Associative corporate governance: the steel industry case
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Introduction

1. The subject

I start this introduction with three recent events.

On 24 November 2010, the prestigious ‘Spinoza Lens’ was awarded to the renowned American sociologist Richard Sennett. The award aims to encourage the debate on ethics and morality. The award refers to the craftsmanship of Spinoza and fits very well in Sennett’s focus on ‘craftsmanship’. His ideas on craftsmanship play a significant role in the main issue of this thesis: the corporate governance of multinational companies in general, and in the world steel industry particularly.

In January of 2011, the Dutch employers ‘association AWVN and the main Dutch trade unions published a joint policy document on industrial relations. They state that the two basic features of solid industrial relations are ‘trust’ and ‘continuity’.

On 3 February 2011, Nippon Steel Company and Sumitomo announced that they are considering integrating their entire business, targeted for October 1, 2012. They base their decision on the excellent results of their alliance that started in 2002. ‘Nevertheless, confronted with the changes in the business environment surrounding the steel industry they come to share the understanding that it is crucial to further strengthen their mutual relationship’ (Nippon Steel Corporation and Sumitomo Metal Industries 1).

These events once again supported my writing process of this thesis and confirmed the importance of its subject. Although I focus on the steel industry, this thesis is about industrial relations in general and the way people cooperate with each other in multinational companies.

The events lead straight to the question: Why this thesis? I am concerned about the way the world steel industry will handle the existing need for concentration and internationalisation. My concern relates, in the first place, to the specific threat of the social and economic future of many industrial steel regions in the world. The steel industry is a labour intensive industry. Steel plants all around the world form the nucleus of regional industrial activities. The future of these steel plants will influence the economic development of these regional areas and the livelihood of numerous workers. I worked in the steel industry for 36 years. I was responsible for many projects for many steelmakers in several countries and became acquainted with the world’s major steel regions.

In the second place, I am concerned about the negative consequences
of the neoliberal merger and acquisition process for societies in general. The first steps in the last decade show that Boards of Directors and top management in the steel industry will most likely follow the well-known financial driven approach of mergers and acquisitions as dictated by the rules of the neoliberal economic market model. Historical examples of this approach can be found in other industrial sectors such as oil, chemicals, textile, automotive and ICT. The steel industry is a latecomer given the marginal results of this sector in the last century. The world of finance has only recently turned its attention to this sector, because of its extremely positive financial result in the first decade of this century. The financial crisis of 2008 delayed this interest only temporarily. The financial results dropped dramatically and the world steel industry was once again in deep trouble. However, the need for internationalisation and globalisation is still there, as I will elaborate. Steel prices recovered partly, and shortage of raw materials, a major issue in the steel industry, is back on the agenda.

When I mention the negative consequences, I am not only referring to the economic and social consequences of this model. The majority of mergers and acquisitions fails and does not create economical value (Schenk, Economie 107). Costs are transferred to third parties, like employees, suppliers and society. Only the shareholders of the acquired company and the financial promoters and specialists in charge gain from the deal. However, I particularly want to refer to the political consequences of the model in relation to the functioning of democracies. The ever-growing impact of the outcome of the process of mergers and acquisitions has a major impact on the public domain and the future of many citizens. National politicians lose control of the economic process given the ‘black box’ character of the model, as seen from a democratic point of view. The financial crisis of 2008 was a clear confirmation of this trend. Politicians became ‘unreliable’ agents in the eyes of many citizens and lost their respect, in addition to all the well-known political consequences for the functioning of democracies. The American philosopher John Dewey already gave a ‘first warning’. He was alarmed by the growth of the corporate mentality in America. What he wrote in 1930 seems even more threatening today: ‘The business mind, having its own conversation and language, its own interests, its own intimate groupings in which men of this mind, in their collective capacity, determine the tone of society at large as well as the government of industrial society, and have more political influence than the government itself. We now have, although without formal or legal status, a mental and moral corporateness for which history affords no parallel’ (Cochran 297).

I will ‘translate’ my concerns into the development of a new institutional perspective for international cooperation between steel companies. This new
perspective will be different from the classic neoliberal financially driven method of mergers and acquisitions.

As an inevitable consequence, a change in model requires a change in corporate behaviour and corporate governance of companies involved in the process of concentration and internationalisation. Therefore, I will present a change in the existing corporate governance model of multinational companies. This change implies a transition to an associative way of corporate governance combined with an associative way of cooperation with its social and economic environment. This means cooperation based on loyalty and trust, voluntarism, transparency and high levels of autonomy of partners, resulting in high social and economic performance. I call this new corporate governance perspective ‘associative corporate governance’ (ACG).

Experience and practice will play a crucial role in the developing of this associative philosophical concept of corporate governance.

ACG will increase democratic governance of multinational companies. It will be a next step in the pursuit of ‘industrial democracy’ as initiated in the 19th century and developed in the 20th century. It will result in better social and economic performance for the companies. It will create better working and living conditions for all stakeholders involved in the companies ‘industrial process. As I will show, implementation of ACG does not require revolutionary changes in the day-to-day practice of a company. It can be implemented step-by-step using already available initiatives and practices, in order to keep a reasonable balance between change and continuity within the organisation.

