

# [Organization and lincoln electric](https://assignbuster.com/organization-and-lincoln-electric/)

CHAPTER IINTRODUCTION 1. 1 Background of Case Study Selection Compensation is the remuneration received by an employee in return for his/her contribution to the organization. It is an organized practice that involves balancing the work-employee relation by providing monetary and non-monetary benefits to employees. Researcher are interested in doing research on the company becauseresearcher wanted to learn more about control system especially managementcompensation, both theoretical and practical. Lincoln Electric Company one of companies has realize the method of control system especially managementcompensation in their company.

In the Lincoln Electric Company, researcher get knowledge of control systemespecially management compensation, particularly its association with corporate profits. However, in its application is often the application of compensation hasexperienced various problems and constraints. So also happened in the LincolnElectric Company. Every company absolutely has a strategy to sustainable them company. The top priority of Lincoln is customer. Company always sensitive with consumer needs. Certainly, the firm’s customer wants to get the best price and the best quality. And, product of Lincoln fulfill it.

Lincoln also concerns employee and stockholders needs. Management compensation always was determined by a wage survey of similar jobsin Cleveland area where the company do operational process. Lincoln ElectricCompany is a good example for other company which is concern to customer, employee and stockholders. Not all company like Lincoln Electric Company. So, because of that, we choose Lincoln Electric’s Case. 1. 2 Motivation Researcher motivation to conduct research on issues of control systemespecially management compensation in the Lincoln Electric Company because 2 esearcher wanted to know deeper in management compensation and itsimplementation. By studying and researching issues that arise in the company, researcher will get a clearer picture about what action needs to be done when problems arise. 1. 3 Research Question The problems of this case are: 1. How would you characterize Lincoln Electric’s strategy? What is the nature of Lincoln’s business and upon what bases does this company compete? 2. What are the most important elements of Lincoln’s overall approach toorganization and control that help explain why this company is so successful?

How well do Lincoln’s organization and control mechanisms fit the company’sstrategic requirements? 3. What is the corporate culture like at Lincoln Electric? What type of employeeswould be happy working at Lincoln Electric? 4. What is the applicability of Lincoln’s approach to organization and control toother companies? Why don’t more companies operate like Lincoln? 5. What could cause Lincoln’s strategy implementation approach to break down? What are the threats to Lincoln’s continued success? 6. Would you like to work in an environment like that at Lincoln Electric? 1. 4 The Aim/Objectivity

The objectives of this case are: 1. To characterize Lincoln Electric’s strategy. To know the nature of Lincoln’s business and the bases does Lincoln competes. 2. To find the most important elements of Lincoln’s which is because that element, Lincoln can achieve success. And to know Lincoln’s organization and controlmechanism which is fit the company’s strategic requirements. 3. To know the corporate culture like at Lincoln Electric. To know type of employees would be happy working at Lincoln Electric. 3 4. To know the applicability of Lincoln’s approach to organization and control toother companies.

To know the reason other companies doesn’t operate likeLincoln. 5. To know the causes of Lincoln’s strategy implementation approach to break down and also the treats from the causes of Lincoln’s strategy implementation. 6. To give our opinion about working at Lincoln Electric Company. 4 CHAPTER IILITERATURE The objective of literature, researcher want to explain the theoy about thehierarchical levels of strategy, corporate culture, the system approach to organization, and strategy implementation. 2. 1Hierarchical Levels of Strategy

There are two distinct levels of strategy within an organization (Porter, 2000), Corporate Level Strategy : Corporate strategy refers to the overall strategy for adiversified company. It is concerned with the mix of businesses the company shouldcompete in, and the ways in which strategies of individual units should becoordinated and integrated. Business Unit Level Strategy : is concerned more withhow a business competes successfully in a particular market. It concerns strategicdecisions about choice of products, meeting needs of customers, gaining advantageover competitors. . 2 Nature of Business: According (Kell, 2000), the nature of business is best understood on the basisof its characteristics or features which are as follows: business is an economicactivity, it includes the activities of production or purchase and distribution, it deals ingoods and services, it implies regularity of transactions, it aims at earning profitsthrough the satisfaction of human wants, it involves risk; it is not certain thatadequate profit will be earned, it creates utilities, and it serves a social purpose byimproving people’s standard of living. . 3 The Bases does Company compete A company survives only when it can beat the market, and it loses its right to existwhen this is no longer the case (Michael, 2004) : 1. to create ‘ a sustainable competitive advantage’ by doing something in a wayno-one else can imitate and which generates profit. 2. “ The key measure of corporate success is added value”, which is measured by: “… its ability to add value to create an output which is worth more thanthe cost of inputs which it uses. ” 5 3.

