

**CASE 2**  
**Lincoln Electric; Venturing  
Abroad**

**FAN Libo**

# Case structure

**The case begun with a brief introduction of the trigger issue, which questions whether Mike Gillespie, president of Lincoln Electric's Asia region, should invest in a new factory in Indonesia. More specifically, it questions whether should consider transferring Lincoln's unique incentive system of management to such an operation.**

**The case then presents a broad overview of Lincoln Electric company, its historic development, and its outstanding long-term performance. In particular, it focuses on the unique management philosophy that has been built around the incentive system of piecework, bonuses, and guaranteed employment.**

**The next section of the case documents the company's experience in overseas expansion, describing how long-established operations in Canada, Australia, and France have successfully adopted the Lincoln's incentive-based management model.**

**However, the new wave of international expansion in the late 1980s and early 1990s, has run into major difficulties. For the first time in its history, Lincoln has begun losing money, and the board saw the need to replace the CEO and bring in new management under the leadership of Tony Massro, Lincoln's first outside CEO.**

**Finally, Massaro and his team decide it is time to renew overseas expansion based on having learned from Linclon's previous failure abroad. In particular, the case focuses on the activities in Asia and concentrates on the entry decision into Indonesia.**

# Learning purpose

**This case can be used to develop a number of central learning purposes including the following:**

**To demonstrate the development of strategic advantages through building of organizational capability.**

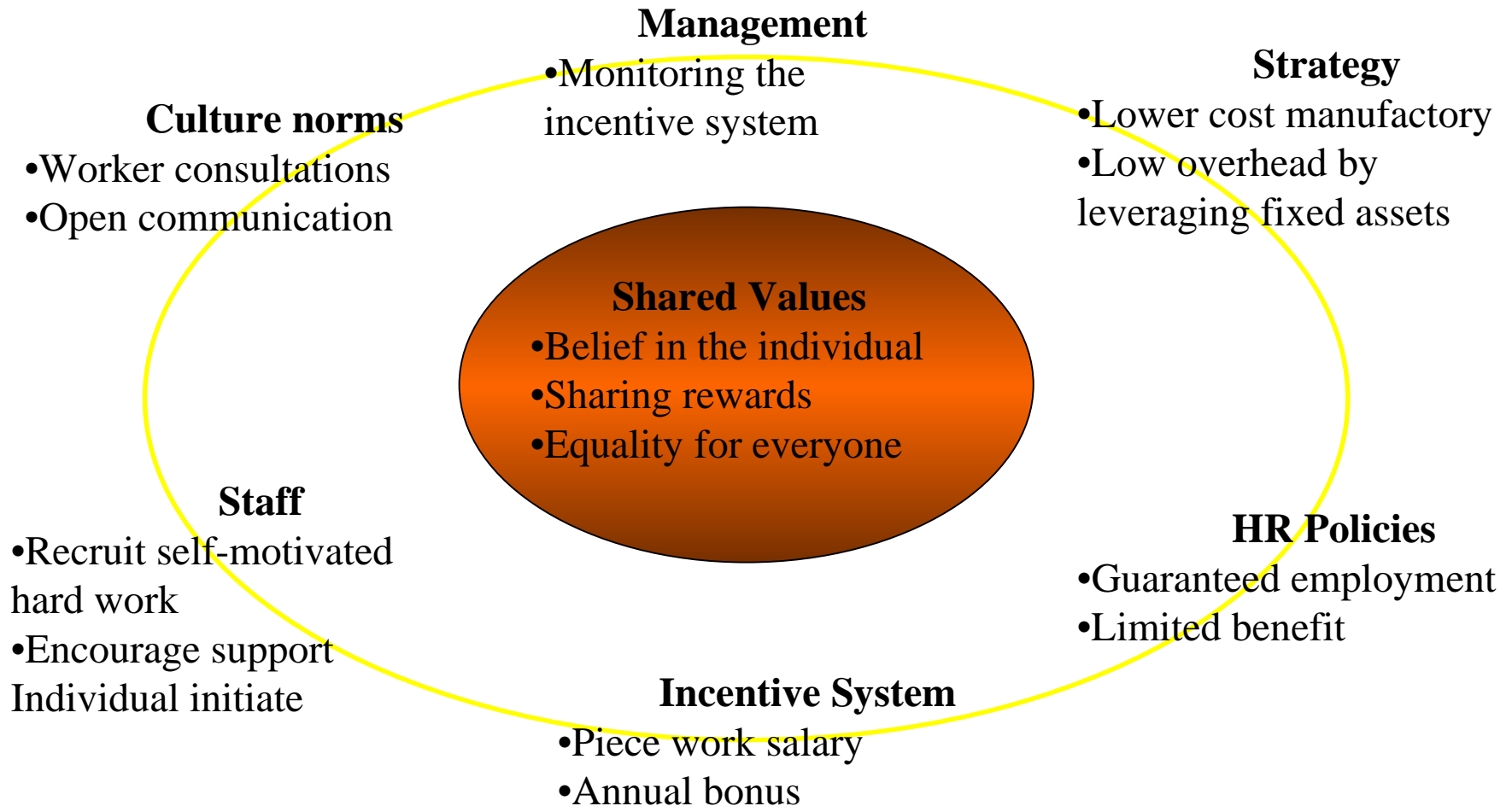
**To illustrate the power of strategy-structure fit by providing an excellent illustration of how the tight alignment of Lincoln's strategy, organization, system, processes, and culture create an international capability that has provided it with a sustainable source of competitive advantage.**

