

# Research paper on nucors case

[Business](#), [Company](#)



1. Discuss the trends in the steel industry and how it may impact Nucor's strategy.

The modern history of the steel industry starts around 1850s when Mr. Henry Bessemer of England and Mr. William Kelly, of the United States, started producing steel in large quantities and relatively at a low cost. Since its inception, the industry has undergone significant changes throughout its history. Until 1960s only a few big companies were able to produce steel due to the complexity of the production process and the necessary degree of company integration. However, the development of the electric arc furnace, which was the main production method until the development of basic oxygen furnace, has changed the steel industry dramatically. Technology developments allowed new smaller companies to enter the market, but the recent decline in economic stability as well as the shift from labor-intensive to capital-intensive production led to industry downsizing and consolidation, which was achieved through mergers and acquisitions of the existing players. Nucor's strategy in the 2000s was consistent with this trend and allowed the company to grow through acquisitions without investing in building new sites. However, the overall decline in the demand growth for steel products undermines the success of the expansion strategy by Nucor and threatens to create excess capacity of the plants.

Moreover, the leadership in the steel industry has shifted geographically from the United States to the emerging economies, in particular to India and China (Economy Watch, 2010). Therefore, Nucor may need to reconsider its location in the United States and continue to expand abroad in order to

reduce operation costs and to take advantage of the more favorable political and economic conditions outside of the United States.

One of the major trends in the industry was a gradual decrease in the prices for steel products in response to the decline in production costs and commoditization of steel production. However, the recent growth in infrastructure, construction, and automobile businesses has stimulated an increase of prices across all categories of steel products (Economy Watch, 2010). This fact can ensure stable growth of Nucor due to its diversified product portfolio. Furthermore, Nucor's emphasis on innovation and technology development can help the company to reduce costs and to maintain high margins despite the overall industry costs pressure and an increase in the level of international competition.

2. Discuss the organizational structure and management philosophy at Nucor.

Nucor's strategy is strongly based on the efficiency enhancement, cost reduction as well as on continuous innovation and improvement. This orientation was enabled by maintaining a very simple and decentralized organizational structure that gave employees freedom to innovate and allowed more responsiveness to the environmental conditions. Since every plant typically operated as a profit center, plants managers were responsible for meeting profitability objectives and for addressing day-to-day issues.

The autonomy of individual employees was also reflected in the emphasis on the pay-for-performance mechanism, which was implemented both for the

plant workers and for the executive personnel. However, this strategy aimed to increase earnings of the individuals, rather than to decrease them, hence Nucor's employees were paid above the industry average, especially in the relatively poor areas. The payment plan was based on the standardized formulas that were implemented in all plants, thus reinforcing the company's egalitarian culture and eliminating the subjectivity of appraisal systems. In addition to that, Nucor's employee are supported through a number of benefits, such as profit sharing, service awards and scholarships, which helped to reinforce the equal opportunities offered in the company.

3. Identify three (3) HRM issues related to strategy implementation and recommend actions to address these issues.

The first HRM issue in Nucor is related to the implementation of the pay-for-performance strategy on the production line. Since employee bonuses constituted the main incentive mechanism in the company, it was important to reevaluate production targets regularly and to gradually increase target output values. However, production objectives in Nucor were rarely changed, unless major equipment modernizations have been made, thus undermining the identifying function of the bonus payments. This issue should be addressed by reviewing company's performance standards regular and by continuously raising the output targets in order to motivate people to achieve higher results. However, the implementation of this policy should be decentralized and carried out in close collaboration with plant and team managers, in order to keep the targets achievable for the teams.

High decentralization of the Nucor's operations may also become inconsistent with the new strategy of growth through acquisitions and international expansion. The autonomy of plant managers and the lack of supervision from the executives could lead to the misalignment of the company objectives with those of individual plant managers and to the aggravation of the agency problem, especially in the newly acquired plants, which have not yet embraced the culture and values of Nucor. Similar logic could be applied to the informal organization of job descriptions and task assignments, which could be hard to duplicate and synchronize across the increasing number of Nucor's plants. Therefore, the company should reevaluate its policy of simple and decentralized operations, while complementing the enhanced supervision and formalization by additional emphasis on developing company culture and on building cohesion among employees in different plants and across geographical areas.

Finally, the success and the feasibility of the pay-for-performance system is questionable in the light of the company's international expansion. Problems could arise not only from the cultural difference in various countries, but also because of the differences in the legal requirements and in the traditional role of trade unions. Thus, in Europe, pay-for-performance could hardly be viable due to the high level of social security and the importance of labor unions in almost all European countries. Therefore, international expansion policy could require flexibility from Nucor's executives in developing incentive mechanisms across cultures. Thus, additional trainings and promotional opportunities could serve as an alternative for motivating

employees in the countries, where pay-for-performance would not be effective.

4. Based on the situation, recommend whether a related or unrelated diversification should be used by the company.

Diversification is essential for any company in order to overcome competition and to offer superior value to the customers. However, it is especially crucial for mature businesses, such as the steel industry, which are prone to cost pressures, commoditization and international competition. Therefore, it would be highly beneficial for Nucor to diversify into other products and industries that are still in the growth phase and have a lower level of rivalry. Moreover, the overall trend of the industry migration to the emerging countries makes Nucor vulnerable to the low-cost producers from abroad. Hence, it is reasonable for the company to expand into the technology and capital-intensive industries, where the United States has a competitive advantage. Furthermore, unrelated diversification can help the company to take advantage of the scale economies., in case it is possible to find synergies between the new and existing Nucor's businesses, and to diversify risks, thus making the company less vulnerable to the demand fluctuations and economic cycles in the steel industry.

5. Based on your recommendation for related or unrelated diversification, identify the organizational structure issues that the company would need to address to implement that diversification.

Unrelated diversification requires more regulation and coordination within the company, as well as a higher participation of executives in planning the strategy for the company's development. Consequently, unrelated diversification would require a change to a more hierarchical and less flat structure that would allow controlling all the divisions within the company. Moreover, it may be beneficial to implement a divisional structure with the division according to different products. In this case, Nucor will be able to manage different businesses separately, thus appreciating the needs of different industry sectors, while deriving synergies between the businesses.

## **References**

Economy Watch. (2010, June 30). Steel industry trends. Retrieved from <http://www.economywatch.com/world-industries/steel-industry/trends.html>