Lakshmi mittal and the growth of mittal steel

Business, Management

Lakshmi Mittal and the Growth of Mittal Steel al Affiliation Company growth is often the priority of its stakeholders. The issues and challenges faced are often turned to opportunities by finding alternatives to such situations. One such company that beat all the odds to rise to the position of being the best steel company in the world is the Lakshmi Mittal Steel Company. Having faced stiff competition in its homeland India, it took the investment to foreign nations beginning with Indonesia. Growing steadily, it expanded to other nations like Trinidad, the United States, and Europe. It made a major merger with a European based steel company called Arcelor. This paper discusses the consistent growth of Lakshmi Mittal and all the issues it met, including in the final stages before merging with Arcelor. The strategy it undertook concerning foreign direct investment (merging and acquisition) undoubtedly enabled it reach greater heights.

Keywords: merge, acquisition, foreign direct investment, Greenfield investment

Introduction

Arcelor Mittal Steel Company is a company that was started as a result of a merger between two steel companies namely Mittal Steel and Arcelor. The origin of the company was in India with Mittal being started in the early 1970s. The company, just like any other investment, faced some key issues and challenges as it developed. However, all these challenges have to be overcome by identifying available opportunities and making use of them.

Issues, Opportunities and Alternatives

Competition in India was very stiff leading to limited growth opportunities. The main competition came from state and the privately owned companies.

This led to the decision of Mittal to expand its borders to other countries, beginning with Indonesia. It is evident that Mittal in its foreign direct investment chose to use the method of merger and acquisition, rather than Greenfield investment. This is so because the merger method offers a lot of advantages. The local companies to be merged to or acquired are already conversant with the local customs and the institutions associated to the acquired firms. Furthermore, there is an advantage of easy access and relations with distribution systems. Mittal company only had to make improvements on what the merged firms had done, so as to establish itself in a competitive position and eliminate the potential competitors. Marinescu and Constantin (2008) say that “ from financial point of view, the acquisition necessitates a smaller initial investment. Capital is injected step by step, leading to lower market risk as opposed to a Greenfield” (n. p.).

In as many countries that Mittal developed, there are a lot of advantages that are achieved by the host nations. Apart from the employment to the locals and as source of revenue for personal and corporate taxes and tariffs, Punnett (2012) has identified such foreign investment as to provide “ capital and technology for host country, development, and modernization where capital and technology cannot be generated internally;” (p. 66). The main disadvantage to the host nation due to Mittal’s entrance is deterioration of the local companies, who cannot cope up with market competition with Mittal. This leaves the steel industry mainly dominated by foreigners.

By entering into several nations, Mittal is able to increase its profits and market share. It also enables it gain an easy market, as it gets to be known across several nations. Arcelor is a company from Europe, while Mittal though a Dutch company was perceived to be from India. Politically, the two countries have different political ideologies, as suggested historically. India has weak foreign policy due to the poverty that has languished. It's also known that European countries have long been biased when it comes to interaction with the third world countries, like India (Giri, 2001, p. 85). Furthermore, it is a common practice by a foreign investor in terms of political and economic loyalty to the host nation. There is a fear that such investors would always protect the interest of their home nations (Czinkota & Ronkainen, 2012). The initial objection for a merger between Mittal and Arcelor was not reasonable because Mittal was an established company with investments all over the world, including developed countries. It is further disapproved by the fact that the merged companies progressed well.

Conclusion

Foreign direct investment is viewed as either beneficial or destructive. They are praised for bringing capital, more economic activities, employment, and improved technology. However, this may lead to overdependence by the host nation to the extent that its resources are drained. Furthermore, brain drain can be felt in some instances. The great development of Mittal Company is an example of an international company that is ready to face the challenges and explore available opportunities for further success.

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