Anglo-Dutch Cross-Border Mergers:
The merger between Hoogovens & British Steel (Corus) 1998-2004

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Abstract
The success of Anglo-Dutch companies such as the Royal Dutch/Shell Group (1907) and Unilever has led to the general assumption that this particular national mix for cross-border mergers offers a roadmap for transnational collaboration. The failure of two German-Dutch mergers in the 1970s appeared to confirm this belief. This study analyses if indeed Anglo-Dutch collaborations offer a key to success. Various Anglo-Dutch merger cases, therefore, have been selected for in-depth examination. In this intermediate paper the rather troubled Corus merger is highlighted. The merger between Hoogovens & British Steel did not only fail to generate any profit for either party, it was also unable to realise its goals. After five years this almost resulted in a merger break-up. Using a study by René Olie as basis, a list of supporting and restraining factors for cross-border mergers has been constructed. The Corus merger developments have been implemented in Olie's checklist, to see if it provides us with an explanation of Corus' disturbed progress. In agreement with Olie's list, this paper concludes that unfavourable economic conditions, differences in strategic views, an unclear organisational structure, weak management, and finally cultural differences cause merger difficulties. In an effort to supplement Olie, the effects of the institutional background and organisational set-up on the merger have been analysed. The final checklist gives us a clearer image of the mechanisms that shape Anglo-Dutch mergers, and cross-border mergers in general, through time.

Introduction
The Dutch economist Hans Schenk calculated that only a minor percentage of mergers could be labelled as truly successful.[1] In the case of cross-border mergers this percentage is most likely even lower, because of the difficulty of combining two national corporate cultures. This makes the accomplishments of the two famous Anglo-Dutch mergers between the Royal Dutch Petroleum & the 'Shell' Transport & Trading (1907), and the *Margarine Unie* & the Lever Brothers (Unilever, 1929) even more remarkable. In the 1990s these two enterprises acted as shining examples for three Dutch companies willing to expand abroad. In this paper one of these attempts, between the *Nederlandse Koninklijke Hoogovens Groep N.V.*[2] and the British Steel Group PLC to form the Corus Group PLC, is highlighted.

After the Royal Dutch/Shell and Unilever mergers, few efforts were made by Dutch entrepreneurs to seek foreign partners. In the 1970s, pressurised by several national governments to integrate the European market, leading Dutch firms again felt strong enough to go abroad. Remarkably, most Dutch efforts focussed on alliances with German partners. From the three known attempts, only the formation of the chemical giant *AKZO* was successful.[3] As elsewhere in Europe, this transnational merger wave did not show the results people expected. The difficulties experienced with this different national mix caused various scholars to speculate on the causes. The Dutch sociologist Geert Hofstede came to the conclusion that Anglo-Dutch mergers were like 'perfect

[1] H. Schenk, 'Are international acquisitions a matter of strategy rather than wealth creation?' in: *Management Report Series no. 42-1999* (Erasmus Universiteit: Rotterdam 1999) 4-7.
[2] The 'Royal Dutch Hoogovens Group N.V.'
[3] *Enka-Glanzstoff* (AKZO). Both *VFW-Fokker* en Hoogovens-Hoesch (Estel) ended their partnerships in the 1980s.

marriages', which offered better results than for instance German-Dutch alliances.[4] A remarkable result, given the fact that both Germany and the Netherlands apparently closely resembled each other on corporate structure, institutional background, economic development and culture. Both countries were seen as representatives of the Rhineland model, which strongly contrasted with the business environment in the Anglo-Saxon countries. In an attempt to provide an explanation for this seeming contradiction, René Olie compared the German-Dutch merger cases with other mergers formed between European enterprises. He concluded that besides cultural differences, economic conditions, the strategic concept, the merger framework and managerial beliefs also affected these mergers. Olie's goal was to construct a manual for cross-border mergers. With his list of supporting and restraining factors he estimated that the chances for companies, eager to combine strengths with a foreign partner, could greatly increase.

In the 1990s Dutch publisher *Elsevier*, airline company *KLM*, and steel- and aluminium producer Hoogovens followed the example of its illustrious predecessors Royal Dutch/Shell and Unilever, and began merger negotiations with British companies. The negotiations between KLM and British Airways finally failed, but in 1993 Elsevier amalgamated with its British rival Reed, and in 1999 Hoogovens and British Steel managed to reach an understanding, forming the Corus Group PLC. Following the results so far, Corus cannot be called a 'perfect marriage'. Six years into the merger, the company has not achieved its formulated goals, nor did it generate any profit for either party. By the end of 2003, speculation rose over the possibility of a merger break-up. The Corus-case is particularly interesting, because before the merger with the British, Hoogovens had a short-lived affair with the German steel producer *Hoesch*.

In this paper an attempt is made, with the help of Olie's guiding principles, to find an explanation for the so far disappointing outcome of the Corus-merger. The basic assumption is that Olie's list does not provide us with a clear explanation for all merger problems, and therefore needs to be re-evaluated and possibly revised. Since Olie's list merely focuses on European merger attempts of the 1970s and does not include any of the Anglo-Dutch cases in its formulation, it will be investigated where his list fails to provide a satisfactory explanation for the mechanisms that shape all transnational mergers up till recently. To determine if the merger was successful or not, it is investigated if this specific merger created a surplus value. This is determined by reviewing the productivity and share rates from the moment both parties decided to merge. Secondly, it is investigated if the merger goals were finally realised. This case study will provide a model needed for understanding the merger developments of the Royal Dutch/Shell, Unilever and Reed Elsevier companies. After this comparative analysis it should be possible to judge if Anglo-Dutch mergers as such indeed offer a formula for success. The objective of the dissertation is to present an extended checklist which can help to improve the success rate of Anglo-Dutch mergers, and cross-border mergers in general through the identification of key factors for success and failure.

Corus have not granted me access to its company archives. Nevertheless, sufficient material is publicly available in annual reports, press releases, scientific studies, national and foreign magazine and newspaper articles. Several former leading figures from the Hoogovens, British Steel and Corus management have indicated they want to make a contribution to this study.[5] Through interviews, any omissions in this data can be filled and facts verified. On the basis of this data, an outline has been made of the economic, organisational, institutional and cultural background of the merger, against which Olie's list can be tested. To determine if it is possible to

[4] G. Hofstede, *Culture's Consequences, International Differences in Work-related Values, vol. 5, Cross Cultural Research and Methodology Series* (Londen 1984). Amongst others Hofstede argued that the 'masculine' British culture matched well with the more feminine Dutch attitude,

[5] Up till now, only Dutch representatives of Corus were interviewed, but in future also British associates will be asked to make a contribution.

ascribe the success or failure of a merger to its national composition, its uniqueness needs to be questioned.[6] By analysing the environmental conditions certain merger problems can be traced back to their national origins.

In this dissertation the model of Peter Hall & David Soskice is used to classify the distinction between institutional stakeholders. [7] Their use of Anglo-Saxon and Rhineland market ideal types provides a framework for attributing certain company characteristics to its national background.[8] After the Corus merger was established in 1999, these characteristics started to transform. By looking at this process, it is possible to indicate if the company adapted itself to the Dutch or British way of doing business. The relationship between the various institutions in the Netherlands differs significantly from the situation in Britain. In the Dutch *poldermodel* or consensus model both employees and shareholders have the right to interfere with the firm's decision making, while in Great Britain only shareholders enjoy this privilege. Furthermore, there is much dissimilarity in how the legal, financial, and educational systems work and how the national innovation platforms are organised. In addition, one could state that the traditional organisational structure in the Netherlands is far more decentralised than the British. This emphasis on the institutional context and organisational structure arises from the realisation that René Olie has not sufficiently explored these aspects. The aim of this paper is to supplement and extend his list.

1
Pre-merger (-1998)

1.1 Case History: Koninklijke Hoogovens N.V. & British Steel PLC

1.1.1 Koninklijke Hoogovens

The *Koninklijke Nederlandsche Hoogovens en Staalfabrieken N.V.* was founded on 28 September 1918 in The Hague. Companies, private investors, the Dutch State and the city of Amsterdam provided the capital needed. The leading motive behind it was to make Dutch industry less dependent on steel imports. The new company took up residence in IJmuiden; perfectly positioned at the seafront, and with a direct inland connection through the *Noordzeekanaal*. This geographical advantage allowed the company to freely import its raw materials from outside and export its finished products to its European hinterland. The new company rapidly expanded and became an important worldwide steel exporter.[9] From the mid-1960s a diversification process was initiated, and the Hoogovens management began to invest in aluminium and mining activities. In the beginning of the 1970s Hoogovens decided to internationalise its affairs, which in 1972 resulted in a merger with the German steel producer Hoesch. The alliance, called Estel, experienced various problems, and in 1982 both parties decided to dissolve the merger. The steel crisis in the 1980s strengthened the belief that the company should pursue a two-metal strategy, and in 1987 Hoogovens acquired all European activities of *Kaiser Aluminium*. This made Hoogovens the fourth biggest producer of aluminium in Europe.[10] In the beginning of the 1990s Hoogovens was again confronted with declining results, which forced them to reorganise its affairs. After this difficult and traumatic episode in the company's history, a flourishing period

[6] The selected Anglo-Dutch mergers will, therefore, be compared with the results of other transnational merger studies.
[7] P. A. Hall & D. Soskice, *Varieties of Capitalism: Institutional Foundations of Comparative Advantage* (Oxford/New York 2001) 1-68. Hall & Soskice use the terms 'Liberal Market Economy' (LME) and the 'Coordinated Market Economy' (CME) for respectively the Anglo-Saxon and Rhineland market-economies.
[8] In this paper no attempt is made to explain or elaborate on Hall & Soskice's model. The sole purpose is to inform the reader about one of the dissertation's goals. At the end of this dissertation I will see if the ideal types by Hall & Soskice suit the Dutch and British markets.
[9] J. de Vries, *Hoogovens IJmuiden: 1918-1968: ontstaan en groei van een basisindustrie* (Koninklijke Nederlandsche Hoogovens en Staalfabrieken N.V.: IJmuiden 1968).
[10] Information case study Hoogovens derived from J.J. Dankers & J. Verheul, *Hoogovens 1945-1993: Van Staalbedrijf tot Twee-Metalen Corncern; Een studie in Industriële Strategie* (SDU: Den Haag 1993).

started in 1994. During these years Hoogovens managed to re-establish its image as a modern and viable company. In order to maintain growth and profitability, the company reorganised its business in 1995, and in 1998 McKinsey & Co was asked to create a new strategy. Hoogovens had large international ambitions, but did not have the financial means to put them into effect. Together with McKinsey the company concluded it first priority to be the expansion of its financial reserves by continuous and independent growth for the coming years. Hoogovens cherished its independent status, and so far had only internationalised by acquisition of smaller European aluminium and steel companies. In the beginning of 1997 Hoogovens instigated its latest take-over of the Wallonian *Usines Gustav Boël*.

1.1.2 British Steel

The formation of British Steel was the result of the promulgation of the Iron & Steel Act by the British Government on 22 March 1967, which privatised 90% of the national steel industry. When four months later fourteen of the largest steel companies decided to unite their affairs under the name British Steel Corporation, the configuration was complete. In order to regain its competitiveness, the British steel industry had to seriously reconstruct its business. In the beginning of the 1970s a new strategy together with a ten-year investment plan was launched to achieve this goal. A major objective of the new strategy was to concentrate the widely dispersed industry into five regions.[11] The reform only slowly took up pace, while the company's deficits were growing rapidly. As soon as the first effects of the reorganisation became apparent in the beginning of the 1980s, large-scale strikes erupted. These events took place at the background of a world steel market that was flooded with cheap steel. Production sites were closed and many steelworkers were laid off to preserve and increase the productivity rate.[12] By the time the reform was complete at the end of the decade, only 130,000 employees remained of the 268,000 enlisted in 1967. By 1989/1990 the British Steel Corporation for the first time booked a profit. On 3 December 1987 The British Government proclaimed that they wanted to privatise the company, and a year later the British Steel PLC was listed on the London stock exchange. Despite the good reception from the capital market and a large financial contribution made by the Government, the new company could not avoid the negative impact of the steel crises of the early 1990s. From 1994 onwards however, the company benefited from the increase of demand and steel prices, and started to plan its future strategy. Its main objective was to gain access to the European mainland.