**To illustrate the motivations, mentalities, and means of internationalization.**

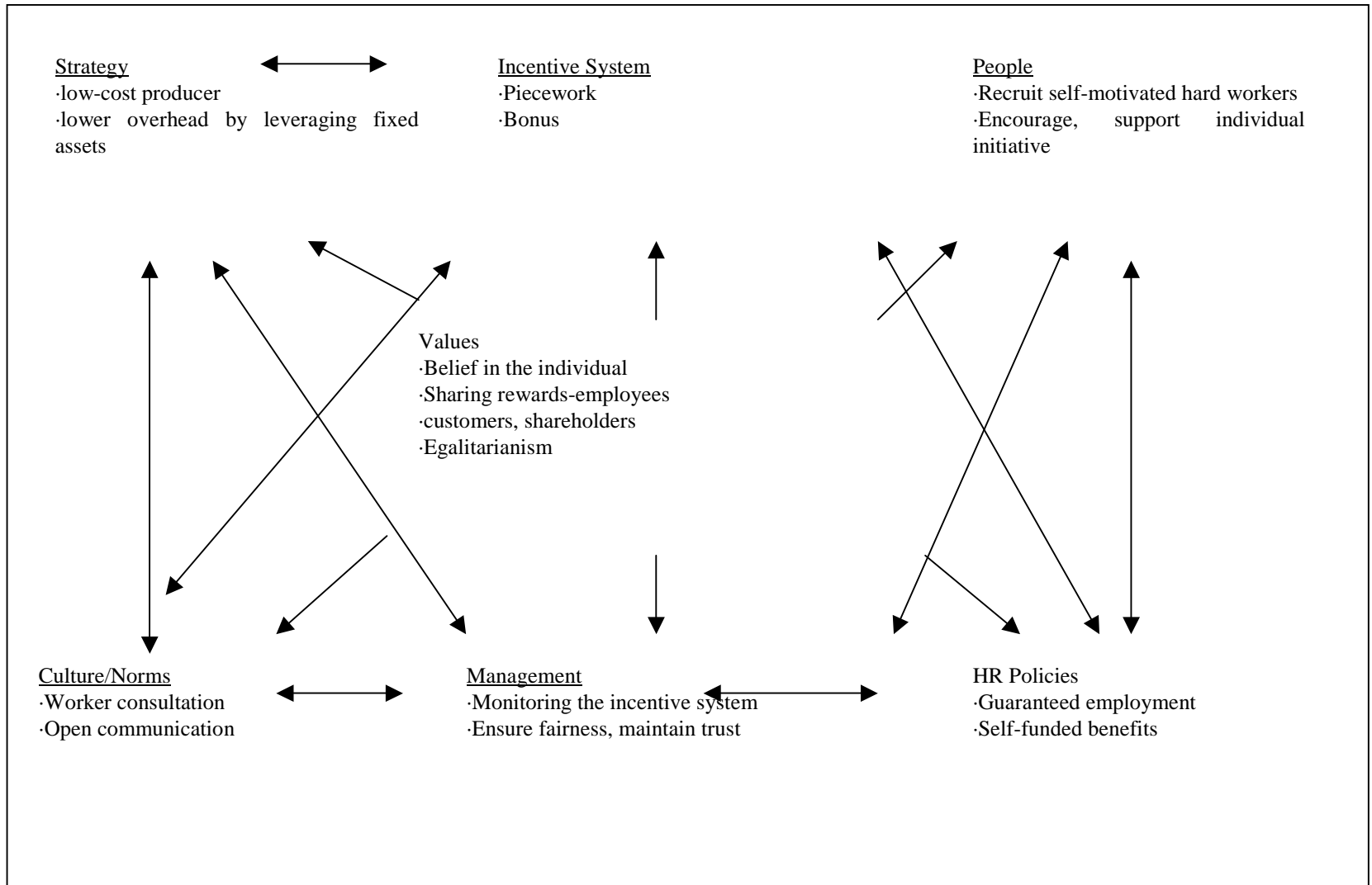
# Assignment Questions

- 1. How was Lincoln able to grow and prosper for so long in such a difficulty industry that forced out other giants such as GE, Westinghouse, and BOC? What has accounted for Lincoln's outstanding and enduring success in US?**
- 2. Given the great success, why did the internationalization thrust of the late 1980s and early 1990s fail?**
- 3. What do you think of Lincoln's emerging international strategy by the mid-1990s? Does this company have a competitive advantage that can be transferred to the global environment?**
