**INTRODUCTION**

This case is about a family-owned corporation from the perspective of its latest CEO, Charles Luck, IV. It provides an overview of the strategic management processes instituted under his direction, emphasizing the formulation and implementation of value-based leadership initiatives he used to ignite the potential of his workforce and to impact the lives of Luck Companies’ various stakeholder groups.

The case opens with an introduction to Mr. Charles Luck, IV, the conditions in the construction aggregate industry, and the status of his 800-employee company in early 2015. It provides an industry overview and in-depth history and shaping of the four strategic business units that comprise Luck Companies. Charles Luck, IV’s tenure is presented with a heavy focus on the evolution of his value-based leadership system. Following the Value Journey from the inception of the company’s values and initial vision, the key steps to achieve the vision, and the prescribed outcomes, the case progresses through three phases of Luck Companies’ long term planning process, the development of a strategic leadership team, and an unprecedented workforce reduction based on core ideology rather than seniority. As Luck Companies executes the final five-year strategy to achieve Vision 2020, it strives to deepen the company’s impact on lives locally and globally and to achieve the most aspirational expansion goals in the company’s history.

The case is ideal for demonstrating corporate-level strategy on a small scale, multidivisional organizational structures, and strategic leadership concepts. The following prompts are suggested to guide a review and discussion of these principles.

* Characterize the type and level of diversification strategy employed by Luck Companies. Discuss the commonalities and differences of the company’s various divisions.
* Compare the different forms of the multidivisional structure for corporate-level strategies. Explain which form is most suited to meet the needs of Luck Companies.
* Evaluate Charles Luck’s ability to fulfill the strategic leadership responsibilities required of his position. Provide clear examples to support your assessment. Critique his handling of the unexpected events that occurred during the second phase of the company’s Value Journey.
* Describe Luck’s current five-year growth strategy and objectives. What tools and resources are in place to help the company to achieve its aggressive goals? What are the likely challenges the company will face in executing this strategy?

**ANALYSIS**

* ***Characterize the type and level of diversification strategy employed by Luck Companies. Discuss the commonalities and differences of the company’s various divisions.***

Luck Companies operates four separate strategic business units (SBU’s), each distinctly different in nature and managed under distinctly different brand identities.

Luck Stone – Luck Companies’ largest business unit operates fifteen crushed stone plants, four distribution yards, and one sand/gravel operation. Located in Virginia and North Carolina (or the mid-Atlantic region of the United States), Luck Stone competes in a highly-fragmented industry. Success in the aggregate industry is directly correlated with the growth and economic stability of the construction industry (both private and public segments); and the ability to acquire desirable locations is a vital competitive advantage. Luck Stone is the most profitable division within the corporation, contributing 80% of total enterprise net sales. It uses a differentiation strategy based on superior customer service and logistical excellence in an industry which sees more cost-leadership strategies amongst major competitors. Luck Stone has long been known as an industry leader in technology and innovation, using in-house engineering resources to build automated production systems and other value-added processes.

Luck Stone Center – Considered a unique enterprise when the company opened its first retail showroom for architectural stone, the division now manages six Architectural Stone Centers, and the builder model is slated for expansion into all target markets. Luck Stone Center also uses a differentiation strategy, sourcing stone internationally and introducing new product offerings through product innovations. Facing increased levels of competition from other contractor stone yards and big-box retailers, the company continues to pursue innovation opportunities to further differentiate and to sustain profitability. In 2007, it rebranded to an up-scale, design-oriented business aimed at attracting affluent homeowners with savvy offerings. As success in this retail sector is 82% correlated with new housing starts, the housing crisis in 2008 significantly impacted Luck Stone Center sales. As the industry recovers, the company has again rebranded, refocusing on middle- to higher-end consumers and adding manufactured products into its product mix.

Luck Development Partners – This division was formed to realize the development and revenue potential of Luck Companies’ land holdings. The real estate development industry is highly dependent on property locations and proximity to population hubs. Because of its relationship with the Luck Stone division, Luck Development Partners operates in the same mid-Atlantic region. The division uses innovative real estate practices to expand potential for long-range sustainable land use, and it strives to create unique settings which incorporate and highlight natural, historical, and environmental elements into its project designs.