The key is to set the right goals from first principle, if you’re only competingon best practice it will be very hard to stay ahead. 4. the ability to develop and deliver new ideas – to innovate. “ Innovation is thesuccessful application of knowledge or techniques in new ways or for new purpose; it is also about creating a business to exploit new opportunities profitably, 2. 4 The Definition of Corporate Culture The term corporate culture is used frequently in business language. Everyorganization have different corporate culture. It can be seen from the activityoperation and to run the strategies.

According to (Ojo, 2009), ‘ Culture is one of themost precious things a company has, so they must work harder on it than anythingelse,’ says Herb. Various studies indicate that companies with strong cultures aremore likely to be successful, but only under a particular set of conditions. 2. 5 An Approach to organization and control According to (Gaiennie, 2006) that are an approach to organization control : 1. The content of and relationship between the positions in a firm (job structure)2. The make-up of relationship between the job incumbents (personal structure) 2. 6 Strategy Implementation

To be the winner in the business competition, organization must be precise toimplement the strategy because strategy implementation is an important thing in theorganization to run the business. Strategy implementation is “ the process of allocatingresources to support the chosen strategies”. This process includes the variousmanagement activities that are necessary to put strategy in motion, institute strategiccontrols that monitor progress, and ultimately achieve organizational goals (Cyert andCohen, 2007). The implementation of organization strategy involves the application of themanagement process to obtain the desired results.

Particularly, strategyimplementation includes designing the organization’s structure, allocating resources, developing information and decision process, and managing human resources, including such areas as the reward system, approacches to leadership, and staffing. 6 2. 7 Disadvantages of an informal organizationThe following are the disadvantages informal organization (James, 2008) : 1. Resistance to change: an informal organization is bound by customs, conventions and culture. 2. Role conflict and sub-optimization: in an informal organization, everyoneworks towards the same objectives.

Members put their own grup objectivesahead of organization’s objectives. Hence, the organization suffers. 3. Rumour: an informal organization sometimes functions as a carrier of rumour. 4. Group think philosophy: workers become loyal to their groups. 2. 8 Disadvantages of Labor Unions The following are the disadvantages of labor unions ( Martin, 2008) : There are also disadvantages to labor unions, both to the employees and theemployers. First, employees lose their individual voices. Employees give up their right to negotiate for themselves or to have their individual concerns and benefitsrecognized.

There is no incentive for employees to work harder to gain promotions or pay increases. unions typically demand much higher pay rates, sometimes increasingat a rate higher than inflation. Reduced productivity, loss of ability to be competitiveand higher pay rates can lead to layoffs or even cause the company to go out of business. 7 CHAPTER IIICASE ANALYSIS3. 1 Background Case Lincoln Electric Company The Lincoln Electric Company was the world’s largest manufacturer which is produce arc-welding and a leading producer of industrial electric motors. John C.

Lincoln is the founder of Lincoln Electric, which opened in 1895. In 1906 Johnincorporated his business and moved it from a fourth floor room in a factory he wasin, to a newly constructed three-story factory. He then expanded his work force andthe sales grew to over $50, 000 a year. Over the next few years the product line wasexpanded to include battery chargers for electric cars, and in 1909 the first weldingset was produced. Then in 1911 the company introduced a variable voltage, singleoperator, portable welding machine, and the very first in the world.

Now LincolnElectric employs around 4000 people not including the 200 or so in the sales force, inits U. S. factories and in factories and sub companies all over the world, includinglocations in France, Canada, China, Australia, Indonesia, South Africa, Brazil, Polandand others. Employees today enjoy pension plans, opportunities of promotion fromwithin, and continuous employment. Lincoln has around a 40 percent U. S. marketshare for its arc welding products. Worker Performance and Attitudes In Lincoln Electric Company, each worker do them job with focus and most workerstook no coffee breaks.

