

# Lincoln electric company overview case study

[Business](#), [Company](#)



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“ Lincoln Electric Company has a mission of attaining and preserving international competence as a supplier of superior equipments and products with the highest quality (lincolnelectric).” The origin of the company is in Cleveland, Ohio, where the owner Mr. Lincoln began operations in 1895 making and distributing electrodes and welding equipment (Hastings, 1999). The founder invested a capital of \$200 and from that it has managed to grow over the years into being the largest manufacturer of welding machines and electrodes employing over 8000 people. Even though it started operations in an economy that was in a depression and with many competitors, it has managed to be the top supplier of welding and electrode equipments having a market share that is over 40% (Hastings, 1999).

## **Discussion and Analysis**

The company has revolutionarized operations to enable it obtain an edge in competitiveness beating giants such as BOC, General Electric, and Westinghouse. The operations that have been radically changed are in organisational structure, personnel motivation, financial policies, and in manufacturing operations. They are illustrated in the following subsections.

## **Organisation Structure**

The company has a unique organizational culture that contains an informal organisational presentation. Workers in production have at least two or utmost three levels of supervision linking them and the president. This absence of the organisation chart has enabled workers to seek assistance for their problems from the best person as opposed to following a command chain. For instance, a classic production foreman will supervise a maximum of 100 workers a span-of-control that discourages frequent employee supervisor interaction (lincolnelectric). The structure has been instrumental in dealing with issues such as economic downturns and depressions such as World War II where performance per employee doubled.

In the structure, communication is given utmost attention which has contributed to the company's success. The most frequent form of communication is downward strategy where management forward what they have down to workforce. Some of the information forwarded down to the employees is bonuses, job rotations, company's goals and objectives, and feedbacks got from performance evaluations. Although not common, upward communication is also used where the advisory board has a key function.

They communicate ways of improving operations and forward workers' plight upward to the president and company chairman.

## **Personnel Motivation**

The company believes that its workers are the most valuable assets hence the reason to make sure that personnel are motivated to ensure that they obtain job satisfaction. The company offers a vast employee benefit package on top of using performance evaluation such as Merit Rating Cards. At the company employees are guaranteed to get benefit packages such as: company paid retirement plan, four weeks paid vacation in the summer or vocations, higher wages that competitors in the Cleveland area, medical insurance plan, and a stock plan for employees that has resulted in employees owning 50% of the company (Amason, 2011).

The benefits have been manifested in workers showing great work spirit which is evaluated by merit cards twice a year. Evaluations have two intentions which are: giving employees the feedback on their job performance helping them to know where to improve and where performance was exceptional; and the scores are used in determining the amount of bonuses that can be used to give the employees.

## **Manufacturing Operations**

Materials that are to be used in manufacturing are stored as close as possible to the workstation. Administrative offices near the factory are all functional where not even the president's office is carpeted. Manufacturing costs are greatly reduced by applying manufacturing expertise, equipment, and incentive system (Hastings, 1999). In foreign markets the company set

up manufacturing plants or acquired new ones to reduce costs in shipping, and duties. This strategy facilitated the introduction of competitive prices of high value products that the company is well known for (Amason, 2011). In operations, the company also uses departmentalization to blend certain jobs so that efficiency is improved. In specific, functional departmentalization is used where jobs are clustered together in accordance to the work performed. The departments such as sales and electrode divisions are seen to improve production through grouping together of professionals, and improving communications amongst divisions.

## **Financial Policies**

The founder incorporated a culture that has resulted in the company getting its funds internally, which are through capital investment by founders, retention of company earnings, and purchases of stock by employees (Amason, 2011). The approach has strengthened the spirit of ownership amongst employees and the management which in turn facilitates them to work hard for profits. They also have an unusual pricing policy that is based on cost of production. The strategy has resulted in Lincoln becoming a price leader in welding products segment (Hastings, 1999). Not even Japanese companies such as Asaka, and Nippon have managed to penetrate the market. In each year, cash balances are accumulated in preparation of paying workers their bonuses. The remaining balance is then stored in short term US government securities which will be reclaimed when needed.

## **Industry Analysis**

Porters Five Forces of Lincoln Electric Company Competition

## 1. Industry Competitors(Rivalry)

Price wars where only the low cost provider wins

Absence of differentiation of products amongst rivals

Barriers that are high to exit which are characterised by difficulty in selling equipments

The overall growth in welding and electrode growth has stagnated

Innovation in product designing where the latest technology is taken advantage of

## 2. Bargaining Power of Buyers

Large volumes of equipments and products are purchased

Buyers incur less cost when they switch to Lincoln's competitors

Lincoln's products are similar to its competitors

The company's products are not critical to buyers

## 3. Bargaining Power of Suppliers

Small business volume with suppliers with their products important to the company

Few suppliers that might result in a lot of influence over the company

When the company is dealing with unique resources that might be expensive such as petroleum

Solidarity with employee unions in the company which might result in them refusing to supply when employees have grievances

#### 4. Threat of Substitute Products

Welding and electrode Products that are cheaper and have the same functions

Decrease in product quality and standards

Demand for products that use less energy such as Water jet and cleaning tools

Demand for more precise equipments and products that are operated by computerised technology

#### 5. Threat of New Entrants

The welding and electrode industry is very profitable, this will attract many entrants

The industry has many barriers of entry such as patents, licensing, and rights that make it attractive for new entrants

The high initial capital investment to buy equipments and setting up a plant makes it difficult for new entrants to enter into the industry

The industry requires experience and thorough knowledge which limits new entrants

## **Conclusion**

The success factors of the Welding and Electrode industry are:

- Few competitors
- Large market base for products
- Rapid growth in business
- Limited substitute products

Furthermore, the industry is very attractive as it contains very high entry barriers and low exit barriers. This has enabled few firms to enter the industry and many non-performing firms to exit easily. There is also a low propensity of buyers of welding equipments and electrodes to switch to other competitors due to high switching costs hence very attractive. Furthermore, suppliers have less bargaining power due to the less value of raw materials, and absence of dominant suppliers. Few substitute products in the industry are also seen to make it very attractive to investors.

## **References**

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Company Website:

[www.lincolnelectric.com](http://www.lincolnelectric.com)

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