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Lincoln Electric, one of the most successful companies, is the world leading manufacturer of arc welding products. It is also one of the leading producers of industrial electric motors. This success is mainly driven by the ethical practices of the company.

The Lincoln Electric's main stakeholders are its customers, its employees, and its stockholders, and it has historically valued customer and employee interests over the stockholder one which helped it to be very successful. In other words, the outstanding success is due the importance given to the human factor. That is, the development of a unique internal culture and organizational structure that recognizes people as the company's most important asset. Moreover, the implementation of an effective incentive management system that contributes to the enhancement of the employee teamwork, collaboration and individual productivity.

Finally, developing employee expertise in costs reduction techniques and ensuring high quality practices to provide customers with the best quality products at lower prices, which foster the development of a positive relationship with customers and employees based on trust and fairness. Lincoln Electric Company has an open-door policy for all top executives, middle managers, and production workers, and regular face-to-face communication is encouraged even with the CEO.

However, although managers respect the expertise of production workers and value their contributions to many aspects of the business, the authority of managers is firmly drawn. In other words, employees are encouraged to participate in the decision making process but the worker task assignments and the final decisions are made by the management. The Lincoln management approach fused to some conjectural situations had threatened the company stability and its ability to sustain its incentive management system.

However, it succeeded in overcoming these threats mainly because most of its stockholders were company's employees. Now, to sustain its success story Lincoln Electric, have no choice but to give stockholders as much importance as the customers and employees, especially after the introduction of a major portion of its stock to public ownership. The Lincoln system succeeds largely because of an organizational culture based on openness and trust, shared profit, competitiveness, and fairness.

The system developed credibility mainly because of the high moral standards of the Lincoln brothers and the ethical and successful story of their company. In addition, Lincoln Electric has a well articulated vision that is passed on through the Advisory Board, made of workers representatives and manager, which resulted in the application of an open line communication policy. The elaboration of such successful system is the result of a long expertise in developing cooperation and teamwork by combining high technology with human talent.

To better understand the Lincoln culture and organization lets first see how it evolved over time and how was the Lincoln plan developed. In 1895 John C. Lincoln, previous worker of the Elliot-Lincoln Company, founded the Lincoln Electric company. Using the \$200 he earned from redesigning an engine for Herbert Henry Dow, John opened his new business, with electric motors of his as the main product. During that first few years the company grew but had some setbacks, which include a fire in the first year of operation.

In 1907, John's brother James joined him as a salesman and to help manage the company. On the next years, James introduced many interesting management actions that have greatly contributed to the company's success. These actions included the constitution of the Advisory Board that meets with the chief executive officer twice a week. This helped improve the relationship between management and workers. As a result working hours were reduced from 55 hours per week, then standard, to 50 hours, a paid-up life insurance was given to each employee and many other benefits were provided.

In 1919, The Lincoln Electric Employee Association was formed to provide health benefits and social activities. Few years later very interesting adjustments happened in the company. First, a piecework pay has been implemented. Employees got two weeks of paid vacation. Wages were adjusted for changes in the Consumer Price Index. And a portion of the common stock was set aside for all employees in 1925. In addition, a suggestion reward system was introduced and the legendary bonus plan was

accepted and implemented on 1934. During World War II, Lincoln Electric Company was very prospering.

Sales went from \$4, 000, 000 in 1934 to \$24, 000, 000 by 1941. At that time, the productivity per employee more than doubled. And the entire company productivity level was more than twice those for other manufacturer in 1945. Today, Lincoln Electric employees enjoy pension plans, opportunities of promotion from within, free access to management, and continuous employment. Since its creation, Lincoln Electric recognized people as its most valuable asset. Employee tasks are facilitated by being trained in a way that enables them to work in different departments.

To build positive and conflict-free work relationships, Lincoln Electric employees are encouraged to act ethically and solicited to show integrity, discipline, and professional behavior in all aspects of business. The most important consequence and benefit is the recognition of employee's hard work and extraordinary achievement which is reflected on their paychecks without being biased by seniority or status issues. That can be considered one of the most effective motivators and worker productivity enhancer.

Furthermore, to enhance the work environment and maximize flexibility, in addition to the open line communication policy, Lincoln Electric has never allowed the development of a formal organization chart which encourages employee to talk directly to the persons most capable of solving that specific problem and foster team development and high performance. Moreover, Lincoln Electric is known for the legendary Lincoln Incentive Management System that recognizes dynamic teamwork and incentives as the most

profitable and cost-effective way of achieving their goals. The performance evaluation of employees is based on four different criteria.