HAR-TRU – Luck Companies entered the tennis court surfacing and accessories business by acquiring the industry’s two largest domestic companies, the HAR-TRU brand name, and the manufacturing assets of the original surface material provider associated with some of the finest tennis courts in the world. Now holding an 85-90% market share for U.S. clay tennis courts, the division’s primary competition comes from builders of non-traditional clay substitutes. The smallest of Luck Companies’ divisions, HAR-TRU contributes just 6% of total enterprise net sales. In 2013, the company acquired and integrated Century Sports, adding tennis court equipment to its offerings and enabling HAR-TRU to promote “turn-key” tennis court installations.

The company initially established a diversified portfolio to lessen the impact of the cyclical and mature construction industry. Luck Companies’ corporate-level strategy is a *dominant-business diversification strategy*, because 80% of its total revenues are generated in a single SBU. As history illustrates, dependence on the health of the construction industry remains a powerful determinant of financial performance. Even with a low level of diversification, the corporate strategy offers opportunities for value creation and for sharing knowledge and resources across divisions -- especially regarding the transference of core leadership competencies.

* ***Compare the different forms of the multidivisional structure for corporate-level strategies. Explain which form is most suited to meet the needs of Luck Companies.***

Product diversification increases the information processing, coordination, and control complexities of the firm, as it enters new lines of business. Effective management therefore requires an organizational structure that supports the implementation of distinct SBU strategies and enables corporate leaders to oversee various divisions. A multidivisional structure (M-form) for corporate-level strategies can be devised in three possible ways, including:

* Cooperative Form – facilitates interdivisional cooperation and the sharing of SBU competencies through horizontal integration to develop economies of scope
* SBU Form – is appropriate when few linkages exist between one business unit and another
* Competitive Form – does not promote the sharing of common corporate strengths or utilize integrating devices, but enables independent operations which actually compete for corporate resources and capital allocations

The most suitable structure for Luck Companies is the *SBU Form* of the multidivisional structure, using a moderate level of integration mechanisms, a mixture of strategic and financial controls, and compensation linkages to both corporate and divisional performance goals.

* ***Evaluate Charles Luck’s ability to fulfill the strategic leadership responsibilities required of his position. Provide clear examples to support your assessment.*** ***Critique his handling of the unexpected events that occurred during the second phase of the company’s Value Journey.***

Strategic leadership is the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary. The capacities to cope with change, attract human capital, manage intellectual capital, and foster internal innovation are crucial leadership skills in today’s complex business environments. Effective strategic leadership responsibilities or actions entail:

* Determining strategic direction
* Managing the firm’s resource portfolio
* exploiting and maintaining core competencies
* developing human and social capital
* Sustaining an effective organizational culture
* Emphasizing ethical practices
* Establishing balanced organizational controls

Evidence suggests that Charles Luck’s performance in each of these categories has been strong.

Luck began his leadership journey by accumulating extensive experience in all levels of the business, building managerial skills and important relationships along the way. He developed a solid understanding of the importance of having sound and innovative business strategies and the role that values and culture play in executing them.

And as he grew the business, he adopted several new management practices.

Luck shared the company’s financial results with the entire organization for the first time, teaching and enabling field employees to produce in terms of growth and profits. He instituted a decentralized management structure to move decision making closer to the customer. Associate duties and responsibilities were changed to help them navigate the growing complexity of sales opportunities. He established the company’s first five-year strategy, using a planning process to enable each division to meet the unique needs of its marketplace and tying specific strategies, brands, and business plans for each division into a coherent whole. To respond to the needs of the rapidly growing business, Luck developed an entirely new management team. And he realigned the firm’s infrastructure to drive future growth.