- 4. What advice would you give to Mike Gillespie with regard to his Asian expansion strategy, and particularly, his plans to expand operations in Indonesia?**

# Assignment question I

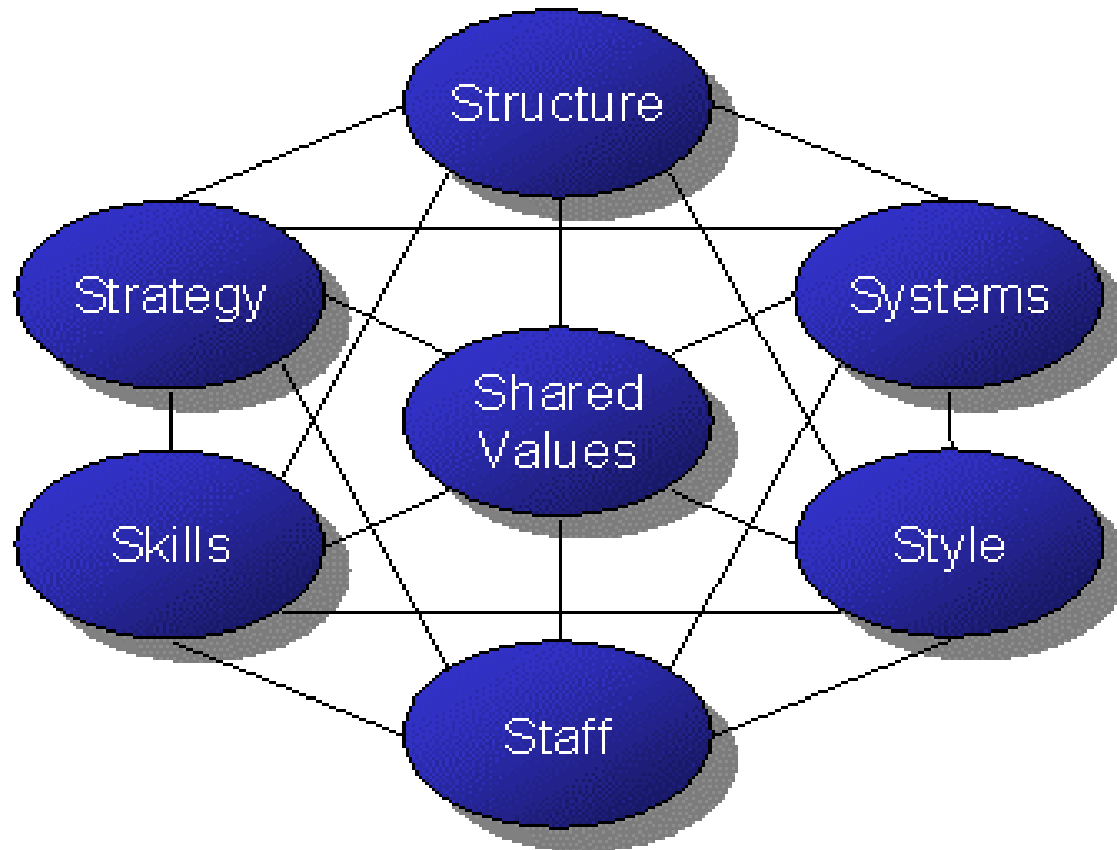


# The Lincoln Electric Model





# McKinsey & Co's 7S framework



Understanding Incentive system

**According to Exhibit 9:**

**Why is the incentive-compensation system so critical in a company where labor represents only 2% of the manufacturing cost?**

**Why is a managerial improvement in a labor productivity so important for a commodity product?**

Total manufacturing cost:

Materials: 70%, overhead 20%, direct labor 2%.

