Associative corporate governance: the steel industry case
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2. The steel industry and the internationalisation and globalisation of the world economy

Numerous studies contribute to this subject’s scholarly discourse. I cannot deal in full extent with the many faces of internationalisation and globalisation, and arguments pro and contra. Here, I discuss the phenomenon from the perspective of the steel industry. I describe the general aspects of globalisation as far as necessary against the background of this specific industrial sector.

Section 2.1 describes the general and specific aspects of globalisation. In section 2.2, I ‘find my way’ through the complex world of internationalisation and globalisation by introducing the actors involved, the principles they want to follow, and the mechanisms they use in reaching these principles. I highlight two important aspects of internationalisation and globalisation that play an important role in this thesis: the creation of the multinational companies as main actor in globalisation, in section 2.3, and the ‘Varieties of Capitalism’ (VoC), in section 2.4.

2.1. General and specific aspects of globalisation

Three distinct types of globalisation are relevant to this study (Braithwaite and Drahos 8): these are the globalisation of firms, the globalisation of markets (products and services including financial products and services), and the globalisation of regulation.

The globalisation of the steel industry will in the first place be an example of the first kind of globalisation: the globalisation of firms. Markets are still regional: Western Europe, North America, and China. Regulation is still limited. However, there is a touch of the global market via worldwide operating main clients of the steel industry in the strong globalised automotive industry, for example Toyota, who wants to receive the same quality of steel according to the same qualifications at all of their plants worldwide.

There are five specific aspects of the steel industry related to the globalisation process (Beddows 5).

First, the steel industry, as mentioned before, is a latecomer. The process of internationalisation and globalisation has only recently started, in 1990, and came into full swing at the beginning of the 21st century (Beddows 1).

Second, globalisation of key customer segments like the automotive industry and global suppliers of resources triggers globalisation of firms (Beddows 10).

Third, the role of capital markets has become more important by 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 (Beddows 13).

Fourth, the steel industry has not been able to pay the cost of capital across the economic cycles. Only in the beginning of the 21st century, this situation changed rapidly and the strong economical performance formed a reason of the increased capital markets interests (Beddows 15). The financial crisis of 2008 once again changed the scenery but this time the steel industry is just part of the overall crisis.

Fifth, recently the environmental issue of global warming started to play an important role. Steel plants are major CO₂ producers (Beddows 19).

The more general aspects of globalisation and internationalisation also pertain to the steel industry. In the first place, steelmakers operate under the different contemporary forms and faces of modern capitalism, or the so-called ‘economical models’ such as the Anglo-Saxon model, Continental European model, Asian model, Scandinavian model. The most used general term of this aspect is divergent capitalism or ‘Varieties of Capitalism’ (VoC). Nevertheless, the globalisation process is dominated by a neoliberal economical view, resulting in the dominant role of shareholders value and financial markets. The influence of the financial crisis of 2008 is not yet clear. It may be that the character of the globalisation process will change dramatically; it may also stay unchanged after a short ‘hick-up’ just considered as a ‘business accident’. The trendy criticism on the neoliberal market economy may disappear as fast as it appeared, as soon as the economy shows the first signs of recovery.

The exaggeration of the rise of real transnational companies is a second feature of the globalisation process. Most multinational companies remain closely linked with their home basis, and nation- states still play a dominant role in the internationalisation process (Hirst and Thompson 17). Since September 2008, the role of nation states and regional, national and international institutes is back on the agenda of the socio-political debate. Politicians undertake new and serious attempts to regulate international markets via institutional frameworks. The tendency to move from control by nation states to voluntary codes of conduct and self-regulation of multinational companies, until September 2008 a common approach, has lost part of its credibility.

A third general feature of globalisation, and very important for the steel industry, is the growth of the market-based economies of Brazil, India and China. The remarkable growth of the Chinese steel industry was and is the overall dominating feature of the world’s steel industry.

A fourth and very prominent feature of globalisation is the weak position of labour because of the limited or non-existent international cooperation of organised labour. This feature, together with the concern for

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19 Typical examples of first attempts to come to international regulations and standards are UN Global Compact Rules, OECD-Corporate Governance Principles, ILO standards, WTO Rules, Kyoto Protocol.
serious environmental damage, forms the basis for the arguments and serious
cconcerns of the anti- globalisation movement. They are often expressed in the
ideas and policies of non- governmental organisations (NGOs).

2.2. Actors, principles and mechanisms

In order to find a way in this rather complex set of conditions, John Braithwaite
and Peter Drahos conceptualised the process in terms of relationships
between: 1) actors, for example corporations, NGOs, communities, business
organisations, states, and organisations of states; 2) principles, for example
lowest cost location, best practice, liberalisation- deregulation, continuous
improvement, transparency; and 3) mechanisms, for example military and
economical coercion, systems of reward, modelling, coordination, capacity
building, reciprocal and non- reciprocal adjustment (15).

