

Fundamentals of Organisational Structure

Final Exam: A Case Study

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Question 1:

Identify the elements of organizational structure in Nucor which are evident in the case and suggest changes in structure to suit its current challenges and future expansion plans.

Before we dive in deep, here's an overview of the organisational levels of Nucor's management:

1. The Chairman and the CEO
2. Vice Presidents
 - General Manager of steel mills
 - General Manager of joist plants
 - General Manager of a division
3. Department Heads
 - Managers of melting and casting
 - Sales managers
 - Division controllers
4. First-Line Supervisors

And then of course, there are the workers and the hourly employees at each of their plants.

As can be seen clearly, Nucor has only four levels of management, hence this makes the company quite **simple** with regards to **vertical organisational complexity**.

Nucor is a very **decentralised** organisation. The workers have the freedom to take quick decisions regarding many aspects. Additionally, they have many plants spread out over a large geographical area, with a vice president (often called the general manager) in charge of his own plant and the employees working there. Each general manager is usually in charge of his own plant, and makes most of the decisions regarding the same himself, independent from the higher management. As an example, because of the decentralised nature of the organisation, when employees complained about lax security in parking lots, the general manager of that particular plant was able to take action to fix the issue almost immediately, without having to wait for permission from higher authorities.

Nucor has **low formalisation** despite being a functional organisation (i.e. there's a clear division of labour among employees). This is so because it is clearly mentioned that it's productivity per employee has increased due to the innovative ideas suggested by the workers. This implies that the company is open to taking inputs from their employees and often implements the given suggestions for the betterment of each plant.

In terms of **span of control**, the company seems to have a high requirement of interactions between different hierarchical levels, which has been elaborated upon in the next answer. They also have a very strong rewarding mechanism for their employees which serves as a good source of motivation for them to work better and harder, which in turn has helped raise the standard of Nucor's products.

Nucor is able to ensure high quality of their products because they only manufacture a few basic steel products. But if they plan on successfully expanding themselves in the future, they will need to add more products to their manufacturing list to cater to a wider range of customers. But to do this, they will either need to set up more plants, or increase the number of workers in each plant. However, to implement either of the aforementioned suggestions without letting their current workplace integrity (i.e. assigning no more than 500 employees to one general manager) take a hit or compromising the quality of their products, they will need to assign multiple general managers for one plant and expand geographically. And if there are multiple managers for each plant, they should probably have a supervisor to report to. Since the company currently has only 4 levels of management and is rather geographically constrained, adding another layer to their organisational structure will only increase their efficiency should they plan on expanding

either geographically or in terms of diversity of their products.

Since they've mentioned that maintaining the pace of technological innovations is one of the major challenges Nucor is facing at the moment, they can probably benefit from adding a new class of workers to their company: engineering experts. Creating this new horizontal position devoted only towards taking the company forward from a technological standpoint will greatly help the company keep up with the ages without compromising the quality of their current products.

Question 2:

Based on the case, critically evaluate the horizontal and vertical coordination techniques used by Nucor to improve integration within the organization.

Nucor seems to have impressive vertical coordination techniques, especially in each separate plant. Firstly, company policy mandates that each plant has no more than 500 employees. This is to ensure that the general manager can communicate effectively with all the employees without getting overwhelmed and reducing the quality of interactions between the manager and the employees. Secondly, the company also requires their general managers to have dinner with every employee in their respective plants at least once a year. Moreover, to facilitate efficient communication and bonding, the dinner groups must be of less than 50 employees at a time. Most managers have dinner with their employees twice a year. This has proved to be a very efficient vertical coordination technique for Nucor because the employees have been known to open up to management about their work-related problems after the first dinner. For example, multiple employees spoke about their grievances related to the parking lot and called out the management on their seemingly lax attitude. Things had been stolen from at least three of their cars in the parking lot and they were indignant because nothing had been done to ensure their vehicles' safety. Turns out, no one had brought this particular point to the management's notice before, and as soon as they learnt of it, they had it fixed in less than three days.

Coming to their horizontal coordination techniques, Nucor implements an incentive pay system and has a bonus program for their workers. A major portion of most employees' pay depends on the worker productivity. The employees with similar tasks are divided into groups of 25 to 35 people and they are then put in bonus programs. A standard is set for

production for each group. The groups receive extra pay if the amount they produce is above the set standard. The employees then receive their bonuses weekly, hence they can see the fruits of their labour very regularly. Moreover, as there is no upper bound or maximum limit that the bonus wage can reach, employees have even more incentive to work harder. Thus, this system of incentive pay helps in increasing Nucor's productivity and the quality of their products by impressive amounts. In addition to this rewarding system, Nucor has strict penalties too. Every employee is required to be punctual and show up to work regularly. If they show up to work even 5 minutes late, they lose their bonus for the day. If they're late by 30 minutes or more, or are absent without permission, they lose their bonus for an entire week. As the bonuses can add up to more than 100% of the base pay, the employees strive to meet the company's standards, work harder to increase productivity to get their bonus, which in turn has done wonders for the company's output.