2. The main issues

The main issues of this thesis are the internationalisation and globalisation of the world economy, the steel industry, multinational companies and their stakeholders, corporate governance, and associationalism. They lead the way to the development of ACG. In this introduction, I give a preliminary description of these issues as well as their mutual connection.

The internationalisation and globalisation of the world economy
Numerous publications explore the issue of internationalisation and globalisation of the world economy. The many faces of globalisation and arguments for and against cannot be dealt with to the fullest extent. I limit myself and deal with the phenomenon from the perspective of the steel industry. I describe general aspects of globalisation when necessary against the background of this specific industrial sector. Three distinct kinds of globalisation are relevant: the globalisation of firms, the globalisation of markets, and the globalisation of regulation (Braithwaite and Drahos 8).
The globalisation of the steel industry will be an example of the first kind of globalisation, globalisation of firms. Markets will still be regional, such as Western Europe, North America, China, and regulation will still be limited. However, there is a touch of the global market via worldwide operating main clients in the automotive industry, e.g. Toyota, who want to receive the same quality of steel according to the same qualifications in all of their plants.

Beddows, a leading senior consultant on corporate strategy in the world steel industry, distinguishes five specific aspects of the steel industry, as related to the globalisation process. In the first place, the steel industry, as mentioned before, is a latecomer. The process of internationalisation and globalisation has just recently started, in 1990, and came into full swing at the beginning of the twenty-first century (Beddows 1). Second, globalisation of key customer segments like the automotive industry and global suppliers of resources triggers globalisation of firms (Beddows 10). The third aspect refers to the financial market. The role of capital markets has become more important through the process of privatisation of the steel industry, beginning in the 1980s. State ownership of steel assets was predominant in the steel sector until very recently, given its strategic and social economic role in national economies (Beddows 13). This subject is closely related to the fourth specific aspect of the steel industry, the negative performance through the ages. The steel industry, until very recently, has not been able to pay the cost of capital across the economic cycles. The average return on capital for the period 1980-2000 was about 7% (Beddows 15). This negative tendency did not change until the start of this century. Finally, the environmental issue of global warming started to play an important role. Steel plants are major CO₂ producers (Beddows 19).

Besides these specific aspects, I highlight four general aspects of globalisation, which are also valid for the steel industry.

To start with, the world steel industry operates under different contemporary forms and faces of modern capitalism. The most used general term of this aspect is ‘divergent capitalism’ or ‘varieties of capitalisms’, resulting in so-called ‘economic models’ such as the Anglo-Saxon model, Continental Europe model, and Asian model. Related to this divergent capitalism is the second aspect, the predominantly neoliberal character of the globalisation process, resulting in the dominant role of the Anglo Saxon model, with its emphasis on shareholders’ value and decisive influence from financial markets. It is still unclear how the financial crisis of 2008 has changed this situation.

Because of the growing influence of the financial markets, the steel industry too will be confronted with the next aspect, the fairly weak position of labour and the limited and insufficient international cooperation of organized labour. The third aspect is the exaggeration of the globalisation of production. Most multinational companies remain closely linked with their home bases,
and nation states still play a dominant role in the internationalisation process (Hirst and Thompson 17). The fourth aspect, closely related with the other aspects, is the growth in market-based economies as important factor for internationalisation and globalisation. The influence of the growing markets of the so-called BICs (Brazil, India and China) plays a major role in the steel industry.

In addition to these economical and financial aspects, the steel industry has to face four aspects related to reactions from civil society to the globalisation and internationalisation process. In the first place, it has to face the arguments and serious concerns of the anti-globalisation movement, often expressed in the ideas and policies of non-governmental organisations (NGOs). In the second place, regional, national and international institutes attempt to regulate international markets via institutional frameworks. This results in the third aspect, the attempts to come to international regulations and standards for multinational companies, such as UN Global Compact Rules, OECD-Corporate Governance Principles, ILO standards, WTO rules, and the Kyoto Protocol. And last but not least, the global warming issue and the environmental issue in general are of major concern for steel companies, as mentioned before.

In order to find a way in this rather complex set of specific and general aspects, it is useful to define the main concepts in the whole process of globalisation. These concepts are the following:
- **Actors**, e.g. corporations, NGOs, communities, business organisations, states, organisations of states;
- **Principles**, e.g. lowest cost location, best practice, liberalisation-deregulation, continuous improvement, and transparency;
- **Mechanisms**, e.g. military and economic coercion, systems of reward, modelling, coordination, capacity building, reciprocal and non-reciprocal adjustment.

This way of mapping the process has been developed by John Braithwaite and Peter Drahos in their book *Global Business Regulations* (15). I will use this approach in my thesis.