Under his guidance, the firm set new profit and volume records every year from 1995 to 2006, tripling sales, associates, and profitability. But with record sales and rapid growth, the company soon began to “lose its way”. Decisions were no longer aligning with the firm’s traditional values. With the “We Care” people- and integrity-oriented culture at threat and the executive leadership group not working together effectively, Luck developed a value-based leadership philosophy that would dramatically transform the company. It was based upon integrity, commitment, leadership, and creativity; and, it defined behaviors to ensure that actions were taken to support a stronger values-driven culture. Significant steps were taken to embed the new vision throughout the company, to establish accountability, to ignite the potential of associates, and to make the vision operational. Additional actions to institutionalize the value-based leadership system included:

* Performance evaluations built around values and behaviors
* Director of Values and dedicated associates appointed
* $1-2 million per year in resources injected to support the program
* Personnel changed to keep employees aligned with the vision

Actions were driven by senior leaders, and the company began to see behaviors shift in alignment with company values after about 3 years.

Luck was focused on positively impacting the lives of the company’s customers, associates, suppliers, and community. Intending to drive best-in-class financial performance and organization-wide values alignment, the following additions were made to the organizational structure.

* Chief Growth Officer – through which each business unit would report directly – added to drive differentiated growth and financial results across the entire organization
* Chief Leadership Officer – responsible for overall strategic and tactical support to gain, develop, and retain high performing talent – accountable for bringing the leadership model to life
* Chief Family Officer – to develop the leadership skills and competency levels of family members for succession planning and job fulfillment purposes – and to handle family investment and estate planning business

While Charles ranks high across the spectrum of responsibilities for strategic leaders, he may have lacked in preparedness for unexpected events. Despite Luck’s phenomenal visionary leadership of the company, several unexpected events (of a somewhat serious nature) occurred which presented obstacles in the achievement of organizational objectives during the company’s second phase of its Value Journey.

First, the U.S. economy fell into a deep recession. Eroding demand hit all aspects of the stone industry. At the time, there was no relief in sight. Luck Companies’ financials “fell to pieces”, and revenue could no longer support the size of the company’s workforce. After taking expense reduction steps, putting a freeze on hiring, delaying equipment purchases, and cutting non-essential spending, he still had to reduce the workforce by over 10%, for the first time in the company’s history (although he used core values, not seniority, to determine the dismissals). Ultimately, the firm was not diversified enough to weather the economic storm that hit the stone industry.

Second, the company decided to fire its aggregate division president. Although he had an excellent record of performance, it was determined that this member of the top management team was not aligned with the organization’s values. Details of this assessment are not provided in the case, but the action demonstrates the firm’s commitment to upholding strategic controls to be equally important to the achievement of financial performance targets.

Finally, at the height of these events, Charles fell seriously ill. His temporary absence put a hold on the final leadership initiative steps, but he returned even more determined to achieve his lofty mission (albeit with a shorter timeframe, fewer associates and resources, and in markets experiencing a recession). By 2011, he had instituted behavioral alignment within his leadership model. He had both heightened the purpose of his mission and shortened the time span by 5 years. In addition, he established a Core Ideology and Beliefs statement and a Values-Based Leadership Value Proposition to guide the company in moving forward.

Evidence supports that Luck and his management team were effective in their response to unanticipated challenges which confronted the company during the second phase of its Value Journey. It was due to the strength of its value-driven leadership capabilities and Charles Luck’s strategic leadership abilities that the company was able to regain traction and to overcome the unfortunate events of that period.

**STRATEGY**

* ***Describe Luck’s current five-year growth strategy and objectives. What tools and resources are in place to help the company to achieve its aggressive goals? What are the likely challenges the company will face in executing this strategy?***

Luck Companies’ current five-year strategic objectives are four-pronged and aimed at securing healthy financial performance, optimized leadership, business excellence, and $450 million in sales by 2020. Some of the strengths the company will be able to draw from include:

* a value-driven culture to drive outcomes and performance
* an engaged workforce, aligned with the values and needs of the organization
* the Inner Will organization and resources in place to pursue value-based leadership initiatives within and beyond the borders of the firm
* excess capacity and resources to support expansion
* organizational structure and leadership to support growth (this includes a Chief Growth Officer and Corporate Development Team)
* strong financial position to fund growth initiatives
* untapped potential from investments made in equipment, processes, and human resources

To support and pursue Vision 2020, each business unit has a defined set of goals and a strategic plan formulated with the company’s high-level objectives in mind. As the case states, the organization is “poised for tremendous growth over the next five years”.

