globalized operation of its intended expansion into the five world regions. Manufacturing, sourcing, distribution, and other operational functions should be viewed from a holistic perspective to create internal sourcing and distribution networks between regions, countries, and localities. A global enterprise resource planning system would be needed to coordinate logistics. Learning as an Organization

The Four Lessons Learned would form the pillars on which Lincoln could start to build itself into a learning organization. Many suggestions relating to applying the Four Lessons to the Asian expansion were interspersed throughout this report. A Fifth Lesson, not learned from Lincoln but learned by the author from working with other organizations, would be needed to sustain the learning process. And, based on Lesson Five, this section is intentionally left non-specific so that new learning would not be encumbered by a rigid structure – just as a newborn baby’s skull and brain membrane are liable to permit brain growth. 1. Learn to adapt continuously the Incentive Plan to properly recognize all those involved in Lincoln’s changing and expanding circle of employees, management, owners, community, and society. 2. Learn to develop the organizational agility that Lincoln would need in order to meet the demands of the ever-changing environment. 3. Learn to adapt Lincoln's culture to nurture growth of the entire organization. Because Lincoln is an organization of individuals, organizational growth would need to find ways to address meeting individual growth needs. 4.

Learn from and encourage the sharing of the knowledge that reside in each and every one of Lincoln's employees and, perhaps to a lesser but broader extent, Lincoln's business partners, community, and society. 5. Learn how to learn. Just as individual learning must become autotelic, Lincoln would have to self-actualize its own learning process, to know itself and to know its adversaries, by constantly asking itself the question: " What more do I need to learn and how do I go about learning it? " Conclusion (P)rofitability is a performance requirement for all businesses, but it is not a purpose. (C)ompanies who take profit as their purpose are like people who think life is about breathing. They are missing something. … (They force) people to lead fragmented lives that can never tap the passion, imagination, willingness to take risks, patience, persistence, and desire for meaning that are the cornerstones of long-term financial success. [Senge[7], p263] Even though this report specifically analyzed and recommended an approach to expand Lincoln's Asian expansion, it recognized that for such an expansion to succeed sustainably it must be based on growing Lincoln holistically.

Therefore, as part of the recommended three-pronged approach, Lincoln needed to broaden its existing culture for cooperation [Exhibit 2] and for open communications [p 3] between worker and management to include ethical collaboration with business partners [Kaplan, ch 8], between peer units, and within society to achieve the common good and to seek long term financial sustainability. Lincoln also needed to expand the existing culture for training [p 3] and mentoring [p 6] to practice holistic knowledge management [Chu[8], Alavi[9]] and to facilitate meaning-making personal growth for workers.

Exhibit A. FINANCIAL RATIOS | 1987| 1988| 1989| 1990| 1991| 1992| 1993| 1994| 1995| ROA %| 9. 37| 8. 53| 6. 06| 2. 65| 3. 28| (neg)| (neg)| 10. 31| 11. 18| ROS %| 6. 23| 6. 03| 3. 98| 1. 39| 1. 73| (neg)| (neg)| 5. 29| 5. 96| ROE %| 13. 48| 15. 30| 11. 32| 4. 36| 5. 45| (neg)| (neg)| 24. 73| 18. 64| Gross Profit Margin %| 36. 96| 36. 69| 36. 30| 35. 92| 37. 43| 35. 16| 37. 02| 38. 64| 38. 53| Profit Margin %| 6. 23| 6. 03| 3. 98| 1. 39| 1. 73| (neg)| (neg)| 5. 29| 5. 96| Receivable Turnover| 7. 18| 6. 27| 6. 87| 6. 26| 7. 07| 7. 66| 7. 66| 7. 20| 7. 33| Inventory Turnover| 3. 74| 3. 0| 3. 66| 3. 11| 2. 53| 3. 23| 3. 71| 3. 58| 3. 47| Asset Turnover| 1. 50| 1. 41| 1. 52| 1. 39| 1. 30| 1. 41| 1. 51| 1. 63| 1. 67| Quick Ratio| 1. 96| 1. 01| 0. 98| 1. 04| 0. 87| 0. 89| 0. 74| 0. 95| 0. 90| Current Ratio| 3. 29| 2. 13| 2. 08| 2. 34| 2. 28| 2. 16| 1. 85| 2. 17| 2. 12| Interest Coverage| | | | 3. 74| 3. 19| (neg)| (neg)| 6. 11| 9. 10| LT-Debt/Total Assets %| 0. 00| 4. 34| 6. 63| 19. 08| 24. 29| 36. 71| 38. 77| 34. 98| 15. 15| Financial Leverage| 3. 27| 2. 26| 2. 15| 1. 80| 1. 70| 1. 49| 1. 34| 1. 54| 2. 15| References [a] 40% of $329. 9 million, total equity, in 1995. b] Based on " Modified Seven S's," the Incentive System is a System for incentives and pay but its execution is an organizational Skill/capability for operating efficiently. [c] Ibid. – the " proper recognition of all" is a Shared Purpose/Governing Principle that states a value or premise. [d] James F. Lincoln implemented his philosophy of " incentive management" through an unusual structure of compensation and benefits. [p 2] [1] O'Connell, J. (1998) " Lincoln Electric: Venturing Abroad," Harvard Business School. [2] Hamel, G. (2002) " Leading the Revolution," Harvard Business School Press. [3] Senge, Peter. 2006) " The Fifth Discipline," Second Edition, Doubleday. [4] Kaplan, D. and Norton, R. (2006) " Alignment", Harvard Business School Press. [5] Sun Zi. (c. 544 BC – 496 BC) " Art of War". [6] Drucker, PF (1985) " Innovation and Entrepreneurship," HarperCollins Publishers. [7] Senge, Peter. (2006) " The Fifth Discipline," Second Edition, Doubleday. [8] Chu, DL. Knowledge/Action at http://knowledgeaction. blogspot. com/. [9] Alavi, M. and Leidner, DE. (2001) " Review: Knowledge Management and Knowledge Management Systems: Conceptua Foundations and Research Issues", MIS Quarterly, Vol. 25, pp 107-136.