Actors

In general, the first league of major actors in the steel industry is formed by the
major steelmakers, states and organisation of states, suppliers of raw materials,
and major ‘global ‘customers.

Other actors like national and international business organisations,
national and international NGOs, and regional authorities form a second
league.

I will first highlight the first league. Given the fact that steelmaking
has been considered as a strategic activity by many governments, it is
obvious that states have been and still are major actors in the steel industry.
Although the economic influence of the industry strongly declined in the US
and Western Europe, representatives of the industry are still important actors
on a national and international level. Especially in Western Europe, the steel
industry played an important role in the origin and creation of the EU20. The
rise of new important steelmakers in the BICs is closely linked to the economic
development of these countries, which emphasises the important role of the
state. In Japan and South Korea, the role of the state has been and still is a
decisive factor.

The state as important actor is of course also closely linked to the
economic model. The rise of the Japanese steel industry in the 1970s and the
South Korean steel industry in the 1980s are typical examples, as is the current
rise of the Chinese steel industry.

The decline of the North American steel industry is an opposite but
equally strong example of the important role of the state. The rise of the
Anglo-Saxon model after the Second World War initiated the decline of the
steel industry.

20 The steel and the coal mining activities in Western Europe laid the foundation of the first
supranational European organisation, the European Coal and Steel Community (ECSC).
The recent financial crisis once again underlines the importance of the state as strong actor. The national state is still the ultimate port of refuge.

Organisations of states like the EU, WTO, OECD, IMF, WB, and ILO do play a role. Especially the EU has been and is an example of a strong actor in the steel industry. It played an important role in the downsizing of steel capacity in Western Europe at the end of the 20th century. The OECD in Paris has a special steel committee.

The IMF was a major player in the economic rise of the BICs. The IMF rules may be debatable but they were of great impact.

The WB never played an important role in the steel industry. Its programs in this industry were limited. The development of a national steel industry in poor countries was, rightly, no top priority for the WB. I cooperated just once with representatives of the WB, in the Mexican project of AHMSA as described in section 1.1. The investment of the WB in AHMSA’s hot rolling mill was an exception.

Suppliers of the raw materials for the steel process, coal and iron ore, became major actors in the steel industry. The strong increase of the world’s steel production, due to the strong economic growth in the BICs, caused a strong demand for iron ore and coal.

The supply of these materials becomes problematic. The available capacity is limited, the development of new mines has a long lead-time given the necessary infrastructural investments, and the number of suppliers is limited. Especially the supply of iron ore is problematic with only three major suppliers, as mentioned before. Prices rose dramatically during the first years of this century and steelmakers were struggling to get their part of the cake. Important steelmakers like ArcelorMittal, Tata, and CSN tried to make their future more independent of the major suppliers by buying and developing their own mines.

The financial crisis of 2008 changed this picture dramatically. Suppliers of raw materials were confronted with a strong decrease in demands and struggled with their financial performance. However, this was only for a very limited time. Prices are up again and steelmakers will not change their strategy (Persson).  

A rather new phenomenon in the steel industry is the rise of the ‘global’ customer as a main actor. Especially in the automotive market, major companies like Toyota want to standardise their production. They want to work with the same quality of steel for their car assembly plants in Europe, in Asia and in the US.

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21 The Chinese need for iron ore increased exponential. In 2000, China used 16% of the world’s total iron ore volume. In 2010, this will be 70%. Price increases in the first decade of this century were dramatic: from $80 per tonne in 2006 to more than $220 per tonne in September of 2008. In September of 2008, prices dropped to the level of 2006. However, they were back to $190 in April of 2010. Prices increased 100-120% in one year.
By this, they put pressure on the steel industry, as major customers, not only from a quantitative but also from a qualitative point of view. Concentration allows the steel industry to handle this request from the market.

After elaborating on actors of the first league, I will now highlight the second league starting with international and national business associations. The most important international business association in the steel industry is the World Steel Association. This association was formed in 1967 as the International Iron and Steel Institute. All major steelmakers, 18 of the world’s 20 largest steel companies, are member of this organisation, including six of the top 10 producers in China. The main offices are in Brussels and Beijing. The members produce around 85% of the world’s steel. The mission of the association is to provide a forum for the world’s steel industry to address the major strategic issues and challenges it faces on a global basis. The CEOs of the major steel companies meet once a year at the annual conference. Staff members are part of this annual communication platform. Part 3 of this thesis will discuss in detail typical examples of the activities of the World Steel Association.