The manufacturing procedures appeared to be efficient. That’smean no unnecessary steps, no wasted motions and no wasted materials. Organizational Structure Lincoln never allowed development of a formal organization chart. The objective wasto ensure maximum flexibility. An open-door policy was practiced throughout thecompany, and workers were encouraged to take problems to the persons most capableof resolving them. Hiring and Compensation 8 Every job opening was advertised internally on company bulletin boards, and anyemployee could apply that job. External hiring was permitted only for entry-level positions.

Selection for these jobs was done on the basis of personal interviews andthere was no aptitude or psychological testing. In the other hand, all productionworkers and many other workers were paid by piece rate. The piece rate were never changed unless a substantive change in the way a job was done resulted from a sourceother than the worker doing the job. 3. 2Case Analyis1a. Characterize Lincoln Electric’s strategy. The level strategy of Lincoln Electric Company is corporate level strategy because Lincoln Electric Company do diversification. Corporate level strategy

We can see the diversified from Lincoln Electric Company’s product. Products of Lincoln Electric Company: Arc-welding equipments, electric motors, plasma and oxy-fuel cutting equipment, robotic welding systems, welding power sources, wire feeding systems, fume extraction equipment, and consumable metalelectrodes and fluxes. Subsidiary: Products of The Harris Group Manufacturer of: welding consumables, gas apparatus, and other specialty products. Low Cost Oriented Lincoln Electric Company has other strategy that strategy is related with cost. Theother strategy is low cost oriented. This strategy consist of: 1.

Cost Minimization ? Lincoln Electric Company does cost minimizationwith maximizes outputs using minimum inputs, try to produce its output at thelowest possible cost, make products with minimizing using of raw materialsor inputs. This is clearly desirable for a profit-maximizing firm. 2. High productivity of labor forces ? Each Lincoln Electric Company’worker was proceeding busily and thoughtfully about the task at hand. There 9 was no idle chatter. Most workers took no coffee breaks. Many operatedseveral machines and made a substantial component unaided. 3. High efficiency in production process The production process system ishighly structured because every worker do them job as job description. 4. Always maintain and improve quality ? Lincoln always maintain andimprove quality such as quality of them product, quality of them worker andetc. Lincoln always adapt to the environment as the one way of maintain andimprove quality. b. This context is the nature of Lincoln’s business. Based on the literature, the nature of Lincoln’s business fulfill eight characteristic. For example: 1. Business ? In January 1980, the price of restricted stock, committedto employees, had een $117 a share. That’s mean Lincoln was doing business, not for personal interest but for stakeholder interest. 2. Working Conditions ? The working conditions of Lincoln ElectricCompany are fair treatment of employees, high cooperation ; teamwork, highworker productivity and compensation management plan. c. Bases does this company compete is depend on the following: 1. Quality of products ? The competitor in this competition make Lincolnincreases the quality of arc-welding products. The evidence is Lincoln ElectricCompany has a high quality product with low prices.

The cost of field failuresfor Lincoln products had recently been determined to be remarkable 0, 04 percent of revenues. The “ Fleetweld” electrodes and SA-200 welders had been the standard in the pipeline and refinery construction industry, where price was hardly a criterion, for decades. 2. Price of products ? Lincoln Electric Company produce arc-welding products at low costs compare to its competitors and in the market LincolnElectric Company has highly price competitive (price variations= 1% or 2%). Based on literature, Lincoln always does innovation and because of that other companies can’t defeat Lincoln.