**The steel industry in transition**
The growth of the steel industry during the last three decades of the 20th century was slow with an average growth of 1%-2% per annum. This limited growth started with the first oil crisis in the 1970s and came to an end when the impact of China began to be felt in the late 1990s. Growth rates expanded to 4%-5%, with an increase to 6% in 2005 and 2006 (Beddows 1). The total world crude steel production in 2005 passed the 1 billion tonnes milestone, of which 40% had been produced in China. In order to judge this growth, consider that in 1950 this figure was 189 million. Currently, China, India,
Germany, Japan, USA, Russia, Brazil, and South Korea are the major steel-producing countries. The crude steel production in 2010 was 1.4 billion tonnes (World Steel Association, Steel Statistical 3).

I already mentioned the specific and general aspects of globalisation of the steel industry. In discussing the pros and cons of globalisation, the question will come up whether the internationalisation and concentration of the steel industry, as recently started, should follow the same rules and patterns. On one hand, there are the economic considerations of sustainable profitability and growing markets; on the other hand, there are the serious concerns and arguments of the anti-globalists and others. Does steel really have to follow the well-known path of other industries in the past, with the well-known possibilities of failures and mistakes of international mergers and acquisitions? Recent examples of mergers and acquisitions in the steel industry, e.g. Corus and ArcelorMittal, do not show a better track record. As stated before, in this thesis I want to search for a better way of internationalisation and concentration than the well-known way.

There is no question that the process of internationalisation and concentration has to continue. The growing influence of capital markets caused by the privatisation wave starting in the 1980s, and the fact that the steel industry has never been able to pay the cost of capital across the cycle, forces the industry to change its performance. These two aspects play an important role in each model of the divergent capitalism, not only in the Anglo Saxon model. However, accepting the need for concentration does not automatically mean that the steel industry has to follow the neoliberal way of mergers and acquisitions with its focus on shareholders’ value (‘synergy talk’), without taking into account the interests of other stakeholders or other values like culture and human resources. Since September 2008, criticism of this focus on shareholders’ value suddenly has become widespread, but without introducing alternative methods of governance. In this thesis, I will present a new perspective for steel companies to anticipate the need for concentration and internationalisation of their business.

One of the specific characteristics of the steel industry is its labour intensive character. Millions of employees are working in numerous regions all over the world along the lines of many models of the divergent capitalism. Focusing on the steel industry means focusing on labour and labour conditions in the major steelmaking countries, with Japan, Korea, the USA and Western Europe on one side and the BICs- countries on the other. Organised labour has tried to find answers for the social and economic changes that have taken place because of the globalisation process of the last decades. The unions were often major partners in development, contributing to the growth of markets and democratic institutions. They were in the first place purveyors of social cohesion. However, the political fall-out of globalisation has cast a shadow
on this cohesion role and the unions had to rethink their strategy (Jose 12). They never had real grip or influence on the globalisation process and on the employees given the dominating role of the international financial market. However, possibilities to get some grip are gradually disappearing. They are driven to the role of trying to rescue what can be rescued on important subjects as job security, job creation, and remuneration policy. The degree of unionisation, although still high in the steel industry compared with other industrial sectors, is going down, and, as a result, it is becoming more and more a problem to remain an accepted and strong stakeholder in the negotiation process within major companies. In developed countries, gained benefits such as full-time employment linked to an open-ended contract, collectively negotiated wage structure, social benefits, control over working time and safety standards, and high levels of education and training, were often embedded in a ‘social pact’, with compromises between capital, organised labour and the state in sharing the national product (Jose 2).

In developing countries, the situation was and is much less favourable. Exploitation of workers, especially of women and children, is too often daily practice. Remuneration and working conditions are deteriorating. Globalisation practices have changed the scenery and have brought new uncertainties. At the same time, other major changes increased uncertainties. Technological developments lead to changes in the workforce. There is an increased supply of new entrants such as women and migrants into labour markets (Jose 3). Governments adopt neoliberal economic policies such as privatisation and downsizing of the public sector enterprises. Flexible labour market policies such as outsourcing, subcontracting and temporary contracts came into existence.

The viability of trade unions and connected labour organisations became doubtful. Yet, the industry needs a loyal and experienced labour force in order to perform well in the long term. The steel industry stands for heavy investments with long lead times, and a technological character. These aspects result in the need for specific education, a high level of advanced training and upgrading of the workforce’s skills on a continuous base. This means the industry needs a solid workforce with long labour contracts. Loyalty and trust form the basis of success. Companies that scored well on these aspects are nowadays the ‘most wanted’ companies to be acquired. A typical example is the steel plant in IJmuiden, Holland. Also in Japan and Korea, steel plants put emphasis on loyalty and trust. The steel companies in the USA choose the opposite course. They deteriorated because of short term thinking with accompanying low investment levels, low levels of education of the workforce and accompanying lack in loyalty and trust. It will become obvious that the recent trend of concentration and mergers will not have a positive impact on the mentioned preconditions for success in the long term. Closing of plants,
staff reductions, management decisions related only to financial parameters, head offices often far away with no human link to the plants, and lack of influence on investment programs will trample motivation and loyalty. Even the ‘most wanted’ plants today will slow down in performance after being used for a certain time as ‘cash cows’.

