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NUCOR: VALUES AND TRANSITION

This case was prepared by S. Catherine Anderson, Robert L. Finley, and William Sparks all from Queens University of Charlotte. The views presented here are those of the case authors and do not necessarily reflect the views of the Society for Case Research. The authors' views are based on their own professional judgments. Copyright © 2009 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

History and Values

What became Nucor Steel originally had nothing to do with steel manufacturing. Nuclear Corporation of America began in 1955 with the merger of Reo Motor Company and Nuclear Consultants, which had the goal of capitalizing on what was hoped would be a burgeoning nuclear industry requiring instrument manufacture and radiation studies. By 1965, according to CEO Ken Iverson, the company was "dabbling in a variety of businesses with no clear purpose." He had joined the company in 1962, coming from Coast Metals.

Almost immediately after he joined Nuclear Corporation, Iverson recommended the acquisition of the Vulcraft steel joist manufacturing plant in Florence, South Carolina. He was sent to run the plant, and, by 1965, Vulcraft was the only profitable part of Nuclear's business. That year, Nuclear posted a \$400,000 loss on \$20 million in sales, the president resigned, and Iverson was tapped to lead Nuclear. "Although I was just 39 years old, I wasn't too flattered. No one else wanted the job. It was mine by default."

Bankruptcy loomed. CFO Sam Siegel and Iverson began selling unprofitable units so the company could focus on what was working; they moved the headquarters from Phoenix to Charlotte, and, in 1972, renamed the company Nucor Corporation.

On Iverson's watch, Nucor solidified a strong culture based on four key principles:

1. "Management is obligated to manage the company in such a way that employees will have the opportunity to earn according to their productivity, often called "gainsharing" at Nucor;
2. "Employees should feel confident that if they do their jobs properly, they will have a job tomorrow;
3. "Employees have the right to be treated fairly and must believe that they will be;
4. "Employees must have an avenue of appeal when they believe they are being treated unfairly."

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During the early 1980's recession, when "gainsharing" at Nucor became "painsharing," the bad times tested the corporate culture and, according to Iverson, strengthened the company to resolve. During this economic downturn, CEOs at other steel companies were awarded pay raises despite declines in corporate earnings. Iverson's pay, however, dropped 75% (along with 40% to 60% decreases in the wages of other Nucor employees).

Nucor was noted for its very flat organizational structure. The hierarchy had only four levels between entry-level employees and the chairman: hourly employee, supervisor/professional, department manager, vice president/general manager, and chairman. A new employee at Nucor would only need four promotions to land in the CEO's job.

The company valued freedom and autonomy. "Ask people around Nucor why they choose to work for our company," said Iverson, "and the word 'freedom' comes up often. 'We're the company. We control its destiny more than the senior managers do,' said Bobby Hanna, a safety manager in Hickman who started out as an hourly employee. 'It's never a mark against you for trying something different if you think it will make things work better,' he adds. 'It's a mark against you if you don't try.'"

Dan DiMicco became CEO in 2000. In 2006, Nucor shipped more steel than any other U.S. manufacturer.

The Nucor Way of Setting Policy

Plant managers at each manufacturing facility were given one basic instruction: "Trust your instincts." As the company grew, size forced it to add some policies that were uniform across the entire company, but Nucor had few such policies. One of the few company-wide policies was the drug policy, and Nucor's values gave an interesting spin to how Nucor created a policy that many companies see as run-of-the-mill. The decision to have a company-wide drug policy was initiated by the employees and instituted because of management's willingness to listen.

To adhere to its value to treat employees fairly, management had to be willing to listen, a trait much valued by Iverson and Nucor's leadership. This was one reason why the manufacturing units were kept small and flat in structure, so lines of communication could be cleaner and less cluttered than in a larger, more cumbersome organization.

As part of this emphasis on listening, employees were routinely surveyed. As drug use grew in the general population, the regular employee surveys indicated that, because of the dangerous nature of the work in the steel manufacturing plants, the employees were increasingly concerned about the risks of working around others who were under the influence of alcohol or drugs. Their livelihoods and productivity depended on a safe work team, and the employees did not want to rely on *ad hoc* plant-by-plant decisions. The employees wanted clear policies governing alcohol and drug use affecting the workplace.

Management, however, was reluctant to limit the autonomy of plant managers. A key tenet of Nucor's culture was that plants and work teams were rewarded – and penalized – for

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their own decisions; top management's job was to stay out of the way. After much pressure from the employees and much debate by management, Nucor adopted a company-wide drug testing program, still one of the few company-wide policies.

