

# **Managing Organizations**

## **Session 5**

### **Reward Systems & Incentives**

Sloan School of Management

Lincoln Electric

*Leading Organizations*

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# Today

## Lincoln Electric

- Video- Inside Lincoln
- Discussion:
  - Is this a “healthy” company?
  - What is the link between the strategy of the firm and the compensation system?
  - Why does it work?
  - What should they do in China?
- Wrap-up: The Empirical Evidence

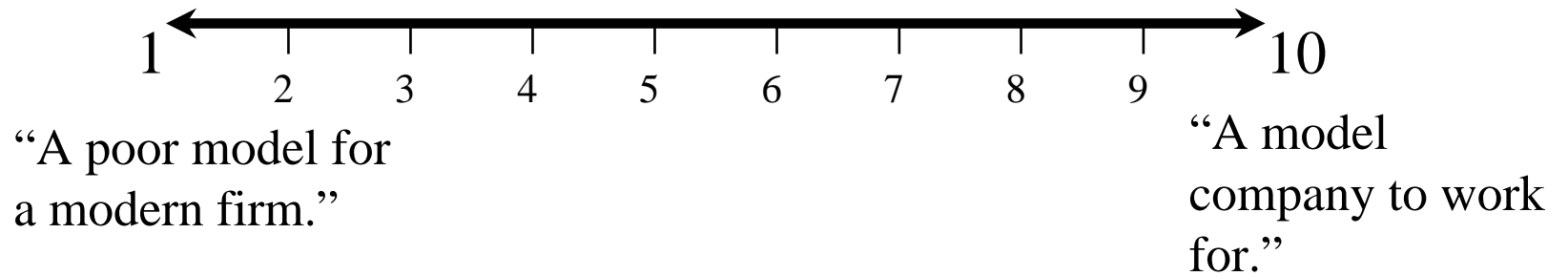
# The Lincoln Philosophy

See the James Lincoln quote from 1951 in the case:

Björkman I., and C. Galunic. *Lincoln Electric in China*.  
INSEAD, 1999. European Case Clearing House Case No.  
499-021-1.

# Lincoln Electric

*Is this a healthy organization to work for?*



# In Europe

- Study of 460 companies in 13 industries
- 58% tied pay increases of executives to merit
- 25% of senior executive pay is variable
  - Up from 20% in 1996; Expected to be 31% by 2002
  - For non-management: 5% expected to go to 10%
- Only 4% reported that workers had a good understanding of the plans

Source: Towers Perrin, London, November 1999.

# Some Cautions

- Rewards produce temporary compliance
  - Good for precise behaviours but not lasting commitment
  - Do not generate extra-role behaviour
- Rewards focus people on more rewards
  - They can undermine intrinsic motivation
  - Emphasize work as a means, not an end
- Reduction in rewards seen as punishment
  - Seeing large bonuses reduced in lean years may breed resentment.
    - Saturn, 1998
    - Ikea, 1999