1.1.2 Market & Economy

The steel industry relied on the dominance of its regional markets. The price at the market place was heavily affected by transport costs. With Hoogovens' strong geographic position, well-organised production, and advanced technology it was able to penetrate many export markets. Within Britain the company became the second biggest player.[13] With the initiation of a consolidation process of its main clients in the automotive and packaging industry, orders grew further. However, its focus on specialised markets and a small number of large clients also made them vulnerable for over-expanding its affairs. Hoogovens now relied for approximately 80% on the export of its products, and by a sudden decline in orders from its former and now consolidated clients, it could easily loose market share. On the contrary, British Steel failed to have the geographic advantage, nor did it have access to specialised or innovative products like Hoogovens. It was, therefore, unable to compete effectively on foreign markets. About 80% of total production found its way to British clients through an extensive distribution network set out over the country. Hoogovens had a marketing concept, which was based on a direct relationship

[11] South-Wales, Sheffield, Scunthorpe, Teesside and Scotland.

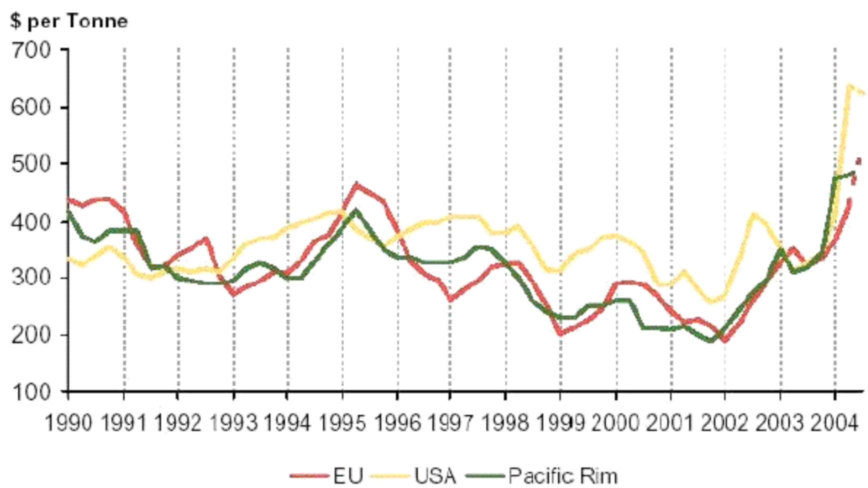
[12] The Monopolies and Mergers Commission, *British Steel Corporation: a report on the efficiency and costs in discharging its functions of the British Steel Corporation* (Her Majesty's Stationery Office: London 1988).

[13] To be able to compete with British Steel, Hoogovens had to be satisfied with a lower profit margin on each product sold in the UK.

with its clients in different countries. Its largest clients ever demanding improved services, and Hoogovens working hard to establish this.[14] British Steel was facing a loss of its domestic market share, mainly because of the collapse of the British car-industry. By the end of the 1980s Japanese car-manufacturers began to compete successfully with the British on its own home market. And more importantly, these foreign manufacturers preferred to be supplied by Hoogovens and other European steel firms rather than by British Steel.[15]

Besides the consolidation wave in the car industry, both companies saw in 1998 the first sign of a worldwide decline in demand for steel. On the European mainland this trend was caused by the forthcoming introduction of the euro, making steel prices much more transparent. Also, with the continuation of the economic crisis in Asia, the demand from that continent deteriorated (See Graph 1). The drop in profit margins subsequently triggered a merger and acquisition wave in the European steel industry.[16] Hoogovens, however, preferred to stick to its strategy of purchasing only smaller steel and aluminium manufacturers to increase its service level, its European market share, and its financial reserves. In this field though, the company did not seems to be doing very well. The purchase of steel maker Gustav Boël was not proceeding according to plan, and the negotiations with the Swedish company *SSAB* and the Austrian enterprise *Voest* were not at all successful. Hoogovens feared it needed to convert its status from a 'small company amongst the majors' to a 'major amongst the small companies'.

Graph 1 Steel Prices 1990-2004



Source: Corus Annual Reports

To compensate for the declining domestic market share, British Steel attempted to find new markets at home and abroad. A troubling factor for internationalising its markets was the high value of the pound sterling. To escape this problem, British Steel began negotiating various collaboration forms with the Polish producer *Huta Katowice SA*. The talks did not go well, and like Hoogovens, the British board members had to start looking for new European allies. For several years British Steel had been closely monitoring Hoogovens. According to British Steel a partnership with Hoogovens offered an ideal opportunity to bridge the gap with the European continent. Not only did the Dutch possess a significant share of British Steel's home market, it

[14] The accomplishments of the Swedish *SSAB* had set the service-standard in the industry.
[15] *Nissan* started production in Sunderland in 1986, followed by *Toyota* in 1992 (Burnaston) and *Honda* in 1993 (Swindon).
[16] German enterprises *Thyssen* and *Krupp* merged; followed by an amalgamation of *Arbed* from Luxemburg with the Spanish *Aceralia*. Fearing it would miss the boat, French steel producer *Usinor* formed an alliance the Belgian *Cockerill Sambre*, and the British Ispat bought all businesses, which were left out of these alliances.

was renowned for its advanced technological expertise. Hoogovens could, therefore, help them to streamline and modernise their business and marketing concepts. Managers from both sides knew each other well, but as long as Hoogovens was convinced it wanted to expand independently, all British efforts would be useless. However, since the start of the acquisition wave Hoogovens increasingly feared it could be faced with a hostile take-over bid.

1.2 Organisational Structure

1.2.1 Hoogovens

Since the foundation of Hoogovens, the company has had two boards: the *Raad van Bestuur* (RvB) or executive management board, and the *Raad van Commissarissen* (RvC) or the non-executive supervisory board, consisting of respectively four *directeuren* and ten *commissarissen*. In at least six meetings per annum the non-executive members supervised the decisions made by the executives and the company results. The executives met almost daily in different settings. In the Dutch two-board system it was common practice that the non-executive members would nominate not only new *commissarissen* but also the new executives. The shareholders subsequently needed to approve the nomination. The *Raad van Commissarissen* therefore as a whole had a strong say in the direction the company was heading. Formally in charge of the executive board was the chairman, who at Hoogovens traditionally acted as a *primus inter pares*. Decision-making at both the board-meetings was the result of consensus achieved through an open dialogue. Decisions were at all time made in the company's interest, which left little room for personal power struggles in the boards.

During a major 1995 reorganisation, Hoogovens transformed itself from an organisation headed by functional departments into a business structured by product groups or divisions. On top of these five divisions a staff of seven senior directors coordinated the functional guidance of the fifteen business units (BU), which were each ran by management teams (MT). These MT's were held accountable for the individual BU results.[17] The executive product division responsibilities were divided amongst the members of the executive board. This board also coordinated all functional activities. The principle goal of this reorganisation was to improve decision-making by excluding and erasing certain echelons. This reform was by no means intended to centralise authority. On the contrary, by shortening the communication lines and the distance to the work floor, the Hoogovens management expected it could better adapt its business to swift changes in market demands.[18] In order to make this new business approach a success, Hoogovens approached management candidates from outside to fill in key positions. Subsequently, in 1998 a new remuneration-system was introduced. Hoogovens did not implement uniformity in payments, but introduced a different system for each product division and each BU; depending on the level of integration and the number of foreign associated companies.[19] The new remuneration system left no room for additional top-management reward systems. Together with brewer *Heineken*, Hoogovens thereby was the only listed Dutch firm on the Amsterdam stock exchange that did not offer its senior managers a stock-options scheme.

Simultaneously the company introduced the *Appointment & Remuneration Committee*. In this organ three non-executives proposed the wages of the management, and selected the successors of all departing board members. The shareholders, however, could oppose to the proposed increase of board-wages, or could block the appointment or re-election of only the non-executive candidates. Three other *commissarissen* in the *Reporting & Audit Committee* supervised the

[17] G.J. van Helden, J. Van der Meer-Kooistra & R.W. Schapers, 'Co-ordination of internal transactions at Hoogovens Steel: struggling with the tension between performance-oriented business units and the concept of an integrated company', in: *Management Accounting Research* (2001), Vol. 12, 372.
[18] Ibidem, 358.
[19] Ibidem, 375.

financial affairs and safeguarded the company's accounting practices. By introducing these committees and by making its associates publicly known in its annual report, Hoogovens made an attempt to make its organisation more transparent to the outside world. By implementation these committees, Hoogovens followed the practice used within many companies of Anglo-Saxon origin. In reality, however, much of its was merely window dressing, and effectively little changed in the way Hoogovens managed its affairs.

1.2.2 British Steel

British Steel had only a single-tier board structure. The board consisted of in total thirteen members, who jointly met at least ten times per annum. Six associates enjoyed executive privileges, while the remaining seven had only non-executive privileges. At the head of the board stood the chairman, who himself formally did not hold executive rights. In reality, however, he did have decision-making authority. In fact, together with the Chief Executive Officer (CEO), he firmly controlled the affairs in the board. The meetings were mainly held for finding support for the decisions ready for implementation. Issues were often decided by voting. In this, the nature of the British assembly greatly differed from Dutch board meetings. Four committees conducted the supervision of the executive affairs. The *Nomination* and *Environmental Committee* were made up of three non-executive board members, and the *Audit Committee* and *Remuneration Committee* each consisted of four non-executives. The company chairman sat in only the Nomination Committee, giving him a strong say in succession matters. The nomination of the committee members was not only controlled by non-executives, as was the case at Hoogovens, but was the result of the voting done by all board members, executive and non-executive. Contrary to Dutch practice, the British shareholders could vote out executive directors responsible for ill management. At Hoogovens only the *Raad van Commissarissen* enjoyed this right.

A separate organ, known as the Executive Committee, conducted the day-to-day management. Six executive directors and two senior non-board members participated in these meetings.[20] Three of the associates controlled the functional guidance of the BU's[21], while the others were in command of the production process. Although production was lined-up in groups, each unit in the group was accountable to a different executive. The CEO coordinated all affairs, and not only did all communication go through him, he was also the main person responsible for the company's performance. Compared to Hoogovens, the absolute managerial power at British Steels was highly centralised in a small group of people. The MT's received functional and operational instructions from one organ, in which it held strong personal ties with the executive responsible. Through these personal relations, the control of British Steel was centred round two individuals: the CEO and the company chairman. Since no clear division between product groups existed, wage setting was done for each separate BU. Uniform wage setting for its management was also unknown, and contrary to Hoogovens, offered its higher echelon managers a stock-options scheme.

1.3 Strategic Planning

In addition to steel, both companies focused on a secondary product. British Steel made stainless steel, but compared with Hoogovens' aluminium division it was of little importance to its total output. A significant difference between the companies was that the Dutch firm concentrated on value added steel products while British Steel primarily manufactured bulk steel products. The principle aim of Hoogovens marketing concept was to sell its quality steel and aluminium

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[20] As a rule, one of the non-board-members was the senior director in charge human resources. The company secretary R. Reeves was also present.

