

Organization and lincoln electric



CHAPTER I INTRODUCTION 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. Researchers are interested in doing research on the company because researchers wanted to learn more about control system especially management compensation, both theoretical and practical. Lincoln Electric Company one of companies has realized the method of control system especially management compensation in their company.

In the Lincoln Electric Company, researchers get knowledge of control systems especially management compensation, particularly its association with corporate profits. However, in its application is often the application of compensation has experienced various problems and constraints. So also happened in the Lincoln Electric Company. Every company absolutely has a strategy to sustain 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 jobs in Cleveland area where the company do operational process. Lincoln Electric Company 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

system especially management compensation in the Lincoln Electric Company because 2 researcher wanted to know deeper in management compensation and its implementation. 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 to organization and control that help explain why this company is so successful?

How well do Lincoln's organization and control mechanisms fit the company's strategic requirements?

3. What is the corporate culture like at Lincoln Electric? What type of employees would be happy working at Lincoln Electric?
4. What is the applicability of Lincoln's approach to organization and control to other 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 control mechanism which is fit the company's strategic requirements.
3. To know the corporate culture like at Lincoln Electric. To

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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 to other companies.

To know the reason other companies doesn't operate like Lincoln. 5. To know the causes of Lincoln's strategy implementation approach to break down and also the results from the causes of Lincoln's strategy implementation. 6. To give our opinion about working at Lincoln Electric Company. 4 CHAPTER

LITERATURE The objective of literature, researcher want to explain the theory about the hierarchical levels of strategy, corporate culture, the system approach to organization, and strategy implementation. 2. 1 Hierarchical 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 a diversified company. It is concerned with the mix of businesses the company should compete in, and the ways in which strategies of individual units should be coordinated and integrated. Business Unit Level Strategy : is concerned more with how a business competes successfully in a particular market. It concerns strategic decisions about choice of products, meeting needs of customers, gaining advantage over competitors. . 2 Nature of Business: According (Kell, 2000), the nature of business is best understood on the basis of its characteristics or features which are as follows: business is an economic activity, it includes the activities of production or purchase and distribution, it deals in goods and services, it implies regularity of transactions, it aims at earning profit through the satisfaction of human wants, it involves risk; it is not certain that adequate profit will be earned, it

creates utilities, and it serves a social purpose by improving 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 exist when this is no longer the case (Michael, 2004) : 1. to create ' a sustainable competitive advantage' by doing something in a way no-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 than the cost of inputs which it uses. " 5 3.

The key is to set the right goals from first principle, if you're only competing on best practice it will be very hard to stay ahead. 4. the ability to develop and deliver new ideas – to innovate. " Innovation is the successful 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. Every organization have different corporate culture. It can be seen from the activity operation and to run the strategies.

According to (Ojo, 2009), ' Culture is one of the most precious things a company has, so they must work harder on it than anything else,' says Herb. Various studies indicate that companies with strong cultures are more 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

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To be the winner in the business competition, organization must be precise to implement the strategy because strategy implementation is an important thing in the organization to run the business. Strategy implementation is “the process of allocating resources to support the chosen strategies”. This process includes the various management activities that are necessary to put strategy in motion, institute strategic controls that monitor progress, and ultimately achieve organizational goals (Cyert and Cohen, 2007). The implementation of organization strategy involves the application of the management process to obtain the desired results.

Particularly, strategy implementation includes designing the organization's structure, allocating resources, developing information and decision process, and managing human resources, including such areas as the reward system, approaches to leadership, and staffing.

6 2. 7 Disadvantages of an informal organization

The 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, everyone works towards the same objectives.

Members put their own group objectives ahead 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

the employers. First, employees lose their individual voices. Employees give

up their right to negotiate for themselves or to have their individual concerns and benefits recognized.

There is no incentive for employees to work harder to gain promotions or pay increases. Unions typically demand much higher pay rates, sometimes increasing at a rate higher than inflation. Reduced productivity, loss of ability to be competitive and higher pay rates can lead to layoffs or even cause the company to go out of business.