Another example of international business association is Eurofer, the trade organisation of European steel companies. Eurofer represents and promotes common interest of members in front of government and administrative bodies, political and social groups and the public. They are, amongst others, active in ‘joint lobbying’ in the EU-offices in Brussels. The European steel industry’s annual revenues total around 200 billion Euros; it directly employs 360 thousand people and produces about 200 million tonnes of steel per year. More than 500 steel production sites in 23 EU member states provide direct and indirect employment and a living for millions of European citizens.

A more focused international business association is the European Steel Technology Platform (ESTEP). The European Commission, major steel companies, steel research centres, universities, representatives of national institutes, and the European Commission are members of this association. It is an umbrella organisation of the European Iron and Steel Research Associations. ESTEP is supported financially by the European Commission. The main areas of activity of ESTEP are safety and health, climate change, sustainability, life cycle assessment, automotive steel, construction, technology, raw materials, packaging and stainless steel. On a regular basis they produce reports on all these subjects. One of their reports will be discussed later on in this thesis: The Sustainability Report 2005. In 2008, an update of this report was published. Workshops and conferences for specialists are organised per activity on a frequent basis.

22 Source: World Steel Association. 1 September 2010. <http://www.worldsteel.org/about-us/history-and-objectives.html>. The major areas of activity are safety and health, climate change, sustainability, life cycle assessment, automotive steel, construction, technology, raw materials, packaging and stainless steel. On a regular basis they produce reports on all these subjects. One of their reports will be discussed later on in this thesis: The Sustainability Report 2005. In 2008, an update of this report was published. Workshops and conferences for specialists are organised per activity on a frequent basis.

23 Source: Eurofer Annual Report 2010. Joint lobbying is no antitrust offence. Eurofer is not involved in the market activities of their members. Eurofer activities, considered to be permitted, are: discussions and exchange of views with regard to the market situation of product concerned, of general promotional opportunities such as possible new markets, or of new applications of the product; estimates of future trends and developments of the market; analysis of stocks held by producers, stock holders, steel service centres and end users; development of imports from third countries; information concerning the current, general and not individualised market price level.
governments, and trade unions are stakeholders in ESTEP. ESTEP searches for safe, clean, cost-effective and low capital-intensive technologies. Innovation and sustainability are their top priorities.

Each steelmaker is also a member of a national business association. The impact of this membership will differ per country and per economic model adopted by this country. Once again, the Asian and the Continental European model demand more coordination on the national level than the Anglo-Saxon model. Important steel producing countries like Germany and Japan have their own national steel business associations.

The given examples show a rich variety of business associations in the steelmaker’s world. It goes beyond the reach of this thesis to present a complete summary on business associations.

Each steelmaker has to deal with a rich variety of national and international NGOs: 1) NGOs in the field of contracts and property rights (International Law Association, International Association of Legal Science, Institute of International Law, International Association for the Protection of Intellectual Propriety); 2) NGOs in the field of finance (International Accounting Standard Committee); 3) NGOs in the field of trade and competition (Consumers International, International Confederation of Free Trade Unions) ; 4) NGOs in the environmental field (Greenpeace, WWF, International Union for the Conservation of Nature, Climate Action Network, specific national environmental NGOs) ; and 5) NGOs in the field of human rights (UN, Amnesty International).

Regional authorities are also important members of the second league of actors. Steel companies are very often the centres of activity of an industrial region. The steel plant functions as the centre of a cluster of many medium and small companies. They are suppliers of maintenance, equipment and services to the steel plant. Education and training facilities are part of this regional cluster. Because of this development, the regional public authorities play an important role. Most steel plants adopt a ‘good neighbour’ policy with these authorities. Both actors need each other’s cooperation. The steel plant guarantees economic activities and prosperity; the regional authorities must supply the environmental permits and assist in getting the necessary permits from the national public authorities. They are both active in organising education and training institutes in order to supply the necessary labour force for the plant.

24 At this moment, ESTEP is committed to the global warming issue: directly through the development of long-term breakthrough technologies, indirectly to bring lightweight solutions for cars and steel-based materials for energy efficient buildings.
Principles
‘Different actors align themselves with different principles’ (Braithwaite and Drahos 18). Steel companies will support principles of economic growth and lowest-cost location; environmental NGOs will seek to institutionalise principles such as sustainable development. ‘Understanding the conflict of principles is integral to understanding the globalisation of business regulations’ (Braithwaite and Drahos 18).

In order to keep the discussions between actors straight, Braithwaite and Drahos underline the importance of getting the definition of principle right, in their connection with the concepts of norms, standards, guidelines and rules.

‘Norms is a generic category, which includes principles, guidelines and standards’. ‘Principles have a high degree of generality and are settled agreements on conduct, recognised by a group’. Agreement on a principle can be worked out more in detail by specific rules. A change in principle will change the rules. Standards are different from principles: ‘Their central feature is that they are used as measures of conduct. Standards are norms that can be applied to measure their performance. Therefore, for example, the International Accounting Standards Committee can support principles such as those of transparency. Standards, unlike principles, can have a high degree of specificity. Guidelines are used to suggest a direction for conduct in conditions of uncertainty. They arise where there is an agreement that something needs to be done’ (Brathwaite and Drahos 19).

These differences should be well understood in order to keep the discourse between stakeholders on track. No rules without the principle behind the rules; no principles without agreement on the norm.

Steel companies will be confronted with principles like lowest-cost location, world’s best practice, deregulation, continuous improvement, transparency, sustainability, national sovereignty, etc.

Mechanisms
‘Mechanisms are the tools used by actors to achieve their goals and plans’ (Brathwaite and Drahos 9). Braithwaite and Drahos define mechanisms of globalisation of business regulation as ‘these mechanisms that increase the extent to which patterns of regulation in one part of the world are similar, or linked, to patterns of regulation in other parts’ (17)25.

‘We accept the idea of individual actors being the originators of change rather than mere agents of change. In philosophical language, we take

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25 Braithwaite and Drahos recognise as key mechanisms: military and economic coercion, systems of reward, modelling, reciprocal adjustments, non-reciprocal coordination and capacity building. Although examples of these mechanisms will show up in this thesis, I prefer to follow their focus on individual actors as originators of change in institutional structures.
seriously the intentionality of agents and the way in which their beliefs and desires can lead them to change their regulatory worlds’ (17).

The work of Braithwaite and Drahos has shown empirically that key actors matter a great deal in shaping world systems. Institutional structures have always found their origin in strategic actions by certain actors. Micro-experiments from individual actors can result in macro-action, changing principles and rules in the macro regulatory worlds.

A key role in dealing with the uncertainties of the world is played by what the authors call ‘webs of dialogue’ and ‘webs of influence’. Actors stay in dialogue with other actors in ‘webs of dialogue’ (Braithwaite and Drahos 563). These webs are ‘hierarchically neutral’ and form the breeding ground for the micro-action to a macro-change approach. A typical ‘web of dialogue’ in the steel industry is the World Steel Association, in which steelmakers from all around the world create dialogues on major issues within the steel industry via working groups and informal meetings during formal conferences, both on specialist level and CEO level.

In ‘webs of influence’, actors influence each other through many mechanisms. A typical example in the steel industry is the dialogue between actors from the automotive industry and specialists from steelmakers on the needs of car designers to make stronger cars (safety aspects) and lighter cars (environmental aspects). The continuous improvement philosophy results in the ratcheting up of standards. ‘The lead firm that pulls up standards is a more important upward dynamic than a (largely unenforceable) minimum standard to push up the laggards’ (Braithwaite and Drahos 615).

‘Webs of dialogue’ can change or develop into ‘webs of influence’ within a certain timeframe, because of changes in power and mutual dependence.

In this thesis, I will refer to the Micro-Macro method and the use of ‘webs of dialogue’ and ‘webs of influence’ as major mechanisms for change.

2.3 The coming into existence of multinational companies

Internationalisation and globalisation of the steel industry will result in new multinational companies. It is worthwhile to highlight the history and trends of the coming into existence of these companies in order to judge the coming process in the steel industry.

Multinational companies are the carriers of the internationalisation and globalisation process, and operate under the different conditions of a divergent capitalism (see next section 2.4). Almost every day we are confronted with the results of the performance of multinational companies. In all industrial sectors, products and services are supplied via extensive organisations with centres all over 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 low-cost products and services; inflation rates in 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 leaving regions behind with a suddenly increase in unemployment, and more recently financial scandals, and unacceptable pocket-filling behaviour of higher management.

However, negatively or positively, multinational companies are active and strong players in the internationalisation and globalisation process. Compared with the speed of change in the political arena the world of the multinational companies is a wild turbulent one with all aspects of fast and strong changes.

Literature about the shaping and growing of multinational companies shows a focus on the multinational company as a ‘highly rational entity’. In *Local Players in Global Games*, Peer Hull Kristensen and Jonathan Zeitlin made an empirical study of the strategic constitution of a multinational company. The title of this study fits very well in the internationalisation and globalisation of the steel industry. Local steelmakers like Mittal or Tata play global ‘games’.

The following history on the coming into existence of multinational companies is a summary of their study.

‘Stephen Hymer’s 1960 PhD thesis is often taken to be a breakthrough in modern theorizing about MNCs’. He was the first to observe that multinational companies were more than just ‘arbiters of capital’. Hymer ‘asserted that foreign direct investment involved the transfer of a whole package of resources (technology, management skills, entrepreneurship, etc.) and not simply finance’ (cited in Kristensen & Zeitlin 2005 7). The multinational company ‘becomes a means of advancing oligarchy power and profits’. Related to Hymer is the product-cycle theory of Raymond Vernon. He considers going abroad as a defensive strategy to maintain the competitiveness of a company, whereas Hymer considers it as an offensive act as expansion of market power (cited in Kristensen and Zeitlin 8).

In the 1970s, literature on multinational companies took a next step by embracing ‘Williamson’s work on markets and hierarchy, along with Chandler’s account on the evolution of the modern corporation’ (Kristensen and Zeitlin 8). ‘The multinational company was regarded as an ideal agency for reducing transaction costs on a global scale. It could be held to solve cross-border market failures to the benefit of both the firms themselves and their host economies’ (Kristensen and Zeitlin 9).

‘Adding to this picture, Bartlett and Ghoshal argue that multinational companies operating in a variety of environments are exposed to external
stimuli that enable them to develop competencies and learning opportunities not available to domestic firms’ (cited in Kristensen and Zeitlin 9).

Given all these positive aspects, it is obvious that ‘the formation of multinational companies became cumulative and that globalisation was seen as an irreversible process’ (Kristensen and Zeitlin 9). Today we can confirm that the process is indeed irreversible, but at the mean time, the world is also confronted with the negative aspects of the rise of this type of company.

The actual step-by-step growth of the multinational company has been described by John Dunning (Kristensen and Zeitlin 12). ‘The firm first begins to export from its home basis, usually through commission agents, then sets up foreign sales and marketing offices, and finally establishes production facilities in host countries abroad. When choosing host economies, firms tend to choose those that look the most similar to their home markets, and then later extend their reach, so that the transformation to a truly multinational company emerges gradually from a series of small incremental changes in administrative routines. After a certain period, the company then begins to integrate its regional and global activities more systematically by developing a new set of routines’ (Kristensen and Zeitlin 10). This is the general picture of the growth of a multinational company at the end of the last century and the beginning of the 21st century.

‘Dunning’s analysis confirms the genealogy developed by Gunnar Hedlund on the historical transformation of the multinational company’ (Kristensen and Zeitlin 13). ‘According to this view, organisational and managerial complexity emerges when multinational companies develop the first ethnocentric or ‘missionary’ phase as described by Hymer and Vernon, and enter into the new phase of polycentrism: the company becomes an assemblage of semi-independent units. The tendency in terms of control mode is to move towards looser coupling between units and from the hierarchy of ethnocentric to market solutions including transfer pricing on market prices instead of internal costs, freedom to choose external suppliers, rewards and punishment in monetary terms, and elaborate bonus payment systems that accompany greater turnover rates of personnel and organisational units being sold off and bought. Internationalisation is more and more conducted through acquisitions rather than green field venture’ (Kristensen and Zeitlin 13).

‘The third phase of ‘geocentrism’, which follows the polycentric phase, is seen as the one in which the company ‘internationalises the exploitation of (country) comparative advantages’. In this phase, ‘the subsidiaries have to implement strategies formulated according to global logic, they have been able to act quickly in response to competitive conditions, and they must be encouraged to look at a wider picture. Most writings on global strategy give the subsidiaries a less independent role than implied in a polycentric
multinational company. A re-centralisation of authority to headquarters often follows. The trend towards markets in the polycentric company is reversed. Also reversed is the tendency to duplicate activities in various subsidiaries’ (Kristensen and Zeitlin 14).

‘Hedlund proposes that in this third phase ‘hierarchy should be replaced by heterarchy in order to improve the ability to foster mutual learning’. He sees a transformation to a flexible network of ‘many centres, of different types’. This will result in a meta-institution, whose unique role is the effective design, on the basis of experience, of institutional arrangements for special tasks’ (Kristensen and Zeitlin 14). How this all will be designed and implemented remains an unanswered question.

When I judge the situation in the steel industry using Hedlund’s three phases, I notice that many steel companies are still operating in the ethnocentric phase. The industry is still much fragmentised and has very often a real ethnocentric ‘home basis’.

Some corporations, like ThyssenKrupp, NSC, American Steel, and Tata Steel, can be called a multinational, and are starting to enter the polycentric phase. In my opinion, there is only one company that has embarked on the third geocentric phase: ArcelorMittal.

The steel industry is ‘lagging behind’. It should learn from the learning processes of other industrial sectors that are more advanced in the ‘Hedlund-phases’.