For a decent and sustainable future, the steel industry needs a different approach based on the creation of conditions that are favourable for the development of trust and loyalty. Corporate governance should not follow the well-known path of neo-liberal market strategy combined with a private hierarchical organisation.

**Multinational companies and their stakeholders.**

Multinational companies are the carriers of the internationalisation and globalisation processes that operate under the different conditions of the divergent capitalism. Most multinational companies still have a kind of home base in a home country from which they ‘conquer’ the world. Transformation from multinational companies into transnational companies with no specific ties to any culture or nation is a rare phenomenon (Hirst and Thompson 17). This is certainly also the case in the steel industry. Major players like Mittal or Tata are the obvious examples of such a home base in a home culture. On the other hand, Mittal is perhaps a growing example of the slow but steady transfer from a multinational into a transnational company.

Almost daily, we are confronted with the results of the performance of multinationals. In all industrial sectors, products and services are supplied via extensive organisations with centres all around the world. Marketing and selling, production and distribution, product development and research are spread around the world following the economic rules of minimum costs and efficiency. Most citizens buy their low cost products and services; inflation rates of the developed world are kept to a minimum as result of cheap mass production and distribution costs. However, very often the multinational company also represents less acceptable aspects of our society, such as environmental problems, exploitation of cheap labour, closing of industrial production sites that leave regions behind with a sudden, sharp increase in unemployment, financial scandals, internal inefficiency and unacceptable pocket-filling behaviour by top management.

However, whether negatively or positively, multinational companies are active and strong players in the internationalisation and globalisation process. Compared to the speed of change in the political arena the world of the multinational companies is a wild turbulent world with all aspects of fast and strong changes. These corporations are mostly governed via rigid top-down management lines. Any form of more democratic governance never made it. Only in Western Europe, within the Continental Europe model do we
find some form of formal participation of labour.

During recent decades, the rise and growth of multinational companies was accompanied by mergers and acquisitions in almost every industrial sector. Necessity of increase in the scale of production and research was the major argument used by responsible managers. However, as mentioned before, the majority of all these mergers and acquisitions failed or did not bring the forecasted gains.

Mistakes and managerial failure are, however, just one side of the coin; the other side is the refreshing speed of reaction to changes in international environment and civil society. Up to the present day, the fast response of the management of multinational companies to phenomena in society is mainly used for their own short-term advantages without taking into account the negative aspects for the rest of the society. Examples are well known and already mentioned: export of pollution to ‘environmental save havens’ and transfer of production facilities to ‘low cost countries’ with no control of labour conditions or remunerations. In many eyes, the multinational companies are the bearers of all the evil in the world. Therefore, they should be challenged by civil society movements and public authorities.

There is a growing opportunity to create a playing field for this challenge. The management of many multinational companies is well aware of the needs in this world and is willing to contribute to feasible solutions for the above-mentioned problems. For example, the *World Business Counsel for Sustainable Development* (WBCSD) is an organisation of hundreds of corporations from all over the world that try to work on a sustainable basis (Stigson 2). Sustainability is part of their strategic thinking and acting. Although the impact of measures is limited, they give the right signals to their colleagues in their respective industrial sector and to public authorities. Cooperation between civil society and these companies very often leads to actual improvements in related issues. Progress is very often much more direct and satisfactory than using the public authority route. On a regular basis, NGOs deal with the management of many multinationals, with respect for each other’s position (Van Tulder and Van Der Zwart 119), of course. Many of these initiatives come from companies that accepted the so called ‘stakeholder policy’ into their strategic thinking. The term stakeholder and the introduction of stakeholder management were introduced in the 1980s. The most common definition of *stakeholder* is from the ‘father’ of the stakeholder framework and philosophy, R. Edward Freeman: ‘a stakeholder is any group or individual who can affect or is affected by the achievement of the firm’s objectives ‘(Freeman 52). Although this stands for an extensive amount of individuals and groups, the most often used list of stakeholders includes shareholders, management, employees, suppliers, customers, trade unions, and employers associations. The use of stakeholder philosophy is widespread.
nowadays and can be considered a very positive answer to broadening the
strength of management decisions.

However, there are often omissions in the scope of the stakeholder’s
management. Major groups in the civil society in which the company operates
and that fall under the definition are very often not, or only on a very limited
scale, invited for participation in the stakeholder process. Typical examples
are NGOs, human rights organisations, environmental organisations, minority
organisations, consumer organisations, and public authorities on local,
regional, national or international level. In addition, as stated, even if they
are invited, the scope of the participation is often limited. Not only are major
decisions on strategy and investments, such as mergers and acquisitions, part
of the absolute power of the Board, also the next level of decisions, such as
closing facilities and R&D programs, are too often not on the agenda of the
stakeholders’ approach. Policies on these subjects are changed overnight by
the introduction of a new CEO; as a result, too often stakeholders’ dialogues
are frustrated.

Social embedded corporate governance
How to run the business or, more formally, the way ‘to manage’ a company
is called ‘corporate governance’, and there are many publications on this
subject. Management ideas come and go with ever-increasing rapidity. It
will be impossible and unnecessary within the limits of this thesis to give a
complete overview of this subject. However, in developing a new perspective
on corporate governance, I have to place management style and management
rules in the appropriate context. After all, they represent the corporate
responsibility of the company in the broad sense.