Lincoln always learns from the competitor and 10 do them strategy such as cost minimization to produce high quality product withlow cost. 2a. The most important elements of Lincoln’s overall approach to organizationand control that help explain why this company is so successful are: 1. The efficiency of operations ? Lincoln Electric Companygenerating acompetitive advantage over the market (low price, good quality) . 2. Superiorness over competitors ? Lincoln Electric Companyexisting and potential competitors are not able to produce at the same products at lowcosts. Because of that, Lincoln Electric Companycan lead to high marketshare. . Company as motivator for the employess ? Lincoln Electric Company docompensation system continuesly as motivator for the employess. The typicalLincoln employee earned about twice as much as other factory workers in theCliveland area. Yet the company’s labor cost per sales dollar in 1989, 26cents, was well below the industry average.. 4. Worldwide manufacturing capability (11 factories overseas) ? LincolnElectric Company has 11 factories overseas arround the world. Every factoryhas a good control systems. For example Fortune magazine declared theEuclid facility one of America’s 10 best-managed factories. 5. Commitment to quality Lincoln Electric Company always do them businees with full commitment. So that, the company can develop rapidly. 6. Efficient distribution system ? At Lincoln Electric Company, materialswere stored as close as possible to the workstation. It makes the distributionsystem more efficient. 7. Responsiveness towards customers demands ? “ All money usually neededfor expansion is supplied by the customer in retained earnings. It is obviousthat the customer’s interests, not the stockholder’s should come first. Becausethe philosophy of the founder, Lincoln Electric Company alwaysresponsiveness towards customers demands. 1 Based on literature, the Lincoln’s job structure is very clearly because eachemployee know them job. Each employee is related each other so they do them job with good relationship. For example, At Lincoln Electric Company, worker turnover was practically non-existent except for retirements and departures bynew employees. Then, sales per Lincoln factory employee exceeded $150, 000Thesupervisors were busy with planning and record-keeping duties and hardlyglanced at the people they “ supervised”. Each employee don’t use coffee breakstime because they aware that them job is very important than them breaks.

Theyare really hardworking. The manufacturing procedures appeared to be efficient-nounnecessary steps, no wasted motions, no wasted materials. Finished componentsmoved smoothly to be subsequent workstations. The personal structure is alsoclearly because John Lincoln as founder always care and concern with thememployee. Lincoln want to listen employee’s critic or them idea. So therelationship between them is very good. For example, one of James Lincoln’searly actions was to ask the employees to elect representatives to a committeewhich would advise him on company operations.

This was only the first of aseries of innovative personnel policies which, over the years, distinguishedLincoln Electric from its contemporizes. b. Lincoln’s do organization and control mechanism fit the company’s strategicrequirements well with : 1. Tasks are precisely defined ? The job description for employee very clearlyand every employee capable do them job because company put thememployee accordance them experience and education. So, no overlappingduties and the company can get the good effect. The effect is the productivitycan develop rapidly. 2. To achieve the top pay Every employee must accomplish good performance because if the employee always working hard and can reach thegoal, the employee deserves to get the top pay. 12 3. Tight cost control ? Lincoln Electric Company has tightly cost controlsystem. The function of tigtht cost control is toreduce cost and raise productions. 4. Employees have to buy the stock in BV price (price book value) ? Lincoln Electric Company give a authority to them employee. The one of thatauthority is the employee can buy Lincoln’s stock. Then, the stock priceabsolutely feel increasement.

To maintain or increase again the price, employee or every people in the company must working harder than before. So that, Lincoln Electric Company absolutely has a good performance. Based on literature, Lincoln fulfill the criteria for successful business becauseJohn Lincoln give established concept. That’s why Lincoln’s employee can work as the concept. Lincoln always different with other company. The companywas primaly engaged in the manufacture and sale of arc-welding products. Lincolnalso produced electric motors ranging 0. 5 to 200 horsepower. It’s make differenceLincoln with other company.

The management compensation also makeemployee happy to work there. The evidence is the employee’s turnover is verylow. Lincoln using the modern technology which is adapt with the environment. For example, electrode manufacturing was highly capital-insentive. Metal rods purchased from steel producers were drawn down to smaller diameters, cut tolength, coated with pressed-powder “ flux” for stick electrodes or plated withcopper and put into coils or spools for wire. This represented a major innovationin welding technology when it was produced. 3a. The corporate culture like at Lincoln Electric.

The following is an explanation of each points of corporate culture: a. Open line communication and trust ? Although the line between managersand workers is firmly drawn, managers respect the expertise of productionworkers and value their contributions to many aspects of the business. Thecompany has an open-door policy for all top executives, middle managers, 13 and production workers, and regular face – to –face communication isencouraged. b. Attitude toward Stockholders, Unionism, Customers ? The absenteestockholder also will get his share, even if endeserved, out of the greatlyincreased profit that the efficiency produces.

At the Lincoln’s , unionism are parts of one organization in which they must and should cooperate fully andhappily. In Lincoln, the customer’s interests should come first, . If there are nocustomers, the company’s operations will not be able to run well. c. Shared Control ? The employee of Lincoln Electric Company can buy theLincoln’s stock. That’s mean employee can control the company with manyway such as give any ideas, etc. d. Beliefs and Assumptions about employees ? This is their way of motivatingand ensuring employees’ job satisfaction.