Many authors put emphasises on the important role of mergers and acquisitions. It is seen as a reaction on the ongoing global competition and the growth of knowledge-based technologies. Alan Rugman and Alain Verbeke see ‘asset-seeking foreign direct investments through mergers and acquisitions as an outcome of: 1) the emergence of knowledge as the ‘key wealth creating factor’; 2) the rise of ‘transactional benefits’ of spatial proximity in the knowledge development process, which have led affiliates of multinational companies to become increasingly embedded in host country innovation systems; 3) the emergence of ‘alliance capitalism’ i.e. a collaborative, stakeholder approach guiding intra-firm relationships and inter-firm cooperative agreements in knowledge creation’ (cited in Kristensen and Zeitlin 16).

A major aspect of a multinational company is the fact that it links regional industrial activities to the global market. The international discussion on industrial organisations and ‘competitive dynamics’ focuses on two developments: 1) industrial districts or regional clusters of smaller firms, and 2) multinational companies expanding their global reach and becoming the lead agents of the globalisation process.

Originally, these two developments were seen as incompatible. However, ‘multinational companies can also be viewed as potentially
complementary to existing industrial districts or regional clusters of firms’ (Kristensen and Zeitlin 2).

Especially in the steel industry, multinational companies will have member-companies in regional districts, and each member-company, given the nature of a steel plant as a complicated production line of various installations, normally forms the centre of a rich cluster of small firms and educational institutions. The membership of a multinational company links the region with the global markets.

Kristensen and Zeitlin note five advantages for the regional member-companies (Kristensen and Zeitlin 2). These advantages are, firstly, easier access to low-cost capital via the financial network of the mother company. Secondly, membership can protect the region from increasing hostility of products and markets given the broader portfolio of the mother company. Thirdly, membership expands the global reach of the industrial district or region. In the steel industry, this is limited by transport costs. However, the expansion via knowledge-based products has no limits. Fourthly, member-companies can cultivate their own distinctive comparative advantage without losing access to complementary assets and competencies. This enhances ‘short- term cost effectiveness, but also provides access to a wide variety of capabilities and skills across member-companies that may be highly innovative combinations in the long run, and help the multinational company as a whole to cope more effectively with the pervasive technological and commercial uncertainty of the current world economy’. And fifthly, each member-company has ‘access to a multiplicity of cognitive perspectives and problem-solving approaches. This can lead to breakthrough innovations but also to continuous improvement of existing products and processes’ (Kristensen and Zeitlin 2).

All five advantages play an important role also in the steel industry. I will add a few remarks to these advantages:

1) The steel industry is a capital-intensive industrial sector. Although ACG will focus on ‘blockholding’ ownership (see section 6.2), the availability of capital will be still a major aspect of steelmaking;

2) A typical example is the availability for the Tata Steel in India of high-grade steel qualities developed by the IJmuiden plant for the automotive industry for the Indian market;

3) The same example as in the previous remark. The IJmuiden steel plant can expand its markets for product development of high-grade qualities to the Indian market, as it had already done for the British market after the merger with British Steel Company (including in this case real supply of steel given the acceptable transport costs to the UK);

4 & 5) The combination of skills and capabilities in India and Europe in the case of Tata Steel can accelerate innovations on a broader scale.

In this thesis, I will focus on this ‘bridge-function’ of the multinational
company, the bridge between the region and the global market. The bridge should be designed as a two-way connection between the two sides of the bridge. It should bring the mentioned advantages and should not be a bridge that brings foreign invaders to the region. Invaders just take all the ‘plus’ of the region and dump the weak and the useless, on costs of the surrounding civil society. In the literature on multinational companies too little can be found on the negative aspects of their creation.

For those negative aspects, we have to refer to the arguments from the anti-globalist movement. Three of its most well known authors are Naomi Klein, Noreena Hertz and Joseph Stiglitz. They all put emphasis on the growing illegitimacy of corporate-driven globalisation.

Less well known to the public but one of the leading representatives of the anti-globalist movement is Walden Bello. Bello notices ‘swiftly rising levels of resentment against the prime engine of globalisation: the multinational corporation’ (6). ‘Corporate-driven globalisation is a process marked by massive corruption and deeply subversive of democracy’ (18). ‘The so-called ethical crisis of the corporation is largely a symptom of a more fundamental structural crisis rooted in the dynamics of finance –driven deregulated global capitalism’ (21).

For Bello, the multinational companies are the executive power of the Western supremacy. The IMF, World Bank and WTO preserve the rich countries benefits, with the G8 and particularly the USA as leading forces. This was all written before the financial crisis of 2008.