[21] J. Eddington held the functional control over R&D, J. Rennocks over finance, and senior director A. Johnston over personnel matters.

products to a selected group of mainly international clients, by building a direct client-company relationship. The British placed its diverse product range mainly on its home market through a large distribution network. The company in IJmuiden relied on the advanced technology of its manufacturing plants, and its high productivity level strategy to be able to compete on foreign markets. Instead, British Steel competed with low-wage countries by marketing low-priced bulk products. In an attempt to absorb future recessions better, both companies adopted a two-metal strategy, and tried to internationalise its affairs.[22] Nevertheless, both parties' recent attempts had shown no result. In October 1998 Hoogovens was forced to abandon its take-over plans of the Belgian steel manufacturer Gustav Boël, and around the same time British Steel halted its talks with Huta Katowice. Both companies believed in their sovereign status, but poor financial results at both sides, and the start of the consolidation process in the European steel industry made them nervous. Despite the fact that Hoogovens performance was still good, its profits were declining.[23] British Steel's performance was far more dramatic. Profits sharply declined and over the year 1999 the firm had to report its first loss since 1994.[24] To compensate the deficits, British Steel was urged to expand its market share in domestic and foreign markets. In Great Britain the company started a successful promotion campaign for the use of construction steel in building. For British Steel, Hoogovens still formed the ideal partner in its attempt to cross the bridge over the Channel, but it could not wait much longer, since global market conditions deteriorated rapidly and the pound sterling remained surprisingly high. The possible start of a global recession also worried Hoogovens. Uncertainty grew over its ability to realise its international ambitions.

1.4 Institutional Setting

1.4.1 Staff-Relations & Employee Representation

In 1970 the *Sociaal Economische Raad* introduced a merger code in the Netherlands.[25] In this gentlemen's agreement it was agreed that if a company decided to merge, it was obliged to inform not only the shareholders, but also all trade unions and works councils involved. Both the unions and councils received confidential insights in the merger plans, and were given the opportunity to express their views. In 1979 these concessions were given a legal status in the *Wet op de Ondernemingsraden*[26], which gave the employees the right to establish councils, which could organise meetings free of board involvement, and had the right to act as an independent consultative body. Hereby, the workers' participation in Dutch enterprise was made formal. If, for instance, the works council did not agree with the firm's merger plans, the council could appeal to the Court.[27] As a result, the councils and trade unions managed to position themselves next to shareholders as important stakeholders of Hoogovens. Furthermore, the council had the right to nominate two non-executives in the *Raad van Commissarissen*. Through these representatives, the councils were informally kept up to date on board issues. During the annual meeting of the combined boards and the works council, information was exchanged on a more formal basis.[28] Communication lines between the offices and the work floor traditionally were short, since the board members were housed in the proximity of its most important site in IJmuiden, which they often visited for consultation purposes. On the contrary, British executives were seldom seen on the sites. At British Steel communication lines were long, partly because of the geographically dispersed positioning of the plants. All power was centralised at the London head office, and the

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[22] Annual Report (AR) Koninklijke Hoogovens Groep (KHG) 1998, *Report of the Board of Management*, 6.
[23] Ibidem, 11. Although the turnover increased, the net profit declined from 498 million guilders in 1997 to 415 million guilders in 1998.
[24] AR British Steel (BS) 1998-1999, *Consolidates profit and loss account*, 28. The profit retained over the year 1997 was 106 million pound. In 1998 it declined to 31 million, and in 1999 a loss of 282 million ponds was made.
[25] The Social & Economic Council (SER) is the main advisory body to the Dutch government on national and international social and economic policy.
[26] Work Council Act
[27] The *Ondernemingskamer* was a court where company disputes were settled.
[28] AR/KHG 1998, *Report of the Supervisory Board,* 4.

only consultation occurring was with financial stakeholders. Trade unions were kept at a distance, and since works councils were often seen as union extensions, little consultation took place. In Britain, however, steelworkers were highly organised, which gave them the power to make a strong fist.[29]

1.4.2 State Involvement & Legislation

In 1998 Hoogovens celebrated its eightieth birthday as a private company. Since its foundation it was one of the few Dutch enterprises rewarded with the title 'Royal'.[30] This can largely be explained by the 10% Dutch State company share, which gave the government the right to nominate two candidates for the supervisory board.[31] Since the privatisation of 1989, a direct governmental involvement in British Steel was no longer present; indirectly, however, the national influence on the firm was still strong. Many of the company directors had risen through the ranks of the old public corporation. Only ten years after its privatisation, company strategy and thinking still bore the marks of its days of state ownership. The title 'British' the company was allowed to keep, clearly demonstrated the strong link with history. During the steel crises in the 1970s and 1980s British Steel strongly benefited from the national financial support it received. Other companies, such as Hoogovens, depended heavily on joint-European efforts to ration the production in order to raise prices. In the 1990s, when the majority of European firms were no longer publicly owned, a production regulation by Brussels was no longer implemented; the industry began fearing the cyclical nature of the steel market. With no central coordinating organ of importance, individual companies attempted to find other means to control prices and adjust production levels. The crisis in the beginning of the 1990 showed Hoogovens that it was simply too small to be able to make a difference.

1.4.3 Financial Markets & Shareholders

Both companies addressed the financial markets differently. For its capital requirements, Hoogovens relied on its old ties with the large Dutch financial institutions: *ABN-Amro*, *Aegon*, *ING* and the *Rabobank*. British Steel, on the other hand, tackled this problem by addressing the international capital market. British Steel listed it shares on the stock markets of the world's largest financial centres, London and New York. This partly explains the location of the company headquarter, far away from its main production centres, but close to London's financial district – the City – to be able to closely monitor the international financial market. In order to do so, it had to develop good relationships within the City. Besides the annual and biannual financial reports, British Steel exchanged information with investors and market analyst through a large informal network. The nomination of British Steel CEO Sir Brian Scott Moffat as non-executive director of the HSBC Bank in 1998 indicates that its networking efforts at that point were successful.[32] Hoogovens listed its shares only in Amsterdam. Hoogovens' management, however, preferred to keep office in IJmuiden. No need was felt to tighten the relationship with the national financial institutions, because through the participation in its supervisory board of leading banker and representative of Holland's largest bank – Mr. Robertus Hazelhoff – knowledge of the national capital market was close at hand.[33] However, as Hoogovens activities abroad expanded and

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[29] NRC Handelsblad (NRC), *Sterke pond, zwak staal; nieuwe ingrepen dreigen bij Britse poot van Corus* (23-3-2000) 15. In this Dutch newspaper it is argued that 98% of the British steelworkers were associated with a union, compared to 50% in the Netherlands.

[30] Only the Royal Dutch Petroleum Company and the Royal Dutch Airlines (KLM) were given this honour.

[31] The two members nominated by the Dutch government were: Professor S.J.G. van Wijnbergen and Professor I. van der Zijpp.

[32] The Hongkong and Shanghai Banking Corporation Limited (HSBC) was a London-based company. On 1 June 2000 Moffat was elected to the Court of Directors of the *Bank of England.* Subsequently in 2001 he became the non-executive deputy chairman of HSBC.

[33] Mr. Hazelhoff was formerly chairman of the board of management of the *Algemene Bank Nederland B.V.* (1985-1990), chairman of the board of management of the *ABN-Amro N.V.* (1992-1994) and member of the supervisory board of *De Nationale Investeringsbank N.V.* (1985-1999). Hoogovens supervisory board members M.C. van Veen (deputy-chairman) and A.A. Loudon also held a non-executive post at ABN-Amro.

possible take-over candidates emerged, the urge was felt within the executive board to extend its knowledge of foreign capital markets. The Hoogovens chairman of the management board started consulting market analysts, and inviting investment bankers outside of its traditional national financial network. By placing the Hoogovens share under the protection of two trusts and the Dutch State, the capital rights were separated from the voting rights. The trusts acted as the corporate entity and received the voting rights. The capital rights were nonetheless entrusted to the original certified shareowners. An important motive for this set-up was to protect Hoogovens against hostile take-over bids, or at least to complicate this process.[34] The Hoogovens Trust Offices[35] held 69% and the Dutch government 10,1% of the total shares.[36] The second trust held all preferential shares of the four national banks, which accounted to 20,9% of the total shares.[37] These kinds of protective barriers were unknown in Great Britain. British Steel shares were spread out over a large group of international investors.[38]

On 9 April 1998 Hoogovens' chairman of the management board Maarten van Veen was succeeded by Fokko van Duyne. At the moment Van Duyne took over, he still felt confident the firm was strong enough to continue to maintain its strategy of independency. In the second half of 1998 both British Steel and Hoogovens's shares suddenly started to decline.[39] Most dramatic was the fall at Hoogovens; in mid-1988 its share-value was almost halved.[40] The McKinsey consultants subsequently warned the management for the widening gap between the real company value and the stock market price of Hoogovens. Simultaneously, a rumour spread through the boards that French aluminium producer *Pechiney* and British Steel were combing efforts in taking over the company. The interest of Pechiney in Hoogovens aluminium division must be reviewed in the context of a worldwide merger and acquisition wave, which had just emerged in the aluminium industry.[41] Now, Hoogovens not only had to defend its steel, but also its aluminium business from being taken over. The board believed that ultimately its protection barriers would not be strong enough to keep foreign intruders out. If serious bids were placed, its financial backbone would eventually snap, and Hoogovens' name and ideology would disappear. Within the boards opinions were voiced that the determination to remain autonomous might in the long run leave them empty handed. All its French, German and Belgian competitors were already consolidated, and previous attempts with Scandinavian and Austrian candidates had been unsuccessful. If the Hoogovens management decided to move away from its former independency strategy, it had to do so quickly, because there were only a few possible partners left.

2
The Merger-process (1999)

2.1 A 'Merger between Equals'

Simultaneous with the change of power at Hoogovens, a change in the British Steel board took place. In January 1999 John Bryant took over the CEO position from Moffat, who himself became the new chairman. The pressure to act on both van Duyne and Bryant became insistent, which finally brought the two parties together. Van Duyne and Bryant got along very well

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[34] Also, it would enable the company to introduce a profit-sharing scheme, without the chance of being forced to give them voting powers.
[35] Stichting Administratiekantoor Hoogovens
[36] AR/KHG 1998, *The Hoogovens Share*, 79.
[37] Ibidem. ABN-Amro, Aegon, ING & Rabobank each held approximately 5% of the shares.
[38] AR/BS 1998-1999, *Directors' Report*, 10. The three largest shareholders jointly held 29,94% of the company.
[39] Ibidem, *Consolidated Profit and loss Account*, 28. Between the midst of 1998 and 1999 British Steel's each ordinary share made a loss of 4,09 pence, against a profit of 11,44 pence the year before.
[40] AR/KHG 1998, *The Hoogovens Share*, 79. In June its value was still 40 guilders, but in the latter part of the summer it had fallen to 20,65 guilders.
[41] The American company Alcoa, the largest aluminium manufacturer in the world, placed a bid on Reynolds, and the Pechiney was negotiating a merger with the Canadian Alcan, and the Swiss *Algroup*.

personally, and both were determined to merge the two companies. The negotiations – labelled 'Operation Concerto' - started in February 1999, and on 7 July both firms officially announced their plans. Ten days later, a joint statement was issued in which Hoogovens, the works councils and the unions declared its approval of the merger. On 6 October 1999 the merger was effective, and a long-lived desire of British Steel became a reality. During the press announcement, the amalgamation was presented as a 'merger between equals'. By doing so, the new management tried to avoid negative sentiments as if the merger was just a take-over in disguise. By engaging in a merger, both companies chose to abandon its name, and were forced to drop its titles 'British' and 'Royal'. Enterprise IG was contracted to find a suitable new name. Corus Group PLC was chosen as the new name, and the management decided that within the next eighteen months the new name and logo had to appear on all Group buildings, trucks and factories.[42] Its shares were listed on the London, New York and Amsterdam stock exchanges, and were well received. In its first two and a half months the Corus share was rising quickly (See Graph 2).[43]