In this thesis, I summarize the last fifty years of corporate governance history.
The main reason to start in the 1960s is the focus on the ‘human factor’ in
corporate governance theories that came about around that time. I will start the
summary with the publication of The Human Side of Enterprise by Douglas
McGregor, professor at the Massachusetts Institute of Technology (McGregor).
He demonstrated, as one of the first representatives of the ‘human factor’
issue, the limiting assumptions of traditional management theories concerning
human nature and the control of human behaviour.

Corporate governance theories and discussions have always been
dominated by the North-Americans because of the strong hegemony of
theirs industry during the first decades after the Second World War and the
related strong development of North American business schools like those of
Harvard and MIT. In general, they consider corporate governance as a non-
political subject. The link with the surrounding environment and its politics
is underexposed. However, not to involve politics in corporate governance
is, or was just another way of leaving the distribution of power unchanged.
Doing this was, indirectly, an actual political choice. The recent financial crisis confirmed the important role of politics in corporate governance in a very direct way. It put emphasis on the necessary social and political embeddedness of economical activities.

Theories and practices on participation and empowerment of ‘workers’ or employees, recognising the broader impact of corporate governance, were mostly limited to the West-European continent. The political and social aspect of participation and empowerment were indicated by the term ‘industrial democracy’. Although industrial democracy seems to concentrate itself on participation, it does influence the governance of companies. In case of the original idea of ‘workers’ management and ownership as tried out in Yugoslavia after the Second World War, the link with corporate governance was obvious. Also in later versions of Industrial Democracy, which concentrate on participation and empowerment of employees, the influence on corporate governance is substantial as the history of German ‘Mitbestimmung’ and the development of works councils on local, national, European and world level show. Common in both the American and the European approach is the need for continual training and education of the workforce in order to anticipate a constant change of social and economical circumstances.

Although people were high on the agenda of corporations since the 1960s, they did not stay there for long. Today it seems that shareholder value dominates the agenda. The formal language of the majority of CEOs is still ‘our employees are our biggest asset’, but they treat them differently, using new management tools such as outsourcing or playing people in different subsidiaries off against one another by threatening to close one of the facilities. However, most blunt is the ignoring of employees’ interests when selling the company. Companies are sold only based on shareholders’ value aspect. Very often even the management no longer has any influence over the process, and decisions are taken by the banks involved in the process. The highest bidder gets it all. If this trend continues, we will see a growing gap between principles and agents. A typical example in the steel industry is the auction, organised by the UK Takeover Panel, in which the steelmaker Corus was sold to Tata Steel. In these takeover processes, all bidders promise to respect the interests of management and employees. However, as soon as the deal is made, they put their new CFO and/or CEO on top of the organisation, which then starts to neglect or frustrate promises, e.g. ArcelorMittal and Corus.

However, the development of new ideas of corporate governance continues. I end my summary on the ‘American’ corporate governance approach with the recent introduction of corporate social responsibility (CSR) and the ‘stakeholder theory’ as being potential bridgeheads to the development of associative corporate governance (ACG). The word ‘social’ in CSR shows
that companies are aware that there is a link between ‘internal’ corporate management and the surrounding society in which the company operates. The company needs a ‘license to produce’.

Stakeholder theory refers to the involvement of stakeholders of the company in the social and economic performance of that company. I will pay special attention to the concept of ‘living company’, introduced by Arie De Geus (De Geus, *The Living*). Companies cannot exist in isolation. They should harmonize their values in consultation with stakeholders.

ACG will be shaped as a fusion between: 1) CSR and stakeholder theory including the ‘living company’ concept; 2) experiences with industrial democracy concepts; and 3) principles of associationalism. I will take into account the globalisation and internationalisation of the world economy with its ‘varieties of capitalisms’, the recent trends in the world steel industry, and the development of multinational companies. This leads the way to the next main issue, associationalism and its contribution to ACG.

**Associationalism**

In order to fully understand the term associative corporate governance, it is necessary to elaborate on the concept ‘associative’. This term is linked to associationalism, a political theory with the central normative claim that individual liberty and human welfare are both best served when as many of the affairs of society as possible are managed by voluntary and democratically self-governing associations. ‘Associationalism seeks to square the aims of freedom for the individual in pursuing his or her chosen goals with the effective governance of social affairs’, Paul Hirst explains (Hirst, *Associative Democracy*). Associationalism as idea was born in the 19th century as an alternative to both liberal individualism and socialist collectivism, and as a criticism of state centralisation and the growth of bureaucracy. The history and future of associationalism and its most recent appearance, associative democracy, will be a separate section of this thesis.

The institutional changes proposed in an associative democratic reform of existing forms of representative democracy and centralized bureaucratic state administration can be summarized in three principles of political organisation (Hirst, *Associative Democracy*). First, voluntary self-governing democratic associations become the primary means of democratic governance of economic and social affairs.

