

Lincoln electric: case study.

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Lincoln Electric: Case Study

Lincoln Electric (LE) Company is a world leading manufacturer of arc welding equipments and electric motors. The company was established back in 1895 by John Lincoln who was its sole founder and proprietor (Berg & Fast, 2005: p. 1).

LE is very famous due to its effective implementation of an incentive or reward system since the early years of the 20th century which has seen it garner a very high competitive advantage over its competitors. The company's corporate culture which emphasizes on responsibility and recognition as the key elements of operation and workforce productivity has made it to emerge as one of the leading manufacturers in the U. S and all over the world (Siegel, 2006: pp. 24-26).

On responsibility, LE emphasizes on the importance of employee attendance, earning power and self management. Recognition involves many practices which the company diligently adheres to.

Incentive or reward system

Many motivation theories such as Maslow's hierarchy theory, Adam's equity theory, Herzberg's two factor theory among others have argued that money is not an effective motivator but is rather a hygiene factor (Wu, Chuang & Chen, 2008: pp. 1829-1840). They have argued that money has the potential of getting rid of dissatisfaction but it does not motivate people to work more and when it does, the motivation is more or less temporal. However, times are changing and nowadays, factors which previously motivated workers such as a sense of personal pride or a good basic salary

are no longer enough to keep the employees happy. According to Ahuvia (2008: pp. 491-507), a new wave seems to be sweeping companies and helping them to maintain a motivated work force. This new fad uses money as a motivator through an incentive type of system which rewards the employees who utilize their capabilities beyond their call off duty. Read also under what circumstances should a company's management team give serious consideration

LE is one of the few companies which has mastered the art of motivating and compensating its employees' initiatives and responsibilities through individual piecework payments and shared bonuses. In addition to the good pay and bonuses, Lincoln has managed to operate with minimal lay offs and its absenteeism and the turnover rates are believed to be the lowest among all manufacturing factories in the U. S (Chilton, 199: p. 29). The use of an incentive system has continuously motivated the employees to work as a team leading to improved quality at reduced production costs.

Lincoln rewards its outstanding employees with large bonuses depending on individual contribution to the overall performance of the company. This incentive system is an integral part of the company's organizational culture and it has so far distinguished LE from other companies in the U. S in terms of productivity and employee payments (Spear, 2001: p. 32). Historically, the amount of bonuses paid by LE to the employees per year constitute more than 50 percent of their incomes making them rank among the highest paid factory workers round the globe.

Lincoln's incentive system requires the workers to be highly skilled, independent and money-motivated in order to earn good pay (Chilton, 1994:

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p. 32). Some critics have argued that this system is unfair and have named it 'the social Darwinism' because although there are no lay offs in the company, the old, unproductive or sick people can not survive in the company due to inability to keep up with the fast pace which is required of all the employees.

However, despite the massive success which LE has achieved from the incentive system in the U. S, the system has proven to be quite incompatible with the values and needs of the workmen in other countries especially those in European countries such as Germany.

Failure in international expansion

LE's attempts to expand its operations globally between 1986 to 1991 were met by severe challenges and failure (Bartlett & O'Connell, 1998: p. 22). Its limited success in attempts to expand in Europe was mainly as a result of economic recession in Europe, over dependence on its incentive system, lack of internationally skilled managers and conflicts between the company's organizational culture and the labour culture of most European countries.

In its expansion plans during the early 1990s, LE managers made some major mistakes which led to severe impacts on its business and almost destroyed the company (Lippincott, 2007: p. 9). Some of these mistakes include making the assumption that the incentive system which had worked well in the U. S would work well everywhere, high ignorance of global management skills and paying too much attention to manufacturing processes as compared to the other activities of the company.

Over reliance on the incentive system is one of the issues which led to Lincoln's limited success in its expansion strategies. While the company made many technical innovations in its expansions abroad, the incentive system remained institutionalized due to the assumption that it would work everywhere and at any time. The company management left the system on an auto pilot instead of seeking ways in which to modify it to meet the needs and values of the changing environments. This incentive system needed modification because the pay-for-performance system and bonus rewards seemed to encounter some legal barriers. For instance, the German laws against piecework payments and Brazil laws of fixed bonuses restricted the implementation of an incentive system in their factories and this was a major setback for Lincoln's operations (Chilton, 1993: p. 21).

