# Creating value at Tata Steel Europe (Netherlands)

*Providing successful resistance to the temptations of the Anglo-Saxon business model*

Donald Kalff

Large Dutch companies have proved to be particularly susceptible to the temptations of the Anglo-Saxon business model. Prior to the alliance with Air France, KLM offered itself in vain to British Airways, Shell is now a company under English law, and AkzoNobel has sacrificed Organon to the City.

The only major Dutch company that has successfully offered resistance to this temptation and developed a tailor-made business model for itself is Tata Steel Netherlands. Once known as the Koninklijke Hoogovens, it was merged into Corus in 1999, after which Corus was taken over by Tata Steel.

A thumbnail comparison of the two business models shows the following.

In the Anglo-Saxon model, a company is expected to serve the interests of its shareholders. In order to offer flexibility to shareholders, it is desirable to have a stock exchange listing. The increase in earnings per share, preferably with an annually increasing percentage, is the eternal goal. The belief that this will increase share price and thus shareholder return is deep-seated, despite the fact that this causal relationship has never been proven.

Of course, this model requires forms of governance, management, organization, and business operations aligned with the interests of shareholders. This may lead, for example, to a premium on single-headed leadership in the form of a chief executive officer, because, according to the doctrine, only individuals can lead and inspire and only individuals can take responsibility. Shareholders also like to see a board that, with the help of financial targets, penalties, and rewards, can exercise maximum control over the business processes. Maximum transparency can be offered to shareholders.

Lastly, it is considered beneficiary to divide the company into independent business units so that they may be sold separately at appropriate times: the so-called unlocking of shareholder value. It was no coincidence that ABN Amro, in the run-up to its IPO, offered financial markets not only shareholder return as its central objective but also market-based control.

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At the time of the formation of Corus, the (then) board of Hoogovens managed to introduce an enlightened structural regime for Corus Nederland, in which both the supervisory board and the board of directors remained independent. In this way, and in accordance with the provisions of Dutch corporate law, the interests of the company itself and not those of the shareholders remained the central focus. Management was supported by a central works council that established itself as a strategic partner.

All of this would have had little significance had it not been established in the course of a conflict over the sale of Corus' aluminium activities -- the use of its cash flow was allocated to Corus

IJmuiden. The regime would have remained a dead letter if its inherent freedom from shareholder interests had not been used to invest in a fully integrated company that could purchase the right ores, produce many types of high-quality steel, and act as sparring partner to car manufacturers in the design of new models.

It is slowly becoming apparent that the positioning of the company as an instrument of shareholders is at the expense of the very economic value that companies are supposed to create, and even causes value destruction on a significant scale. In the United States, where this model is embraced in its purest form, the large listed companies have only slightly increased their investments since 2008. Overall return on investment has declined, export growth has stagnated, and the share of new products in total turnover has hardly grown at all.

It is rarely pointed out that productivity growth in the United States has fallen sharply year after year, all this, in spite of the most favourable business climate ever. We now know that large companies have scarcely paid any taxes in recent years. Furthermore, capital costs and inflation expectations were zero, wages were de facto frozen, and governments rolled out red carpets everywhere.

At the same time, the repurchase of shares, mergers and acquisitions, and restructuring to reduce costs have increased, all steps aimed at boosting earnings per share.

Tata Steel Netherlands has escaped this fate. The current owner regards their establishment in IJmuiden as a jewel in the proverbial crown, and with good reason.

Year after year, Tata Steel Netherlands generates considerable cash flow. The company has invested more in research and development than, for example, its competitor ThyssenKrupp. The cash flow is sufficient to finance substantial investment programmes and also enough to pay the owners a reasonable dividend. Tata's value creation contrasts sharply with the successive restructuring programmes of most of its competitors.

Tata IJmuiden is a spectacular example of what a board of directors, a supervisory board, and a works council (union/employees board) can do together. The decision to develop a viable, tailor-made business model has ensured the creation of the economic value that forms the basis for Tata's continuity. We can only hope more companies will follow their example: the time is ripe for more flexibility in choosing a business model.

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**Donald Kalff is an entrepreneur, publicist, and board member of Transparency International Netherlands, an organisation fighting against corruption worldwide.**

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