4. Associative Corporate governance

In the Introduction, I mentioned three major reasons for a change in the corporate governance of multinational companies. I will repeat them briefly. The first refers to the negative social and economic consequences of the neoliberal mergers and acquisitions model and the need for change. The second refers to the threatening of the democratic process of societies by the increase in influence of corporate decisions on the social and economic performance of societies. More democratic corporate governance will decrease the ‘black box’ character of multinational companies and will soften the threat. The third refers more specifically to the future of many ‘steel’ regions around the world. A change to associative corporate governance will improve the capacity to handle the impact of the concentration and globalisation of the world steel industry.

Here I want to add a fourth reason. Most initiatives of associative democracy are related to the public sector, although some thoughts are given to the governance of private industry. Most well known are the associative industrial experiments on a regional level in Western Europe (Cooke and Morgan). However, up until now no thoughts was given to the associative governance of larger industrial conglomerates. This thesis presents an associative approach for the corporate governance of multinational companies. It will prevent associative initiatives from being locked up and cornered as ‘nice idea for a few limited experiments in a limited local environment’, and will activate and stimulate further experiments of associative democracy.

In my interview with Rod Beddows, as mentioned in section 1.1, he pointed out a few first signs of internationalisation that could fit in the associative approach:

‘I just read that Nippon Steel Corporation (NSC) prefers soft alliances rather than straightforward mergers and acquisitions. They do not plan to buy rival producers to boost output as the industry consolidates; instead, they prefer to pursue soft alliances like entering joint ventures or exchanging shares with other companies and suppliers. According to NSC, the soft alliance strategy focuses on partnerships with companies that share the same values as NSC, utilizing technological cooperation and capital tie-ups to strengthen the relationship’.

The interview and the announcement of NSC’s preference for soft alliances were in 2007. As already mentioned in section 1.3, on 3 February 2011 NSC and Sumitomo announced that they were considering integrating their entire business, targeted for 1 October 2012. They based their decision on the excellent results of a nine-year alliance between the two companies. I will
comment on this latest development in the consolidation of the steel industry in section 6.1.

Associative corporate governance (ACG) stands for democratic and associative governance of corporations. As stated in chapter 3, corporate social responsibility (CSR) and stakeholder theory, two recent trends in corporate governance, are the stepping-stones to ACG.

CSR recognises the social responsibility of companies to the surrounding environment. However, how to organise this responsibility and how to determine the scope requires further guidance. ACG will take the ultimate and final step to CSR by defining CSR as corporate ‘societal’ responsibility as described in section 3.1.

Stakeholder theory demands involvement of stakeholders in the company business but it does not explain how to organise this involvement and to what extent. ACG will take the basic steps to the ‘stakeholder value’ principle by including all stakeholders in the governance of the company and to take the definition of stakeholder as broadly as possible. It takes the basic step to real ‘people orientation’ as professed by former and existing corporate governance ideas. Therefore, ACG actually put ‘people’ at the centre by empowerment and participation of the employees and other individual stakeholders in the governance of the company. It results in the right balance between bottom-up and top-down management of the company.52

ACG will be the next step in both corporate governance trends by increasing the democratic content of corporate governance processes. It increases the possibilities of stakeholders to influence their subsistence and results in an increase of the social and economic performance of corporations. It keeps stakeholders involved on a solid and sustainable basis. Until now CSR and stakeholder involvement are too dependent on the personal views of CEOs and insufficiently embedded in the institutional social environment of corporations.

In chapter 3, I highlighted corporate governance theories. In this chapter, I start with the introduction of democracy and the already existing partial and limited forms of democracy within corporate organisations.