Apparently nothing stood in the way of a fruitful collaboration. British Steel seemed to have a healthy and strong balance sheet and a dominated position in the important British market. By merging, Hoogovens could improve its service to its large British clients. It was estimated that the merger would lead to 300 million euro in savings in the coming three years. The new company was expected to become the third largest steel manufacturer in the world. After their disappointing merger attempt with the German company Hoesch, the failed take-over of Gustav Boël and internal conflicts in Belgium[44], Hoogovens was convinced its corporate culture would match perfectly with the British. The smooth collaboration of both nationalities in the Royal Dutch/Shell and Unilever clearly demonstrated this, so must have been the belief of the chairman of the Dutch supervisory board Hennie de Ruiter, who himself had been a executive board member of the Shell Group.[45]

The first important condition for the Dutch was that the British had to respect its belief in a multiple-metal strategy. Through the merger-wave in the aluminium industry Hoogovens had become a small player in that sector, and under the protection of a large company, it could harbour its assets safely. By combining all steel, aluminium and stainless steel activities, both companies were now able to offer a wider range of products. By further diversification Hoogovens would be less vulnerable to market price fluctuations. Through Hoogovens, British Steel got a strong foothold on the continent, from where it could expand its markets. Secondly, the British activities needed to reform. With the large financial reserves British Steel originally received from the government, Hoogovens believed it could help British Steel to modernise by implementing the advanced technological know-how, its innovative marketing concept, and by sharing their experience in improving efficiency. The goal was not only to complement each other, but also to develop and manufacture new products together.[46] Although Hoogovens had lost its name through the merger, it was convinced that by implementing its principles it could maintain its ideology.

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[42] Financial Times (Ldn ed.) (FT), *British Steel joins game of the name* (1-10-1999) 1.
[43] Ibidem, *Corus of disapproval* (7-10-1999), *Corus of approval for steel* (16-12-1999) 54, *Stock markets London Stock Exchange* (22-12-1999) 44. Between 7 October and 21 December the Corus share on the FTSE rose with approximately 51 pence. After this peak it declined.
[44] Hoogovens had been faced with various coordination problems at its aluminium plant in *Sidal*.
[45] Hendrikus de Ruiter was chairman of the Hoogovens Group since 1997. Previously he held the position of managing director of the *N.V. Koninklijke Nederlandsche Petroleum Maatschappij* and was also Group director of the Royal Dutch Shell Group of Companies (1983-1994).
[46] British Steel PLC & Hoogovens NV, *A new force in the metals industry; background to the proposed merger* (7-6-1999) 3. For example, Corus had high expectations of the combinations between aluminium and synthetic fibres.

2.2 The Merger Framework

The Boston Consulting Group originally had concluded that according to their calculations, the new company should be 75% British. Hoogovens argued that this split in share capital did not do justice to its excellent assets. It believed the consultants should find fairer ways to measure the value of its fine market positioning and advanced technology. From earlier merger experience it had learned that, in order to prevent merger problems, its had to strive for as even a merger as possible. Without this, Hoogovens believed it would face a hard time convincing its stakeholders. In an attempt to get the support of the British shareholders, British Steel decided to issue a large additional dividend.[47] At the end of the negotiation phase, Hoogovens became convinced that it acquired a fair percentage of the total shares. Despite its smaller size, the Dutch were awarded 38% of the shares. In an effort at displaying the image of an equal merger as much as possible, the official statement, however, revealed that the British held 'about 60%' of the shares.[48] The distribution of shares thereby closely resembled that of the Royal Dutch/Shell merger, although in that alliance, the Dutch possessed 60% of the shares.

Although the Dutch agreed to conform the new company to the British standard (PLC) with a single headquarter based in London; both the British and the Dutch tried to implement the concept of a 'merger between equals' in its board-structure. It launched the idea to give its chief executives, Bryant and Van Duyne, a shared responsibility. The first two years Van Duyne would act as chairman of the executive committee, after which Bryant would take over. After the four years of transition, Van Duyne would step down. For both sides this solution had many advantages. Neither of the two leading figures would have to make room, and therefore neither lost face. Having only one board and one headquarter meant that managers from both the Dutch and British side had to step down. After a careful selection process, it was decided that besides Van Duyne, Hoogovens second man, Aad van der Velden, received executive privileges in the new board.[49] In London this transformation did not go as smoothly as in IJmuiden. When the executives of British Steel, John McDowell and Harold Hormer, were asked to waive their executive rights, they decided to resign. Joint chief executive officer Bryant, Tony Pedder, and John Rennocks became the three British executive representatives in the board. The Dutch non-executives appointed for the Corus board were the ex-Hoogovens *commissarissen*: Hazelhoff, De Ruiter, and Aarnout Loudon. On the British side, Nicholas Goodison, Bryan Sanderson and Richard Turner appeared on the list of non-executives. Both parties appointed its most experienced and influential associates. For tax purposes the former Hoogovens organisation was given a separate status within the Group. The IJmuiden organisation was transformed into a limited liability company. *Corus Nederland B.V.* again had a traditional dual-board structure, and its works councils and unions continued to have a large say. The executive committee held the control over the Dutch affairs, and Corus Group owned all shares. By converting to the British corporate practice the Dutch protectionist barriers had to be dismantled and state-ownership dissolved. The Dutch government agreed and sold its 10.1% share in Hoogovens.[50] Subsequently, it lost its right to nominate two members of the supervisory board.

2.3 Merger Euphoria

It appeared that Bryant and Van Duyne had achieved a fair division between Dutch and British candidates within the board of directors. Both parties nominated three non-executives, and the British delivered three executives and the Dutch two. However, a carefully investigation of the management structure makes it apparent that the two central decision-making centres had unequal national representation. Unfamiliarity with the British board system led the Dutch to

[47] The dividend was worth approximately 1 billion pounds.
[48] Ibidem, 6.
[49] Both F.C.W. Briët and H.A.M. Vrins were asked to remain in IJmuiden.
[50] FT, *Corus of disapproval* (7-10-1999).

underestimate the power of the chairman. On paper, chairman Moffat had only non-executive rights, but in reality his post implied having certain executive rights. The second inequality was to be found in the executive committee responsible for the daily management of the joint company. This committee had in total seven members, of which five held executive rights. Besides these executive board members, two non-executive senior directors participated.[51] For unknown reasons these two non-executives post were both given to British members. Apparently, during the euphoria of the merger-talks, Van Duyne and his colleagues somehow failed to acknowledge the importance of a balanced representation in this committee. The result was that five British and only two Dutchmen conducted all daily affairs. Finally, coincidentally, executive Rennocks fell seriously ill immediately after the signing of the merger. His place in the board and committee was temporarily filled by David Lloyd, who instead of reporting to the chairman of the executive committee Van Duyne, chose to hold on to his personal line of communication with Moffat. This undermined the authority of Van Duyne and of the joint executive office in general.

One of the factors overlooked while constructing the merger-framework was the poor productivity of the British steelworker. The costs per employee rose, despite all past efforts of reducing staff.[52] In the same period at IJmuiden efficiency increased while staff numbers stabilised.[53] Moreover, the calculations on which Hoogovens based its opinion were derived from the years British Steel was profitable, which clouded the poor efficiency performance of British Steel.[54] Next, it appeared that its strong financial reserves were almost entirely drained because of the extra dividend payment to the British shareholders. This seriously hampered the company's ability to issue a large-scale restructuring of its business. Thirdly, both Hoogovens and British Steel were under the assumption that the pound sterling was highly over-valued, and would soon drop. In retrospect it can be stated that this was only based on wishful thinking. During the years to follow the exchange rate of the pound sterling against the euro remained high. Finally the Dutch management failed to see in advance what the possible effect of the head office amalgamation would have on the IJmuiden organisation. By extracting many team players from the Hoogovens organisation, the good team performance of the IJmuiden organisation became endangered. Although board continuity was taken care of in London, at IJmuiden the organisation was left squeezed. As a consequence Hoogovens works councils and unions immediately noticed a change. They sensed that a thorough protection of company and employee's interest would no longer be possible as a result of the weakened local management.

3
Post-merger (2000-2003)

3.1 The Implementation

The combination of head offices was the first step in capitalizing on the merger synergies by securing the 300 million euro of calculated savings. Head office staff in total was reduced from 650 to 220 people. Little was changed for the British office staff. Despite the fact that Corus moved into a new head office building at Oxford Circus, both the location, the official language, and the corporate structure stayed the same. As a consequence knowledge of the Dutch business

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[51] These two senior directors were A.J. Johnston and C. Hollick, respectively responsible for human resources and engineering steel.

[52] Corus Report & Accounts (Corus R&A) 2000, *Other key data*, 79 and AR/BS 1998/99, *Notes to the accounts*, 36. In 1996 each worker accounted for a turnover worth 141,000 pounds, but in 1999 this decline to 135,000 pound.

[53] AR/KHG 1998, *Principle data*, 3. Productivity measured by dividing the total turnover by the total average number of staff. For 1997 staff amounted 22,800 and turnover 9,996 million guilders 1997. In 1998 the average staff number was 22.790, and turnover 10,811 million guiders.

[54] Unfortunately Hoogovens did not publish half-year results such as British Steel, but chose to publicise the results of the nine months preceding the merger. This makes it difficult to compare the figures and productivity rate. In 1998 Hoogovens booked a profit of 196 million euro. In the first nine months of 1999 it made a profit of 89 million euro (198 million guilders). Each year British Steel closed its books in April. In the remaining six months this firm reported a loss of 163 million pound (593 million euro). In the same period the year before, still made a profit of 79 million pound. The net turnover declined with 20% to 2,79 billion pound.

culture an corporate structure remained limited. The majority of the Dutch management and staff had little experience with the British corporate culture, and received basically no instruction training. None of the Dutch board members or senior directors chose to settle in London, which made the assimilation to British customs even more difficult.[55] In the boardroom the Dutch had difficulties adapting to the manner in which these meetings were conducted. While the Dutch were used to have an open dialogue before decisions were jointly taken, the British meetings were more competitive. British board meetings required careful preparations, and followed a clear agenda. Regardless of the English language lessons the expatriate staff received, the Dutch experienced language problems, and had problems complying with the British custom of cautiously expressing themselves. On the work floor interaction remained minimal, but both parties knew that cost-saving schemes were to be expected. In the Dutch and British press various market analysts discussed the best way forward for Corus, while the new management was still focused on various reorganisation scenarios. Declining steels prices and the strong pound worried them. Both British and Dutch union representatives speculated how many jobs would be lost, and which site would be hit hardest.[56]

3.2 From a Two-metal to Multiple-Metal Strategy

Corus' decision to start a joint venture with the Chinese aluminium producer *TNMG* and the purchase of the Canadian Reycan showed that the British initially were sincerely pursuing a multiple-metal strategy.[57] Corus became the fourth largest player on the aluminium market.[58] Also its stainless steel activities expanded. Through its share in an alliance called AvestaPolarit with a Finnish partner it became the second largest producer of stainless steel.[59] Its goal, however, was to become the dominant worldwide player in both markets. As a first attempt to modernise the British business, Corus began reorganizing its affairs according to Dutch principles.[60] One of the fields it focussed on, was R&D. Research units scattered over the Britain had to be integrated into a single location in Sheffield. This new centre would work closely together with IJmuiden. Because IJmuiden was well advanced in this field, it provided the know-how and guidelines along which this centre should be organised. The R&D reorganisation would result in a total job deduction of 1430 employees, of which only 90 at IJmuiden.[61] The organisation of an innovation platform for the Group required a high degree of collaboration between the Dutch and the British, and was one of the few projects launched to establish a clear new entity. Corus did not find the means to finance other large-scale projects for setting similar common goals, such as a new corporate culture. Instead, it tried to cut costs by moving steel production activities to outside Great Britain. For this purpose, it started renegotiating an alliance with Polish steel manufacturer Huta Katowice.[62] In addition, it decided to cut down production by a fifth in order to end the flood of cheap steel on the world market.