To do this they offer an extensiveemployee benefit package and use performance evaluations. e. High cooperation, commitment and teamwork ? That are effectively toaccomplish the goals of the team is a critical factor in team success. Therelationships team members develop out of this commitment are key in team building and team success. f. An egalitarian spirit ? In the Lincoln Company, all employee are equal. Because in that company seniority really doesn’t mean anything. To get thegood position in the company, all employees had to really work. b. The type of employees would be happy working at Lincoln Electric : a.

Hard working employees. b. The ones who can do a good work under pressure and competitive people whowant to improve themselves. c. Employees seeking for high salary. d. Employees who are kind to learn and share knowledge. e. Employees who focus on his job. f. Innovative employees. 14 4. The applicability of Lincoln’s approach to organization and control to othercompanies. The reason don’t more companies operate like Lincoln. • The reason for Lincoln’s success is the excellent attitude of the employees andtheir willingness to work harder, faster, and more intelligently than other industrial workers.

But it is hard to apply Lincoln’s approach to other companies. Because, at Lincoln it give good compensantion the system andcan meet their employees that staff are prepared to work to achieve the goalsof the company. The key to motivating people to behave in a manner thatfurthers an organization’s goal lies in the way the organization’s incentivesrelated to the individuals’ goals. Organizations with higher ratios of bonusestended to have better subsequent financial performance than other organizations. (Anthony and Govindarajan, 2007).

Employees in Lincoln, inaddition to receiving good compensation, are allowed to purchase stock in thecompany. This effort mobilizes employees to ensure the success of thecorporation because their own wealth is at hand. But it is actually difficult tofind employee who are productive and have a high loyalty to the company. • Not suitable for small enterprises (with low & unstable income ) high & stableincome is needed for the compensation plans.. High productivity of Lincoln Electric workers is evident through high profitsand bonuses each year.

In order to increase company productivity and achievethe objectives would require quality human resources and work hard, but if the lack of qualified human resources so that productivity can be achieved sothat the company does not profit the company has not been maximized andunstable. Lincoln compensation system is only suitable for companies thathave high and stable income because when applied to small firms (with lowincomes and stable), the system of compensation cannot work also in Lincoln. One school states that we recruit good people, expect them to perform well, and pay them well if performance is actually good.

Companies subscribing tothis philosophy practice performance-based pay; they emphasize incentive bonus, not salary. (Anthony and Govindarajan, 2007) 15 5. What could cause Lincoln’s strategy implementation approach to break down? What are the threats to Lincoln’s continued success? Answer: The cause why Lincoln’s strategy implementation approach to break down are: • Lincoln Electric Organization is informal organization chartLincoln has never allowed development of a formal organization chart. Theobjective of this policy is to ensure maximum flexibility.

An open door policyis practiced throughout the company, and personnel are encouraged to take problems to the persons most capable of resolving them. However, Lincolnhas a current position and the position of traditional authority in theorganizational structure, but it was only formal organizational structure. Informal organizational structure can lead to uncertainty in command of hissuperiors to subordinates, so that in the Lincoln company when employees areget problems did not consult with their supervisor or manajer but with peoplewho are able to solve the problem, the employees themselves. •

Routine control supervisor of workers is almost nonexistentEach worker is proceeding busily and thoughtfully about the task at hand. Thesupervisors are busy with planning and record keeping duties and hardlyglance at the people they “ supervise. ” • Too wide Span of Control in Lincoln Electric CompanyEvery supervision control of almost 100 employees, this is a very wide spanof control so that it can lead to inefficient firms. A wide span of control would be more cost effective, but if they are too large it will make the inefficiency of an organization, including senior officials will not have enough time to provide guidance and support staff. http://www. library. upnvj. ac. id/pdf/2tesis/207811206/bab2. pdf , 2005) • Lincoln Company don’t have relations with trade union organizations. 16 Lincoln company does not have a relationship with the Organization of tradeunions to organize the employees because James Lincoln believed that unionsare the misuse of the management of the company and the employees. Threats: •New innovation found by competitors, its shown with Nippon steel. •Input prices volatility, it can make higher production cost•Input shortage•U. S economic slowdown, example: • Low income no money for incentives•Employees’ layoffs•Shortage of skilled-workers•Migration of skilled workers•Restrictive and lengthy permit process•Benchmark development fees with competing communities 6. I want to work at Lincoln Electric, because : Lincoln Electric having given atotal package of incentives to management, such as : 1. SalaryThe level of basic wage for a job in Lincoln is determined by wage surveysfor similar jobs in the region and is adjusted quarterly in accordance withchanges in the wage index in Cleveland, and use the hourly wage system.

