International Organizational Behavior/IMGT 8501
Professor: Kent Glenzer, Ph.D.

**Lincoln Electric: Venturing Abroad**

**Case Reanalysis**

Student: Sierra Tan
Monterey Institute of International Studies
“It could be argued that the essence of living is free choice—the process of making decision. To be deprived of choices is to lose all meaning” (Driver, 1979). While this is very true, sometimes making choices can be brain racking; such was the case with Gillespie in 1996, the President for the Asia region of The Lincoln Electric Company, who had to make some huge decisions in the direction of his company in Indonesia. The new CEO of Lincoln Electric, Anthony Massaro, had encouraged him to expand operations in several Asian countries to take advantage of their low labor costs and avoid trade barriers. To this end, Gillespie had chosen Indonesia to be the first target for a new factory because the country’s market for welding products was large but unsophisticated. However, economic and political risks could be serious judging from the country’s current circumstances. The decisions Gillespie would have to make were listed below:

- Should he build a factory in Indonesia at all?
- If the answer to the above question is yes, should he enter the market as a wholly owned factory or a joint venture?
- If he is to set up a joint venture, which one of the two local distributors should he choose: Tira Austenite (Tira) or Suryiasurana Hidupjaya (SSHJ)?
- Finally, should the planned operation adopt Lincoln Electric’s incentive system originated in the company’s flagship plant in Cleveland, Ohio?

These questions are by no means easy! I totally understand the challenges Gillespie was facing. If I were in his position, I would take the following actions (which I will explain respectively):

- Definitely go for a factory in Indonesia
- Establish a joint venture
- More likely, choose Tira over SSHJ
- Yes, adapt the Cleveland incentive management, but with some modifications

**Enter the Manufacturing Market in Indonesia**

As the case suggested, Indonesia’s economy had been growing rapidly over the years with a great deal of construction going on. At present, most customers only used
hand held stick welders rather than the semiautomatic or fully automatic machines; which indicated a great opportunity for Lincoln Electric. There might be some political unrest in Indonesia, but no matter who seized the power in the end, they would still need to develop their economy.

**Establish a Joint Venture (more likely with Tira)**

The failure of Lincoln Electric’s international expansion endeavor in the early 90’s resulted from an ignorance of other cultures was still fresh memory; thus the company should not trip over the same stone twice. As such, it is imperative to take into consideration the specific situation in Indonesia; which could be achieved through a local partner. Since Gillespie knew very well the advantages of a joint venture, I would focus on the choice between the two potential partners: SSHJ and Tira. Based on his pros and cons comparison between the two well-established distributors, I would choose Tira over SSHJ because of the following reasons:

- Tira had maintained high-level relationships with government officials; such relationships are critical for a business to thrive and sustain, in a country like Indonesia where government has the absolute power. Comparing to Tira, SSHJ is a Singaporean-Chinese family firm; as such, it did not have as much local knowledge and contact as Tira.
- Tira had a nationwide network that could help to reach potential customers all over the country; whereas SSHJ only had two offices.
- SSHJ generated better cash flow than Tira, but what Lincoln Electric needed most was good relationships with the local government and an extensive sales network, rather than money.

Judging from the above criteria, I would choose Tira over SSHJ; however, I would go one step further – approach the senior management of the two companies separately—in order to acquire the following information:

- What their management style was, and to what degree would they accept Lincoln Electric’s management style;
- What was their vision for the potential joint venture, and what could they
bring to this partnership.

Why would these questions matter? Because for a partnership to flourish, it is pivotal that there is a good fit between the two sides, especially a good fit between the two management teams. If the two sides constantly couldn’t see eye to eye with each other on major issues, misunderstandings would occur which could lead to endless argument; worse even, conflicts. Therefore, assuming my initial research proved that Tira’s leadership was compatible with Lincoln, and what they could offer was satisfying, I would go ahead with them to forge the partnership.

**Adopt the Incentive Management with Modifications**

The Cleveland Incentive Management system had four key components: wages for most factory jobs based solely on piecework output; a year-end bonus that could equal or exceed an individual’s regular pay; guaranteed employment; and limited benefits. Like Ray Bender, Lincoln Asia’s Head of Manufacturing, I also believe that “if selected and trained properly, workers in most countries would embrace such a compensation system, because it would provide them the opportunity to earn substantially more money through individual effort”. Especially in a developing country like Indonesia, where many people were still living in poverty, the prospect of earning substantially more money would be very attractive to them. The financial incentive would work because they were in the stage of trying to meet their most basic needs – physiological and safety needs – on Maslow’s needs hierarchy model.

However, as discussed earlier, the price Lincoln Electric had paid for ignoring other cultures was too high to neglect, I would not allow history to repeat itself. In order for this system to work in Indonesia, first and foremost, I would do research to find out what local people’s response was regarding piecework (especially those working in the
welding industry) and what the highest payment package entailed. Considering that Indonesia is a country with a high tendency of uncertainty avoidance, through consultation with the local partner, we would design the system in a way that ensures:

- The lowest payment would be no less than the legal minimum wage – 17,000 rupiah per month;
- The highest paid worker in this industry could earn much more than his/her current job;
- A work with an average skill would enjoy a slightly higher payment comparing to other factories; but he/she would earn much more if he/she was to improve his/her efficiency;
- Any worker would be given three months probation, if within three months time, his/her wage remains the minimum standard, he/she would not be hired.

Comparing to the wages in the US, the payment in Indonesia was embarrassingly low. I would like Lincoln Indonesia to establish a good image of paying the workers well, at least better than the two other multinational corporations that were already operating there. This strategy could not only attract the most skillful workers to join Lincoln Indonesia, it could also convince the local customers what we produce is quality products; as I wouldn’t compete for the lowest price.

Given that piecework was a completely new concept in Indonesia, I would make sure the above-modified system was very well communicated to every potential employee, so that he/she understood clearly what benefits they could get from such a system. In the case if most local people surveyed were skeptical about it, I would consider a dual system at the beginning: for those who were not sure if they’d like to follow the piecework system, they could be paid the traditional way; for those early adopters, they would follow the new scheme. As time passed on, I am sure the early adopters would prove that they were much better off with the new system. At that point, seeing is believing; the skeptical workers would be convinced and gradually transfer to
In terms of benefits, coming from China (a country very similar to Indonesia in terms of economic situation), I wouldn’t be surprised that most people would prefer cash in hand than some future benefits paid by the company. However, I would put my assumptions aside, consult with my local partner, and talk to local people to see what their opinion was. I would even consider the option of giving the local workers freedom to decide what they would prefer, and make my own decision based on the majority’s preference.

As Adler noted, “Decision making plays a central role in managing; for some people, decision-making is managing. The higher the level of management, the greater the number and complexity of the decision made. Leadership involves making decisions that affect whole organizations or units within an organization” (1997, p. 13). I fully agree that decision-making is managing; and I hope that the decisions I made above would lead to a reputable and successful Lincoln Indonesia.

Reference: