Cultural change and its impact upon the tata marketing essay

INTRODUCTION

The globalization era has made cross-border Mergers and Acquisitions an increasingly important means of integrating the world. There are many companies that are entering various combinations such as joint ventures or merging and some are even making absolute acquisitions. This paper researches the impact on an organisation post acquisition with emphasis on the acquisition of Europe’s second largest steel company Corus by Tata Steel. This study will also explore whether there are any international acquisition strategies that will succeed and why many acquisitions fail. The organizational culture change brought about by acquisitions creates a traumatic experience for all members within the organization and in many cases becomes a major reason for managerial difficulties post acquisition. This paper will also study the barriers faced by the acquiring company and effective management of cultural differences.

Mergers and acquisitions almost always involve some level of transformational change and disruption, according to Towers Perrin Senior Consultant Clair Olson. Successful post-merger integration demands significant change on the part of both the acquiring and the acquired organization. The acquirer creates boundary disruptions – changes in stated goals, strategies, ways of doing things and customs. The acquirer also must deploy control mechanisms to manage transformational change and achieve the strategic goals that drove the M&A in the first place.

AIM:

The main aim this research is to investigate the acquisition difficulties faced by Tata Steel and how the company managed to overcome them. The aim of the study is to also study the cultural change after acquisition and its impact upon The TATA (CORUS STEEL) Industry.

OBJECTIVE:

To evaluate the importance of internationalization in organization growth

To examine the existing leadership problem through cultural change in Tata steel industry.

To explore the factors affecting the cultural change in an organization.

To describe the change in management strategies to overcome the difficulties in Tata steel industry.

SCOPE OF THE RESEARCH

This study looks into the reasons of mergers and acquisitions of organizations and how an organization from a developing economy like India is able to acquire a firm in a mature market such as Europe. The study further delves into the obstacles faced by all acquiring companies and also in particular those faced Tata Steel before and after acquisition of Corus. The study hopes to boost the morale of more Indian companies to become a global name.

RATIONALE OF THE STUDY

Organizational culture refers to a set of characteristics that the employees assume or perceive their organization to have. It is a set of values, attitudes and beliefs. This system of shared meaning is actually a set of key characteristics that the organization values (Robbins and Sanghi, 2007). Cultural differences are a very important reason for the lack of expected performance of an organization post acquisition. According to Bijilsma-Frankema 2002 the term " culture clash" may be used to explain the conflicts arising post acquisition. These conflicts are in form of differences in norms, styles, philosophies, values, objectives. Covin et al 1997 argues that even, if the conditions for M&A are favourable, still mergers can so change the nature, orientation and character of one or both of the merged partners; which means it will require five to seven years where employees can feel whether they have truly understood one another's culture. There are a number of fears that arise out of losing close team members, recruitment of new supervisors that necessitate rebuilding of trust.

A planned and effective transition that requires minimizing the cultural conflicts is regarded as a crucial factor for success of any mergers and acquisition. Those organizations which manage successfully the differences, are able to achieve what actually is desired by the management for achieving strategic objective. Empirically, Schweiger and Goulet (2005) explained that the insight into the learning of the cultures helps in understanding, extracting the cultural similarity, collaboration and communication Larsson and Lubatkin (2001). To sum up, it is of great importance that what actually the managers do but it is more important that how they actually do it because the way will place a path on which organizations decide to take journey. Larsson and Lubatkin (2001) explained that social controls works are informal in nature and therefore it acts as a natural socialization device.

Acquisitions, in general, do not appear to result in an increase in value nor do they lead to strong financial performance. More specifically, the research shows that the value of the acquiring firm does not benefit from an acquisition. However, there is some evidence that related acquisitions and cross-border acquisitions with certain characteristics do add value.

Humanistic Perspective

Researchers such as, Cartwright and Cooper, 1992; Bueno and Bowditch, 1989; Gilkey, 1991 all are in a view that during the last two decades, study and management of “ Human factor” has become an important source of success in mergers and acquisitions. These authors agree that culture played an important role in M&A. However, it is not that easy to spread knowledge about the importance of culture differences within merged organisations. If the organisations want to work to achieve a higher level of integration, then they have to answer that how the part that culture plays in success or failure of organisational melting processes can be predicted. Cartwright and Cooper, 1992

A acquiring company needs to tackle cultural and interpersonal issues during the integration process after acquisition. Almost 70 percent of mergers and acquisitions fail because of cultural issues. Therefore Tata Steel’s acquisition of Corus seemed more vulnerable at the time because of potential cultural difficulties that could emerge from the dynamics of cross-border integration

BACKGROUND OF THE STUDY:

The Indian Steel industry is regarded as vital to the development of the nation. The Tata group has always played a vital role in contributing to the nation's economy and it again did so when Corus was acquired on the 2nd of April 2007 for a price of $12 billion making the Indian company the world's fifth largest steel producer.

" I believe this will be the first step in showing that Indian industry can in fact step outside the shores of India in an international marketplace and acquit itself as a global player."

Ratan Tata

There were in fact many likely synergies between Tata Steel, the lowest-cost producer of steel in the world, and Corus, a large player with a significant presence in value-added steel segment and a strong distribution network in Europe. Among the benefits to Tata Steel was the fact that it would be able to supply semi-finished steel to Corus for finishing at its plants, which were located closer to the high-value markets.