Besides a destructive opinion about the corporate-driven globalisation, Bello also comes up with constructive ideas on how to change the scenery. He starts with borrowing the insights of Thomas Kuhn’s *Structure of Scientific Revolution* ‘When a paradigm is in crisis, there are two responses. One is to make more and more complicated adjustments, the other is to break away completely from the old paradigm’ (cited in Bello 107). He proposes to follow the ‘break away’ route and proposes a strategy of deconstruction- construction: deglobalisation of the national economy combined with the creation of a pluralist system of global economic governance.

Important names in the anti-globalisation movement are Seattle and Porto Alegre. The first big demonstration of the anti-globalisation movement, a protest against the deepening crisis of legitimacy of the prime institutions of the global system at the end of the 20th century took place in Seattle. The protest was scheduled during the World Bank- IMF spring meeting in April of 2000. One-year later 12.000 representatives of the movement met in Porto Alegre, Brazil, to declare that ‘another world is possible’. The ‘World Social Forum’ was founded as a political and ideological nemesis of the World Economic Forum of the global elite, founded in Davos in 2001.

26 Walden Bello (1945) is Professor of Sociology and Public Administration at the University of the Philippines, as well as Executive Director of Focus on the Global South.
2.4. The Varieties of Capitalism

Multinational companies have to face the differences between the various economic models of capitalism.

Subsidiaries operate in different part of the world under different economical circumstances. They have to deal with the existing regulations and mores of their social and economical environment. These differ per country and ask for specific approaches and solutions.

Literature refers to this differentiation as ‘Varieties of Capitalism’\(^{27}\). There are two major new developments influencing the ‘classic’ Varieties of Capitalism approach: the recent growth of the economies of the BICs, and the strong influence of the financial economy on the real economy.

*The ‘classic’ Varieties of Capitalism*

Subsidiaries in the US and the UK have to deal with the Anglo-Saxon model in uncoordinated or liberal market economies (LMEs). Subsidiaries in Europe and Asia have to deal with the Continental European model or the Asian model of more coordinated market economies (CMEs).

This difference between CMEs and LMEs as introduced by David Soskice is the most appropriate one (Soskice 103). Soskice recognises two economic models within the CMEs: the Northern-European model with industry coordinated economies and the ‘Nippon’ model (of which the most well known representatives are Japan and South Korea) with group-coordinated economies (‘keirutsu’ in Japan and ‘chabols’ in South-Korea). Both forms of CMEs concentrate themselves on long-term cooperation in the financial system, the system of industrial relations, the education system and the ‘intercompany’ system.

LMEs as typical representatives of the neoliberal market philosophy are characterised by market deregulation, short-term orientation, sharp competition and lack of coordination between industries and industrial sectors.

Elaborating on the work of Soskice, Bruno Amable introduces five models linking them with the role of institutions and changes in this role, at the beginning of the 21st century. He distinguishes the market model (to be compared with Soskice’s Anglo-Saxon model), the social democratic model, the Continental European model (to be compared with Soskice’s North European model), the Mediterranean model (part of Soskice’s North-European model, although Soskice recognised a state-business-elite CME variety of this model in Italy and France) and the Asian model (to be compared

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\(^{27}\) Numerous publications on this subject can be found: Richard Whitley’s _Divergent capitalism_ (1999), Bruno Amable’s _The diversity of Modern Capitalism_ (2003), Colin Crouch and Wolfgang Streeck’s _Political Economy of Modern Capitalism_ (1997), H. Kitschelt’s _Continuity and change in Contemporary Capitalism_ (1999), Robert Boyer and J. Rogers Hollingsworth’s _Contemporary Capitalism_ (1999). See Bibliography.
with Soskice’s ‘Nippon’ model (Amable 14).

Soskice, Amable and other authors agree on the fact that there is no trend toward convergence. The neoliberal character of the globalisation process suggests a convergence toward the Anglo-Saxon model, but in practice, each model still survives on its own territory adopting some elements of the Anglo-Saxon model without changing its character and its institutions. The recent financial crisis confirms this trend given the negative publicity on the neoliberal philosophy.

The steel industry asks for a long-term orientation, as described in chapter 1, and finds the right conditions in CMEs. The conditions in LMEs like the UK and the US have ruined the steel companies in these countries. They became easy candidates for acquisitions by foreign steel companies.

Further detailed features of CMEs and LMEs will be elaborated in chapters 3 and 4 in relation to corporate governance.

The rise of the BICs
The recent growth of the economies of the BICs and the related changes in political and economic power can change the ‘classic’ thinking in models. This ‘classic’ approach is too much focused on industrially advanced countries. The financial crisis of 2008 has accelerated the transfer of economical and political power to the BICs (Kalse).

Roberto Unger sees new political and economic developments in countries like Brazil, which will result in new institutional thinking, and changes in the modelling of economies. Unger took the decision to leave the ‘save’ academic world and became Minister for Strategic Affairs in the Lula-government, combining ‘thought and practice’. He is convinced that the world will change through a ‘combination of initiative and message’. He considers the ‘Varieties of Capitalism’ of rich countries as just a limited view on possible varieties. He does not make difference between the different models in the North Atlantic countries. The more ‘social democratic’ approaches in CMEs are just attempts to soften the neoliberal economic policies without really changing the scenery.

According to Unger, the social-democratic program does not face the real social economic conflict: the conflict between insiders (privileged workers hiding in their niches) and outsiders (no participants in the attractive economic processes), entrenched in the division between vanguard and rearguard industries. It will support the vanguard of business in its project of industrial renovation. It will help the people excluded from the vanguard. Not

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28 Roberto Mangabeira Unger is a Brazilian philosopher and one of the leading social theorists. He represents the ‘philosophical mind out of the Third World’, educated in the First World at Harvard. Richard Rorty compared Unger’s vision of Brazil in the 21st century with the vision of the American philosophers Walt Whitman and John Dewey of the ‘gloriously possible’ of the American society in the 20th century (Rorty, Unger, Castoriadis, and the Romance of a National Future).
by helping them to join the vanguard but just to let them survive. This is a seriously negative statement on the ‘social democratic ‘program.

Unger is looking ‘for something better than the reconciliation of European or Japanese traditions of social protection with American style market flexibility’ (Unger 28). The development of an alternative is simply the most recent variation of the broader and more enduring problem of alternative pluralisms: the diversification of the institutional forms of representative democracies, regulated market economies, and free civil societies. This requires institutional innovations. These innovations are possible given ‘the legal indeterminacy –the multiple possible forms – of abstract institutional conceptions like the market economy and representative democracy’ (Unger 23).

Unger developed his own interpretation of the democratic cause – democratic experimentalism –, combining hope with a practice of thought and action. ‘Democratic experimentalism needs the tools of the institutional imagination’ (Unger 15)29. Democratic experimentalism is a plea for a step-by-step change of institutions, no revolution. Still it will be a ‘radical reform’ based on transformative politics, not a matter of ‘humanizing the inevitable’ attitude of ‘conservative, disappointed social democrats’ (Unger 20).

The growing economical and political power of the BICs together with the new leading role of the BICs in the steel industry justifies emphasis on Unger’s position. These countries and their steel sectors will take part in possible future changes in thought and action.

The same applies to Bello as mentioned in section 2.3. Roberto Unger and Walden Bello represent two voices of The South. They are important voices in the world of the BICs and for that reason important for the steel industry.

*The link between the financial and real economy*

The institutional links between the real economy and the financial economy are not adequately conceptualised by the ‘classic’ Varieties of Capitalism -School. The financial crisis of 2008 has shown the influence of the financial world on the real economy. I will quote three scientists in order to ‘colour’ this impact.

29 ‘Institutional imagination’ as an important instrument for creating social changes in societies also applies to the way the Western world should face the trends in globalisation. The steel industry is an innovative industrial sector and has opportunities to fit into new institutional initiatives. The German answer to the global competitive struggle is already much more creative than answers from other European countries. The Germans still promote and stimulate real manufacturing industrial activities. The Netherlands has already lost many manufacturing activities and seems to concentrate itself on the service industry. The American sociologist Charles Wright Mills already emphasized the social responsibility of scientists in creating new opportunities for the society in which they operate (Wright Mills, *The Sociological Imagination*), and can be considered as a precursor of Umberto Unger.
René Tissen as professor of business administration, claims that ‘financial managers lost sight of the real character and content of companies and considered them just as “money machines”’(Tissen).

The economist Anton Hemerijck argues ‘as deregulation brought concentrated wealth to sectors that benefited from even further deregulation, accumulated wealth was efficiently translated into a strong financial lobby in London, New York, and Washington. The financial sector effectively brought political power. Therefore, the failure of politics lies in its inability to resist being hijacked by financial interests. Blaming neo-liberal ideology and intellectual inertia is insufficient’ (Hemerijck et al. 34). ‘Policymakers do seem to have forgotten the fundamental truth that the benefits of global economic interdependence rely heavily on robust social and political institutions, reminiscent of the era of embedded liberalism’ (Hemerijck et al. 35).

Frank Ankersmit, as professor of the philosophy of history, states that ‘we were confronted with various forms of capitalism. First we had the industrial capitalism, then the investor capitalism, both completely incomparable with the banking capitalism of today’ (Ankersmit).

These opinions show growing concern. However, insight into the relationship between the financial and the real economy is still limited.

Both aspects, the rise of the BICs, and the relation financial-real economy will play an important role in the future developments in the steel industry.