Second, associative democracy asks for a change in distribution of power. Power should be distributed as far as possible to distinct domains of authority, whether territorial or functional, and that administration within such domains should be devolved to the lowest level consistent with the effective governance of affairs in question.

Third, democratic governance does not just consist of the powers of
citizen election or majority decision, but of the continuous flow of information between governors and the governed, whereby the former seek the consent and cooperation of the latter.

In this thesis, I limit myself to the possible role of these associative principles in fighting centralisation and the growth of bureaucracy in the corporate governance of private corporations combined with an increase of direct participation of stakeholders. The three principles of the associative organisation mentioned above should lead to the three features of associative corporate governance of multinationals. In the first place, it should lead to a more delegated management, to the creation of an accountable hierarchy or ‘heterarchy’, a term introduced by Gunnar Hedlund (cited in Kristensen and Zeitlin 14), and the devolving of decision-making powers, resulting in high-motivated employees with high performance. In the second place, it will offer a new model of organisational efficiency, resulting in a strong social embeddedness of the company. In the third place, it will lead to a substantial democratic attitude in the internal governance of the company based on information and cooperation, resulting in trust and continuity as the two main pillars of a sustainable company.

The majority of corporate governance theories consider ‘democracy’ and ‘corporate governance’ as incompatible with each other. Democratic governance of corporations is inefficient and unrealistic or so it is said. The maximum extent of employee participation in the governance of their companies is the previously mentioned participation practice in the Continental European model with its works council’s organisation on local, national and European level. Moreover, even this practice is under growing pressure given the neoliberal tendencies within the EU. Nevertheless, in my opinion, a democratic attitude in corporate governance will be possible and advisable. There is no real basic argument that democracy in a democratic society should stop at the main entrance of plants or corporations. Why rely on the judgement and participation of citizens on a huge variety of important political questions regarding the governance of the society as a whole, and deny the usefulness of participation of these same persons in their working environment where they spend a considerable part of their lives.

This thesis attempts to contribute to the further development of industrial democracy and associative democracy in a world of divergent capitalism and globalisation. I will develop industrial democracy beyond the European practices of participation, and associative democracy beyond regional levels. Until now, associative democracy has been rather successful on regional levels in Western Europe (Cooke and Morgan 218) but it still has a ‘small-scale’ image.

For associative governance of public corporations, I refer to Paul Hirst (Hirst, Associative Democracy 176).
3. The main actors

Focus on the steel industry means focus on the main actors of this industrial sector. These main actors are steelmakers, the World Steel Association, national states and supranational organisations, suppliers of raw materials, major global customers, national and international business associations and NGOs, and regional authorities. They represent a rich variety of stakeholders and make the daily life of the managers of steel companies quite complicated. In developing ACG, I will describe their roles and the principles and mechanisms they use in more detail.

Here, I introduce the main actor of this thesis, the steel company ASC (the Associative Steel Company). I present ASC as a feasible model and a new perspective of an international steel company using ACG as the corporate governance model for all the company’s stakeholders. The management of ASC wants to show the feasibility of ACG through a step-by-step approach to ACG in each action of the company. ASC operates within the actual economic and social environment of recent divergent forms of capitalism as previously elaborated upon. In order to determine the recent actual ‘way of life’ in the steel industry and the latest trend of concentration and internalization in the steel industry, I have interviewed a selection of policymakers and experts in the steel industry. I will use the outcomes of these interviews for practical proposals and changes in the various disciplines such as corporate strategy, finance, R&D, human resources, supplies, marketing and sales, production and maintenance. Further, I take into account my personal experience of 36 years in the international steel industry worldwide.

The growth of ASC as an international steel company will be based on voluntary entry of formerly independent steel companies into the organisation of ASC. I explain how and why they should join ASC, and the advantages compared with the situation in which they become involved in a standard merger or acquisition in the neoliberal style. I describe what they should expect from their membership and how they should find their place within the ASC organisation.

ASC will use two important methods in the process of creating step-by-step ACG: the Micro-Macro method and the Learning by Monitoring method. The Micro-Macro approach is based on experiments on a limited base, micro, that will be moved up on a bigger scale, macro, in case the base experiments work out well. The methodological approach is ‘to gather data on the most macro phenomenon possible from the most micro source possible’ (Braithwaite and Drahos 21).

Learning by Monitoring was introduced by Charles Sabel as an intelligent ‘trial and error’ principle. He builds on the pragmatic tradition of democratic theory of John Dewey and developed what he refers to as a
‘democratic experimentalist approach’ (Wright, *Envisioning* 362). This concept means the monitoring of performance of the agreed goals of an organisation and the learning linked to the outcome of the results. Learning by Monitoring is based on the claim that nowadays there is no place anymore for ‘one solution fits all’ thinking. Experiments at the basis of organisations will show what is useful and what does not work. Instead of endless discussions on motives and possible alternatives, players just try and do it. What counts is ‘does it work?’ Learning by Monitoring is a pragmatic approach, local and practical, with an emphasis on logical thinking and common knowledge. It will respect the social, economical and political differences between the regions of member-companies of ASC.