7 CHAPTER III CASE ANALYSIS 3.1 Background Case Lincoln Electric Company The Lincoln Electric Company was the world's largest manufacturer which produces arc-welding and is a leading producer of industrial electric motors. John C.

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

Now Lincoln Electric employs around 4000 people not including the 200 or so in the sales force, in its U. S. factories and in factories and sub companies all over the world, including locations in France, Canada, China, Australia, Indonesia, South Africa, Brazil, Poland and others. Employees today enjoy pension plans, opportunities of promotion from within, and continuous employment. Lincoln has around a 40 percent U. S. market share for its arc

welding products. Worker Performance and Attitudes In Lincoln Electric Company, each worker do their job with focus and most workers took no coffee breaks.

The manufacturing procedures appeared to be efficient. That means no unnecessary steps, no wasted motions and no wasted materials.

Organizational Structure Lincoln never allowed development of a formal organization chart. The objective was to ensure maximum flexibility. An open-door policy was practiced throughout the company, and workers were encouraged to take problems to the persons most capable of resolving them.

Hiring and Compensation 8 Every job opening was advertised internally on company bulletin boards, and any employee could apply for that job. External hiring was permitted only for entry-level positions.

Selection for these jobs was done on the basis of personal interviews and there was no aptitude or psychological testing. In the other hand, all production workers 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 source other than the worker doing the job. 3.

2 Case Analysis 1a. 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. The other strategy is low cost oriented. This strategy consist of: 1.

Cost Minimization ? Lincoln Electric Company does cost minimization with maximizes outputs using minimum inputs, try to produce its output at the lowest possible cost, make products with minimizing using of raw materials or inputs. This is clearly desirable for a profit-maximizing firm. 2.

High productivity of labor forces ? Each Lincoln Electric Company's worker was proceeding busily and thoughtfully about the task at hand. There was no idle chatter. Most workers took no coffee breaks. Many operated several machines and made a substantial component unaided. 3. High efficiency in production process

The production process system is highly structured because every worker do their job as job description. 4. Always maintain and improve quality ? Lincoln always maintain and improve quality such as quality of their product, quality of their worker and etc. Lincoln always adapt to the environment as the one way of maintain and improve 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, committed to employees, had been \$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 Electric Company are fair treatment of employees, high cooperation ; teamwork, high worker 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 Lincoln increases the quality of arc-welding products. The evidence is Lincoln Electric Company has a high quality product with low prices.

The cost of field failures for 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 Lincoln Electric 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 with low cost. 2a. The most important elements of Lincoln's overall approach to organization and control that help explain why this company is so successful are: 1. The efficiency of operations ? Lincoln Electric Company generating a competitive advantage over the market (low price, good quality) . 2. Superiorness over competitors ? Lincoln Electric Company existing and potential competitors are not able to produce at the same products at low costs. Because of that, Lincoln Electric Company can lead to high market share. . Company as motivator for the employees ? Lincoln Electric Company do compensation system continuesly as motivator for the employees. The typical Lincoln employee earned about twice as much as other factory workers in

the Cleveland area. Yet the company's labor cost per sales dollar in 1989, 26 cents, was well below the industry average.. 4. Worldwide manufacturing capability (11 factories overseas) ? Lincoln Electric Company has 11 factories overseas around the world. Every factory has a good control systems. For example Fortune magazine declared the Euclid facility one of America's 10 best-managed factories. 5. Commitment to quality Lincoln Electric Company always do their business with full commitment. So that, the company can develop rapidly. 6. Efficient distribution system ? At Lincoln Electric Company, materials were stored as close as possible to the workstation. It makes the distribution system more efficient. 7. Responsiveness towards customers demands ? " All money usually needed for expansion is supplied by the customer in retained earnings. It is obvious that the customer's interests, not the stockholder's should come first. Because the philosophy of the founder, Lincoln Electric Company always responsiveness towards customers demands. 1 Based on literature, the Lincoln's job structure is very clearly because each employee know their job. Each employee is related each other so they do their job with good relationship. For example, At Lincoln Electric Company, worker turnover was practically non-existent except for retirements and departures by new employees. Then, sales per Lincoln factory employee exceeded \$150, 000 The supervisors were busy with planning and record-keeping duties and hardly glanced at the people they " supervised". Each employee don't use coffee break time because they aware that their job is very important than their breaks.