3.3 Boardroom Conflict

The discussion on how the British activities needed to be modernised, lead to the first conflict in the boardroom. The executive director responsible for the reorganisation was the Dutchman Aad van der Velden. The presentation of the long-awaited plans was not appreciated by his fellow executives. Both sides agreed that either Teesside or Llanwern would have to close, but views differed on how this should be done. Van der Velden believed that efficiency in the long run

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[55] Instead they decided to fly back to the Netherlands each weekend.
[56] NRC, *Hoogovens ziet partner verlies lijden; pond nekt British Steel* (1-2-2000) 14. The unions expected that approximately 4% of the jobs would be lost. In total this would mean 65,000 people.
[57] Press Report Corus (3-1-2000). Corus owned 61% of the shares.
[58] NRC, *Hoogovens ziet partner verlies lijden; pond nekt British Steel* (1-2-2000) 14.
[59] Press Report Corus (27-9-2000). Corus owned 23% of the shares.
[60] It started with a reorganisation of the Long Products units in the UK.
[61] Press Report Corus (16-6-2000).
[62] Ibidem, (20-4-2000).

would increase if one of the two sites could be closed down as soon as possible. The British members preferred a more soft landing approach. With a minor investment in one of the old blast furnaces, the company in the short term could extract a small profit, while at the same time implementing a redundancy scheme for its workers. When the decision was brought to a vote in the committee meeting, Van der Velden was forced to retreat. Van Duyne might have been able to support him, but at the time of the voting was on a holiday. The uneven representation in the committee had lead to its first victim, as Van der Velden, frustrated with the outcome, decided to resign after his defeat. In an official statement Corus however declared that he had reached retirement age, and therefore would leave office from the beginning of September.[63] With Van der Velden's departure the relationship between the British and the Dutch began to deteriorate. The Dutch felt that Van der Velden was sent out to fight an uneven battle. As soon as local staff, trade unions and local politics heard of his plans for plant closures, pressure groups had emerged. The resulting pressure may have lead to the persistence of the British to vote against it.[64] Appointing a Dutchman to reorganise the British interests at this stage of the merger therefore proved to be suicidal. Although the British, on the other hand, were willing to reorganise, it was not certain all Dutch modernization proposals were applicable in Britain. Secondly, they were not satisfied with how this affair had been handled by the two chief executives Van Duyne and Bryant. The British found it difficult to accept that there was no single leader who could be held responsible for his actions. Secondly, When the Englishman Tony Pedder succeeded Van der Velden, the board imbalance grew further.[65]

3.3 Disturbed Labour Relations

What worried the Dutch works council besides British board domination was the fact that the presentation of a new long-term strategy was not forthcoming. Less than a year after the merger Dutch workers began to express their disappointment in the merger. The fact that Dutch plants were still profitable and the British activities were experiencing heavy losses, made them realise that even in hard times Hoogovens would have been strong enough to survive independently. The Swedish company SSAB who deliberately decided not get involved in a merger was doing very well. This "proved" that the apparent need for the merger between Hoogovens and British Steel had been based on the wrong presumptions. The old Hoogovens employees still strongly identified themselves with the old firm, being very proud of its eighty years history. In IJmuiden steelworkers were very concerned that the chosen organisational set-up would drag them into the misery of their British partner.[66] Within the merger framework it was settled that the executive committee members would no longer held the MT's heading the national BU's responsible separately. As Corus activities expanded, BU's no longer were nationally bound, and became multinational entities with associated manufacturing plants all over the world. As a result the old-Hoogovens custom of having performance driven remuneration systems could no longer be applied. A uniform wage-system was developed, and additionally for the first time Dutch top-managers were offered reward schemes. The 24 BU's were organised on a multinational basis, which in practice meant that a unit in IJmuiden and Llanwern could be held jointly responsible for the poor results, even though IJmuiden was still profitable. After nine months, Corus had already announced it would cut 5000 jobs (See Figure 1). The Dutch employees were given the guarantee that nobody would be fired. The Dutch employees strongly felt that the company was run behind their back far away in London. With the adoption of the British management structure, the involvement of Dutch employees on key company issues decreased strongly. Formally they could only participate in the decision-making affecting Corus Nederland BV. For involvement in

[63] Press Report Corus (31-7-2000).
[64] See also 3.7.
[65] The reason why Pedder was chosen and not Briët or Vrins is unknown. Chairman of the Nomination Committee was Moffat, who had a preference for Pedder. The other members were De Ruiter and Loudon.
[66] NRC, *Hoogovens ziet partner verlies lijden; pond nekt British Steel* (1-2-2000) 14.

Group management issues it could try to approach the Corus European Work Council, but given the British senior management aversion against employee participation, little was to be expected. For the British unions itself little changed. A job guarantee similar to the one given to the Dutch workers was not given.

Figure 1 Staff numbers 1998-2004

British Steel	**1998 ***	**1999 ***	**Total number laid off**
Great Britain		35.200	
Netherlands			
Various		8.800	
Total	50.000	44.000	6.000

Koninklijke Hoogovens	**1998**	**1999**	**Total number laid off**
Great Britain			
Netherlands		13.263	
Various		8.842	
Total	22.790	22.105	685

Corus	**1999 ****	**2000**	**2001**	**2002**	**2003**	**2004 *****	**Total laid off**
Great-Britain	34.200	32.900	26.700	25.400	24.600	24.300	**9.900**
Netherlands	13.300	12.900	12.200	11.800	11.400	11.300	**2.000**
Various	18.805	19.100	13.800	13.700	13.400	12.900	**5.905**
Total	66.305	64.900	52.700	50.900	49.400	48.500	**17.805**

Sources: Annual Reports Hoogovens & British Steel (1998-1999), British Steel & Hoogovens, *A new force in the metals industry; background to the proposed merger* (7-6-1999) 4-5, Corus Report & Account (2000-2003), and Corus Company Profile (November 2004) 7.
* Average number of employees. Rest of numbers measured at end of each year.
** 7-10-1999
*** 3-7-2004

3.4 Recession

In the summer of 2000 Dutch newspaper began drawing comparisons between Corus and the aborted merger between Hoogovens and Hoesch.[67] Corus did not respond. Its leading officials seldom gave interviews, and the company informed the outside world through press communiqués and its regular annual and biannual reports. The firm's image presented in these reports, however, could not re-establish stakeholders' confidence, and consequently the Corus share steadily started to decline (See Graph 2). In the first nine months it booked a loss of 249 million pounds.[68] The unfavourable exchange rate of the pound, the worldwide over-capacity, and the Asia crisis were still the main causes of the poor performance. Moreover, the company had been experiencing significant operational problems. The 'Direct Steel Plant' in IJmuiden was officially opened in April 2000. This highly advanced steel processing unit, which had cost the company 220 million pounds, was still not functioning properly.[69] Also in Great Britain Corus had operational setbacks. Attempting to upgrade the poor performing British assets, in October 2000 a recovery program was launched.[70] Corus simultaneously increased its efforts to improve the geographical spread of its production units. By producing locally for regional markets, it could lower costs and improve its access to foreign markets. Talks with Huta Katowice were in full swing. Nevertheless, in November Corus decided to end its Polish adventure. A further serious setback was US Government's decision to raise trade barriers in order to prevent its markets being flooded with cheap steel and to protect its own national steel industry.

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[67] De Volkskrant, *Hoogovens in herhaling* (22-7-2000) 4, FD, *Staalconcern Corus kampt met een klassiek fusieprobleem* (2-8-2000), and NRC, *Valse start; een ongelukkig staalhuwelijk* (24-10-2000) 16.
[68] Press Report Corus (5-9-2000). The loss was calculated from the start of the merger until the 1 July 2000.
[69] The Direct Sheet Plant integrated the casting- and rolling process of steel.
[70] Press Report Corus (11-10-2000). The BU's responsible was the Strip Products were reorganised, which meant that in the UK production sites Port Talbot, Lackenby and Shotton were downsized. 210 workers in total lost their job.

3.5 End of the Joint-CEO Experiment

In the eyes of the stakeholders the company's line of action to fight the recession was not at all convincing. On 5 December 2000 the two joint-chief executives Van Duyne and Bryant decided to resign, which ended the experiment of having shared company leadership. Both men were held responsible for the poor results and the lack of leadership within the firm. The old British Steel CEO and chairman of the board of Corus, Brian Moffat would temporarily take over the role of chief executive officer. De Ruiter was appointed chairman of the board. In order not to escalate matters further Moffat reinstated the original set-up of the board by electing Franswillem Briët and Henk Vrins as executive directors. Secondly, he initiated adjustments of the original merger framework. No longer were the multinational MT's held solely responsible for the results of the 24 BU's. In future the national or regional MT's would coordinate all BU activities. By implementing this decentralising measure the profit-making IJmuiden unit would no longer be held accountable by the London headquarter for the poor performance of its British colleagues.[71] For the higher echelons this meant that they from now on would profit from achieving good results by their units. By doing so, Corus hoped it could re-establish motivation within its profitable units. And finally, Moffat also presented the long awaited long-term business plan. It left intact the multiple-metal strategy, and aimed to reduce cost by further reorganisations. The new reorganisation program, however, was much more drastic than any of the preceding plans made so far. A fifth of the British workforce was about to lose their jobs, and the steel production capacity had to be reduced by 3 million tons. Production processes needed to be streamlined, and in particular facilities for the production of bulk steel became vulnerable to closure. Profitable activities such as strip products, stainless steel, aluminium, tinplate and construction steel were not under review. Apparently IJmuiden was again spared.

3.6 Political, Personal & Union Interference

In South Wales the steel industry had been the biggest employers for centuries. The regions hit by the reorganisation had long traditions in the manufacturing of steel, and the trade unions were not going to give up easily. Since the 1970s these regions had received government support, and just a decade after the national steel industry had been privatised, the British steel industry was about to lose its splendour. Local and national politicians began to fear for serious disruptive effects, both socially, economically, and politically, if the planned extensive downscaling of the British steel industry would go through. The plant in Llanwern, for example, was originally regarded as a Labour Party employment project. The British Government having invested millions of pounds, could now see its efforts being destroyed by the British-Dutch alliance.[72] It was rumoured that the British Government even threatened to file an environmental claim as large as 400 million pounds against the firm, if the company would decide to close Llanwern.[73] Also, the Corus decision to concentrate all its research in Sheffield led to a discussion in the House of Commons. An official investigation was launched to determine what the effects were on British R&D development. The British Government as a result expressed its concern that in the long run this cost-reduction exercise would prove to be counter-productive to the firm.[74] Consequently, the only project of significance in which both the British and Dutch had agreed to extensively cooperate with each other was seriously halted. The long lead-time of the R&D restructuring and the poor performance of Corus accordingly had made it financially impossible to accomplish the original goals set out for the merger.[75] Many of the British board members themselves had a strong connection with the old steel regions. Not only did both Moffat and Pedder live in South Wales

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[71] Trouw, *Hoogovens op afstand; IJmuidense vestiging bloedt niet voor verlies Corus in Engeland* (12-10-2000) 7.