Micro-Macro and Learning by Monitoring will result in a ‘learning organisation’ and will be applied to corporate strategy, finance, supplies, R&D, human resources management, marketing and sales, and operations activities of ASC.

The total outcome of these activities determines the real face of the company to the outside world of financial institutes, consumers, public authorities, trade unions, and non-governmental organisations. ASC will demonstrate the positive results of its ACG policy. It will show an economically sound performance and a socially strong embedded company, operating in a legitimate way. The internationalisation of the company will take place on a sustainable basis without causing the deterioration of local environments and society.

4. Sustainable company values

ASC operates worldwide and its members are embedded in a rich variety of cultures and varieties of capitalisms. That means that the company values should be determined in a cautious and prudent way. By values, we do not mean the top down code of conducts as announced by many companies.\(^3\) In principal, there is nothing wrong with an excellent code of conduct, but too often, it remains merely an overall statement from the top with no check on compliance in the day-to-day practice of the company. With values, we also do not mean standards and rules made by the public authorities of national and supranational governments. These standards are mostly compulsory and have to do with transparency demands and legal aspects of business.

The values of ASC have to be more solid and sustainable. They are based on the associative character of its governance. ACG determines the way ASC will shape its ethical corporate policies and how it will comply

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\(^3\) 58% of the hundred largest companies in the world have a code of conduct. It is considered to be a desirable instrument to manage ethics, integrity and social responsibility, and to show responsibilities towards internal and external stakeholders (Kaptein 17)
with initiatives on ethical issues from the outside world.\(^4\) They should be guaranteed by a solid institutional design of the company in order to underline the sustainability and the control on compliance.

ASC has to determine how to handle the diversity in cultures and varieties of capitalisms and the corresponding diversity in values and morality. Furthermore, it has to take into account the voluntary and highly autonomic character of associative governance. That means that the two extremes on morality are not an option. ‘Anything goes’, straightforward moral relativism will not work. The company will be faceless and stakeholders will not identify themselves with the company. There will be no reason to be proud to work for the company. The other extreme, an ideal theory on human rights and egalitarian-liberal morality, will not work either. The distance between theory and reality plus expectable disagreements between stakeholders will frustrate practical progress in the field. It will be counterproductive.

ASC will adopt a minimalist moral theory as starting point, the basic rights to security and subsistence as defined by Henry Shue.\(^5\) In Part 2 of this thesis, I will explain this choice by using the ranking of differentiated moralities as defined by Veit Bader (Bader, *Secularism* 72)\(^6\). The latter presents a feasible approach to moral rights. It will become clear that fulfilling minimum morality obligations will be different per region within ASC. Each region will have its own cultural background and institutions. That means that the day-to-day translation of minimum morality will be context dependent. ASC has to adopt a contextual approach.

On morality, I use the ‘realization-focused perspective’ philosophy of Amartya Sen as a practical guide within ASC for systematic guidance to reasoned decisions\(^7\). He underlines the interdependent roles of institutions and behavioural patterns of participants in reaching workable solutions. In addition, he emphasises the importance of ‘comprehensive outcomes’ against simple final culmination outcomes (Sen 215). Comprehensive outcomes include actions undertaken, actors involved, and processes used. This leads the

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\(^4\) ASC will be confronted with serious existing initiatives to shape decent ethical behavior of multinational companies. Most of these initiatives are taken by industrial business associations and international NGOs such as ILO. ASC as a steelmaker has to identify itself with the sustainable policies of the business association of the steel industry, the World Steel Association. Typical more general examples of multinational companies are the UN Global Compact initiative (since 1999) and the OECD Guidelines for Multinational Enterprises (1999-2000).

\(^5\) Henry Shue is the Wyn and William Y. Hutchinson Professor of Ethics and Public Life, and Professor of Philosophy at Cornell University.

\(^6\) Veit Bader is emeritus Professor of Sociology and Professor of Social and Political Philosophy at the University of Amsterdam and one of the main advocates of associative democracy, the modern form of associationalism.

\(^7\) Amartya Sen is a Nobel laureate in economics and social choice theory as well as a profound social philosopher. He is Lamont University Professor, Professor of Philosophy and professor of Economics, at Harvard University.
way to the Learning by Monitoring method within ASC and the way decisions are prepared, taken and accepted within the associative corporate governance of ASC. Sen states that ‘if someone has the power to make a change that he or she can see will reduce injustice in the world, then there is a strong social argument for just doing that’ (Sen 205). He calls this the ‘responsibility of effective power’. By introducing ACG, the management of ASC takes its responsibility inherent to its effective power.

As a second guide for reasoned decisions and well-organised participatory democracy, I am inspired by the ideas of John Dewey 8. I previously referred to his early warnings against the corporate mentality and his democratic experimentalism. Democracy is the central theme in virtually all his work (Cochran 289). He puts emphasis on the importance of democratic ethos.