They are really hardworking. The manufacturing procedures appeared to be efficient-unnecessary steps, no wasted motions, no wasted materials.

Finished components moved smoothly to be subsequent workstations. The personal structure is also clearly because John Lincoln as founder always care and concern with the employee. Lincoln want to listen employee's critic or their idea. So the relationship between them is very good. For example, one of James Lincoln's early actions was to ask the employees to elect representatives to a committee which would advise him on company operations.

This was only the first of a series of innovative personnel policies which, over the years, distinguished Lincoln Electric from its contemporaries. b. Lincoln's do organization and control mechanism fit the company's strategic requirements well with :

1. Tasks are precisely defined ? The job description for employee very clearly and every employee capable do their job because company put them employee accordance their experience and education. So, no overlapping duties and the company can get the good effect. The effect is the productivity can develop rapidly.
2. To achieve the top pay Every employee must accomplish good performance because if the employee always working hard and can reach the goal, the employee deserves to get the top pay.
3. Tight cost control ? Lincoln Electric Company has tightly cost control system. The function of tight cost control is to reduce cost and raise productions.
4. Employees have to buy the stock in BV price (price book value) ? Lincoln Electric Company give a authority to their employee. The one of that authority is the employee can buy Lincoln's stock. Then, the stock price absolutely feel increment.

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 because John Lincoln give established concept. That's why Lincoln's employee can work as the concept. Lincoln always different with other company. The company was primarily engaged in the manufacture and sale of arc-welding products. Lincoln also produced electric motors ranging 0.5 to 200 horsepower. It's make difference Lincoln with other company.

The management compensation also make employee happy to work there. The evidence is the employee's turnover is very low. Lincoln using the modern technology which is adapt with the environment. For example, electrode manufacturing was highly capital-intensive. Metal rods purchased from steel producers were drawn down to smaller diameters, cut to length, coated with pressed-powder "flux" for stick electrodes or plated with copper and put into coils or spools for wire. This represented a major innovation in 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 managers and workers is firmly drawn, managers respect the expertise of production workers and value their contributions to many aspects of the business. The company has an open-door policy for all top executives, middle managers, 13 and production workers, and regular face-to-face communication is encouraged. b. Attitude toward Stockholders, Unionism, Customers? The absentee stockholder also will get his share, even if undeserved, out of the greatly increased profit that the efficiency produces.

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At the Lincoln's, unionism are parts of one organization in which they must and should cooperate fully and happily. In Lincoln, the customer's interests should come first. If there are no customers, the company's operations will not be able to run well. c. Shared Control? The employee of Lincoln Electric Company can buy the Lincoln's stock. That's mean employee can control the company with many way such as give any ideas, etc. d. Beliefs and Assumptions about employees? This is their way of motivating and ensuring employees' job satisfaction.

To do this they offer an extensive employee benefit package and use performance evaluations. e. High cooperation, commitment and teamwork? That are effectively to accomplish the goals of the team is a critical factor in team success. The relationships 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 the good 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 who want 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 other companies. The reason don't more companies operate like Lincoln. • The reason for Lincoln's success is the excellent attitude of the

employees and their 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 compensation the system and can meet their employees that staff are prepared to work to achieve the goals of the company. The key to motivating people to behave in a manner that furthers an organization's goal lies in the way the organization's incentives related to the individuals' goals. Organizations with higher ratios of bonuses tended to have better subsequent financial performance than other organizations. (Anthony and Govindarajan, 2007).

