3. The steel industry and its corporate governance

In chapter 2, I dealt with the Varieties of Capitalism and the degrees of coordination in different economic and political environments with which the steel industry has to deal. I noticed that there is no convergence to one single model. The economy is too complex, and politics has a substantial influence from on corporate governance. As a result, there is also no convergence to a single corporate governance model.

In this chapter, I discuss the history and recent trends of corporate governance (in section 3.1) or, in other words, the internal governance of corporations given the external social, political and economic conditions as elaborated in chapter 2. Although the governance of corporations has played an important role since the beginning of industrialisation, I limit my summary to recent history, from the 1960s to the present. The main reason for this limitation is the rise of the ‘human factor’ in corporate governance theories since that time. Corporate governance theories began to look beyond rational management analysis and explore the social complexity of corporations. ‘People’ were put at the centre of change. A second reason is that I can refer to personal experiences in corporate governance trends and the way they were implemented in the steel industry.

I put special emphasis on corporate social responsibility and stakeholder theory as the two latest developments within the field of corporate governance. Both developments are extremely important for the steel industry, given its labour and capital-intensive character and its continuing role as basic industry in many countries.

In section 3.2, I focus on the recent trend of ‘financialisation’ of contemporary capitalism, resulting in ‘marketisation of corporate control’. This trend is a common trajectory in all Varieties of Capitalism (Overbeek et al. 205), and does not reduce the divergence within the varieties. Given the impact of the financial crisis of 2008, I have added a special section, 3.3, to this phenomenon. In section 3.4, I explain why I consider the steel industry to be a suitable breeding ground for ACG.

3.1. History and trends

In studying the history of corporate governance theories, we notice the trend of regarding corporate governance as a non-political subject. The link with the surrounding environment and its politics is often underexposed. This is especially the case given the predominant North-American influence in the corporate governance theories and literature of the last fifty years.

However, corporate governance is about power and responsibility, about accountability. Who controls the company and for what purpose? Corporate governance practices in part reflect public policy choices and
hence show differences among countries. Interest groups fight via political institutions. Elements of politics – interests, institutions, and political conflict – are in play all over the world. The fight about corporate governance reflects the fact that it ‘affects the creation of wealth’. ‘Everyone has a stake in the corporate governance system’. ‘Corporate governance structures are fundamentally the result of political decisions’ (Gourevitch & Shinn 3). In chapter 1, I already described the close link between politics and economy in the world steel industry. However, even these studies still treat companies as a ‘black box’. They mainly refer to economic regulatory mechanisms and companies’ social and economical environment but disregard the internal corporate governance.

The only theories and literature that cross the factory threshold and enter the ‘black box’ are those on participation and empowerment of ‘workers’ or employees, mostly limited to the West-European continent. Participation and empowerment do have a political aspect, which is reflected the term ‘Industrial Democracy’ by which they are indicated. Although Industrial Democracy seems to concentrate itself on participation, it does influence the governance of companies. In the 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 concentrating itself on participation and empowerment, the influence on corporate governance is substantial as the history of German ‘Mitbestimmung’ shows. The steel industry played an important role in this history.

The recent financial crisis confirmed the role of politics in corporate governance in a very direct way. Not to involve politics in corporate governance is and was just another way of leaving the distribution of power unchanged. By this, it was indirectly an actual political choice. The recent introduction of corporate social responsibility (CSR) and stakeholder theory- has changed this attitude, as will be explained.

I consider this thesis as the ‘meeting point’ between ‘North American’ corporate governance theories in their new appearance of corporate social responsibility and stakeholder theory, and the ‘European’ Industrial Democracy theories on participation and empowerment. I will blend the two ‘brands’ to a balanced ‘social embeddedness’ of corporations in their social environment.

In chapter 4, I describe history and trends in Industrial Democracy. In this chapter, the focus is on the ‘North American’ corporate governance theories. Because of the strong hegemony of their industry, the North Americans dominated corporate governance during the first decades after the Second World War and the related strong development of North American business schools like Harvard and MIT since then.

I will start with two well-known representatives of the 1960s: Douglas
McGregor, of MIT, and Rensis Likert, of the University of Michigan. Douglas McGregor presents his view on industrial organisation and management of human resources in his famous book *The Human Side of Enterprises* (McGregor). He addresses the central dichotomy of management: ‘Are workers self-motivating individuals or are they fundamentally lazy and require constant policing?’ He demonstrates the unrealistic and limiting assumptions of traditional theories of management (Theory X) concerning human nature and the control of human behaviour in the organisational setting; he states that the reliance on authority as the primary means of control in industry leads to resistance, restriction of output, indifference to organisational objectives, the refusal to accept responsibility, which results in inadequate motivation for human growth and development. He introduces the Y-theory with a high degree of participation and motivation of employees, based on advanced social science knowledge of human nature and behaviour, and resulting in high social and economic performance of organisations.

Rensis Likert presents his ideas on leadership in his book *New Patterns of management* (Likert). His emphasis on employee centred supervision and the relation between managers and employees, underlines the ideas of Douglas McGregor.

There is a view that the pendulum of management ideas simply swings between these two basic theories X and Y, and everything else would just be window dressing (Crainer and Dearlove 18). The pendulum indeed passes numerous management theories. In this thesis, I will refer to the most outspoken of these theories.

When I started to work for Dutch steelmaker Hoogovens in 1965, the American steel industry and the American way of doing business were leading in the industry. This changed dramatically in the 1970s. ‘The oil and inflation crises were followed by an even deeper crisis of business confidence’ (Crainer & Dearlove 11). In many industries, especially in the steel industry, the crises in the US and Europe resulted in an orientation on the Japanese way of business management of production, R&D and human resources.

The 1980s reacted to the decline by an outburst of new management styles. In *The Art of Japanese Management*, Richard Pascale and Anthony Athos introduced the Japanese business strategy According to them, there

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30 In developing Associative Corporate Governance in this thesis, I will show that the associative philosophy can be considered as a dignified heir of McGregor’s Y- theory.

31 Mid 1970s, major investments in the European steel industry came on hold. The orientation on Japan started already in the early 1970s. I was personally involved and made several trips to Japan to learn about the new technologies. At the same time, colleagues in the Production and Human Resources Departments visited Japan to study the employee morality and the lower cost structure.
was a convergence of three factors: 1) the convulsions during and around the Vietnam War called authority into question in every sphere; 2) the Japanese competitiveness alerted the US and European industry; 3) the first signals of globalisation and ‘disruptive technological change’ (Crainer and Dearlove 11).