Thetypical Lincoln employee earns about twice as much as other factory workersin the Cleveland area. 2. Pension and health allowanceMedical benefits and company pension schemes have been running for years. The Employee Association, to which the company does not contribute, provides disability insurance and social and athletic activities. 3. Compensation or incentiveEvery year in december, a part of the annual profit is distributed to employeesas bonuses. 17 Lincoln Electric employees are compensated well for their productivity.

Theemployees are given great wages and incentive possibilities. The LincolnCompany incentives come in the form of great stock options offered throughthe company and an annual bonus. Lincoln Electric incentives bases theemployee annual bonuses on performance evaluations. 4. In Lincoln Company suggestions are respectedSuggestions for improvements often result in recommendations for exceptionally high performance scores. The value of suggestions is reflectedin performance evaluation scores, which determine individual incentive bonusamounts. 5. Piecework pay system ?

Fair The Lincoln Electric evaluation process is also fair because the bonus that anemployee receives is based on his or her own worker performance. Theevaluations of the Lincoln Electric employees feed into the concept of theexpectancy theory. This theory is the idea that an employee will put in more. 6. On the job trainingProduction workers are given a short period of on-the-job training and then placed on a piecework pay system. 7. Portion of annual profits was distributed as bonusesSubstantial cash balances accumulated each year preparatory to paying theyear-end bonuses.

The bonus plan has been a cornerstone of the Lincolnmanagement system and recent bonuses have approximated annual wages. 8. 2 weeks vacationsCompany was closed for 2 weeks in August and 2 weeks during Christmasholidays. 9. Stock ownership programEach employee with more than two years of service may purchase stock in thecorporation. The price of these shares is established at book value. Dividendsand voting rights are the same as for stock that is owned outside the plan. 18 CHAPTER IVCONCLUSION4. Conclusion of this case study analysis are: Lincoln Electric company can be success because the excellent attitude of theemployees and their willingness to work harder, faster, and more intelligently thanother industrial workers. It’s the success main key of the company. 1. Lincoln Electric’s strategy including Corporate-Level strategy and the other strategy is related with low cost oriented. Then, Lincoln was doing businessnot only for personal interest but also for stakeholder interest. The workingconditions of Lincoln Electric Company are high cooperation, compensationmanagement plan, etc.

This company competes based on quality and price of products. 2. The most important elements of Lincoln’s is the efficiency of operations, commitment to quality and etc. Lincoln’s organization and control mechanismfit the company’s strategic requirements because in Lincoln tasks are precisely defined, employee want to achieve the top pay, etc. 3. The corporate culture at Lincoln Electric are open line communication andtrust, considered the customer’s needs, shared control and Lincoln has anegalitarian spirit. Lincoln’s fundamental belief that “ people are their ostvaluable asset”. 4. The type of Lincoln employees are hard working employees, can work under pressure and want to improve them, seeking for high salary, want to learn andshare knowledge, focus on his job and innovation. 5. At Lincoln it give good compensantion the system and can meet their employees that staff are prepared to work to achieve the goals of thecompany. 6. Lincoln compensation system is only suitable for companies that have highand stable income7. Lincoln Electric Organization is informal organization chart 19 8.

Lincoln Electric having given a total package of incentives to management, somany people want to work in Lincoln Electric Company 4. 2 Recommendations for The Lincoln Electric Company: 1. The recommendation for the company : Make formal organization structure based on organization theory and create unionismorganization. 2. The recommendation for the society: a. Add knowledge and people can know more about Lincoln Electric Company. b. To learn more about the internal system, and could be a reference for other company. 3. The recommendation for the knowledge: Can learn everything about organization especially Lincoln’s managementcompensation.