[72] NRC, *valse start; een ongelukkig staalhuwelijk* (24-10-2000) 16.

[73] De Volkskrant, *Corus onder druk door dreiging reorganisatie* (23-1-2001).

[74] Press Report Nr. 6 British House of Commons, Science and Technology Committee, *Corus plc – Research & Development* (25-1-2001).

[75] The Dutchman in charge of Corus R&D, Hans de Wit, felt frustrated and finally decided to resign.

area, they both had been part of the tradition, as they worked their whole live in the steel industry. Together with the local and national politicians they had set up the job creation and funding schemes. These local and national strong ties made it difficult for them to implement harmful local and national decisions, which would benefit the Group as a multinational company.[76] Similar ties between politicians and company executives in Holland were quite uncommon. Hoogovens, just as British Steel, was the main regional employer, but had not been under the influence of national or local politicians as much as the British company.

After the Corus announcement that it was intending to put into practice its comprehensive redevelopment plan, the British trade unions decided to join forces. During a meeting at the beginning of February 2001, the Trade Union Coordination Committee presented its own reform proposals. Corus did not retaliate, but offered, together with the Government, to develop its own mobility scheme taking responsibility for the retraining of the redundant employees.[77] Such redundancy schemes were normal practice for Dutch firms so such large-scale union actions were quite unusual. Contrary to Dutch situation, British unions represented the majority of the British steel workers, who were all unified in small and specialised units, such as the largest union the Iron & Steel Trade Confederation (ISTC), the Amalgamated Engineering & Electrical Union (AEEU), Transport & General Workers Union (TGWU), General Municipal Boilermakers (GMB), Steel Industry Managers Association (SIMA) and the Manufacturing, Science & Finance Union (MSF). In the Netherlands there were only two unions: the *Federatie Nederlandse Vakbeweging* (FNV) and the *Christelijk Nationaal Vakbverbond* (CNV) who represented only a small percentage of the Dutch steel and aluminium workers, and besides the activities in the steel industry focused also on many other sectors of industry.[78]

3.7 'World Class IJmuiden'

When in March 2001 the company's result over the year 2000 were presented, it appeared that the BU's in charge of all profitable steel, aluminium, and stainless steel activities were not performing as well as expected. According to Tony Pedder, Ijmuiden' had almost stopped making money, and therefore it was necessary to undertake a comprehensive study of the Dutch BU's. London for the first time did not guarantee job security.[79] Under the name 'World Class IJmuiden' the survey was started. The objective was to give IJmuiden back its world-class status.[80] As this investigation was centred on Corus Nederland BV, London head office had to involve the local works councils and unions. On the work floor people felt irritated at being blamed for the bad results. In their view, Corus was still afloat thanks too the profits made in the Netherlands. FNV union-representative Jos van Duynhoven was also not convinced that IJmuiden could be held responsible. He believed that the poor results of IJmuiden could only be explained by Corus' policy of cost reduction and investment delay, which led to necessary maintenance being overdue.[81] The intended plan to reduce employment by 1500 broke the promise made to the Dutch unions and councils that there would be no jobs lost at IJmuiden. Instead of being rewarded for their good performance in the Group the previous two years, the Dutch felt ill-treated. The stiff attitude of the London board and the negative reporting in Dutch newspapers had a blinding effect on the Dutch workers, who at that point had clearly lost the ability for self-criticism. In fact IJmuiden had not been able to solve its production problems, which in turn caused distribution delays and reduced profitability.[82]

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[76] See also section 1.4.2.
[77] Press Report Corus (27-3-2001).
[78] Responsible for the Dutch steel- and aluminium workers was the CNV *Bedrijvenbond*.
[79] Het Financieel Dagblad (FD), *Corus voert druk op bij Hoogovens* (16-3-2001) 1.
[80] Press Report Corus (21-9-2001).
[81] NRC, *Hoogovens nieuw zorgenkind Corus* (16-3-2001) 14.
[82] Amongst others, IJmuiden had problems getting the Direct Sheet Plant running.

3.8 British Board Dominance

Acting chief executive Moffat however very much approved Pedder's actions. He believed that he had found himself a good successor, and announced at the beginning of August 2001 that he would transfer his seat to Pedder on 1 September. Moffat would return to his former position as chairman of Corus.[83] Pedder had been working in the steel industry now for 29 years, and was declared a 'steel veteran' by the British Financial Times.[84] Through his role as the chairman of the Nomination Committee Moffat managed to push Pedder forward as the ideal man to implement harsh decisions in order to make the company profitable. The centralistic approach of the board, however, resulted in the departure of two leading Dutch figures from the Corus organisation. Within one month, both the executive Briët en senior director Maarten Frese stepped down. Frese, who was in charge of corporate strategy of the company, was irritated that, although accountable for the BU's performance, he had no say at all in the central decision-making.[85] With the resignation 'for personal reasons' of Briët, again the distribution of executive seat was brought back to 4:1.[86] Of the seven executive committee members, only Henk Vrins was Dutch, and the rest British.[87] In an attempt to conform the Dutch organisation more to the British, London ordered Corus Nederland BV to reduce the number of board members from 11 to 8. By downsizing the boards, the Group hoped its could improve the Dutch decision-making and sped-up costs-savings.

The shareholders seemed pleased with the company's announcement to make further adjustments, which caused the share price on the London stock exchange to gradually increase (Graph 2).[88] The first phase of the World Class IJmuiden survey was finished, and for the Dutch it ended better than was expected. Of the total number of 1050 redundancies nobody would be forced to resign, and the goals set out could still be achieved. Furthermore, the Dutch unions successfully bargained an agreeable collective agreement with Corus.[89] At the presentation of the biannual figures it appeared that IJmuiden's performance had improved. A Dutch newspaper stated that IJmuiden had regained its pride, but also mentioned that an uncertain future lay still ahead.[90] US intention to raise its trade barriers for steel products again particularly worried the company.[91] Corus contested the protective shielding of the US domestic steel market at the highest level, which in the end resulted in a verdict excluding Corus from the regulation.[92] The main Corus objective was to invest particularly in steel products for the car industry.[93] Its attempts to improve its access to international markets, however, was still rather unsuccessful.

3.9 The End of the Multiple-Metal Strategy

At the beginning of March 2002 it became clear that the multiple-metal strategy was no longer sacred for Corus. After a short recovery of the share price, its value had been steadily declining for the last year. The continuing losses forced the board to present to its stakeholders at its annual

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[83] Stuart Pettifor, who succeeded Pedder as the executive in charge of strip products, filled the vacancy.
[84] FT, *Man of steel welcomes toughest challenge Peter Marsh finds Tony Pedder more than ready to take the hard decisions that lie ahead* (11-9-2001) 27.
[85] NRC, *Vertrek Briët tekenend voor chaos bij Corus* (30-8-2001).
[86] Press Report Corus (29-8-2001).
[87] As an executive Vrins was responsible for the aluminium activities of Corus.
[88] FT, *Corus makes its way towards calmer water: as steelmaker prepares for a likely upturn, the betting is that it will push its focus further from the UK, says Peter Marsh* (19-4-2002) 26.
[89] On 13 February Corus, FNV, and CNV jointly announced that they reached an agreement, better known as the *Collectieve Arbeidsovereenkomst* (CAO). Dutch employees' wages would increase with 7% over the next 26 months.
[90] De Volkskrant, *Corus Staal IJmuiden herwint zijn trots* (14-2-2002) economy section, 3.
[91] Press Report Corus (6-3-2002).
[92] Ibidem, (26 & 27-3-2002).
[93] Ibidem, (29-10-2001) & (10-1-2002). In the Belgian plant in Duffel at the end of 2001 1,3 million euro is invested to improve production and service. In January 2002 Corus announces that, in collaboration with the Japanese firm *Sumitomo Metals*, it will expand its activities in the high-value steel products for the car- and engineering industries.

meeting ideas on how these deficits could be compensated. The company consequently proclaimed that it would start concentrating solely on its core business: the production of steel. In contrast to the British and Dutch unions and works councils, international steel analysts and the firm's shareholders responded well to the news (See Graph 2).[94] As a result Corus decided to put its aluminium and stainless steel activities up for sale. In June French company Pechiney applied to buy all European belongings, and in September its share in Canadian producer *Aluminerie Alouette* was sold to Alcan.[95] In July the company declared it had sold its 23,2% share in *Alvesta Polarit*.[96] The decision to end the multiple-metal strategy, was basically motivated by the fact that so far Corus failed to realise its goal in becoming the dominant player on these markets through the process of mergers and acquisitions.[97] Analysts and stakeholders were however less unanimous in their appreciation of the Corus plan to acquire a majority interest in the Brazilian steel producer *Companhia Siderurgia National* (CSN).[98] On the 17 July, two months after the first merger-rumours reached the market, Corus officially announced its plans.[99] Through this alliance Corus hoped it could benefit from CSN's ability to produce steel at the lowest possible cost in the world. In merging with a Brazilian partner, Corus followed the example of two of its main competitors, who had recently entered the Brazilian steel market through a merger.[100] Corus expected it could close both the CSN and Pechiney deal before the end of the year.

In November 2002 the execution of the new strategy came to an abrupt halt. First, Corus decided to discontinue the merger talks with CSN, primarily because its own limited financial reserves would not allow them. Furthermore, mainly because of the deplorable state of the Brazilian economy, and the doubts about CSN's controversial leader the plan to merge with CSN received a cool reception on the financial market.[101] The news of the suspended merger, and its own poor performance, forced the company to issue a profit warning for the next half-year.[102] The second event that undermined Corus' new mindset was caused by Corus Nederland BV unwillingness to cooperate with the sale of its aluminium activities to Pechiney. At the end of October 2002 the London management had signed a principal agreement with Pechiney, which obliged both parties to conclude the deal before the closing of the deadline.[103] If either of the parties was not able to make the proper arrangements before the closing date, it was liable to a large penalty. IJmuiden however, did not support of the opportunistic manner in which the London board tried to sell its aluminium assets. What the British management failed to realise was that in the original merger framework it was determined that IJmuiden enjoyed special privileges. Since it was agreed that the two Dutch boards and employee organisations were allowed to continue to operate, London could be confronted with a veto by each of these organs.[104] Unsatisfied with the outcome of the merger, supervisory board chairman Leo Berndsen, argued that, if the proposal was presented to them, his board would not agree with the sale, unless London could assure that the proceeds

[94] FT, *Corus makes its way towards calmer water* (19-4-2002) 26. Goldman Sachs declared, "The company has had a difficult time but seems to be doing the right things."
[95] Press Report Corus (16-8-2002). This earned Corus $165 million.
[96] It share was sold to ex-partner *Outokumpu* for 356 million pounds (562 million euro).
[97] FT, *Corus expects aluminium sale in month* (7-10-2002) 26. In 2001 it lost the bidding for the German aluminium company *VAW* to the *Norsk Hydro Company*.
[98] FD, *Fusie Corus krijgt kritisch onthaal op de markt* (18-7-2002).
[99] Press Report Corus (17-6-2002). Corus would acquire 62,4% of the shares for the sum of 1,5 million euros.
[100] The Economist, *Brazil, where the slabs come from* (13-7-2002) business section. Luxemburg's competitor *CSI Arcelor* and the South-Korean producer *Dongkuk*.
[101] De Volkskrant, *Corus blaast fusie met Brazilianen af; Economische stagnatie dwingt staalfabrikant in te binden; Corus verwacht meer verlies over tweede halfjaar* (14-11-2002) 21.
[102] Ibidem. This newspaper reported that Corus was underperforming compared to its main competitors.
[103] Ibidem. *Aldel buiten de transactie met Pechiney; Corus zoekt andere koper voor aluminiumverwerker in Delfzijl* (24-10-2002) 21. 861 million euro had supposed to be paid for the units Aluminium Rolled Products and Aluminium Extrusions. Aldel in Delfzijl and the activities in Voerde (Germany) were excluded from the sale.
[104] The supervisory board of Corus Nederland BV was entitled to do so, because the aluminium sale affected the Dutch activities, and this board had to protect the interest and continuity of the firm.