52 By taking the consequences of stakeholder involvement and CSR, ACG will be more than ‘just another story’. In existing corporate governance theories, the real content of stakeholder involvement and CSR is determined in a top-down process, and management creates roadblocks as soon as the consequences become too threatening for existing power distribution within the company. As an example, Boards of Directors of companies using the well-known 3Ps approach (Profit, People, Planet) are not to be held back by the P of ‘people’ when selling subsidiaries or closing plants without any discourse with the employees concerned. The Board determines where the consequences of the P start and end. In the case of plant closing the P means fulfilling the legal obligations to the employees and sometimes, depending on the Varieties of Capitalism conditions, negotiating an accompanying social plan with the unions.
I want to start with the statement of the American philosopher John Dewey (1859-1952): ‘Democracy is primarily an ethical way of life’ (Cochran 291). Dewey is drawing upon the Greek understanding of ethos as the customs, norms, attitudes, sentiments, and aspirations that characterise the life of the people’ (Cochran 291). History shows a rich variety of serious attempts to ‘translate’ the democratic ideal in practical systems of democratic governance. Nowadays we recognise three primary institutional forms: direct democracy, representative democracy and associative democracy (Wright, Envisioning 152). All three forms exist to some extent in industrial environments.

- In direct democracy, ‘ordinary citizens are directly involved in the activities of political governance of their direct environment’ (Wright, Envisioning 152). They participate in public hearings and make decisions in meetings. The existing practices of direct participation within companies in Western Europe and Asia, at which employees discuss working methods and conditions, can be considered as a practical form of direct democracy;

- In representative democracy, the most familiar institutional form of democracy, ‘the people rule through their representatives, typically chosen through competitive elections with territorial districts’ (Wright, Envisioning 152). The existing practice of Works Councils in Western Europe can be considered a form of representative democracy. Members of the council are elected in free and open elections. Although the authority of the council is limited, it plays a certain role in the governance of corporations. This form of participation is normally indicated as ‘indirect participation’ and forms a duality with direct participation. The correct functioning of direct participation is often considered a necessary pre-condition for the correct functioning of indirect participation (Buitelaar and Van Der Meer 41);

- Associative democracy, ‘the third form of democratic governance, is much less familiar to most people and needs further explanation. In associative democracy, various kinds of collective organisations like labour unions, business associations, or civic groups, are indirectly engaged in various aspects of political decision-making and governance. This can occur in many ways, through involvement in government commissions, through what is sometimes called “corporatism”, through organisational representation on various kinds of regulatory agencies’ (Wright, Envisioning 153). In section 4.1, I will describe associative democracy and its opportunities for realizing CSR and stakeholder involvement in corporate organisations in more detail.
The issue of a democratic governance of corporations has been seriously challenged since the middle of the twentieth century, especially in Scandinavia and Germany.

The attempts to create democratic corporate governance have been denoted as ‘Industrial Democracy’. In section 4.2, I highlight history and experiences with Industrial Democracy via direct and indirect participation.

4.1 Associative democracy

Associative democracy evolved out of the idea of associationalism. Associationalism developed in the nineteenth century as an alternative to both liberal individualism and socialist collectivism. It had two characteristic features as a social doctrine. The first was the advocacy of a decentralised economy based on the non-capitalistic principles of cooperation and mutuality. The second was the criticism of the centralised and sovereign state, with radical federalist and political pluralist ideas advanced as a substitute. The associationalists believed in voluntarism and self-government (Hirst, Associative Democracy 15). It had its short prime in the first decades of the twentieth century in the UK as Guild Socialism.

Associative democracy combines the associationalists search for the right balance between the individual choice of liberalism and the public provision of collectivism with the needs for modern pluralistic and diversified societies. It wants to be a supplement to liberal representative democracy (Hirst, Associative Democracy 19).

‘Associative democracy is driven by the conviction that all those relevantly affected by collective political decisions are stakeholders and thus have a say, both for reasons of meaningful democratic representation and in particular for reasons of governmental effectiveness and efficiency ‘(Bader, Secularism 189). Social activities, both in the public and private sphere, should be entrusted, as much as possible, to voluntary associations with self-government, aiming to restrict the scope of hierarchical management and offering a new model of organisational efficiency.