First, the quality, as for the quality of the task accomplished. Second, the output or piecework rate performance. Third is the dependability of the employee on supervision. The last criterion is the level of cooperation and the contribution in idea generation of the worker. According to the bonus plan philosophy, although no sick days are paid, workers have more control over their income as their income grows if productivity increases and vice versa. With that type of bonus plan and the way it is structured, it is difficult to provide an equal sharing of the bonus if there is no equal participation in the work.

The innovative pay system adopted by Lincoln Electric Company helps the firm resist economic downturns and keep team members jobs safe. In other words, the pay system adjusts automatically, when times are good, employees are paid more. When times are bad the employees' pay is less. That is, the system is adjusting through pay rather than through number of workers employed. Both the company and the workers share reward and risk by giving a large part of the pay based on the profit of the firm.

During its long existence, Lincoln Electric has identified the importance of cost reduction and integrated it into the general business strategy, as it lowers the prices for customers and increase the competitiveness of the firm's products. In order to reduce its costs, Lincoln Electric uses a variety of business tactics. Workers work on shifts over equipment, so it is constantly rotated and allows for no downtime on equipment. This measure provides

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the workers with broader knowledge and experience and prevents also from having excess capacity which leads to additional unnecessary costs.

In addition, Lincoln Electric purpose has been to flatten the hierarchical structure of the company and eliminate unnecessary levels of the organization that block the establishment and enhancement of an open line communication environment between workers and management. That is, disposing of fewer expansive management positions which reduces salary expenses and improve the overall communication flows in all directions of the company. Another innovative and very interesting techniques for cost reduction, James F. Lincoln introduced, is the continuous employment policy.

The cost of retaining employees is less than the cost of recruiting, training, and motivating new employees. As a result, during downturns, Lincoln Electric did not lay off workers but would rather decrease their working hours or reassign them into other department in the company. Job security encourages employee to be more loyal to the company which reduces employee turnover cost. Moreover, the incentive management system with the bonuses and worker's piecework compensation involved is a great source of motivation and productivity which compensate for the lack of benefits, such as no paid sick days or the mandatory overtimes.

Lincoln Electric's approach to maximizing output focuses on developing creative and efficient workers who are motivated to consistently make more effort than other production workers in similar firm. One of the most critical times Lincoln Electric had, is when James F. Lincoln passed away. Many employees were concerned that the management system would break down,

and the firm's profit fall down and the bonuses discontinued. The company did not get affected by the death of its CEO and appeared very strong and continued to show high profits and high bonuses except the recession years 1982 and 1983.

However, since the introduction of Lincoln Electric in the stock market, in 1995, employees were relatively discontent and other stakeholders became more prominent. The introduction of the Lincoln Company to the stock market, and having its stocks freely exchanged in the market makes it very important to take into consideration the public and the stockholders' opinions because they have more power and control over the company's financing. Lincoln Electric management has proven records of developing many skills that characterize high performing teams.

Each team knows the desired outcome it is expected to perform. The profit sharing system makes every employee share the same purpose by sharing competitive individual and non conflicting objectives. Distinctions are blurred by the fact that no formal organizational chart exists, and very few levels of hierarchy can be identified. Additionally, recognition and compensation are based on employee productivity rather than on seniority. The Advisory Board plays the role of intermediation and coordination between the different company members.

In addition, efficiency is reflected by the worker and overall high productivity levels, and the auto-adjusting pay system. The job rotation and task reassignment help create additional value especially in the new product development department. Finally, Lincoln Electric has developed its

credibility and trust based on the ethical notoriety of its management that is supported by past evidence and by fact that it is the best in its core competency. This expertise made it become the world leading company in arc welding.

Up to 1995, Lincoln management was only accountable to its customers and its employees, while shareholders were given the last priority. This was primarily because the majority of the shareholders were employees at that time. However, as the stocks became largely public-owned and freely traded on the stock exchange market, the management became more accountable to the general public and specifically its stockholders. Besides, a firm with dissatisfied employees and empowered workforce does not look as a good investment in Wall Street, even if it reflects positive financial numbers.

Lincoln Electric will have to find a more subtle and balanced way to address its three main constituencies that are now of equal importance. Furthermore, to be more ethical and successful, Lincoln Electric should treat all its stakeholders equitably and be as accountable to customers and employees as they are to shareholders and even to suppliers. Indeed, in addition to ethics, trust, and fairness, Lincoln management is obliged to show profitability and additional control over its labor force and operations in order to reassure the shareholders and continue the outstanding success story.