Autonomy in Practice

Nucor zealously guarded the autonomy of each plant, even though that could mean loss of economies of scale. The benefit Nucor garnered in return for the possible loss of economies was a strong sense of buy-in, individual creativity, and initiative. This allowed plants to make use of supply and distribution channels and other situations unique to each plant and each region. Bonuses depended on what each plant produced, not on how the company performed as a whole. Freedom to make it happen was a driving force in the Nucor culture. If a plant or team failed, there was no one else to blame.

In exchange for this freedom, Nucor found that it could produce more steel than a particular piece of equipment was rated as able to produce, thanks to the creative productivity of its employees.

Iverson quoted a mill manager to illustrate the power of autonomy:

Dave Chase, our hot mill manager in Hickman, summed it up best when he told me, "People come to our mill and they see our equipment putting out these extraordinary numbers of tons per hour, and they say, 'I'm going to get us that equipment.' 'Good idea,' I tell them, 'but you ought to know, it's not the equipment turning out all that steel. It's the people.'"

Autonomy extended to the work floor. Workers on the floor in a Nucor plant made decisions, made suggestions, and even recommended significant capital purchases. All employees worked as members of a team, and each team was responsible for influencing the decisions regarding the team's composition. Bonuses were awarded based on the team's productivity and, as a result, teams bonded tightly. Team members depended on each other—and their paychecks reflected the weaknesses as well as the strengths of the team.

"The pressure to perform is intense," said Iverson, "but virtually all of it comes from peers—the other members of the group—rather than from anyone in management."

Tony Myers worked on the Vulcraft line, which involved an intensely physical, well-coordinated dance with teammates as they clamped and welded steel joists. "The company gives a new guy on the crew ninety days to prove himself. But we know in about a month if he's going to make it. At first, we just tell him things. Explain what he needs to know. We work hard at training him because, if we do, he's going to make us some money. If a guy won't work, though, the team will run him off. It's not about liking him or not liking him. It's about making a living. That man's gotta make it or break it."

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This level of autonomy would not work without Nucor's intense focus on measuring key metrics and without closely tying pay to performance. Bonuses were paid on unit productivity, not individual productivity. Nucor's base wages throughout the company ran roughly 75% of the market wage for similar jobs. But bonuses of 100% or more were not uncommon and many times in the company's history, it paid productivity bonuses equal to 200% of the wage.

Bonuses were paid each pay period, rather than at annual or semi-annual periods. This tied wages directly and immediately to productivity gains or losses. Nucor's focus was not on wages but on productivity. Nucor's culture held that, when more productivity equals more pay, the employees have a stake in the business.

A visit to a Nucor production floor quickly illustrated how clearly the employees understood the corporate goals: Any team member on the floor knew how many tons of steel per day or per year the plant produced and what had been produced in prior years – and some employees even offered estimates about what they thought possible to produce in the coming year.

Case I: 1995

The phone on Ken Iverson's desk rang. Frank Epple,* [* indicates name changed] a young entry operator at the reversing mill in Crawfordsville, Indiana, had just been fired for cheating on the production bonus system. Even though he'd only been with Nucor a couple of years, he knew he had a right to appeal his dismissal, and he knew he could by-pass all the management layers and talk directly to Ken Iverson himself.

Epple's job involved passing the steel back and forth between giant rollers to yield thinner, higher grade steel. The steel typically passed five times, depending on the customer's intended use, before it was cut into sheets.

Mistakenly thinking he'd discovered a way to meet the production specifications in a shorter time, Epple passed the steel three times on some runs, but he marked it as passing five times, indicating that it met the specs. This quicker production time earned him a higher production bonus.

Epple said, "I didn't do that to cheat the bonus system. When I started doing it, I didn't realize it would affect my bonus. I did it to look like a better operator to the others in the work team. I was new on the job and wanted to look good to the older, more experienced guys.

Epple continued, "I found out it made my bonus bigger about the time I got caught. I think it would have dawned on me, but I didn't get a chance to figure it out. The supervisor said I had to turn myself in and ask for mercy. He gave me two weeks to turn myself in, so I did. As it happened, my supervisor was my brother-in-law, married to my sister."

The plant manager and the department manager took a hard line when Epple confessed what he'd been doing. To them, it was cheating, and cheating had only one punishment--

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dismissal. In order to be consistent, they intended to treat his actions as they would anyone who'd been cheating the bonus system.

"I wanted to prove myself to the older, more experienced guys," Epple insisted. "I thought this would save some time. About the time I realized it wasn't producing good steel, I got fired."

Ken invited him to Charlotte to talk to him. His supervisor made the 650-mile trip with sister every night. I just thought he needed someone with him on this trip. He's a pretty good kid."