would be invested in IJmuiden again.[105] The Dutch employees subsequently ranged themselves on Berndsen's side, which resulted a strong Dutch power block.[106]

3.10 Boardroom Crisis

In February 2003 Corus admitted that it was facing problems with the closure of the aluminium deal. The company was nonetheless convinced that the principal agreement with Pechiney was not in danger.[107] In fact, this announcement was raising more questions from its stakeholders than it could answer. To reassure that the company was heading in the right direction, the Corus board invited McKinsey & Co to re-evaluate its long-term strategy. Its shares had dropped considerably since the previous summer, and with a new possible debacle in the making, its stockholders began speculating if Pedder indeed was the right man for the job.[108] On 10 March, after various talks with its Dutch subsidiary, Corus was forced by the ultimatum to present its plans to its Dutch stakeholders. Subsequently, the Dutch supervisory board and the works council decided to veto the deal. As a result, the Corus Group drew these two organisations to Dutch Court.[109] According to the parent company, the supervisory board of the Corus Nederland BV, and the works council had no right to oppose to the deal, and therefore requested the Dutch Court to suspend the supervisory board members, and force the works council to collaborate on closing the deal.[110] On the 13 March the Court judged that the supervisory board and the works council were not acting unjustly and therefore denied the request of the Corus Group. As a result London had to call off the sale and was ordered to pay Pechiney an enormous fine.[111] On 14 March, on the day Corus presented its annual figures, Pedder resigned as the CEO of Corus. The annual report again showed a further decline in results.[112] As a consequence the share-value of Corus shrunk by more than 60% within a week (See Graph 2).[113] Now, the boardroom crisis at the Corus Group became evident to its full size. A day before the Dutch Court announced its verdict, chairman Moffat, confident of a positive ruling in favour of the Group, stated that he would resign from office that year. After the verdict, Moffat announced he would remain in office till further notice.[114]

3.10 Board Shake-up

Three years into the Corus merger, board positions had been changing constantly. Of the original thirteen board members only three were left in 2003. Besides chairman Moffat, the two non-executive directors Maarten van Veen and Richard Turner had managed to stay aboard.[115] Now that the crisis was complete, both inside and outside the company the question was raised who was to blame for it all. Both the Dutch and British trade unions and investors were convinced that not all officials responsible had resigned.[116] In their view, it was Moffat who should be held accountable for obstructing all reorganisation and modernization attempts. In succession votes his say had been decisive, which allowed him to build his own personal network. Candidates were generally elected on the basis of seniority, nationality and experience. In particular at executive board members succession cases, one conditions was that the candidate should have a long

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[105] FD, *Platgewalst* (25-10-2002) en FT, *Dutch chairman attacks strategy beind Corus's aluminium sale* (26-10-2002) 15.
[106] FT, *Works council threat to Corus sale; steel deal creates discord* (3-12-2002) 22.
[107] Ibidem, *More jobs to go in Corus restructure* (19-2-2003) 22.
[108] Ibidem, *Last chance to forge steel group into shape: Peter Marsh looks at the difficulties facing Tony Pedder in trying to turn the company round* (20-2-2003) 21.
[109] The *Ondernemingskamer van het Gerechtshof Amsterdam.* is a Court, which is specialised in business matters. Court case LJN: AF5761, Ondernemingskamer Gerechtshof Amsterdam, 253/2003 OK.
[110] The Dutch executive board decided not to oppose to the deal. The trade unions appeared to have been represented by the works council.
[111] Court case LJN: AF5761, Ondernemingskamer Gerechtshof Amsterdam, 253/2003 OK.
[112] Press Report Corus (14-3-2003). A net loss was made of 458 million pound (673 million euro). In 2001 the loss was 419 million pound (615 million euro). Also the turnover decreased from 7,7 billion to 7,1 billion pounds (10,4 billion euro).
[113] FT, *Corus Sir Peter Davis to be chairman Lombard* (15-3-2003) 13.
[114] Ibidem, *Corus warns of further job losses: Steelmaker crippled by management battles sees shares plunge 64%* (12-3-2003) 1.
[115] Not included Richard J. Reeves, who had been the company secretary since the beginning.
[116] FT, *Unions and investors plan Corus assault* (15-4-2003) 24.

history in the steel industry. A similar policy at Hoogovens was discontinued during the 1990s when the firm began attracting candidates from outside with backgrounds in various sectors of industry. A remarkable difference in experience between the Dutch and British management was that the Dutch held numerous posts at large international firms, while the British associated themselves primarily with British enterprises. Moffat's management concepts were still strongly shaped around the national steel industry and its position in the British industry. A Dutch union argued it was time for a change. Corus future management should be internationalised, and no longer rely on the input of veterans like Pedder.[117] In the British and Dutch newspapers, stakeholders expressed their feelings of unsatisfaction about the development of the merger so far. Especially in the Dutch newspapers it was suggested that the time had come to break-up the merger. The Dutch supervisory board and the works council and unions were definitely in favour of a split.[118] To complicate things further, British Parliament got involved by issuing a new survey on Corus' affairs.[119]

3.11 'Restoring Success'

Compared to its consolidated European competitors, Corus was under-performing, and had not been capable of resolving its merger problems. According to the Financial Times (FT) this could largely be explained by the fact that the other more successful steel-alliances were all formed between traditional continental European firms. Instead of excluding its social partners, these companies had allowed all of its stakeholders a say in matters affecting the future of the company. British and Dutch stakeholders were convinced this should be the new way forward.[120] In April 2003 the company was pleased to present its new CEO: Frenchman Philippe Varin. After the Nomination Committee had selected its preferred candidate, non-executive director James Leng was send out to open the negotiations. Varin was Pechiney's executive vice-president, and had lead the talks on the purchase of Corus' aluminium activities.[121] In choosing Varin, Corus broke with three of its nomination traditions, as neither seniority, nationality, nor a background in the steel industry was considered to be essential anymore. Varin was only 50 years old, and had worked in the aluminium business his whole career. Corus hoped his 'French touch' could help them bring about a significant change in corporate culture. To prevent the merger from falling apart, Varin had to win over the support of the stubborn Dutch, by ending the 'UK-centric manner' by which the company previously had been run.[122] To achieve this, Varin first reformed the executive committee by implementing a more balanced distribution of positions. Secondly, he reshaped its top-management by forcing some people to retire early, or by removing their responsibilities. Next, he began to internationalise the management by replacing typical Dutch or British associates by more European oriented candidates. Corus future Dutch or British non-executives needed to have a broader and more international outlook. Moreover, the applied British structure, which was still partly functionally based, was replaced with a structure organised by product groups or divisions. In fact, the new organisation was closer back to the original Dutch roots.

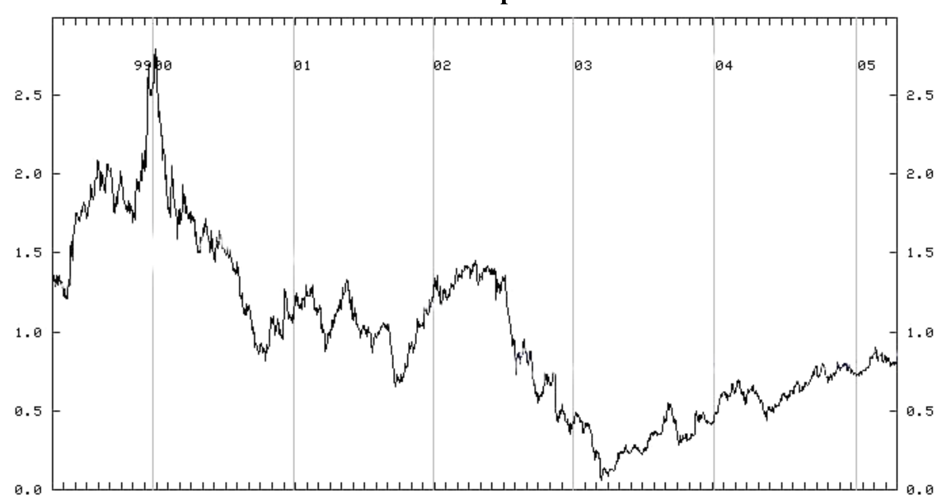
On instigation of Varin, James Leng was elected as Moffat's successor. Although in theory the role of the chairman of the Group did not change, Moffat's departure in reality meant that the decision-making authority shifted downwards. Moffat's strong personal ties within the

[117] FD, *Bonden eisen vertrek topman Corus* (10-4-2003) 17.
[118] FT, *Where everything went wrong* (9-4-2003) 2, NRC, *'Corus in IJmuiden losweken uit fusie'* (18-3-2003) economy section 4.
[119] Ibidem, *Corus warns of further job losses: Steelmaker crippled by management battles sees shares plunge 64%* (12-3-2003) 1. 18 local politicians had jointly appealed to British Parliament to start an investigation.
[120] Ibidem, *Why troubled Corus needs an entente cordiale* (24-4-2003) 20.
[121] Compared to the other two he had by far best credentials. He was educated at the *Ecole Polytechnique* & the *Ecole des Mines civil* engineering school. He had worked at Pechiney from 1978-2003. During its last years he was Pechiney's second man. Varin had been introduced to Corus through a head-hunter agency.
[122] FT, *Questions about detail bounce off man of steel* (25-9-2003) 26.

organisation, originating from the British Steel days, had undermined the CEO's influence. Now, with this new balanced *entente* between de CEO and chairman, the company got a new face that was personified by Varin and Leng. Varin and Leng were generally seen as charismatic leaders who could place themselves above the conflicting parties. By establishing strong leadership, both men hoped in future it would be possible to transfer part of its authority to other board members. The shift in management brought about a change in attitude towards its stakeholders. Corus began to issue company reports more frequently, and its new chairman and chief executive were less reluctant in giving interviews. Next, Corus started instituting constructive dialogues with the unions and works council. This flying start was also made possible by a significant improvement in worldwide market conditions. The rapid growth of China and the end of the Asian recession caused a sharp increase in steel prices (See Graph 1). Corus also had managed to solve most of its operational problems, and the World Class IJmuiden project made Dutch production more efficient. All these factors, consequently, resulted in a substantial reduction of the total losses over the year 2003.[123]

Not all of the problems were solved. Since its shares had plunged, many investors decided to sell their stock, which caused a significant transformation in ownership of the company. Russian businessman Alisher Usmanov succeeded in buying 11% of Corus' share in just a short period of time, and was intending to buy at least 20% of the company. Through this position he attempted to use his power to choose his own representative in the board in the person of the resigned Aad van der Velden.[124] Usmaninov was thereby crossing Varin's plan to reform and internationalise its management organisation. The emergence of new powerful investors and the low share value had made the company vulnerable for interference from outside, or even the possibility of a hostile take-over. And finally, as long as the Dutch supervisory board was not willing to cooperate and the internal unrest continued, Corus was still forced to uphold a two-metal strategy against their will.

Graph 2 **Share Price Corus October 1998 – April 2005**



Source: www.behr.nl.

[123] Over the year 2003 the company booked a loss of 305 million pounds (454,5 million euro), compared to a loss of 458 million in 2002.
[124] Corus Group PLC, *Letter from the Chairman* (16-4-2004).