Associative democracy favours multi-level government (not restricted to the devolution of powers to states, provinces and municipalities but also beyond ‘nation states’). It attempts to keep central government strong and minimal, and restrict government to its core tasks. ‘The implied shifts from government to governance in the corporate bodies of public and private spheres are

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53 Associationalism has several distinct sources. The two most well known sources are the English advocate of industrial and social cooperation Robert Owen, and the French advocate of mutual economy and cooperative production Pierre-Joseph Proudhon. The two major English associationalist writers of the twentieth century are George D.H. Cole and Harold J. Laski (Hirst, Associative Democracy 16).
stimulated by the institutional design of social pluralism’ (Bader, Secularism 189). Social services (education, healthcare and other kinds of care) should be public and publicly funded; moreover, they should not be delivered by the state but by associations of free citizens. ‘These associations should compete with each other in recruiting members for the services they supply, and members should bring in public funds via a common per capita formula’ (Bader, Secularism 189). The associations should be governed democratically. The governing council should be elected by the members and the members should have the option to leave the association periodically (‘exit-option’). In this way, associations can supply the majority of welfare provisions but also of the economic activities.

‘Associative democracy, by transforming structures of authority through its supplemental institutions and practices, offers an effective link between state and civil society, nation and region, and between firms in industrial sectors’. It ‘allows cooperation and competition to be effectively balanced in market-based economies. Enough cooperation to ensure adequate levels of the essential inputs like investment and training without which firms cannot function as effective competitors in markets, and enough competition to ensure consumer choice and productive efficiency without, at the same time, destroying the social foundations of the market economy itself’ (Hirst, Associative Democracy 74).

Hirst states ‘that associative democracy cannot pretend to reform the world economy, but it can offer means for ensuring the effective response of regional and national economies to the turbulent and increasingly competitive international economy’ (77). This statement applies perfectly to the latest turbulent financial and economic crisis of 2008. The reaction of national governments is a classic reaction of enlarging the role of the state, which will lead to a new unbalanced situation of a too powerful state and a disturbed market.

Of great importance is that associative democracy does not demand a new revolution, economic or societal. It can be a supplement to existing institutions. This is important given the suspicion of citizens concerning ‘revolutionary’ solutions.

The institutional changes proposed in an associative democratic reform of existing forms of representative democracy and centralised bureaucratic state administration can be summed up in three principles of political organisation:

1. Voluntary self-governing democratic associations become the primary means of democratic governance of economic and social affairs;
2. Power should, as far as possible, be distributed to distinct domains of authority, whether territorial or functional, and that administration within such domains should be devolved to the lowest level consistent with the effective governance of affairs in question;
3. Democratic governance does not exist only in the powers of citizen election or majority decision, but in the continuous flow of information between governors and the governed, whereby the former seeking the consent and cooperation of the latter.

These principles can become useful tools in handling the growing tension between on the one hand the decreased individual freedom and rights of the citizen and on the other hand the request for more individual choices as a result of the increased individualisation tendencies. Standardised ‘one size fits all’ services still form the majority of public services.

For governance of public corporations, I refer to Paul Hirst (Hirst, *Associative Democracy*) and Veit Bader (Hirst and Bader, *Associative Democracy: The Real Third way*).

In this thesis, I limit myself to the possible role of the associative philosophy in the corporate governance of private corporations, especially of multinational companies. This possible role results in the development of a new perspective in corporate governance for multinational companies, called associative corporate governance (ACG). See Box 2.
Box 2: Main associative line

Associationalism → Associative democracy → Associative Corporate Governance

**• Associationalism:** developed in the nineteenth century as an alternative to both liberal individualism and socialist collectivism. It had two characteristic features as a social doctrine. The first was the advocacy of a decentralised economy based on the non-capitalistic principles of cooperation and mutuality. The second was the criticism of the centralised and sovereign state, with radical federalist and political pluralist ideas advanced as a substitute. The associationalists believed in voluntarism and self-government.

**• Associative democracy:** combines the associationalists search for the right balance between the individual choice for liberalism and the public provision of collectivism with the needs of modern pluralistic and diversified societies. It wants to be a supplement to liberal representative democracy. Associative democracy is driven by the conviction that all those relevantly affected by collective political decisions are stakeholders and thus have a say, both for reasons of meaningful democratic representation and in particular for reasons of governmental effectiveness and efficiency. Social activities, both in the public and private sphere, should be entrusted, as much as possible, to voluntary associations with self-government, aiming to restrict the scope of hierarchical management and offering a new model of organisational efficiency.

**• Associative Corporate Governance:** corporate governance based on three principles: 1) the restriction of the scope of hierarchical management by creating a democratically accountable hierarchy and devolving decision-making powers, resulting in highly motivated employees with high performance; 2) the developing of a new model of organisational efficiency, resulting in a strong social embeddedness of the company, and 3) democratic internal governance of the company based on information and cooperation, resulting in trust and continuity as the two main pillars of a sustainable company. These principles are derived from the political principles of associative democracy.

Today, decision-making power moves partially away from national governments to the boardrooms of multinational companies. However, ‘noblesse oblige’, more decision-making power should bring more responsibility for the quality of the decisions, given their growing influence on societal processes outside the company.
Chapter 4 Associative Corporate Governance

The three associative principles of political organisation should be translated to the field of multinational companies as follows:

1. Restriction of the scope of hierarchical management by creating a democratically accountable hierarchy and devolving decision-making powers, resulting in highly motivated employees with high performance;
2. Developing of a new model of organisational efficiency, resulting in a strong social embeddedness of the company;
3. Democratic internal governance of the company based on information and cooperation, resulting in trust and continuity as the two main pillars of a sustainable company.

These principles are part of the ACG philosophy.

Hirst summarises the economic goals of associative democracy as follows (Associative Democracy 97):

- ‘That the economy produces an adequate level of wealth, and that wealth is distributed in the form of a widely shared prosperity without strict equality of outcomes’;
- ‘That in producing wealth the social processes that govern the economy also ensure a reasonable level of security of employment and consumption to the widest possible range of participants. Wealth is not the exclusive goal and it is clear that ceaseless change in its pursuit does not produce well being, especially if it is accompanied by continuing insecurity and frequent unemployment for many economic actors’;
- ‘That it is important that as many economic actors as possible have the highest level of control of the assets that are necessary to their livelihood, this control may be either direct, as with the artisan who owns his or her own workshop, or through some representative system in the case of enterprises that depend upon external capital’;
- ‘That the interests of consumers and savers are represented in the main structures of economic governance, as are those of local communities that may be affected by the actions of a particular enterprise or economic association’.

Multinational companies form the right platform to face all these goals:

- They play an important role in the distribution of wealth given their international operations and far-reaching influence in many regions all over the world;
- The three principles of associative democracy –restriction of scope of management, social embeddedness and democratic governance –will result in substantial regional autonomy and an important role for regions within multinational companies. The relationship
between head office and subsidiaries is a crucial element in corporate governance theories;
- The level of security or insecurity of many actors is determined by central board-decisions (for example closing or replacing of production facilities);
- The dependence on external capital makes the control of assets by as many actors as possible of great importance;
- It can organise the interests of consumers, savers, and other actors on a regional or national level as well as on an international level. This is of great importance given the transnational character of many interests such as environmental safety and distribution of wealth. Many involved actors (for example NGOs) also operate on a regional or a national level as well as on an international level.

