Lakshmi mittal and the growth of mittal steel essay

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Mittal Steel began in the early 1970's as a small, family owned company, based in India. However, due to a range of restrictive government regulations and tough competitiveness from SAIL (a state-owned firm) and Tata Steel (a large privately owned firm), Mittal Steel believed that the best projection of growth of the company would transpire outside of India. In 1975, Mittal Steel began expanding across national borders by creating and building a steel making plant in Indonesia. Mittal Steel was able to expand into different nations through mergers and acquisitions.

At the time of Mittal Steel's foreign expansion, the steel industry was in the midst of a 25-year slump. The 25-year slump caused many companies to go under distress. Lakshmi Mittal (the CEO of Mittal Steel) saw value in the distressed companies and believed that they could be feasible operations through a move toward greater efficiency and with an injection of capital. On the contrary, Greenfield Investment took a different route by building similar operations from the ground up, which was proven to be more costly.

By avoiding the start-up-phase, Mittal Steel was able to avoid delay and take advantage of the benefits that come with a recognized market presence. Mittal Steel brings many benefits to the countries that it enters. For instance, its presence in a foreign market is deemed beneficial as it focuses on acquiring distressed companies and ameliorating them. However, it is important to note that that was not the case for Arcelor, Mittal Steel's most recent acquisition.

The management and politicians were opposed the concept of a foreign firm taking over an organization that was important to the European market. Due

to the recent global economic crisis, Mittal Steel may find drawbacks in countries where other companies are now susceptible to companies like Mittal Steel. Furthermore, Mittal Steel is interested in distressed companies where it can fix them and gain capital. 2 In 2007 a controversial merger between Mittal Steel and Arcelor closed, creating ArcelorMittal.

The merger was the brain child of Mittal CEO, Lakshmi Mittal and his son, Aditya. Under Lakshmi's leadership, the family-owned Mittal Steel had grown from obscure origins in India to become the largest steel company in the world. The story dates back to the early 1970s. At that time, the family-owned company was facing limited growth opportunities in India. Regulations constrained expansion opportunities, and Mittal was facing competition both from a state-owned rival, SAIL, and a private national champion, Tata Steel.

So Lakshmi's farther financed his son, helping him to set up a steel making plant from scratch in Indonesia in 1975. To reduce costs in his Indonesian plant, Lakshmi did not smelt iron ore, but instead directly purchased reduced iron pellets. His supplier of these pellets was a struggling state-owned steel firm in Trinidad. Impressed by Lakshmi's success in Indonesia, in 1975 the Trinidadians asked him to turn their firm around under a contract. Mittal set up another company to run the Trinidad plant.

In 1989, after a successful turnaround, Mittal purchased the Trinidadian plant in its entirety. Now the company that had been born in India had two major foreign operations, but that was just the beginning. The global steel industry had been in a slump for a quarter of a century due to excess capacity and

slow demand growth as substitute materials replaced steel in a number of applications, but Lakshmi saw opportunity in purchasing the assets of distressed companies on the cheap.

His belief was that the global steel industry was about to turn a corner, driven in large part not only by sustained economic growth in developed nations, but also by growing demand in newly industrializing nations including China and his own native India. He saw all sorts of opportunities for buying poorly run companies as they came up for sale, injecting them with capital, improving their efficiency by getting them to adopt modern production technology, and taking advantage of the coming boom in steel demand.

He also saw the opportunity to use the purchasing power of a global steel company to drive down the price it would have to pay for raw material inputs. In 1992 Lakshmi made his next move, buying Sibalsa of Mexico, a state-owned steel company that was being privatized. This was followed in 1994 by the purchase of the fourth-largest Canadian steel maker from the government of Quebec. Then in 1995 there was the purchase of a midsized German steel maker and Kazakhstan’s largest steel maker, which was at the time in disarray as the country transitioned from a socialist system to a more market-based economy.

By this time, Lakshmi was hungry for more international growth, but his company was capital constrained. So he decided to take it public, but not in his native India or Indonesia, where the liquidity of the capital markets was limited. Instead, in 1997 he moved the company’s headquarters to

Rotterdam, and then offered stock in Mittal Steel for sale to the public through both the Amsterdam and New York stock exchanges, raising $776 million in the process. With capital from the IPO, Mittal purchased two more German steel makers in 1997.

This was followed in 1998 by the acquisition of Inland Steel Company, a U. S. steel maker. Over the next few years, more acquisitions followed in France, Algeria, and Poland among other nations. In 2005, Mittal purchased International Steel, a company formed from the integration of troubled U. S. steel makers that had been in bankruptcy. By this time Lakshmi's prediction had 3 come true; global demand for steel was booming again for the first time in a generation, driven in large part by demand in China, and steel prices were hitting record highs.