Epple and the supervisor/brother-in-law who had fired him drove all night to make the ten-hour trip. Jim Coblin, human resources vice president, noted that they both looked a bit worse for the trip and the lack of sleep. Coblin added, "I wondered what the conversation had been on that long drive from Indiana. It can't have been a pleasant trip." Coblin was impressed with Epple's politeness. The young man was clean-cut, nice looking in his work clothes, and a tad nervous.

Before they arrived, the plant manager from Crawfordsville had called Coblin and said, "Don't let Ken get soft on this. This guy's young, clean-cut, talks pretty good. Don't let Ken get soft. We're unified up here. We need to hang tough on a case like this. Don't cave in and sell us out."

In making his case to Ken Iverson, Epple admitted he was at fault. He offered no excuses, but simply pleaded for mercy and pledged good conduct in the future. "I have an excellent record. If I didn't, I wouldn't be here," he said. "If you give me another chance to stay with Nucor, I'll walk over nails all the way from Charlotte back to Crawfordsville, and you'll never hear anything about me but what it's good."

Coblin said, "Ken was so good at these kinds of situations. He greeted Epple, made him feel at ease, and he listened carefully to everything the young man had to say. Then he said, 'I appreciate you coming. We'll let you know as quickly as possible.'"

Ken Iverson was the chief champion of giving plant managers the freedom to run their own plants as they saw fit, but he believed Epple's story. What should Mr. Iverson do?

Case II: 2002

The phone on CEO Dan DiMicco's desk rang. DiMicco had joined Nucor in 1981 as a metallurgist and moved to vice-president and general manager of Nucor-Yamato, a joint venture with the Japanese company Yamato Kogyo, in 1991. He became Nucor's CEO in 2000.

Giles Martin,* an employee at a Nucor mill in Arkansas, had just been fired. He'd tested positive for drug use, in violation of the company-wide drug policy, but he wanted to appeal his dismissal. Most of the long-term employees at Nucor knew the story of Ken Iverson and the

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Crawfordsville plant appeal, and they knew all they had to do was pick up the phone and request a meeting with the man at the top.

Martin told DiMicco he'd had a cough and cold over the weekend. In order to sleep so he could make it into work the next day, he'd taken some of his wife's prescription codeine cough syrup. When he reported for his shift, he was picked for a random drug test, which revealed the codeine in his system. The plant manager dismissed him, as specified in Nucor's drug policy. Nucor's drug policy states that an employee must disclose any medication taken when he or she reports to work and that an employee cannot take a prescription written for someone else. Any violation results in immediate dismissal. [See Internal Document *infra*.] Martin's work team pled his case for him with the plant manager. They argued he was a strong team member and they needed him; he'd made a mistake, but he hadn't endangered them and they didn't want him fired.

According to Jim Coblin, who came to Nucor after stints at General Electric and Ingersoll Rand: "In most companies, management is often seen as the bad guy, the tough ones. At Nucor, the employees often saw top management as too soft, as too willing to give somebody a second chance. The guys on the floor believed they knew who was working out and who doesn't fit on the team and may thereby put at risk everyone's safety and performance pay."

Dan DiMicco understood the Nucor culture and the freedom of plant managers; he is also not Ken Iverson and must set his own course for Nucor. What should Mr. DiMicco do?

Case III

At Nucor's corporate headquarters in Charlotte, North Carolina, Executive Vice President John Fariola* had just finished a meeting with Joel Graber,* a salesman for Felder Company.* Graber sold electrodes used in electric arc furnaces to fire the melting process at seven Nucor plants. Electrodes cost Nucor \$6 to \$7 per ton of steel produced, and the seven plants melted roughly 20 million tons per year.

In Fariola's office, Graber had just offered Nucor a deal. "If Nucor will consolidate its purchases and buy all its electrodes from Felder Company, we can do a single billing with delivery drops at your seven different plants. If we can get all your business, we can offer you a 30% discount." Graber had given Fariola and Nucor's top management something to think about. Nucor valued autonomy, and, as a result, all purchasing decisions were made at the plant level. When productivity improvements were made, the plant was rewarded; when it failed to perform, it had no one else to blame.

Currently, not all of the plants using electrodes buy them from Felder Company. Fariola wondered whether this was one of the instances when Nucor should move away from its strong bias for decentralization. He would take this to Dan DiMicco and the senior leadership team for discussion.

Should Nucor centralize its electrode purchasing? Why or why not?