Having limited international management skills, the LE managers made many mistakes in their decisions to venture into the global markets without adequate surveys. First of all, the then CEO made an uninformed rush to globalize with the aim of replicating the very successful incentive system to eleven countries simultaneously. In addition, the company managers based their expansion strategies on wrong assumptions concerning the effectiveness of the company's incentive system in other countries without studying the cultures and values of other nations to determine if the system was likely to work or not.

The managers did not bother to implement a trial period because they assumed that since the reward system had worked very well in the U. S, it would still work in other countries. This was a wrong assumption as they

later discovered when the system was met with many challenges and oppositions especially in the European countries.

Current and future implications of the incentive system

There is no doubt that LE has by all measures been very successful for decades due to the incentive model which highly increases the employee productivity. One key issue however is how this company is able to effectively use an incentive and compensation system to achieve its massive success where others have failed (Schott, Shaw & Duff, 2008: pp. 967-980). First of all, the interpretation and construction of the incentive system is of key importance. LE has been able to propagate a positive attitude towards the system which is believed to be a flop for many other companies is in itself a great achievement. According to Hodgets (1997: p. 65), the complementary Human Resource policies employed in the implementation of this system in the company are also commendable and have led to the great success achieved from the system.

Current implications

The incentive or reward system adopted by Lincoln back in 1934 has led to great achievements for the company due to an increased competitive advantage over its competitors. This system has been and is still is very successful in improving the employee performance and increasing the overall company productivity at low production costs. By use of a piecework or pay-for performance type of pay, every worker is forced to put extra effort in his work so as to earn a good salary. Due to this, the company achieves

very high output from fewer employees as compared to other manufacturing companies (Wiley, 1993: pp. 86-91).

This system has however had some serious implications. For one, the system does not give allowances for sick-leaves or holidays since the employees are paid according to the amount of work done per day. In fact, during holidays, the employees are at times required to work over time in order to meet the high market demand. This has made the workers to become prisoners of work and they absolutely have no time for their families and friends (Pryor, Humpreys & Tanja, 2008: pp. 21-24). Therefore, while the company leaps huge benefits from the system due to low turnover rates and few cases of absenteeism coupled with high output per employee, the social lives of the employees on the other hand suffer a great deal which according to some people is not ethical.

However, the employees especially those working in the Cleveland factories seem to be satisfied with the incentive system and in fact, many of those interviewed in the past have stated that they would not be willing to leave the company for less work due to the high wages and bonuses they received at LE (Schiller, 1996: pp. 89-92). This system has thus had positive implications on the company which is seen as a desired employer for many people as well as the employees who earn goop money to improve their living standards.

Following the challenges faced by Lincoln during its international expansion strategies in the early 1990s, the company has made some modifications on the incentive system (Gozzi, Levine & Schmukier, 2008: p. 607). First of all, most employees especially those in working in factories outside U. S have

complained that the pay-for-performance system leads to unfair competition. For instance, the use of high ratings for one worker is likely to translate into a lower rating for another lower performing worker. For this reason, the incentive system has been modified to fit the performance of every worker with no minimum pay per hour.

Currently, the incentive system still boasts a piecework payment system, a compensation plan and annual bonuses. However, the piecework payments are adjusted to concede with the local salary scales of different countries where the company has established operations and the annual bonuses are given relative to individual performances.

Future implications.

The productivity of any company largely depends on the employee performance. Employee motivation and productivity is influenced by the organizational values and norms, personal beliefs on self efficacy and finally, incentives and disincentives of individual performance (Nohria, Groysberg & Lee, 2008: p. 133). Lincoln Electric has mastered the art of employee motivation through the incentive or reward system. Such company-based rewards have both positive and negative implications on the future of the company.