In *In Search of Excellence*, Tom Peters and Robert Waterman introduced radical ideas to help the US to regain its competitiveness.

These two and many other comparable publications coincided with an important shift in business thinking. Three major subjects showed up on the agenda: 1) the recognition of the ‘human potential factor’; 2) the rise of a new global language of business including universally recognised models; and 3) a commitment to ‘learning and constant change’ (Crainer and Dearlove 12).

The first subject – the recognition of the human potential factor – put people high on the agenda of corporations. Corporate governance became people-centred and management became aware of the social complexity of doing business.

Peters and Waterman introduced eight keys to excellence (Peters and Waterman). 32 Some of these keys are still very useful:

- ‘Productivity through people’ (235) fits into the participation philosophy of ACG;
- ‘A bias for action’ (119) fits into the Learning by Monitoring approach;
- ‘Simultaneous loose-tight properties’ (318), ‘autonomy and entrepreneurship’ (200), and simple’ form, lean staff’ (306) fit into the autonomy philosophy of ACG;
- ‘Hands on, value driven’ or ‘decide where your company stands for’ (279) fits into the company values feature of ACG;
- ‘Close to the client’ (156) fits into the stakeholder orientation of ACG;
- Only ‘stick to the knitting’ (292) is a general and not a typical ACG feature. Steelmakers should make steel.

Of course, Peters and Waterman were typically US-oriented. They did not include the consequences of these factors to the point of real workers’ participation in the strategy and policies of the corporation. Nevertheless, the fact remains that they put the ‘human factor’ high on the agenda.

The introduction to the Japanese style of management by Pascale and Athos’s book was a second push in this direction. Japanese management combined the economic and social aspects of a corporation. Lifetime employment, introduction of shared values, training and education, employee

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32 I became acquainted with Peters and his ideas during a Senior Management Course at MIT spring 1983. He had just published *In Search of Excellence* autumn 1982. Coming home, I introduced the ideas of Peters and Waterman in the business unit for which I was responsible at that time. We contracted Peters himself for a performance in a few sessions. His charisma had quite an impact on the organisation.
participation on the shop floor, consensus, it was all there. The steel industry was especially impacted by this management style, given the fact that Japanese steelmakers became leading companies in the world steel industry. Many steelmakers in Europe embarked on cooperation agreements with Japanese colleagues. Hoogovens worked very close together with Nippon Steel Corporation, both on technological and management aspects. I myself made several long trips to Japan as a trainee in the 1970s and early 1980s.

The second subject—the new language of business—was marked by the start of the ‘buzzword culture’ (Crainer and Dearlove 12): Peter Drucker’s ‘management by objectives’; Peters & Waterman’s ‘sticking to the knitting’; Dave Pachart & Bill Hewlett’s ‘Management By Walking Around’; Michael Porter’s ‘Five Forces framework’; Richard Pascale & Anthony Athos’s ‘The Seven S framework’; James Champy’s ‘Re-engineering the Corporation’; ‘Total Quality Management, TQM’ (originally introduced by Edwards Deming in the 1960s but boosted in the 1980s by the Japanese challenge).

The third subject, the commitment to the learning organisation, was based on and stimulated by the practices of Japanese competitors. This commitment stayed on the agenda until the present. ‘Benchmarking’, ‘best practices’, and ‘learning and discourse’ became central issues. ‘Peter Senge’s book *The Fifth Discipline: The Art and Practice of the Learning Organisation* and brought the concept of the learning organisation to a mass audience’ (Crainor and Dearlove 15).

In addition, here, the Japanese influence with its emphasis on skills and education was substantial.

To summarise the coming and going of all these management theories in this early period in an introductorily subsection to my thesis is an almost impossible job. I have mentioned a few of the most well known contributions to the growing stream of management theories and ideas in order to show the leading trend. Not all ideas worked out that well.

A recent example of a successful issue is the emphasis on ‘shareholder value’. One of the first leading publications was *Creating Shareholder Value for Business: the New Standard for Business performance* by Alfred Rappaport in 1986 (Crainer and Dearlove 16). The pioneering contribution in which the dichotomy of owner control versus managerial control is presented—which forms the basis of the shareholder value concept—is Adolf Berle and Gardiner Means’ *The Modern Corporation and Private Property*, first published in 1932. This dichotomy resulted in an increased adoption of scientific methods in management and the creation of new ‘white collar’ managerial levels. This emphasis on quantity and quality of middle and lower management levels is

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33 MBWA, ‘Management by Walking Around’, is second on the list of my own experience. I found it a very effective management tool and used it during my whole career.
well described in James Burnham’s *The Managerial Revolution*, 1941.

Until now, the focus on creating shareholder value and limiting the agency costs of management still stands, especially in Anglo-Saxon way of economic thinking. The merger between Hoogovens and British Steel Company was a rough way for the Dutch, including myself, to become acquainted with the shareholder value issue. It was a real culture shock in which the impact on the day-to-day running of the business with completely underestimated. Trust was replaced by distrust and control freaks took their chance. The attitude of working hard and keeping an open mind was challenged by calculated behaviour and covering one’s back. Financial management took over the leading position, paying only lip service to issues like technology development and long-term strategy. Participation and workers councils were considered as ‘Dutch disease’.

As mentioned before, the management of corporations put people high on the agenda. However, they did not stay there for long. The rhetoric of the majority of CEOs still claims that ‘our employees are our biggest asset’, but they treat them differently, using new management tools such as outsourcing or by playing off people in different subsidiaries against one another, and by threatening to close the facility. However, most blunt is the disregard for employees’ interests when selling the company. Companies are sold only based on the shareholders’ value aspect. Very often, even the management has no influence over the process, and decisions are made by the banks involved in the process. The highest bidder gets it all. A recent example in the steel industry is the auction organised by the UK Takeover Panel in which Tata Steel bought steelmaker Corus (Thomas).  

In these takeover processes, all bidders promise to respect the interests of management and employees. However, as soon as the buyer signs the deal, he puts its CFO or CEO at the top of the organisation and implements changes without having any scruples about these interests, e.g. the creation of ArcelorMittal and Corus.