Internal Document

NUCOR CORPORATION

Current Revision April 1, 2002

DRUG FREE WORKPLACE AND DRUG & ALCOHOL TESTING POLICYGeneral Policy

To protect the well-being of its employees, customers and the public, Nucor prohibits all of its employees from doing any of the following:

1. Engaging in the unlawful manufacture, distribution, dispensation, possession, or use of drugs or alcohol on the job or on Nucor's premises (including in any locker, desk or other facility provided by Nucor), in any company vehicle at any time or place, or in a non-Nucor owned vehicle on Nucor property or at Nucor worksites (including parking lots);
2. Reporting to work or otherwise being on the job under the influence of any illegal drugs (including inhalants (other than nicotine), any prescription drugs not prescribed for the employee's current use by a licensed health care professional or not used as prescribed, and over-the-counter drugs that are not used for their intended purpose and according to manufacturer's directions), or using illegal drugs off the job where such use is detrimental to Nucor's business or could affect the employee's performance; and
3. Reporting to work or otherwise being under the influence of alcohol on the job.

B. Employee Consent

Prior to performing drug or alcohol testing on employees, the employee will be required to sign a form consenting to the testing listed on the form and acknowledging that a confirmed positive test result can result in disciplinary action. An employee's refusal to consent and submit to lawful testing will be considered misconduct and a voluntary termination by the employee. In addition, refusal to consent to post-accident testing as provided herein may result in the employee forfeiting the right to collect worker's compensation benefits.

C. Drug and Alcohol Testing

1. Specimens to be Tested: Nucor may use breath, blood and urine specimens to test for alcohol. Urine and blood specimens, and hair specimens (unless prohibited by applicable state law), may be used to test for drugs.
2. Drug and Alcohol Testing Frequency and Conditions: Nucor may administer drug and alcohol testing under the following circumstances and under the following conditions:
 - a. Pre-Employment: All employment offers will be contingent upon the results of an alcohol and drug test.

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- b. **Post-Accident:** A test may be administered to employees involved in an accident or incident.
- c. **Reasonable Suspicion:** Any employee exhibiting signs and symptoms of using drugs or alcohol or being under the influence in violation of this policy may be tested. These signs and symptoms may include, but are not limited to, awkward or unusual behavior, recognizable body or breath odors, slurred speech, confusion, anxiety and altered mental status. An employee's involvement in an accident on the job to which the employee appears to have caused or contributed will be sufficient grounds for reasonable suspicion testing.
- d. **Random:** Employees may be tested on a periodic, random basis for drugs and alcohol.
- e. **Plant-Wide Sweeps:** Nucor reserves the right at any time to perform plant-wide drug and alcohol testing on all employees as well as personnel performing services on site to the fullest extent permitted by applicable law.
- f. **Compliance Testing:** Employees who participate in alcohol or drug rehabilitation as a condition to continued employment may be tested to determine the employee's compliance with rehabilitation. Testing may occur at least once a year for two years, with no advance notice.
- g. **Testing Required by Law:** Employees may be required to submit to other drug and alcohol testing when required by federal or state law, regulation, or by contractual obligation. All employees subject to Department of Transportation regulations will be tested for drugs and alcohol according to the procedures and policies of the DOT regulations. Testing under this Policy is under separate and independent authority from Department of Transportation regulations.

D. Disciplinary Actions

1. **Disciplinary Action for Positive Alcohol Test Results:** Nucor shall use the following alcohol levels for administering disciplinary actions:
 - 0 to 0.019 – Considered to be negative unless the employee's normal faculties are impaired due to alcohol consumption.
 - 0.020 to 0.039 – A minimum of 1 day/shift disciplinary time off. Each division may set additional days and disciplinary action.
 - 0.040 and Over – Immediate termination.

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2. Disciplinary Action for Violations of this Policy Concerning Illegal Drugs: Employees who violate this Policy regarding illegal drugs will be immediately terminated. All applicants with a confirmed positive test result for illegal drugs will not be hired.

E. Confidentiality

Information, statements, memoranda, test results and similar information received by Nucor, including information related to a disability disclosed by an employee or an employee's prior lawful drug use, shall be kept confidential and will not be disclosed except on a need to know basis or as permitted by applicable law. Any employee who requests disclosure of the information to a third party must sign a written consent form naming the person authorized to obtain the information, the purpose of the disclosure, the precise information to be disclosed, and the duration of the consent.

F. No Expectation of Privacy

Upon reasonable suspicion of a violation of this Policy, Nucor may conduct unannounced searches of employees and their personal property while on Nucor premises. An employee's refusal to consent to and cooperate with such searches can result in disciplinary action up to and including termination. Nucor employees have no reasonable expectation of privacy on Nucor's premises, in company vehicles, at Nucor worksites, or in property brought onto Nucor premises, including Nucor's parking lots. Where legally permitted, surveillance equipment may be used at any time and any place Nucor so chooses. Nucor reserves the right to seize all drugs, alcohol, paraphernalia, or other contraband found on Nucor premises.

G. Posting

A copy of this policy will be posted on an employee bulletin board in a conspicuous place.