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# Nucor Corporation (B)

In January 1999, in a boardroom coup, Ken Iverson, chairman of Nucor, was forced into retirement. In June 1999, his successor, John Correnti, was voted out of power. The board appointed 68-year-old David Aycock chairman, chief executive, and president of Nucor. Aycock joined Nucor in 1954, became a director in 1971 and president in 1984; he retired in 1991. He stayed on Nucor's board after 1991 as the second largest individual shareholder.

The main bone of contention was the long-term strategic direction of the company. The board wanted a fundamental shift in Nucor's strategy which Iverson and Correnti resisted. Several industry and other trends led the board to reconsider strategy. First, overall steel demand in the U.S. was growing at less than 1.5 percent annually. Second, market share that Nucor could take away from integrated steel companies and other mini-mills was limited. Third, many companies had replicated the mini-mill idea. Finally, low-cost steel imports had made major inroads in the U.S. by 1999. In this context, the board asked, How could Nucor sustain its historically high-growth rates? The board contemplated several strategic and organizational changes that would have been heresy under Iverson and Correnti: pursuing acquisitions, expanding into global markets, building blast furnaces, diversifying into non-steel areas, adding new organizational layers, and changing the composition of the board.

Aycock was convinced that Nucor had to break from the past to meet the company's aggressive growth goals. "How can we step up to the next level?" he asked. "Foreign and domestic rivals have been turning up the heat. We have plucked all the ripe, low-hanging grapes. Nucor needs new moves."[1] In a symbolic gesture, the framed New Steel magazine covers featuring Iverson and Correnti as Steelmakers of the Year were removed from the head office.

Under Iverson, the company did not believe in acquisitions; he was committed to building new plants from scratch. Aycock, however, advocated acquisitions. "Every

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[1] All the quotations in this case are drawn from the following sources: "Steel: Growing Pains," *The Economist*, 16 November 1999, p. 68; "New Boss at Charlotte, N.C.-based Steelmaker Looks to Acquisitions," *The Charlotte Observer*, 11 June 1999; "Nucor: Meltdown in the Corner Office," *Business Week*, 21 June 1999, p. 37; "Basis for Executive Shakeup at Nucor Disputed," *The Charlotte Observer*, 27 June 1999.

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This case was prepared by Vijay Govindarajan of the Tuck School of Business at Dartmouth. It was written for class discussion and not to illustrate effective or ineffective management practices.

company hits a plateau. You just can't go out and build new plants to grow," he said. With steel prices down in 1999, he believed firms could be acquired at bargain prices and was looking at several companies, including Gallatin Steel in Kentucky.

Iverson kept Nucor a domestic company, partly because he was concerned about exporting the company's unique culture to foreign locations. In contrast, Aycock expressed the following perspective on global expansion: "Steel is not just a local market anymore, and our product must be global." According to Aycock, Nucor's future growth hinged on its ability to enter South America and Asia using local partners.

Iverson pioneered the mini-mill concept. Aycock wanted to build blast furnaces, the hallmark of integrated steel producers, noting, "Blast furnaces can deal with a weakness that could become critical as the firm grows. Unlike integrated firms, which use pig iron produced by blast furnaces, mini-mills rely on scrap metal. A blast furnace can diminish the firm's reliance on the notoriously fickle scrap market. It is a terrible misconception that integrated firms have to stay 'integrated' and mini-mills must stay 'mini.'"

Iverson's policy was to be a single industry player, concentrating on steel and steel-related products. Aycock insisted that Nucor consider diversifying beyond steel. "It's ridiculous to think we can keep growing this company just in steel and steel products," he said. "The firm's base can be expanded beyond steel to other manufacturing areas where the Nucor model will work." John Tumazos, a longtime steel analyst with Sanford C. Bernstein, remarked, "Nucor would likely look at manufacturing setups similar to Nucor's joist business—nonunion shops with a team production concept or a product adaptable to Nucor's team system. I expect they will be in manufactured products that are philosophically like a joist line, where you are paying a bunch of guys based on the unit output of the team and they are pulling together like a crew."

Iverson took pride in overseeing the operations of about 25 plants with lean corporate staff. Aycock emphasized the need to add more management layers. As he explained, "When Nucor was a niche player, Iverson's intuitive style served it well. But with revenues now exceeding $4 billion—and the company on track to become the largest steelmaker in output—it was time for more long-term planning. Our size means the boss simply can't know everything that goes on. Each top executive must have no more than seven plant managers reporting to him. This will mean better oversight and monitoring of costs. It may also provide a broader base of talent to succeed me." In November 1999, the company added two executive vice presidents between Aycock and the plant managers.

The composition of the board also changed. Iverson's board consisted of current and former Nucor employees. Aycock recruited outside the company; by November 1999, outside directors made up two-thirds of Nucor's board.

## Discussion Questions

1. Do you agree that Nucor must undergo a deep change to survive and prosper in the twenty-first century? How do you evaluate the specific shifts in strategy?

2. Can Nucor preserve its unique culture and control systems under its new strategic direction?

3. Would you like to work for Nucor under David Aycock?