At times, incentives can also serve as disincentives depending on the employees' perceptions. If the employees believe that the incentives are fair and just, they are likely to develop a positive attitude towards their work which will lead to increased productivity as in the case of Lincoln Electric. Lincoln Electric operations have presented a more or less perfect example of

how a properly implemented incentive system can reap huge benefits for the company. However, the success of LE's incentive system in the future is uncertain. This is because, money does not yield natural motivation for the employees. Lincoln agrees with Herzberg's theory of two factor in that money is only an indicator of certain values such as status but is not a natural motivator (Chan & Baum, 2007: pp. 71-85). In fact, LE's founder James Lincoln once said that status is very important in all aspects of human relationships and money helps to symbolize a high status and success in life.

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The system has already proved to be incompatible with the culture of some countries and this has served as a great inhibitor to the company's international expansions. This system is only likely to work in those countries which are largely inhabited by immigrants but it has proven to be inconsistent with many transatlantic cultures due to a major difference between the work values and traditions of the employees and the values of the company's philosophy. This fact is likely to restrict LE's expansion to some countries and not others unless the company resolves to modify its incentive system and corporate culture to meet the needs and expectations of the local environments in future.

Moreover, the system is likely to breed problems in the near future because once a company commits itself to giving bonuses to its employees or gain-sharing, the promise can not be withdrawn (Becton, Giles & Scharaeder, 2008: p. 494). For instance, when the company experienced a major crisis

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due to failed expansions, LE had to borrow money in order to keep the promise of paying bonuses to its employees and keep the business going. Since the employees' motivation is derived from monetary incentives, lack of bonuses for the employees would lead to low employee performance hence a decrease in the productivity of the company. This would force the company to hire more employees in order to meet its local and global market demands which would eventually result in higher costs of production and less profits.

However, a study of LE corporate culture shows that its employee motivation is not solely derived from the money. Though incentives in terms of bonuses play a major role in motivating the employees, the working conditions which promote an open means of communication, team work, less supervision and a guaranteed job security also helps to cultivate a positive attitude among the employees. If the company maintains this healthy working environment, it has a bright future and with slight modifications on the incentive system to fit the local values of other nations, the company is bound to succeed highly in its future expansion strategies.

Organization culture.

When the Lincoln Electric company was established back in 1895, the founder developed a company philosophy which stresses on dedication to caring for its employees as well as production of high quality products. Christian ethics formed the foundation of the company's philosophy and organizational culture. Following this firm foundation, LE strives to give the best to its employees as well as to its customers through proper consideration of their needs. The company produces quality products which

are focused on efficient production and not on what the customer is willing or able to pay for the product (Van, 2008: pp. 256-270). The company's ethics based on the founder's ideas believes that it is the customer and not the stock-holder who finances the company and for this reason, the customer has to be treated right at all times (Otto, 2008: p. 1174).

The company's philosophy of ethics is mainly based on six core values. This includes addressing the customers' needs with value, quality and a lot of integrity, appreciating the fact that people constitute the company's most valuable assets, maintaining and improving the founder's philosophy of incentive management system, managing all the company's finances with prudence and maximum responsibility, being environmentally sensitive and finally, supporting the larger community through acts of goodwill (Baker, 2008: pp. 51-60). These six core values have formed the company's organizational culture and behavior which dictates the company's way of operation. Two of these six values are directly linked to the organizational behavior while the remaining four are more related to the company's overall business model.

The value of recognizing that people are the most valuable assets in the company and maintaining the system of incentive management for its employees has helped LE to effectively cultivate an all time organizational commitment towards its employees and as a result, people are more willing to work in the company as compared to working in other companies (Toflo & Wazlawick, 2008: pp. 1955-1967). LE adheres to this value through several practices including the use of federal standards and policies. It ensures that all its employees work in a healthy, safe, clean and conducive environment

to protect them from any bodily harm or substantial risks. In addition, the company equips all its employees with diverse skills which enable them to work in multiple departments as a way of broadening their intellectual and practical knowledge.

LE demands that all its employees practice maximum integrity, discipline, business ethics and exhibit professional behavior when dealing with customers as well as with fellow employees. In the same spirit of valuing people as the most valuable assets, the company highly recognizes and rewards the employees' hard work and achievements through a pay-for-performance incentive system whereby those employee who exhibit an extraordinary performance above what is expected of them by the company are rewarded heavily.