Summary

The decision to seek a foreign partner, and the merger problems experienced by Corus were primarily caused by unfavourable market conditions. Steel prices dropped as a result of the economic recession in Asia and a worldwide situation of overproduction. British Steel was especially hit by declining sales on the domestic market, and foreign outlet difficulties caused by the high value of the pound sterling. The poor market forecasts and the start of a consolidation wave in the European steel industry, made both Hoogovens and British Steel decide they wanted to join forces. Over-enthusiasm of the new chief executives ended the merger negotiations before both parties had been able to form a clear organisational framework, long-term strategy, and learn about each other's corporate culture. During the first years, the company suffered from deteriorating market conditions, operational problems, and US trade restrictions. Corus booked heavy losses, partly because the exchange rate of the British pound did not improve. The fact that the Dutch assets were one of the few profitable activities of the Group proved the Dutch sceptics were right in their conviction that Hoogovens could have survived independently. After years of recession and internal turmoil, Corus could only begin to recapture itself from 2004 onwards. Rising world steel prices, as a result of the enormous growth in China, and a change in management gave Corus time to lick its wounds and fight back again.

The Dutch were pleased it managed to bargain a 62-38 split of share-capital. In exchange it agreed with an implementation of the British corporate structure (PLC) with a single board organisation based in London. Inconsistencies in the organisational set-up and power struggles however quickly ended the belief in an equal representation in its principal management organs. After the shared leadership experiment failed and the first Dutch executive decided to resign, the board 'anglicised' rapidly. The company's authority became concentrated in a small group of board members headed by chairman Moffat. With the exception of the new name and logo, little was done to build a new common corporate identity. The few projects that were set up to accomplish this, were being stripped or suspended because of poor financial results, lacking financial resources, and British political interference. The multinational structure and uniform wage system, instigated to unite all parties, backfired when the Dutch felt they had been made to suffer individually for losses made by the British. Many top management discontinuities made people on the work floor loose faith in its leaders. Because of its poor performance the company was unable to establish a long-term strategy. In the end, it was forced into attempting to sell its aluminium and stainless steel activities, in order to please its shareholders and to keep its commodity business alive. This eventually caused a collision of the boards, which brought about a change in corporate culture. After Moffat had stepped down, Leng was nominated as his successor, and French outsider Varin became the new CEO, Corus began to move back to its Dutch roots.

For Hoogovens the conformation to British standard meant that it had to exclude its former social partners from the central decision-making process. Despite the fact that formally there was no state-influence in the firm, in reality British national and local governments still affected company policy. This was primarily the result of the strong political and emotional ties the British board members had with these old steel producing regions. According to British customs, only the shareholders enjoyed the privilege of interfering with the company's affairs. Its poor performance however alienated the company from its shareholders. With no constructive dialogue with its other stakeholders, parties began to polarise. This situation erupted after the Dutch supervisory board and works council vetoed the Pechiney deal. As a result of the rapidly declining share-value, new powerful investors emerged, and Corus itself became an interesting take-over candidate.

By choosing to transform the company into a British PLC with its headquarter in London, the Dutch had to adapt to a new environment and British standards. For the British, much stayed the same, and no efforts were made to study Dutch corporate culture. The Dutch representatives who were transferred to London received no preparation and made little effort to adjust to the new corporate culture. It is save to say they underestimated the cultural problems that lay ahead. Dutch board members found it difficult to adapt to the competitive nature of the British boardroom. The difficult acclimatization was further aggravated by the language problem. On the work floor workers showed little interest in the their new colleagues. The Dutch strongly identified themselves with the eighty-year-old firm in IJmuiden, while the British worker primarily saw himself as part of a long tradition of regional steel manufacturing, instead of being proud of British Steel. As a result of the disappointing company results, a deeply rooted aversion to mergers as a result of previous bad merger experiences, and negative reporting in Dutch newspapers Dutch workers never felt part of the new company. Corus did little to change this, mainly because it did not have the means for it. Secondly, it had no leaders who could place themselves above the conflicting parties. Its most importing uniting effort was the launch of the new name and logo at the start of the merger. Since Varin and Leng took office a start was made to change this. These charismatic leaders began to open up the firm to its stakeholders.

Conclusion

In this paper an attempt has been made to trace the merger problems of Corus to its origins. On the basis of its share-value development and productivity rate it is clear that the Corus merger so far has not been a success. Neither of the merging parties seem to have been able to accomplish its goals. A series of restraining environmental conditions have resulted in a difficult merger process. Therefore it is impossible to accuse Hoogovens or British Steel individually. After having studied all sources it is concluded that unfavourable market conditions, an obscure merger framework, a disturbed relation with its stakeholders, and finally various cultural differences caused the amalgamation process between the Dutch and the British to be very difficult. These findings partly correspond with René Olie's results, whose framework, therefore, can also be applied to Anglo-Dutch case studies. In addition, this paper shows the importance of the organisational structure and the institutional background of the progress of a merger, factors which the Olie study failed to identify. These adjustments were implemented in a new merger checklist, containing both supporting and restraining factors for transnational mergers (see Model 1). This list will be compared with other merger case studies in order to find out what helps shape Anglo-Dutch, and multinational mergers in general, through time. The Corus case proves that Anglo-Dutch collaboration does not necessarily provide us with a formula for success. Finally, this study indicated that Corus' merger framework showed little resemblance to its predecessors the Royal Dutch/Shell and Unilever. This raises the question if the success of these two companies can be explained by its dual structured organisation.

In accordance with the four conditions affecting cross-border mergers, the following merger rules can be formulated. In this overview, the primary focus is on the restraining factors.

I. Economic environment and market conditions

The pressure to seek foreign collaboration will increase when profit margins drop. The start of a merger and acquisition wave in surrounding markets adds to the pressure on a company to consolidate its affairs in order to protect market share and reduce its costs of sale. The fear emerges that it could be left empty-handed, especially when financial reserves are insufficient to expand independently, and previous efforts to internationalise its business fail. When finally the decision to merge is made, this subsequently results in a short introduction phase for the merger, where both parties exchange views insufficiently. This leads to false judgements and organisational inconsistencies. Merger problems will increase when one of the merging parties is affected more deeply from market stagnations, or strongly relies on its dominant position in its home-market. Heavy losses put a constant strain on the company to make adjustments to its long-term planning in order to please its shareholders. Favourable market conditions in the years leading to, and following the merger is therefore the one of the most important conditions for making a merger a success. Prolonged unfavourable market conditions are generally driving companies into consolidation. In short, one could argue that poor market conditions is a driving force for merging and a key threat for merger success.

II. Organisational set-up and merger framework

The short introduction phase and the merger euphoria make it impossible to construct a thorough merger plan, containing clear objectives for making the merger a success. These goals should equally focus on economic, strategic, organisational, institutional and cultural issues in order to establish a new unifying entity. Through constant changes in strategy, the imposed organisational structure does not function properly. In an attempt to regain control, decision-making authority is further centralised, which undermines all efforts to form a new united organisation with shared responsibilities. Other unifying measures, such as the implementation of a transnational organisation with a uniform wage system eventually backfire if one national party believes it is bleeding for mistakes made by the other. By neglecting to realise an equal representation in its decision-making organs, tension between the two groups emerge. Numerous resignations eventually have a disruptive effect on the authority of the board. The power is concentrated in a small group of executives, whose vision is short-term based on reducing costs to please the short-term interest of the shareholders. At the end of the day, the group company is still continuing to be build-up of numerous separate national identities.

III. Institutional context

The increasing distrust in the company's ability to reform has a polarising effect on its relationship with its stakeholders. Unions, works councils, politicians, subsidiary companies, and shareholders form power blocks, which freezes the firm's reorganisation efforts. Declining share value subsequently makes it vulnerable for hostile take-overs. If one party still strongly relies on its ties with national institutions, the new alliance will most likely inherited these networks. When these networks are functioning on a personal basis, this often result in company decision-making being affected by national interests. This will eventually slow down the ability to implement changes efficiently, and will harm the alliance as a whole.

IV. Cultural factors

The last factor that threatens the new company is cultural ignorance. A short introduction phase coupled with limited financial reserves make it impossible for both staffs to establish a profound knowledge of their different corporate cultures and to establish a new common corporate identity. The launch of a new name and logo will not change this. Through strong traditional and emotional ties, none of the two parties are in fact willing to transform and continue to stick on to their own national customs. If one of the two companies previously had a painful transnational experience, this party is further restrained in making the merger a success. Through pessimistic reporting in the media from the onset, people on the work floor are supported in their conviction that the merger was not necessary. The firm has manoeuvred itself into a downward spiral.

Approximately six years after the merger had been established, Corus seemingly refound itself. It looked initially as if the Corus merger was indeed an acquisition in disguise. After first heading towards a more British way of doing business, the company took a new course. Corus began internationalising its management and adopted many of the organisational features of Hoogovens. With the help of the ideal types of various national market economies described by Hall and Soskice, it is concluded that the firm started to move back to its Dutch (Rhineland) roots. The continued existence of this Anglo-Dutch merger clearly depends on its ability to restart the merger due to improved economic conditions, to improve the relationship with its stakeholders, and finally establish a new corporate identity which its employees can identify with. But most of all, it must try to stay profitable by building up a sufficient solidity to survive also the downturns of the global cyclic steel business.

Model 1 Preliminary Checklist Cross-Border Mergers

Environmental Conditions	Supporting Factors	Restraining Factors
I. Economic environment & market conditions	a) Favourable economic circumstances & market conditions b) Few alternative partnerships options - Long merger preparation phase - Because strong balance sheet not forced to consolidate c) Good geographical positioning and foreign market access	a) Stagnation or decline, especially when one national organisation is affected differently b) Many attractive merger or acquisition candidates - Short merger introduction phase - Consolidation wave in surrounding markets 'force' company to merge. c) Strongly reliant on home market and domestic sale
II. Organisational set-up & merger framework	a) Durable strategic goals - Long-term planning b) Decentralised coordination with direct national accountability c) Introduction new name and logo d) Clear and fair remuneration scheme e) Overlapping group membership f) Continuities in top management between decision-making and post merger g) Integrated top management with equal national representation in governing bodies h) Strong charismatic and unifying leaders with international network and outlook	a) Changing strategic goals - Short-term planning b) Centralised coordination with translational accountability (BU) c) Maintaining old name and logo d) Inconsistent remuneration scheme; over-harmonization of reward system e) Strong separation between national group members f) Top management discontinuities g) Bounded subgroups in top management. Inequality in national responsibilities h) Weak and conservative leaders, with strong personal national network and outlook
III. Institutional context	a) Constructive dialogue with all stakeholders. - Trade unions, works councils and shareholders involved in decisions. b) Share capital well spread out. c) Minimal state-influence; little effect national legislation on company affairs.	a) Stakeholders excluded from decision-making process. - Only shareholders involved in decision making b) Share capital concentrated in small group of 'hostile' shareholders. c) State-ownership or indirect state-involvement in company affairs
IV. Cultural factors	a) Combined efforts to inquire knowledge of corporate culture merger partner - Large international expatriate staff b) Establishment new corporate culture - Many new joint-projects c) Positive image displayed by press and corporate leaders d) Good experiences with international partnerships	a) Single adjustment to dominating corporate culture - Small or 'shuttling' expatriate staff b) Staff strongly bounded to old national names or regional units - New projects unsuccessful c) Poor reception outside world due to bad national press, or poor exposure corporate leaders. d) Traumatic experience translational collaboration

Source: Altered version of Olie's list, *European Transnational Mergers* (Maastricht 1996) Model 8.1, 340.

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