Believe in ‘taken-for-granted’ recipes for success has diminished considerably among managers and boards of directors. And even more so among other stakeholders. A cynical view is that many companies use management fads as little more than a way to administer an electric shock to the organisation. The big idea itself is less important than stirring the corporate pot. Recent frequent circulation of top management further undermines more belief in ‘new ideas’ on the lower levels. Every newly appointed CEO comes with his or her own program to boost performance. However, the average time he or she stays in charge is too short to put responsibility on his or her

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34 Thomas, Prince Mathews & Sudeshna Sen, in The Economic Times, 1 February 2007. See also personal interview with Rauke Henstra, Managing Director Steel Division Corus.
shoulders for the result of the program. This creates a split between power and responsibility, which makes the whole program slippery and unreliable.

The latest example is the reorganisation of Tata Steel Europe, announced in the first months of 2010. A centralised functional organisation will replace the existing division and business unit structure. A newly appointed CEO and Chief Operating Officer, both from outside the company, announced this new organisation in order to fulfil the wishes from the new owner of the Dutch and English steel plants: Tata. The two existing division managers left the company. No Dutch representative is left in the top management of the steelmaker. The top management of Tata prepares all changes, top-down and without scruples. In the mean time, the new CEO has already left the company. The trust of the European Works Council in the top management of the company has decreased to a minimum. In my personal interview with Frits Van Wieringen, Chairman of the European Works Council of Tata Steel Europe, he states:

‘The takeover by Tata has increased the problems in the company: strong decrease in maintenance activities, fewer investments, less attention for safety measures, no or limited contacts with workers representatives, no communication or participation on proposed changes in company structure’.

This shows that Tata Steel apparently has two different ‘faces’. On the one hand, I mentioned the social embeddedness of the company in their hometown Jamshedpur; on the other hand, the company behaves aggressively in the financial world playing the game according to its rules. In my personal interview with Rauke Henstra, Chief Operating Officer of Tata Steel Europe, he confirms the two different faces:

‘The governance style of Tata is top-down. However, at the same time I recognise and confirm the stakeholder constructive harmony-model. Management takes the time needed for this attitude. They show their open mind by taking risks; failure is allowed. It is comparable with the former Hoogovens-style. They do not want to be compared with Mittal’.

Nevertheless, the academic discourse on corporate governance develops further. Nowadays, we see the previously mentioned strong focus on ‘corporate social responsibility’ (CSR). In addition, recently ‘stakeholder value’ challenges shareholder value.

Both developments are not very ‘new’ and, as already mentioned, extremely important for the steel industry. The focus on the social environment of the corporation and actors involved can already be found in the literature of the 1980s and 1990s. The top four on the list of experts of general management on these subjects have given various statements (cited in Van Tulder and Van...
Peter Drucker states explicitly that organisations should meet their societal responsibilities. He introduced the ‘enlightened’ manager: the responsibility of managers is the managing of the social effects of the corporation on its environment. More social responsibility is the price to be paid for commercial success;
- Charles Handy argues for a more holistic and ethical view of business;
- Henry Mintzberg states that the ideal corporate model does not exist: ‘Corporations are social institutions. If they do not serve society, they have no business existing. The argument that they serve society by making money and creating jobs is coming apart’;
- Rosabeth Moss Kanter ‘supports the idea that social capital along with social embeddedness of organisations is the most important form of ‘capital’ to take into account when trying to effectively change companies’.

Special mention should be given to Arie De Geus. He introduced the concept of the ‘living company’ (*The Living Company*). Companies cannot exist in isolation. ‘Companies should harmonise their values in consultation with important stakeholders’ (Van Tulder and Van Der Zwart 150).

CSR and stakeholder theory fit very well in the governance of steel companies. Steel plants with their heavy investments and long-term presence form the nucleus of industrial communities and most of them strive for a ‘good neighbour’ relation with the local and regional authorities. ‘Good neighbour’ policy can be seen as a first step in the CSR- policy of the company.

Steelmakers are also well known for their cooperation with customers and suppliers, as important stakeholders of the company. Steelmakers are aware of the value of good relationship with stakeholders. I will give a short introduction of the two new governance tools.

**Corporate Social Responsibility (CSR)**

The word ‘social’ in CSR implies that companies are aware that there is a link between the internal governance of the corporation and the surrounding society in which the company operates.

‘In order to analyse the functioning of societies and the relative success of specific business strategies, sociologists, political scientists, economists and management scientists often depict society in the form of a triangle with three distinct, but related, spheres: the state, the market and the civil society. The functioning of these *societal spheres*, individually and in interaction with one another, determines the manner in which a society functions as a whole’ (Van Tulder and Van Der Zwart 8). The way a company organises its contact with the state and civil society is called ‘societal management’.
In chapter 2, I have elaborated on the complex relationship between the corporation and its environment. The triangle state-market-civil society knows many varieties and hybrids. Multinational companies operate in different ‘social systems of production’ (Boyer and Hollingsworth 457), depending on the type of production and on different spatial-territorial levels: local, regional, national, transnational, and global. That means that CSR as societal management has to face different societal environments. CSR needs a ‘contextualised approach’. There will be overall minimum standards for a corporate CSR policy, but per region there will be more specific policies.

Ronald Jeurissen recognises three major developments leading to an increasing need for corporate responsibility.

The first one is the increasing deregulation in economic areas of the developed countries. This ‘calls for an increased self-regulation of businesses and industries’ ‘Governments take a less centralist position and leave more space for individual and collective self-regulation by businesses; as a result, the responsibilities of businesses increase’ (Jeurissen 11).

The second development stems from the globalisation and internationalisation of industries. The globalisation provides the opportunity for multinational companies to operate in third world countries with a low standard of human rights and environmental laws. ‘Effective supervision of international corporate behaviour is lacking. This puts a high pressure on corporate responsibility awareness’ (Jeurissen 11). This pressure even increases if new strong competitors from countries like China put no or limited emphasis on this aspect of business.

The third development is the rapid technology development in our society. This forms an ‘almost inexhaustible source of moral questions’ (Jeurissen 11). How to handle the consequences for society?

I want to add a fourth development: the increasing impact of the environmental issue. How do we handle the increased pollution resulting from the strong growth of the world steel production? I distinguish three aspects of this issue: 1) the ‘classic’ direct pollution by steel plants; 2) the global warming aspect; and 3) the scarcity of raw materials.

Steel plants were and are well known for their ‘classic’ environmental threat of the direct vicinity. This is still the case in countries like Russia, Brazil, India and China. However, modern steel plants in Europe, Japan and South Korea show that technologies are available to take care of the direct pollutions resulting from of the primary production processes\(^\text{35}\). Nevertheless,

\(^{35}\) Decrease in pollution is based on: 1) the implementation in the past and the present of new process technologies e.g. BOF- steelmaking replacing the ‘dirty ‘Open Hearth’ steelmaking, and continuous casting, replacing slab casting; 2) available ‘end of pipeline’ water- and gas cleaning technologies.
it will remain an important issue that demands for continuous care, also given the continuous development and tightening of the environmental legislation in many countries.

New and of growing impact is the recent awareness of the ‘global warming’ issue. The steel industry is one of the major greenhouse gas producers and plays a crucial role in this global warming issue. Greenhouse gas emissions are 1.7 tonne/tonne of produced steel. The steel industry and the energy production sector are the two top producers of greenhouse gas.

On top of that, the industry has to face increasing scarcity in raw materials and energy. Prices of ore and coal, the two major raw materials, have exploded during the last few years. For a sustainable future, the steel industry has to define answers to the global warming issue and the shortage of raw materials.

The increased need for CSR for takes place against the backdrop of ‘democratisation of morals’:

‘Traditional authorities are no longer the only moral decision makers. We take these decisions together, and everyone has the right to speak, as long as we grant that right to others as well, and as long as we acknowledge that we must, through a process of critical mutual deliberation, seek moral standpoints that stand up before a panel of intelligent, well- informed and interested peers’ (Jeurissen 12).

It is obvious that, in the first place, this refers to the western democratic regimes in which a multinational company is operating. In addition, in non-democratic countries like China the pressure is growing in this direction. The continuity of the Chinese economical growth is threatened by the increased awareness of Chinese citizens that companies do not take sufficient responsibility for the social consequences of their corporate behaviour (Grootveld)36.

Opponents of CSR consider CSR as an attack on the foundations of the free capitalist market society. The most famous opponent was the renowned economist Milton Friedman. In his opinion, managers should go for maximum profits and should not spent money from shareholders on cases of their own

36 There are three major threats to the continuation of the Chinese economy growth figures: the ever-growing population, the enormous environmental damage and the growing difference between the rich and the poor (NRC Handelsblad of 4 January 2011: Interview with Dr Yu Yongding of the Chinese Academy of Science, Beijing. The last two threats are directly linked with the social responsibility of Chinese corporations.
The most important objection against Friedman’s position is that it relies on an unrealistic market model of perfect competition. In reality, actual markets do not come close to the ideal type of perfect competition. The tension between the interests of a company and its social environment is also well described by Sjef Stoop (312). On the one hand, extension of the company involvement in its social environment can lead to restricted freedom of citizens; on the other hand, it can result in a decreased say of the company’s owners in its activities. Stoop describes the shift from increased influence by the society in the 1960s to a decreased influence during the last decades of the twentieth century. His research concerns three major Dutch regional companies, among which the steel plant in IJmuiden. He concludes that the boundary between company and society is never a constant. The steel plant in IJmuiden withdrew from many social activities like education, welfare work and housing accommodation during the last decades. The internationalisation of the company also contributed to this change. However, Stoop recently noticed an increased number of social-political initiatives like sponsoring and community services. He states that the social equilibrium between companies and society had and has a strong political aspect. To mention two examples: the still continuing possibilities for a company to pass expenses of restructuring and lay-offs on to the taxpayers, and the ongoing request from industry to public authorities to increase quantity and quality of the output of educational institutes, will feed this political aspect.

The Tata steel plant in Jamshedpur is an extreme example of social involvement of a company with its social environment. In general, steel plants have these strong social ties with their regional environment given their strong influence on the regional economy and their long-term orientation.

Stoop states that increased involvement of companies in their social activities will have a positive influence on the development of more democratic corporate governance. It will increase the possibility to talk to companies about their social conduct (Stoop 323). However, this is exactly what opponents of CSR fear.

Supporters of CSR consider the manager not only as the agent to the shareholder’s principal but also, in fact, to all stakeholders. CSR should

37 This opinion is based on the classic separation of management and ownership. The separation of ownership and management should be solved through implicit or explicit contracts in which individual rights of the management are well specified, so costs and rewards are clearly allocated. This general idea is elaborated in the *Agency Theory (AT)*, resulting in the firm as a multitude of complex relationships between the legal fiction (the firm) and the owners of labour, material, and capital input. The conflicting interests among the participants are brought into equilibrium within a framework of contractual relations. These transactions within a firm or hierarchy enhance efficiency, reduce transactions costs, and minimize the opportunism inherent in exchange relations. This focus on contracts as the ruling principle between economic players is known as *Transaction Costs Economics (TCE)*.
always be focused on two aspects, namely the responsibility for the continuity of the company and the duties towards various stakeholders. As such, CSR is of great moral importance since the interests of all stakeholders depend on it. This means that CSR should be part of the overall corporate strategy and the corporate governance.

Ans Kolk also pleads for a next step in CSR. CSR should go beyond the ‘traditional’ approach: broad definition, low measurability, no clear compliance mechanisms, an emphasis on ‘win-win’ situations, focus on reputation aspects, and low sustainability. CSR should become part of the overall managerial systems and processes of the company. In the new approach CSR should focus on serious social and ethical issues, regional and international, and should develop rules and procedures for ‘win-lose’ situations between stakeholders (Kolk, Het eind 9).

Stakeholder value
This brings me to the second issue of modern corporate governance: stakeholder or stakeholder value. The often-quoted definition of stakeholder is that of R. Edward Freeman: ‘A stakeholder in an organisation is any group or individual who can affect, or is affected by, the achievement of the organisation’s objectives’ (Freeman 52).
From a moral perspective, the definition should be changed into Jeurissen’s definition: ‘Any party whose justified interests can be influenced by a business’ activities or parties which can influence the justified interests of that business themselves’ (118).

There are many stakeholders dealing with companies. They can be split into different categories. Jeurissen distinguishes two types of stakeholders, namely ‘economic’ and ‘social’ stakeholders. Economic stakeholders are ‘all those who invest in the economic traffic with the business and who bear part of the risk’ (Jeurissen 118). Groups that come in mind are managers, employees, shareholders, consumers, suppliers, partners in a joint venture, and competitors. The relationship is characterised by an economic exchange: labour for wages, capital for dividends, raw materials, supplier services and consumer products for current prices.

Besides economic stakeholders, a business has certain responsibilities towards parties in society, the social stakeholders. These stakeholders have no direct economic exchange with the business but have interests in what the business does. Henk Van Luijk and Arnold Schilder (cited in Jeurissen 119) state the following
‘Society expects an organisation, business or industry to recognise obligations with regard to interests, be it private or public, that are clearly

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38 Prof.dr. Ans Kolk, Professor of Sustainable Management at the University of Amsterdam.
outside the domain of mutual transactions, but which nevertheless merit to be put on the agenda of the board. For example: interests in future generations, the environment, and the underprivileged in society. The list can be made considerably longer and more concrete, so it concludes the obligation to be cautious about engaging in genetic experiments or about supplying certain forms of entertainment, the obligation to put political pressure on repressive regimes with which the business, directly or indirectly, has established business relationships, the obligation to make fighting unemployment a separate political issue, not subject to the business’ competitive and financial position, and the obligation to engage in serious dialogue with groups claiming to represent a public interest, but which do not participate in the business’ economic transactions in any way’.

Because of the increased scale and complexity of businesses, the circle of social stakeholders has expanded rapidly. Social stakeholders can be local, regional, national and supranational governments, NGOs, religious groups, trade unions, employers’ organisations and educational institutes.

Max Clarkson draws a distinction between ‘primary’ and ‘secondary’ stakeholders (Van Tulder and Van Der Zwart 136). Primary stakeholders, largely comparable with economic stakeholders, represent the direct supporters of the company such as employees, shareholders, investors, consumers, and suppliers. Secondary stakeholders, comparable with social stakeholders, are local communities and families, trade unions, competitors, analysts, the public, media, the environmental activists, supervisory bodies, NGOs, the natural environment and future generations. The only difference between the two types of categories is that Jeurissen considers competitors as economic stakeholder, whereas Clarkson puts them in the secondary group of stakeholders.

Ronald Mitchell introduced a third categorisation based on power, legitimacy and urgency (Van Tulder and Van Der Zwart 137). He distinguishes four types of stakeholders: 1) long-term core stakeholders who share the attributes of legitimacy and power but not urgency (e.g. shareholders); 2) stakeholders who share the attributes of power and urgency but not legitimacy (e.g. action groups); 3) dependent stakeholders whose claims are legitimate and urgent but lack the attribute power (e.g. secondary stakeholders); 4) immediate core stakeholder group that acquired one of the missing attributes, thereby making it mandatory for managers to properly manage the stakeholder relation with them.

Van Tulder and Van Der Zwart introduced a fourth distinction between ‘local’ stakeholders and ‘international’ stakeholders (261). International stakeholders, such as international NGOs, add more actors with diverging–
and often conflicting interests across geographical, cultural and normative borders.\footnote{Shell claims that there are over 100 stakeholder groups with highly diverse interests (Van Tulder and Van Der Zwart 261). In local projects, it engages approximately 10-25 stakeholders who often share a common interest.}

In this thesis, I will use the terms \textit{economic} and \textit{social stakeholders} in connection with the terms \textit{local} and \textit{international} stakeholders. The term primary and secondary suggests a hierarchical order that does not fit in the associative approach. The four categories of Mitchell are primarily focused on the power and legal issue. Although power is a fundamental determining aspect in the relations between stakeholders, and although the connected categorisation could be a useful choice, I prefer the economic-social and local-international categories. This preference is based on the nature and the content of Associative Corporate Governance, as further explained in chapter 4.

Businesses have the moral obligation to take their stakeholders into account. This brings us to the core issue of this thesis: how far does this ‘taking into account’ go?

Is it just a matter of organising decent dialogues or does it go further by involving the stakeholders in the governance of the company? How far does this stakeholders approach and the accompanying CSR go? What are the eventual consequences for the governance of the corporation at the end of the day?

\section*{3.2 Marketisation of corporate control: the power shift}

Although there is no real convergence in Varieties of Capitalism models, as described in section 2.4, there is ‘an increasing openness of corporate governance regulation to market forces as a common trajectory across the diversity of capitalisms’ (Overbeek \textit{et al.} 217). Regulatory changes ‘are due to the functional requirements of globalisation or the alleged self-evident superiority of the shareholder model’. They identified as major driving forces behind these changes transnational financial capital, transnational law firms, rating agencies and the Big Four auditing companies.

This is a logic result of the ‘power switch’ that I experienced during the last decades of the 20th century. When I joined the steel industry in the 1960s, engineers were in charge of the company.

The first ‘power switch’ was from engineers to production managers during the 1980s, followed by a ‘power switch’ to financial managers at the end of the century and the beginning of the new century.

The production managers were mostly also engineers by education, so the switch from engineers to production managers was not a real change in
thinking and behaviour of the management. The switch to financial managers was a real ‘power switch’ with different ways of thinking and behaviour. The average financial manager has a limited knowledge of the production processes and the products, and tends to basis his governance heavily on accounting rules and reports. This fits perfectly well with the requirements of transnational mobile financial capital (pension funds, hedge funds and other institutional investors) and the shift from public to private corporate governance regulation such as the international accounting standards as developed by the International Accounting Standards Board. This switch was quite clear when Hoogovens merged with British Steel Company. Hoogovens was still a company governed by technicians. Corus was financially driven with its head office in London City. A sharper change in Varieties of Capitalism will be difficult to find: from the Continental European model to the Anglo Saxon model.

As a result of this ‘increasing openness of corporate governance regulation to market forces corporations are confronted with an increased ‘financialisation of contemporary capitalism’ resulting in ‘marketisation’ of corporate control’ (Overbeek et al. 217).

A typical example of the subordination of production to finance is the steadily growing volume of financial assets, which has appeared on the balance sheets of non-financial corporations in recent decades. The profits of the productive sector become increasingly related to movements in the financial markets (Perry and Nölke 567).  

In my interview with Ton Doeleman, Strategic Development Officer Corus IJmuiden, he stated:

‘I confirm this increased influence of accountants and auditors. They are more orientated on accounting rules than on reasonable and reliable reporting. The influence of the value of ‘goodwill’ as financial issue becomes substantial. As typical examples, I refer to the monthly assessment of long-term energy-contracts and pension funds liabilities’.

Although this fits well in the Anglo Saxon model, Overbeek notices this trend as a common trajectory across the remaining Varieties of Capitalism.

The opposition against these changes is internally divided, since managers and workers can both gain and lose from current reforms’ (Overbeek et al. 217).

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40 James Perry and Andreas Nölke, referring to the IAS 39 standard of the International Accountant Standards Board: Historical analyses of non-financial corporations in rich-economies show that, on average, they now make as much as 40% of their net income from financial transactions compared to just 10% in the 1950s and 1960s.
According to Henk Overbeek, this marketisation of corporate governance reflects and promotes a ‘deepening of commodification of social life’. Increasing numbers of goods and services, but also all other elements involved in production, such as human labour, land, nature, and even knowledge, are treated as commodities, that is, ‘produced for sale’ on the market. This brings us to the recent increase in outsourcing policies of companies and the ‘insider’-‘outsider’ discord, on which I elaborate in the next chapter.

In this thesis, I adopt the positive aspects of this development such as transparency, openness and possibility to present the financial performance of a company in an internationally generally accepted way. I do not adopt the ‘commodification’ aspect given its negative influence on company values and its limited respect for stakeholders.

3.3 The financial crisis of 2008

In this thesis, I refer several times to the impact of the financial crisis of 2008 on the social and economic performance and governance of corporations. For that reason, I will discuss the financial crisis briefly. It is impossible to grind a way through all facts and opinions on this phenomenon. I consider Anton Hemerijck’s book *Aftershocks, Economic Crisis and Institutional Choice* (Hemerijck *et al.*) as a reliable and serious summary of all aspects of the crisis. Hemerijck maps the ‘aftershocks’ of the global economic downturn, triggered by the decision of the American authorities to let fall Lehman Brothers on 15 September 2008. He distinguishes four potential aftershocks (Hemerijck *et al.* 14):

- The aftershock of the looming crisis of unemployment;
- The aftershock of the pension crisis;
- The aftershock of a fiscal crisis of the state; and
- Various political aftershocks.

‘Twenty-four specialists were selected from a broad range of fields and disciplines, on the basis of both their expertise in their given subject area as well as their institutional imagination and ability to think beyond the present circumstances’ (Hemerijck *et al.* 9). They were invited to react to the question of how to design a new and better variety of capitalism. Major outcomes include the following: 1) economic science should again become a social science; 2) the search for new economic models beyond the well-known Varieties of Capitalism school (see section 2.4) was slowed down by the delayed arrival of the aftershocks of the crisis like the growth of unemployment, the pension fund crisis, the enormous growth of the financial deficits of nation states, and political consequences; 3) the contours of a new economic model are still unclear as a result of the struggle between two major opinions on the market–state contradiction: back to ‘business as usual’ and ‘nostalgia’ for the welfare
state; 4) politics and politicians have to search for other values than economic growth, such as full employment, high quality health care, fight with poverty, and climate protection; 5) the relationship between market and state is no longer considered a contradiction.

In the meantime, we see that this view refers mostly to the European and American markets. However, the emerging markets of the BICs show a different picture. They recovered fast and seem to be the new engines of the world economy.

For this thesis, two aspects of these aftershocks are of great significance:

- The state emerged, or re-emerged, as a key strategic actor (Hemerijck et al. 16). ‘Without public authorities capable of exercising legitimate coercion, capitalism would be impossible. This is what the economic anthropologist Karl Polanyi has called the ‘embeddedness’ of economics’ ‘The notion of embeddedness underlines the fact that economic activity is created and shaped by political decisions, social conventions and shared norms and understandings’ (Hemerijck et al. 16, 17). ACG recognises this fact. National and regional authorities become stakeholder in the discourse process as key aspect of the social embeddedness of the company;

- The balance between international economic integration with diversity in domestic institutional arrangements (Hemerijck et al. 189). ‘Increasing domestic policy space is both politically and practically necessary to ensure the support and the security of the population through the difficult process of globalisation’ (Hemerijck et al. 190). ACG, with its emphasis on autonomy for member-companies and its contextualised approach, tries to shape this balance between internationalisation and regional diversity.

3.4. Why the steel industry as breeding ground for ACG?

The choice for the steel industry will increase the feasibility of ACG. The features and conditions of this industry form a positive environment for the creation of ACG. I explain these items below.

1. A long-term attitude in relation to planning and investment of technologies and related investments.
2. A long lead-time of product development.
3. Steelmaking asks for special skills and related training not easy to organise in public education institutes.
4. Labour plays an important quantitative role given the labour intensive character of steelmaking, direct and indirect.
5. Steel plants are very often the heart of industrial regions.
6. The steel industry plays a crucial worldwide environmental role.
7. The steel industry stays on the eve of a concentration wave.

**The long-term attitude**

The steel industry has a long-term attitude when it concerns planning and investment of technologies and related investments. There are two major reasons for this. The first one relates to the technological and technical aspects of steelmaking. All necessary installations—blast furnaces, steel plants, rolling mills—have a long lead-time. Planning, procurement, construction and start-up take a period of 4-5 years. Accordingly, judgements on investments take quite some time. The second reason is that all investments are substantially high, hundreds of millions or even billions of dollars. It is obvious that the steel industry is not ‘the place to be’ for the ‘impatient capital’ of the Anglo-Saxon-model.

In chapter I, I described the history of the steel industry and the change in vanguard positions between the continents.

From the New Deal until the expansion of the BICs nowadays, ‘blockholding’ of the shareholders took and takes care of the necessary long-term attitude of the owners. Insiders, concentrated ‘blockholders’, who control large blocks of shares, supervise managers. This blockholder model tightly links ownership and control. The blockholding feature of ACG does fit in the blockholding feature of the steel industry. I will further elaborate this aspect in section 6.1 and 6.2 of this thesis.

Of course, blockholding can be found in different shapes: banks (for example Germany, Japan), state departments (for example China), entrepreneurs or ‘nouveaux riche’ (for example Russia, Brazil, India), ‘old riche’ (for example Tata in India), are all united in their blockholding feature.

The Anglo-Saxon-model with diluted shareholders, who are just going for short-term gain, with no long-term commitment, does not create the conditions for a growing steel industry, not in the past, not at this moment and not in the future.

The short-term orientation determined the downturn of the UK- and the US- steel industry from the 1960’s until now. Just by ‘cash cowing’ the existing plants, by firing the employees instead of educating and training them, by creating mergers and acquisitions with nice stories from new CEO’s, appointed for just a couple of years. The Anglo-Saxon-model only worked as long as there were cash cows available; there was no strategic plan for the future. Now, at the beginning of the 21st century, the entrepreneurs of the BICs take over the remnants of the British and American steel industry.

**Long lead-time new products**

R&D in steel, both the ‘R’ of long term research on new technologies and new products and the ‘D’ of medium term development of new products for the market, also asks for the long-term attitude of the owners and the management.
New products are developed systematic in Product Application Centres by experienced specialists and very often in cooperation with customers. There are almost no sudden breakthrough developments. Breakthrough development in the steel industry is the result of hard and long work. There is no comparison with the ‘new economy’ sectors like ICT, in which breakthroughs can show up overnight and where the inventors can enjoy the results in a couple of years.

Management of steel companies, being part of the ‘old’ industry, has to rely on experienced and reliable R&D specialists, which means that the HR policy must be long-term oriented and must create a working environment that keeps experience inside the company. This environment is the perfect basis for the ‘learning organisation’. In my interview with Alfred Kleinknecht, professor of Economics at the Delft University of Technology, he called the steel industry:

‘A typical example of a ‘heavy sunk costs’ industry with a long-term orientation and an important role of ‘tacit knowledge’’. The steel industry by its nature fits into the “Schumpeter-II” model: innovation within big organisations with large teams, programs and budgets. Companies should be prudent on their specialists as reliable and important insiders with strong motivation’.41

Loyalty and commitment are the key aspects here, a perfect fit with ACG. The advantages but also possible disadvantages, such as possible resistance to labour saving innovations and higher salary demands, will be discussed in detail in Part 3.

**Training, education and labour**

Steelmaking asks for many special and specific skills, which are very often difficult to teach in public education centres.42 The making of steel is a world on its own. One visit to a modern steel plant will show why. It is for that reason that steelmakers frequently organise their own specific education centres in order to shape the ‘raw’ material from the public education circuit in useful employees. This education includes extensive training facilities for almost each level in the steel plant.

Training and education have a high priority in successful steel companies. Like in R&D, this will lead to long-term employment, combined with commitment and loyalty. People value this investment in their functioning. It shapes their narrative, increases their craftsmanship, and makes them feel useful.

41 He puts emphasis on the two Schumpeter-innovation models: the entrepreneurial model for small companies (‘Unternehmungsgeist’, Schumpeter I) and the routine-based model of big companies (Schumpeter II).

42 The share of skilled workers in the German steel industry was 62% in 2005. Source: personal interview Dieter Ameling (VDEh statistics).
Chapter 3 The steel industry and its corporate governance

Although the amount of man-hours per tonne of steel has reduced substantially\(^{43}\), the steel industry is still considered to be a labour intensive industry. An average medium size steel plant with a capacity of 5mln tonnes of steel will directly create work for at least a 10,000 own employees plus another 20,000 jobs in the periphery.

Labour still counts in the steel industry, at least compared with other industrial sectors. Nevertheless, also in the steel industry organised labour lost ground and has, until now no real answer on the financialisation of corporate governance. Still, the position is substantial. The degree of union membership is much higher than in many other industrial sectors.\(^{44}\)

Given this relative strong position of labour, the choice of the steel industry is understandable. It is a positive feature for developing ACG.

A handicap for ACG will be that in all four BIC- countries the distance between management and labour is substantial (Hofstede and Hofstede 56). Each form of empowerment\(^{45}\) is considered as a sign of ‘weak’ management. This can be a real obstacle for ACG.

The regional factor
A steel plant is very often the centre of a regional industrial area. The plant is surrounded by workshops of suppliers, local and regional education centres, logistic areas such as harbours, railways and highroads, and communities based on the core of steel plant employees.

This setting forms a perfect playground for associative democracy policies. I refer to Sjef Stoop (Stoop). As already emphasised in section 3.1, Stoop investigated the relation between companies with a strong regional character and their social environment. During the last century, companies like Bayer, Philips and the steelmaker Hoogovens developed a strong ‘industrial welfare’ policy in order to create a stable and well-educated workforce,

\(^{43}\) The average amount on man-hours per tonne of steel decreased from 14 in the 1970s to 7 in the 1980s (source: D’Costa 127) to 2-3 nowadays.

\(^{44}\) Membership in the EU steel industry: between 25 and 50%. Source: personal interview Frits van Wieringen (EMF)

\(^{45}\) Empowerment: each attempt to share the power of decision-making between superiors and subordinates. Other terms for the same issue: participation, workers representation, workers self-government, Industrial Democracy, joint consultation, and “Mitbestimmung” . The feasibility of such processes depends strongly on the culture and values of the persons concerned. The “power distance- index” (Hofstede and Hofstede 54) for countries is an important feature. A high index is a serious handicap for the realisation of empowerment processes. Other relevant sociological indexes for countries introduced by Hofstede are the “masculine index”(124) and the “insecurity avoidance-index”(169). Both indexes have a negative correlation with empowerment possibilities. China, India and Brazil have a high masculine index, Russia very low. Russia and Brazil have a high score on the insecurity avoidance index, China and India very low. This all underlines the importance of the differentiated ACG approach.
necessary for the long-term orientation of these companies. They were able to organise welfare and education on a more efficient way than the regional authorities (Stoop 316) were. The impossibility to spread production facilities and the influence on the regional economy increased the necessity and the possibilities to interfere with the social environment. Stability was of great importance.

Stoop’s findings fit very well in the regional AD- policy, as described by Philips Cooke and Kevin Morgan. See section 4.1. According to Cooke and Morgan (6), associational activity, learning capability and networking practices among firms fit very well in regional settings. The decentralised and less hierarchical corporate stance involves greater reliance upon others outside the ultimate control of corporate management (industrial agglomeration or clustering). However, this regional strategy will be more effective and sustainable if combined with outside sources for knowledge and technology. It will take care of this fresh input from outside. It will play an active role in the distribution of capital, technology and knowhow through the different regions of member-companies. This will play a decisive role in the restructuring and modernizing of the region, if combined with the associative philosophy of ACG through trust and long-term and bottom-up approach. Although the learning activities and networking will be focused on the production of steel by the regional steel plant, it should also include a policy of ‘translation’ of the innovative technological results in applications in other industrial areas. Firms should try to develop a portfolio of clients in which the steel plant is a major client, but not the decisive client. The financial crisis of 2008 has shown that regions can be hurt disproportionately if the focus is just on one client. Outsourcing contracts have been cancelled overnight, educational activities are minimised and ‘partnerships’ are suddenly empty shells (Kreling, Cohesie Brabant; Kreling, Als Corus).46 ACG must develop a policy to achieve this balance between industrial diversification and ‘sticking to the knitting’ in order to keep the associative approach alive even under worse economic circumstances.

The environmental issue
ACG includes external stakeholders in their communication and decision process. The steel industry plays an important role in the environmental issues of the world.

In the first place, the steel industry is one of the major greenhouse gas producers and plays a crucial role in the global warming issue.47


47 Greenhouse gas emissions are 1,7 tonne/per tonne produced steel. The steel industry and the energy production sector are the two top producers of greenhouse gas.
On top of that, the industry has to face another major environmental issue: the increasing scarcity in raw materials and energy. Prices of iron ore and coal, the two major raw materials, exploded during the last few years. The financial crisis of 2008 has changed this development for the moment, but the scarcity of raw materials will become even more pressing in the upcoming decades. The highly increased use of steel per capital in the BICs lies at the basis of this shortage (Depuydt, *Prijsexplosie*). The World Steel Association expects that the world steel demand in 2010 exceeds pre-crisis levels of 2007. In 2011 the demand will grow by 5.3 % to reach a historical high of 1.306 million metric tonnes (World Steel Association, *Worldsteel*). A sustainable future for the steel industry, of course a key aspect of ACG, is a heavy target for the industry self and for the world as a whole. The choice for steel is a challenging one for ACG and its stakeholders.

The positive side is the fact that steel can be a 100 % recycled product. Also positive is the already ongoing work on and attention for sustainability policies within the steel industry (World Steel Association, *WSA Sustainability*).

*The need for concentration*

I have explained the need for concentration in the steel industry in section 1.3. This means that the industry is a perfect place to work on an alternative for the merger and acquisition policies of the Anglo Saxon- model as used in many other industrial sectors. The steel industry should try to prevent mistakes and dramatic outcomes as experienced in these sectors. There is a big playing ground and much room for alternatives. ACG will try to show alternative ways to come to a reasonable and sustainable concentration in steel while taking into account the interests of all stakeholders and not just the interests of the shareholders.

Of quite interest is the recent announcement, 3 February 2011, of NSC and Sumitomo that they consider integrating their entire business, targeted for 1 October 2012. They basis their decision on the excellent results of their alliance 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).

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48 2009 growth figures BICs: 2009  17.5 %, 2010  8.0% and 2011  4.1%. Source:Depuydt, *Prijsexplosie*.

49 NRC Handelsblad of 7 June 2009: ‘*Prijsexplosie van grondstoffen dreigt weer*’. The World Mining Investment Congress of June 2009, London, confirms the long-term shortage on iron ore. Between 2009 and 2025, China will construct 50.000 skyscrapers. In China, the current amount of 33 cars per thousand inhabitants will increase dramatically (for comparison: in the US, at this moment, this number is 800). At the same time: it will become more difficult to develop new iron ore deposits, technically and financially. The Conference expects a fast return to the ‘supercycle’: the long-term structural shortage on raw materials.
These ‘changes’ are according to these companies: ‘1) expansion of steel demand all over the world, especially in the emerging countries; 2) increase in need for higher quality and technology; 3) commissioning of newly constructed steel mills in various countries and intensified competition in the steel markets globally; 4) globalisation of steel consuming industries and rapid and drastic changes in the markets for procuring raw materials for steel’.

They want to become a ‘world-leading steel manufacturer by realizing the following goals: 1) promoting and accelerating global strategies on technology, production, products, sales networks; 2) maintaining the world’s most advanced technology; 3) securing cost competitiveness in global competition (competitiveness in operations, technologies, facilities, cost, raw materials, procurement, and production site management, financing capabilities; 4) reinforcing business infrastructure of non-steel segments; 5) maximising corporate value; 6) aggregation of resources, while also taking into due consideration closer cooperation with local communities.

I consider the intended integration of business as a ‘hybrid’ model between the ‘classic’ neoliberal model of mergers and acquisitions and ACG. The intended integration is on a voluntary basis, with a long-term excellent strategic alliance as the trigger and the Nippon model as social economic environment. The statement on local communities fits into the associative initiatives of ACG.

Both NSC and Sumitomo, the number 4 and number 19 steelmaker in the world, are examples of Hedlund’s ‘polycentric’ phase, perhaps on the way to a real ‘geocentric phase’.

They will have limited culture problems in their Japanese facilities. They have already considerable experiences with other cultures, for example the long-term NSC minority participation in the Brazilian steelmaker Usiminas, and numerous alliances and joint ventures with other steelmakers and clients. However, they have to face the question how to manage the new green field plants in developing countries, and how to react on institutional innovations of the ‘South’ (Unger and Bello as mentioned in section 2.4).

50 See also section 1.3, where I introduced the line ‘Mittal – Tata/SAIL – Hoogovens – ACG’. The ‘hybrid’ model of NSC/Sumitomo fits into the Hoogovens – ACG part of the line.

51 The production figures of the two companies for 2009 were: NSC 26.5 million tonnes, Sumitomo 11 million tonnes. The new company will become the number 2 steel producer in the world, with a total capacity of 37.5 million tonnes. Source: World steel Association statistics. 10 March 2010. <http://www.worldsteel.org/statistics/top-producers.html>
Chapter 3: The steel industry and its corporate governance

**Summerising Part 1**

In this part, I have highlighted the history and future of the steel industry and its link with general global aspects such as the internationalisation and globalising of the world economy, the Varieties of Capitalism, and theories and style of corporate governance.

As I have indicated in the introduction to this thesis, my concern relates in the first place to the general negative consequences of the neoliberal merger and acquisition process and the specific threat of the social and economic future of many industrial steel regions. Here, I will add my concern for the way steel companies will shape their CSR policies for a sustainability future of the steel industry.

My central claim in this thesis will be that Associative Corporate Governance can deliver a major contribution to the solutions of these problems. I have explained why the steel industry can be the right social and economic environment to introduce Associative Corporate Governance.