The company's incentive philosophy recognizes the practices of working as a team and giving incentives to the employees as the most favorable and profitable ways of achieving the company's long term goals at a low cost. This plan is dependent on the practice of work ethics as well as cultivation of positive employees' attitude within the company which yields quality production at low manufacturing costs. Through the incentive system, the company encourages its employees to be involved in a dynamic team work which ensures improved product quality and reduced costs.

From the core values mentioned above, LE has cultivated an organizational behavior which has made it a profitable and desirable employer for many. LE's organizational culture is based on strong motivational policies through financial as well as attitude manipulation techniques. A great commitment and a positive attitude at all times are some of the examples of motivational

policies which are strictly adhered to by LE's organizational culture. The culture also believes in both personal and ability job fits which emphasizes on developing both the employees' personal and ability skills for maximum productivity.

LE's organizational culture which is in practice today is mainly based on the wider context of the U. S societal values which emphasizes on individualism, avoiding uncertainty, masculinity and a low distance to power. This societal values are in consistence with the six core values put forward by the company's original philosophy. Lincoln's culture is reflected in the company's Human Resource Management practices when dealing with the employees(Angel, Junquera & Ordiz, 2008: pp. 6029-6053). This includes piece work pay system for every individual employee and a bonus system for sharing out the profits incurred. Due to the diversity of this organizational culture, the company has been able to recruit and maintain many productive employees whose individual values fall in line with the company's HRM policies.

LE's organizational culture has been very helpful in assisting the company to achieve great success locally. However, this organizational culture served as a major hindrance to the company's global expansions back in the early 1990s when the company tried to expand internationally. This is because the company transfered the HRM policies employed locally to international locations without making some modifications to fit the requirements of local values. Lincoln's failure in international expansions has been attributed to a mismatch between the company's core values and the societal values of the locations where the company sought to expand. For this reason, the

company's values and culture contradicted with the values of the employees in this new environments locations leading to major losses for the company in terms of money and public confidence.

Harris (2008: pp. 390-401) argues that, if LE had focused more on modifying their HR practices to fit the local societal values as well as the individual values, it would have performed better in its expansion strategy. Helfetz and Linsky (2008: p. 10) have also argued that LE management should have strived to first identify the aspects of the company's organizational culture which were likely to be compatible with the local cultures and which ones were not. From this point, the management would have identified ways in which to modify those HRM practices which were not in alignment with the societal values in order for them to be consistent with the local culture as well as the company's organizational culture.

Ghoshal (1991: p. 11) believes that for a company to successfully integrate its operation globally, its organizational structures must reflect the needs and values of both the local and international societies. LE's lack of proper consideration of the local values of various countries during its global expansion strategy was the main reason of failure. The incentive pay-for-performance system which has been very successfully in its operations in the U. S was a flop especially in the European countries where the company sought to establish its operations back in the late 1980s and early 1990s.

Another cause of this failure was because the working environment, values and ethics in these countries differed from those proposed by the company's philosophy and organizational culture. For instance, though most workers in the company's German factory are highly skilled, they are not used to

working as hard as those in the Cleveland factories. In fact, statistics show that the average working hours per week for a worker in the Germany factory is 35 while the average working hours for a worker in the U. S factory is around 58 (Siegel, 2006: pp. 24-26). This shows that flexibility was highly essential in the working system if Lincoln was to succeed in its expansion strategies. Lack of flexible working hours in the European countries is one of the major reasons why Lincoln's approach suffered big losses in Europe.

To deal with this organizational culture barrier, Helfetz and Linsky have proposed a typology in the concept of culture strength. This consists of two major aspects; one which focuses on how people feel about certain values and another one which is concerned with the degree of variation between different cultures and deeply the individuals in question hold adore their local societal values. This would solve the cultural differences in terms of labour values, needs and expectation of both the employees and the company.

Solutions and Recommendations.

Organizational solutions for Lincoln Electric.

Organizational changes must start from high ranks before toppling down to the lower levels. To deal with the issue of failed expansion strategies, LE hired internationally experienced senior managers and board members who settled on a plan to call off most of its operations in the European countries. This internationally experienced staff were of great importance to the company as they ensured proper integration of the company's resources, assets and a diverse work force in all its global factory units.