Minimum morality, basic human rights, contextual approach, reasoned decisions with comprehensive outcomes, and responsibility of effective power, these should all fit in the central normative claim of associationalism as described by Paul Hirst (Hirst, Associative Democracy 19: ‘individual liberty and human welfare are both best served when as many of the affairs of society are managed by voluntary and democratically self-governing associations’. The character of ASC as an ‘association of steelmakers’ finds its basis in the voluntary decision of a steel company to join ASC as a member. If the negotiations are successfully finalised, a company can enter the ASC organisation as a new member. The self-governing character of ASC as a multinational company is obvious. Each multinational company tries to run its own business. The key issue is the ‘democratic’ content of the governance. As described before, it is precisely the target of ACG to accomplish a first step in a more democratic governance of multinational companies. Stakeholder theory and CSR, combined with modern forms of industrial democracy, form the right starting points for this first step to more democratic corporate governance.

The term ‘democratic’ needs a further specification. In this thesis, I will highlight the three different forms of democracy. These are direct democracy, representative democracy and associative democracy. All three forms will be applicable within ACG. Direct participation of employees in discussions about working conditions is an example of the first form. Indirect participation by representatives of management and employees in works councils is a typical example of the second form. The engagement of trade unions, NGOs or business associations in internal ASC discussions as stakeholders of the company fits into the third category.

8 ‘John Dewey (1859-1952) was a major figure of the American cultural and intellectual landscape in the first half of the twentieth century. While not the originator of American pragmatism, he was instrumental to its articulation as a philosophy and the spread of its influence beyond philosophy to other disciplines’ (Cochran 1).
I emphasise two basic aspects of the democratic process that are of crucial importance:

- Mutual trust between stakeholders; and
- Sustainability of the discourse process.

Trust is based on voluntarism. People need a culture to create a level of trust and loyalty within an organisation. I will refer to Richard Sennett’s research on the necessary cultural anchor of people in organisations, and to my own experience. The abovementioned company values will be the basis for the company culture and will create the right conditions for trust among the stakeholders of the company.

For a long-term and sustainable participation of all stakeholders, it is of decisive importance to keep the gap between expectations and realisation of targets at acceptable levels. Therefore, ACG will introduce the realisation-focused perspective and the search for comprehensive outcomes, as mentioned above. This discourse policy will be combined, as previously mentioned, with Charles Sabel’s ‘Learning by Monitoring’ approach. Sabel, like Sen, puts emphasis on process instead of outcomes in discursive relationships within the discourse process. This fits in ACG’s individual and collective learning centred policy and Dewey’s democratic experimentalism.

In summary, the leading ideas supporting the ACG philosophy are:

- Richard Sennett’s research on company culture;
- Henry Shue’s basic rights philosophy;
- Veit Bader’s minimum morality philosophy and contextualized approach;
- John Dewey’s democratic ethos and his call for ‘creative democracy’.
- The responsibility of management to use its effective power for social changes and the realization-focused perspective of Amartya Sen;
- Charles Sabel’s Learning by Monitoring method.

I will explain these choices in detail in Part 2 of this thesis. The design and practical implementation of ACG in the world of the multinational steel company ASC will be handled in Part 3. I show that the distance between theory and practice can be bridged step-by-step and that ACG is far from being a utopian project.

I consider ACG and its discourse platforms as the top of a triangle of which the two lower angular points are ‘discourse ethics’ and ‘industrial democracy’.

This thesis is not another plea for a sustainable future and sustainable entrepreneurship. This thesis is about a more democratic corporate governance of multinational companies as a necessary precondition for sustainable targets. ACG is the 21st century’s next step in ‘industrial democracy’.
5. The architecture of the thesis

In this Introduction, I have explained the ‘what’, ‘why’, and ‘to what purpose’ of my thesis. I introduced the main issues and main actors. The thesis itself has four major sections:

- **Part 1, the Steel Industry.** I highlight the history and background of the steel industry. I describe its economical environment and its confrontation with globalisation and internationalisation of the world economy. I summarise history and trends in corporate governance of the steel industry against the background of general corporate governance styles. I end with a statement on Associative Corporate Governance.

- **Part 2, Associative Corporate Governance (ACG).** I introduce ACG as a prospect for a new type of corporate governance. I will create associative corporate governance by integrating, on the one hand, the two latest developments in existing corporate governance theories – stakeholder theory and corporate social responsibility – and, on the other hand, the existing theories on industrial democracy and the political theory of associative democracy. I will present the basic ideas of ACG, plus its philosophical backgrounds.

- **Part 3, ACG in Practice.** I present ASC as an international steel company using ACG as the corporate governance method. I will show the feasibility of ACG, as developed in Part 2, in each and every activity of the company, taking into account the circumstances and developments in the international steel industry as described in Part 1. Introduction of ACG will be done by optimising and maximising existing practices and experiences. It will be an evolutionary and ‘step by step’ forwards approach. I present these steps as ‘policies’ and related ‘actions’ referring to the activities Corporate Strategy, Finance, Supplies, R&D, HRM, Marketing & Sales, and Production & Maintenance.

- **Part 4, Evaluation and Conclusion.** I evaluate the results of Part 3, especially against the background of the problems in the steel industry as highlighted in Part 1 and the objections as summarised in Part 2. Finally, I present the conclusion of this thesis.