Industry experts felt that Tata Steel should adopt a ' light handed integration' approach, which meant that Ratan Tata should bring in some changes in Corus but not attempt a complete overhaul of Corus' systems N Venkiteswaran, Professor, Indian Institute of Management, Ahmedabad said, " If the target company is managed well, there is no need for a heavyhanded integration. It makes sense for the Tatas to allow the existing management to continue as before.

PRE ACQUISITION EVENTS

It is important to gain an understanding of the events that led to Corus's desire to be acquired before launching into a detailed discussion of the acquisition activity. Corus, the Anglo- Dutch steelmaker, was formed in 1999 by the merger of British Steel with Hoogovens of the Netherlands. With 47, 300 employees working in plants across Britain, the Netherlands, Germany, France, Norway, and Belgium, Corus had the highest cost of production among the world's steel makers. After the merger, a rift developed between the two camps. Matters became worse when the British half of the business sustained serious losses while the Dutch side was quite profitable. The Dutch contended that the UK side of the business was causing the entire organization to be unprofitable. Corus's management realized that the status quo was unsustainable given the increased competition from steelmakers in developing economies who had access to cheaper labor and raw materials. Additionally, higher raw material and energy costs were impacting profitability. So they decided to look for a suitable partner outside Western Europe to acquire Corus, and began negotiations with key players in the steel industry from India, Russia, and Brazil. The process has started on September 20, 2006 and completed on July 2, 2007. In the process both the companies have faced many ups and downs.

A TIMELINE OF EVENTS LEADING TO ACQUISITION OF CORUS

September 20, 2006 : Corus Steel has decided to acquire a strategic partnership with a Company that is a low cost producer

October 5, 2006 : The Indian steel giant, Tata Steel wants to expand its business further.

October 6, 2006 : The initial offer from Tata Steel is considered to be too low both by Corus and analysts.

October 17, 2006: Tata Steel has kept its offer to 455p per share.

October 18, 2006: Tata still doesn’t react to Corus and its bid price remains the same.

October 20, 2006 : Corus accepts terms of â‚¤ 4. 3 billion takeover bid from Tata Steel

October 23, 2006 : The Brazilian Steel Group CSN recruits a leading investment bank to offer advice on possible counter-offer to Tata Steel’s bid.

October 27, 2006 : Corus is criticized by the chairman of JCB, Sir Anthony Bamford, for its decision to accept an offer from Tata.

November 3, 2006 : The Russian steel giant Severstal announces officially that it will not make a bid for Corus

November 18, 2006 : The battle over Corus intensifies when Brazilian group CSN approached the board of the company with a bid of 475p per share

November 27, 2006 : The board of Corus decides that it is in the best interest of its will shareholders to give more time to CSN to satisfy the preconditions and decide whether it issue forward a formal offer

December 18, 2006 : Within hours of Tata Steel increasing its original bid for Corus to 500 pence per share, Brazil's CSN made its formal counter bid for Corus at 515 pence per share in cash, 3% more than Tata Steel's Offer.

January 31, 2007 : Britain's Takeover Panel announces in an e-mailed statement that

after an auction Tata Steel had agreed to offer Corus investors 608 pence per share in cash

April 2, 2007 : Tata Steel manages to win the acquisition to CSN and has the full

voting support form Corus' shareholders

POST ACQUISITION EVENTS

Standard & Poor's rating service in India declared a " negative implications" watch in April, 2007 due the fact that Indian companies often lack experience in international acquisitions with different corporate cultures, employment rules, etc. In an earlier acquisition of Tetley Tea, Tata's previous UK acquisition, it had run into " some cultural and racial obstacles because of concerns that British employees would resent having managers from a former British colony" (Mahagan, 2/1/07). UK trade unionists warned there would be impending trouble for Corus employees if Tata moved production away from the UK to lower-cost India markets. Union leadersemphasized they were not going to accept the downfall of the UK steel industry and could use any resources to resist its “ accelerated or slow demise.” Philippe Varin, the French CEO for Corus, didn’t make any pledges or commitments, but said that the deal wasn’t predicated on closures, but instead, upon global opportunities. And that it was in the best interests of Corus employees to be globally competitive. Tata Steel’s executives must take into account that their European employees were beginning to feel uncertain about their fate in the newly created entity. If left unaddressed, this had the potential of creating low morale resulting in decreased productivity (Mahajan, 2007, February 1).

Dr. Ashok Kumar who was a member of British Parliament representing Teesside constituency where part of Corus operations were located was a strong advocate of the Tata Steel acquisition. He strongly believed that the partnership was ideal both on a cultural and practical level and emphasized the potential of the crucial relationship between the UK and India as one of the emerging global economic powers of the 21st century. He pointed to the historic ties between India and the UK and contended that trade and commerce could be built upon centuries of cultural understanding. “ Corus joining Tata should be the first span in the bridge bringing our two countries closer together” (Kumar, 2007, February 13).

The Tata Investment Group provided advice and ensured that due diligence was given to cultural issues during mergers and acquisitions. Mr. R. Gopalakrishnan, Executive Director of Tata Sons, expressed an opinion that it is “ important to engage with the society in which the business is located” and the post-merger integration and processes must be consistent with the strategic intent of the acquisition. When asked about what lessons the Tata Group had learned from their overseas acquisition experiences, he said the positioning of the business in the host country should be harmonious with the actions of the company. The absolute core and nonnegotiable values of the acquiring company need to be explicit to the acquired company managers (Businessline, 2007, April 1). He felt that the acquisition would work well in the long term and due diligence given to managing cultural issues should serve to enhance trust between the Indian and European sides.