

Distributive Justice at Lincoln Electric: An Example

A good example of distributive justice can be found in the experience of Lincoln Electric, an American company widely known for its successful pay-for-performance system. By any measure, Lincoln is a success story. The company's business strategy is simple: sell high-value, high-quality products at competitive prices and provide outstanding customer service. The key to Lincoln Electric's success is its stable, hardworking, and highly skilled workforce that is compensated on a strict piece rate system. On average, its shop floor employees make twice the national average for their trades.

After its American success, Lincoln Electric decided to expand its operations internationally and become a bigger player in the emerging global economy.¹⁸ It set its sights on Germany, buying a small German arc-welding equipment manufacturer. None of the US executives involved in the acquisition had any international experience, but they believed that because they had been so successful in the United States, success would likewise follow elsewhere. One of their first decisions was to retain the local German managers, on the grounds that they best understood local customs and work practices. It assumed that the Lincoln Electric compensation system would be adapted to fit local conditions, leading to increased productivity through heightened individual motivation. It quickly became apparent, however, that the local German managers were either unable or unwilling to introduce the company's highly individualistic incentive plan among workers used to a more collectivistic work culture.

Finally, out of exasperation, US headquarters ordered it to be implemented. The response of the employees was quick and decisive. Employee grievances and even lawsuits arose challenging the newly imposed system, which was seen by many as exploitative and even inhumane. Workers were being asked to work ever harder with little consideration for their quality of life. Many workers rejected the piece rate concept on principle, while others preferred extra leisure time over higher wages and were not prepared to work as hard as their US counterparts. Compared to the Americans, German workers had a different psychological contract, the mutual expectations that arise between managers and workers. As Lincoln Electric's president observed,

Even though German factory workers are highly skilled and, in general, solid workers, they do not work nearly as hard or as long as the people in our Cleveland factory. In Germany, the average factory workweek is thirty-five hours. In contrast, the average workweek in Lincoln's US plants is between forty-three and fifty-eight hours, and the company can ask people to work longer hours on short notice - a flexibility that is essential for our system to work. The lack of such flexibility was one of the reasons why our approach would not work in Europe.²⁶

Lincoln Electric's disappointment in Germany was soon replaced with optimism following its experience with a Mexican subsidiary that occurred about the same time. The company had purchased a unionized manufacturing plant near Mexico City. Despite the fact that piece rate systems are generally rejected by Mexican workers (like their German counterparts), Lincoln introduced its system gradually and only following discussions with workers in the plant. Initially, when employees expressed reservations about the Lincoln plan, executives asked for two Mexican volunteers to test-drive the system. They were guaranteed that they would not lose money under the system during the trial period but could keep any additional income they earned. Two employees reluctantly agreed to try the system. Soon, as the two workers began making more than their colleagues, other employees asked to join the plan. Over the next two years everyone in the plant gradually asked to join. Today, the Mexican facility continues to prosper under the Lincoln incentive system.

The local environment may also have played a role in the Mexican adoption of piece work pay at Lincoln. Mexicans generally welcomed the many American companies that set up operations in their country and went along with new management practices because it meant they could support their families. The psychological contract for Mexicans had changed over time from less emphasis on job security to more emphasis on career opportunity, which included competitive salary and training to enhance professional growth. However, foreign companies still had to be skillful when introducing new management practices in Mexico, as was Lincoln Electric.

From its experience in Germany and Mexico, Lincoln Electric concluded that moving across borders must be done slowly and only after a thorough understanding of local cultures. Moreover, they learned that transplanting ideas – whether they relate to incentive systems, management practices, or anything else – would succeed only after a thorough dialog with the workers who are directly involved.

MANAGEMENT APPLICATION 4.4 Lincoln Electric in Germany and Mexico

1. Use the global management workplace framework discussed above to evaluate the nature of the conflict at Lincoln Electric. What emerges as the key issues needing to be addressed by management?
2. How did job and reward expectations, and perceptions of distributive justice, differ between the US and German operations at Lincoln Electric?
3. What could US and German managers have done to improve the motivational environment in the Germany operation? How successful do you think such an attempt might be?