- By improving the labor productivity, the company can substantially leverage its capacity utilization and thereby spread its overhead.

- Equally important is the way in which the incentive system drives front-line workers to look for entrepreneurial innovations that can leverage the company's equipment and operating process.

- What is key to making this system work so well at Lincoln when other companies have either abandoned it or been unable to adopt it?
- What is management's core role?

# Assignment question II

**Given the great success, why did the internationalization thrust of the late 1980s and early 1990s fail?**

# Lincoln's Failed Internationalization

## The Problem

Rapid international sales growth

'87:\$86m '93:\$302m

Disastrous international profits

'87:\$2.8m '93:(\$92m)

Balance sheet impact

·Stockholders equity

'91:\$264m '93:\$143m

·Debt/Equity ratio

'87:0/100 '93:60/40

## The Causes

### Acquisitions

- Unionized
- Labor-Management relations poor
- Low productivity

### Management

- Distant, unengaged parent management
- Inexperienced local management

### Cultural Barriers

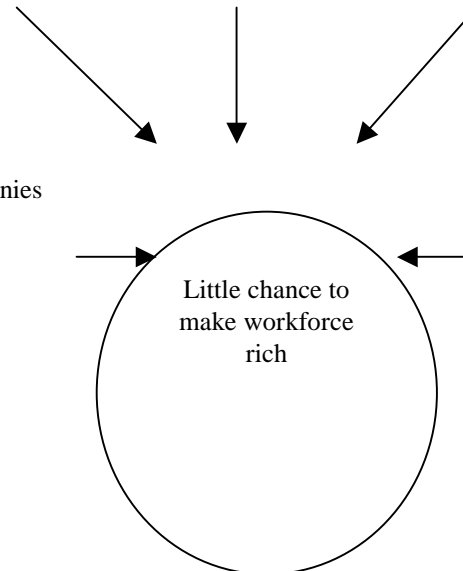
- European opposed
- Value vacation

### Business Environment

- Global recession
- Overpriced market for companies

### Legal Barriers

- Brazil bonus becomes fixed
- German laws vs. piecework

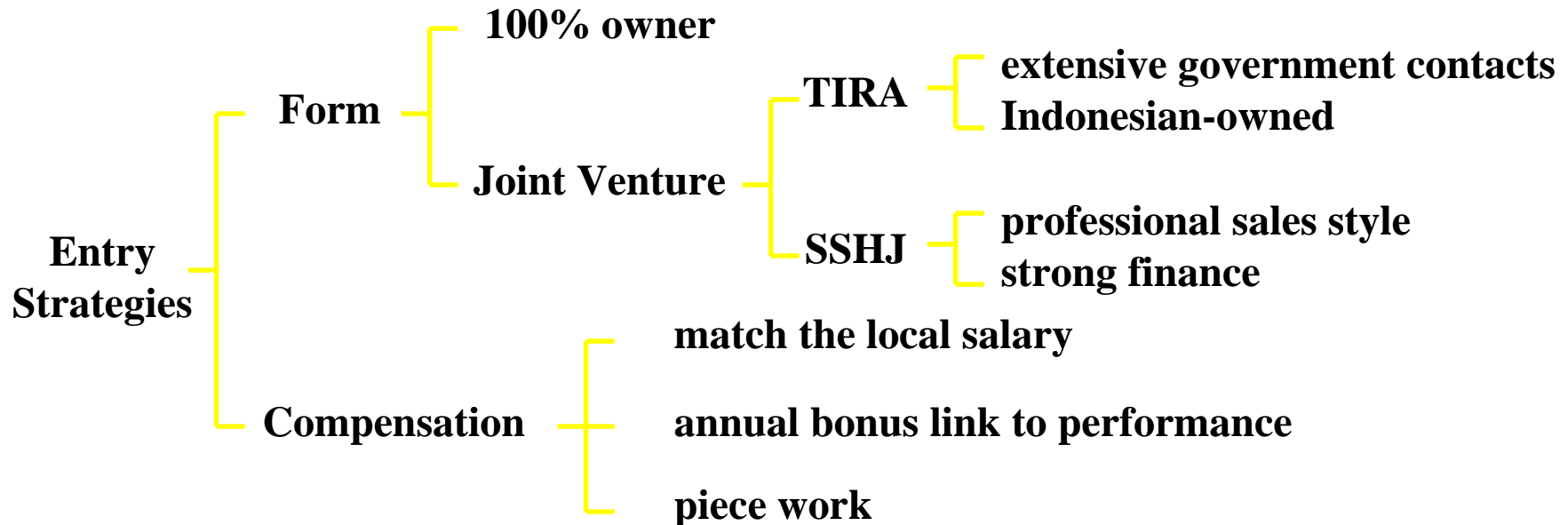


# Assignment III

- **What do you think of Lincoln's emerging international strategy by the mid-1990s? Does this company have a competitive advantage that can be transferred to the global environment?**



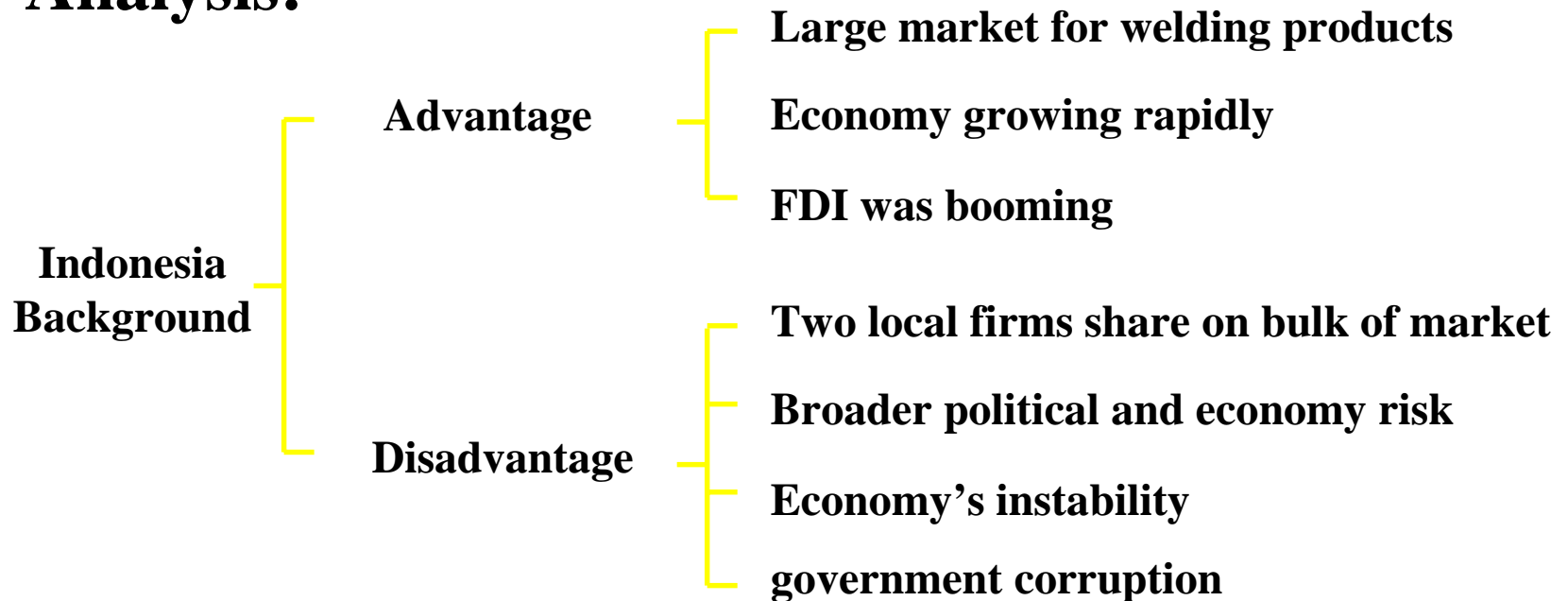
# Assignment question & analysis



# Assignment question & analysis

- **Question3 : What was situation to Lincoln Electric with regard to its Asian expansion strategy, which plans to expand operations in Indonesia?**

## **Analysis:**



# Concluding Comments

- **Great success in the United States of Lincoln Electric was derived from her particular philosophy.**
- **International business calls for international experience of management and technological skill; besides, venturing abroad shouldn't ignore the local conditions and culture.**
- **We suggest that Lincoln Electric ought to entry a new market in Indonesia, as method of joint venture with TIRA and compensation with piece work.**