The company further strengthened its operations in the U. S to increase its productivity and revenue which was important to pave way for recovery out of the crisis (HarvardBusiness Review, 2008). The company also strived to increase the sales of its top line products instead laying off some of its employees. The company's then Chief executive officer relocated to Europe to monitor the crisis-stricken operations on a closer perspective. Factory managers also identified the cause of the bottleneck in its operations and to deal with this, new employees were hired to assist with the operations. Due to this aggressive efforts in at all levels of management and company operations, the company managed to get back on its feet and the initial public trust was restored.

Ghoshal (1991: pp. 5-16) argues that the world of international business today demands a highly specialized yet flexible kind of working environment. This includes the integration of qualitytechnology, world business managers, a dedicated workforce and good organizational values to ensure efficiency and competitive advantage at an international level, flexibility at the national level as well as increased ability to leverage cross market business learning on a global basis.

LE company is well equipped with functional managers and motivated workers but it lacks internationally trained staff to manage its operations. For this reason, the company needs to hire more global business managers who are more experienced on international matters as well as internationally experienced regional managers from the countries in which they wish to launch their operations. Experienced regional managers will assist the company to survey the local societal values more closely and in-depth

before implementing their own organizational values and this will avoid a contradiction between the two values which might result in a crisis like the one experienced before. Other workable solutions for the LE company include IT solutions which involve the use of e-commerce, Enterprise Resource Planning and Management, Electronic Data Interchange and utilization of telecommunication services.

IT solutions for Lincoln Electric.

Information Technology (IT) is vital in any multinational business as it puts some companies at a higher competitive advantage than others in the global markets. With the increased evolution in technology and globalization, most companies have now become almost completely dependent on IT for their operations. There are several ways in which Lincoln Electric can utilize IT to minimize crisis in its future expansion strategies.

Enterprise Resource Planning.

Organizations help to create knowledge through the interaction of both tacit and explicit human knowledge (Cursey, Schalk & Vessel, 2008: pp. 630-652). Everyday, new knowledge is developed by individuals and organizations serve the purpose of articulating and improving this individual knowledge. Technology assists companies to manage knowledge.

ERP process helps to improve the process of creation, transfer and management of knowledge in organizations (Kamhawi, 2008: pp. 66-83). Most manufacturing processes at Lincoln Electric are heavily dependent on human knowledge and it is thus paramount for the company to manage it effectively for maximum productivity. LE utilizes and retains the employees'

knowledge through its incentive or reward system as well as its open means of communication among all the company staff and workers.

The adoption of a global ERP system with subsequent modifications to meet the various local environments would go a long way in enhancing better expansion of Lincoln's operations all over the world. The use of Internet services would also increase the effectiveness of the organizational communication and this way, more knowledge will be shared for greater productivity.

The use of e-commerce.

E-commerce has become increasingly popular in many organizations today due to the improved utilization of Internet technology (Wang, 2008: pp. 529-557). It helps to integrate fundamental changes in the company's practices without altering the organization's traditional practices. Since there is no fixed model for e-commerce, it is up to the companies to carve out their own niche in the practice of online marketing and promotion of its products or services.

The availability of Internet services to the supposed customers especially when targeting customers in the developing countries is a major point which should be put into consideration before venturing into e-commerce (Treibmaler & Strebinger, 2008: pp. 479-498). It is also important to consider the cost of adopting such a practice as well as the different national and international regulations in regard to the use of Internet services.

E-commerce would be a very profitable IT solution for Lincoln Electric in its plan to market its products and expand internationally. However, the

company must put into consideration the mentioned factors before adopting e-commerce in order to ensure that the impacts of different infrastructures especially when the company expands into the developing countries as well as the cost changes which come with such expansions are well taken care of to ensure maximum profits (Muhattam & Deegan, 2008: pp. 850-872).

Electronic data exchange.

This is another business practice which utilizes IT to manage data in an organization. Different countries impose different requirements on multinational organizations in regard to data exchange. Many organizations are often afraid that by implementing EDI, they are likely to lose control or authority over the company's information. If a company lacks the will to change its purchasing processes for fear of harming its supplier and fear of sharing its data with other international partners then, Electronic data exchange implementation for the company is largely inhibited (Soderlun, Vaagasar & Andersen, 2008: p. 520).