The industry's rebound prompted Mittal, now the world's largest steel maker, to offer $32 billion in a hostile takeover bid for Arcelor, a European firm formed from the merger of steel makers from Luxembourg, France, and Spain. The acquisition was bitterly contested, with the management of Arcelor and no small number of European politicians opposing the acquisition of a European company by an Indian enterprise (although ironically, Mittal Steel was now legally a Dutch company). Arcelor's shareholders, however, saw value in the deal, and ultimately approved it in late 2006.

In 2007 the new firm, now headquartered in Luxembourg, generated sales of $110 billion and net income of $10. 2 billion, making it by far the world's largest steel company. In a few years ArcelorMittal Steel Company became a very diverse company, but this company attempted to bridge cultural

differences by empowering employees. This company believed cross-organizational or cross cultural thinking is the best practice and through clear, consistent, and substantive plans among employees, customers, communities, suppliers and shareholders they can achieve the firm's global goals.

This company considers cultural differences a challenge in terms of communication and implementation of appropriate policies and practices, but at the same time this company believes that cultural difference is an advantage since it influences internal debate which can result in significant innovation, cost reduction, and productivity improvement strategies. Arcelor's Code of Ethics was adopted in 2005 at a conference gathering of 500 managers of the Arcelor Group.

The document completed the Arcelor Principles of Responsibility, which outline Arcelor's vision, ' Steel solutions for a better world', and its mission, ' To assert Arcelor as a reference value in the steel industry worldwide', elaborated in 2003 by the Management Board. It defined Arcelor's Principles of Responsibility, which set out the vision and ethical standards of the Group. These principles define Arcelor's commitment to its employees, customers, shareholders, bankers, suppliers and other stakeholders.

They also include Arcelor's commitments to society and integrate, among other elements, compliance with the principles of the United Nations Global Compact. The Code of Ethics summarises the basic values and ethical principles that every employee of the Group is expected to act upon throughout the world. While the Principles of Responsibility define the

Arcelor behaviour guidelines, the Ethics Code refers to the individual behaviour of each and every Arcelor employee as a member of the Arcelor Community.

The Code of Ethics is a management statement of certain fundamental principles, policies and procedures that the Arcelor Group addresses to its employees and it is not meant to be used by any third parties, other than by Arcelor Group companies in the context of seeking enforcement of the rules mentioned in the code. The ‘ Worldwide Agreement on the principles of Arcelor’s corporate social responsibility’ of 13 September 2005 is the first agreement on social responsibility in the steel branch in Europe.

Mittal Steel completely adopted Arcelor’s Code of Ethics after the takeover. Recently, ArcelorMittal has been criticised by the environmental group World Wildlife Fund (WWF) over its plans to open a giant opencast iron ore mine 500 kilometres inside the Arctic Circle. The mine is believed to be the largest mineral extraction project in the region. ArcelorMittal spent nearly USD 600m (EUR 440m, GBP 380m) alongside a US private equity firm buying Baffinland Iron Mines to develop the Mary river deposits in the Nunavut region of 4 he Canadian Arctic.

The project includes a 150 km railway line, an airstrip and two new ports. The company hopes to extract a potential USD 23bn worth of iron ore. WWF described the planned mine as a “ game changer” and a test case that could affect all future industrialisation of the far north. “ It is certainly … of a scale that would be massive anywhere in the world,” said a director of the Arctic programme at WWF Canada. WWF is demanding that the company proceeds

with extreme caution to minimise damage to the local environment and wildlife.

WWF says it is up to the local Inuit population to decide whether the project goes ahead but will help to ensure the plans are developed in the most sensitive way. The Guardian newspaper reports that an environmental impact statement, prepared for Baffinland Iron Mines, noted that the area is home to terrestrial animals such as caribou, polar bears, Arctic fox and hare; marine mammals including, narwhals, beluga whales and blowhead whales; and migratory birds including snow geese, rough-legged hawks and gyro-falcons.

The statement said accidental kills of caribou could occur as a result of project activity” and that “ small numbers of ringed seal mortalities could occur as a result of icebreaking activity. ” A spokesperson for ArcellorMittal said that the project is currently in the environmental assessment process, during which NGOs, governments and individuals are invited to review the plans.

The company admits any large diesel spill “ would have significant environmental effects” but says this kind of event is unlikely. Included in the environmental impact statement are detailed management, mitigation, and monitoring plans, which will allow for potential impacts to be minimised. All aspects of the project, through construction, operation and closure will be evaluated and will adhere to the conditions established for the project through this process,” the spokesperson said. The company aims to complete the feasibility study by the end of 2011 prior to construction

decision review by the Board. ****Please don't hesitate to use the company website (http://www. arcelormittal. com/corp/) whenever appropriate to answer the following questions.