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

In order to increase company productivity and achieve the objectives would require quality human resources and work hard, but if the lack of qualified human resources so that productivity can be achieved so that the company does not profit the company has not been maximized and unstable. Lincoln compensation system is only suitable for companies that have high and stable income because when applied to small firms (with low incomes 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 to this 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 chart Lincoln has never allowed development of a formal organization chart. The objective of this policy is to ensure maximum flexibility.

An open door policy is practiced throughout the company, and personnel are encouraged to take problems to the persons most capable of resolving them. However, Lincoln has a current position and the position of traditional authority in the organizational structure, but it was only formal organizational structure. Informal organizational structure can lead to uncertainty in command of his superiors to subordinates, so that in the Lincoln company when employees are get problems did not consult with their supervisor or manager but with people who are able to solve the problem, the employees themselves.

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Routine control supervisor of workers is almost nonexistent Each worker is proceeding busily and thoughtfully about the task at hand. The supervisors are busy with planning and record keeping duties and hardly glance at the people they "supervise."

- Too wide Span of Control in Lincoln Electric

Company Every supervision control of almost 100 employees, this is a very wide span of 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/2thesis/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 trade unions to organize the employees because James Lincoln believed that unions are 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 a total package of incentives to management, such as : 1. Salary The level of basic wage for a job in Lincoln is determined by wage surveys for similar jobs in the region and is adjusted quarterly in accordance with changes in the wage index in Cleveland, and use the hourly wage system.

The typical Lincoln employee earns about twice as much as other factory workers in the Cleveland area. 2. Pension and health allowance Medical 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 incentive Every year in december, a part of the annual profit is distributed to employees as bonuses. 17 Lincoln Electric employees are compensated well for their productivity.

The employees are given great wages and incentive possibilities. The Lincoln Company incentives come in the form of great stock options offered through the company and an annual bonus. Lincoln Electric incentives bases the employee annual bonuses on performance evaluations. 4. In Lincoln Company suggestions are respected Suggestions for improvements often result in recommendations for exceptionally high performance scores. The value of suggestions is reflected in performance evaluation scores, which determine individual incentive bonus amounts. 5. Piecework pay system ?

Fair The Lincoln Electric evaluation process is also fair because the bonus that an employee receives is based on his or her own worker performance. The evaluations of the Lincoln Electric employees feed into the concept of the expectancy theory. This theory is the idea that an employee will put in more. 6. On the job training Production 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 bonuses Substantial cash balances accumulated each year preparatory to paying the year-end bonuses.

The bonus plan has been a cornerstone of the Lincoln management system and recent bonuses have approximated annual wages. 8. 2 weeks vacations Company was closed for 2 weeks in August and 2 weeks during Christmas holidays. 9. Stock ownership program Each employee with more

than two years of service may purchase stock in the corporation. The price of these shares is established at book value. Dividends and voting rights are the same as for stock that is owned outside the plan. 18 CHAPTER

IV CONCLUSION 4. Conclusion of this case study analysis are: Lincoln Electric company can be successful because of the excellent attitude of the employees and their willingness to work harder, faster, and more intelligently than other 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 business not only for personal interest but also for stakeholder interest. The working conditions of Lincoln Electric Company are high cooperation, compensation management 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 mechanism fit the company's strategic requirements because in Lincoln tasks are precisely defined, employees want to achieve the top pay, etc. 3. The corporate culture at Lincoln Electric are open line communication and trust, considered the customer's needs, shared control and Lincoln has an egalitarian spirit.

Lincoln's fundamental belief that "people are their most valuable 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 and share knowledge, focus on his job and innovation. 5. At Lincoln it gives good compensation the system and can meet their employees that staff are prepared to work to achieve the goals of the company. 6. Lincoln

compensation system is only suitable for companies that have high and stable income⁷. Lincoln Electric Organization is informal organization chart 19 8.

Lincoln Electric having given a total package of incentives to management, so many 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 unionism organization. 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 management compensation.