At Lincoln Electric, the implementation of EDI would produce some tremendous changes because LE mostly depends on the local suppliers for the supply of all its consumables which include electrodes and welding wires. In this case, if the company decided to change this trend and purchase its main products from the common suppliers, it would highly benefit from lower costs of manufacturing and its revenue would highly increase.

More so, the use of EDI would enable the company to locate the best suppliers round the globe from whom it would buy quality products for its

manufacturing processes at cheaper prices. However, adoption of EDI in countries which have different infrastructures and regulations which might serve as barriers to the implementation process must be put into some serious considerations to avoid making blunders.

The use of telecommunication services.

Telecommunications is a modern technology which unlike radio, it provides a high band width and greater mobility to its users. Lincoln needs to take advantage of this new technology in its expansion strategy in order to improve its means of communication internationally. However, the company has to first overcome the challenge of ensuring that all the network services which will be required in future will be easily available.

Considering the fact that one of the major successes and strengths of Lincoln Electric lies in its customers, the utilization of the high bandwidth provided by telecommunications in its e-commerce operations will ensure that the company earns maximum confidence and trust from its customers all over the world. Telecommunication services will also ensure that the company is able to access the needs of its customers through online chats and emails and address them immediately to increase the customer's satisfaction (Michael, Bowen & Johnson, 2008: p. 4).

Open communication has been a core value in the company's organizational culture and the use of these new technologies will help to promote communication while at the same time, it will help to remove the geographical barriers which hinder business growth. Telecommunication services are best suited to help the company in supporting e-commerce,

Internet accessibility in remote areas, client/server applications and other intranet applications (Subramoniam, 2008: pp. 44-48). For this reasons, telecommunication is a very profitable infrastructure for Lincoln's future expansion plans.

Communication infrastructures.

In order to succeed in its expansion into the developing countries where telecommunication networks tend to vary widely and wired means of communication is poor, it is advisable for Lincoln Electric to invest in data communication infrastructures which will assist the e-commerce services and improve open communication within its businesses. Since most of the existing wireless networks in the developing nations are voice networks, LE would require a wireless local loop to incorporate all its data into the wireless voice networks. This loop is a technology which uses radio signals instead of copper wires to connect subscribers to the public network (Rouskas, Kikilis & Ratsiatos, 2008: p. 1177).

A network management system.

As discussed above, LE's expansion processes will involve the incorporation of many new networks and increased bandwidths. Some of the networks which Lincoln will require include web-browsing, e-commerce, emails, click-to-talk, video conferencing among others. To manage these networks effectively, proper management will be required. Band width management is aimed at ensuring quality of the services offered, management of the policies, charge-back and tools for packet shaping. This will go a long way in solving most of the bottlenecks in the company.

Conclusion.

Lincoln Electric is one of the most successful companies which has effectively mastered how to use an incentive or reward system to motivate its employees. This system has earned the company many benefits and put it on the global map due to its huge business success. However, LE has had its share of problems especially when the company tried to expand internationally in the late 1980s and the early 90s due to the assumption that the incentive system which has worked well in the U. S would work well elsewhere in the world.

This problems mainly emanated from the leader's overconfidence in the incentive system, inadequate international experience and lack of sensitivity to the diverse cultures all over the world. From this expansion problems, LE has learnt some tough lessons (Hastings, 1999: p. 175). To compete globally, Lincoln Electric requires more money, human resources and time. The company has to invest quality time in studying the cultural values and labor trends of the countries in which it wishes to expand in order to know how best to modify its incentive system and organizational culture to be more culturally sensitive and fit the local environments.

The company has learnt to be more responsive to local cultures of the countries in which they wish to expand. It has learnt to modify its incentive system slowly to fit the need of local cultures and so far, the company has managed to effectively expand its operations in Canada, Australia, France among others. LE now has a team of internationally experienced managers and is fast thriving into the realm of globalization with a better view of both its threats and future opportunities. It can thus be concluded that, despite

the many challenges which LE has experienced in its expansion plans as a result of its incentive system and organizational culture, the company is headed for greater success in the future since it has learnt a great deal from the challenges.