Most likely, the company’s greatest challenge will be in its ability to realize $450 million in revenue by 2020. Luck plans to increase sales by $210 million in the next five years primarily through the Luck Stone division. In other words, the sales of aggregate must increase dramatically. One new source of income, engineered soils, is an exciting and innovative product, made more promising by the friendly regulatory environment and the opportunity to use existing resources that currently burden valuable real estate. However, it is an emerging market that has not yet established a reliable pattern of sales and is unlikely to contribute a large share of the sales growth being pursued. Luck Stone can also generate new income by utilizing excess operational capacity; but even at maximum aggregate production levels, internal growth has limitations. It follows that a large share of Luck Companies’ projected growth will need to come from planned *horizontal acquisitions* of select regional small- to medium-sized family-owned businesses competing in the aggregate industry.

Here, it is valuable to run some hypothetical numbers to assess if the company’s five-year growth objective is realistic. As the case does not provide all of the statistics needed, some assumptions are required for this analysis. Assume:

* 25% excess capacity exists in Luck Stone’s operations
* the other three Luck Companies divisions can fully double their sales through internal measures
* the sales of potential acquired firms are in the range of $30-$50 million

Using these suppositions, the table below presents a possible breakdown of sources of growth for Luck Companies.

|  |  |  |
| --- | --- | --- |
| Projected Sales (*in millions)* |  |  |
| Target Sales |  | 450 |
| Current Sales Luck Stone (80%) | 192 |  |
| Current Sales Other Divisions (20%) | 48 |  |
| Current Sales - Total |  | 240 |
| Sales Growth Target |  | 210 |
| Potential Sources of Growth: |  |  |
| Luck Stones Excess Capacity (estimated 25%) | 48 |  |
| Internal Growth at Other Divisions (estimated double) | 48 |  |
| Acquisitions (balance to target) | 114 |  |
|  |  | 210 |
| Average Acquisition Sales (estimated $30 to $50 million) | 40 |  |
| Required Number of Acquisitions |  | 3 |

In the company’s favor, Luck Stone has recent acquisition experience in its 2013 purchase of Century Sports. In addition, the company has laid the groundwork for an aggressive acquisition strategy by extensively reviewing and networking with 600 independent aggregate producers from Virginia to Texas. Because it targets firms with similar characteristics (culture, values, human resources, etc.), the company can also anticipate ease of integration and higher performance.

While the outlook for Luck Companies is very positive, there are many concerns that can be raised about its strategic approach. These include:

* The company has limited alliance management experience.
* The Century Sports purchase was not a horizontal acquisition.
* The mechanics of integrating two companies following an acquisition can be quite difficult.
* The market for aggregate in Virginia has not yet returned to the lofty levels of 2006, and the strategy is heavily dependent on growth in its aggregate division.
* It is uncertain that all acquisition costs can be internally funded, and the company’s record of managing debt is uncertain.
* The time it takes to do due diligence once a target is selected can delay the purchase and integration of new firms.
* Management resources to oversee the acquisition and integration process can be extensive.
* Disruption to operations of an acquired firm can occur during the acquisition and integration processes, which may impact the company’s ability to maximize performance.
* It is uncertain that current operations can deliver expected levels of growth through expanded offerings and breadth.
* The company’s varied history of managed growth, rapid growth, and then retrenchment may not parlay into such an aggressive growth strategy.
* Vision 2020 introduces significant change to the company, which can in itself be disruptive and interfere with ongoing performance.
* Unforeseen complications often reduce expected synergies and the achievement of integration objectives in acquisitions.

To overcome some of the potential difficulties associated with an acquisition strategy and to increase its likelihood of success, Luck Companies should seek complementary assets, markets, and products in its acquisition targets, seek to merge with firms that have low to moderate debt positions, sustain its internal emphasis on innovation and research development, and remain adaptable as changes in the company progress. Luck Companies is a high performance organization. And in the final assessment, its lowveHowve

eadership team, structure, and strategies are solidly in place to drive the firm forward toward Vision 2020.