Although on a limited scale, Hirst tried to develop some initial guidelines for corporate governance of multinational companies (Hirst, *Associative Democracy* 151):
- The establishment of a two-tier board: the Supervisory Board and the Management Board. One-third of the members of the Supervisory Board should represent the shareholders, one-third the employees and one-third the community;
- ‘Members of both boards must have the legal duty to consider and to give regard to the interests of shareholders, employees, consumers, the community and the environment when making decisions’;
- ‘The Board institutes a Works Council charged with the co-determination of company policy and below it a comprehensive system of participation involving all employees’;
- A Japanese-style lifetime employment contract for all full-time employees and similar rights for part-time employees if they have worked for more than sixteen hours per week per year;
- ‘New shares issues and mergers require a 60% majority of the Supervisory Board’;
- ‘The company institute an ESOP (Employee Shareholder Ownership Scheme)’.

In Part 3, in developing ACG, I come back to these issues.

Of great importance is Hirst’s remark that many associationalists in the past were naive in believing that they could ignore the role of the state. ACG will recognise the role of states. The financial crisis of 2008 underlined this role. The national and regional authorities of the regions in which multinational companies operate will be considered as important actors closely involved in the ACG of the company.
I consider the research of Philips Cooke and Kevin Morgan on regional associative democratic models as presented in *The Associational Economy: Firms, Regions, and Innovation* as an important contribution and a basis for the development of ACG. Their research on regional economic development in the industrial regions of Wales, Baden-Württemberg, Emilia-Romagna and the Basque country became a milestone in the development of realistic regional policies on associative democracy and the role of private companies in these policies.

Cooke and Morgan describe policy themes and action lines appropriate for a decentralised associative industry policy. In the first place, they find the regional level highly suitable for organising vocational training at all levels. They give examples of the establishment of distinctive vocational universities with an industrial bias, in cooperation with regional educational institutes. Secondly, they consider the regional associative policies a useful instrument for the introduction of social and technological innovations. Participants in this innovation process are small and medium sized regional companies, universities, and larger firms active in the region. Thirdly, they describe how the regional associative setting forms the right breeding ground for business intelligence, enterprise support and general funding assistance. Finally, they see environmental sustainability as the fourth pillar of a decentralised associative industrial policy (Cooke and Morgan 219).

The introduction of associative policies, on a regional level for member-companies of multinational companies, in line with the research of Cooke and Morgan, will increase the social embeddedness of these member-companies and the multinational company as a whole, and fits in the decentralised corporate governance policy of ACG.

I combine the research of Cooke and Morgan with the research of Kristensen and Zeitlin as mentioned in section 3.1. Very often, steel plants form the nucleus of industrial regional areas. They can combine the advantages as member-company of a multinational company as described by Kristensen and Zeitlin, with the advantages of the regional associative setting as described by Cooke and Morgan.

### 4.2 Industrial Democracy

As stated in section 4.1, the economic goals of associative democracy require a democratic governance of companies. This issue has been seriously challenged since the middle of the twentieth century, especially in Scandinavia and Germany. The attempts to create democratic corporate governance have been denoted as ‘*Industrial Democracy*’.

I mention two definitions of two different advocates of Industrial Democracy: Einar Thorsrud and Arnold Walravens.
Einar Thorsrud: ‘Industrial Democracy means a distribution of the social power in industry so that it tends to be shared out among all who are engaged in the work rather than concentrated in the hands of the majority’ (4).

Arnold Walravens: ‘Industrial Democracy at the company level can be defined as the situation in which stakeholders in the company have the power to judge and determine objectives of the company and to determine the conditions how to reach these objectives’ (5).

Although Einar Thorsrud’s term all and Arnold Walravens’ stakeholder refer to different stakeholders, in practice Industrial Democracy in the 1960s and 1970s referred to empowerment of ‘workers’ with no direct link to other stakeholders in the industrial process. In addition, the content and instruments differed per country. In Scandinavia much emphasis was put on direct participation (e.g. discussions on the shop floor, search conferences) and in Germany on indirect participation (works councils as part of the ‘Mitbestimmung’). In the Netherlands participants aimed at a balance between direct and indirect participation (the already mentioned experience that well functioning of direct participation is a necessary pre-condition for the well-functioning of indirect participation).

4.2.1 The first steps

Industrial Democracy has its roots in the socialist ideologies of the nineteenth century. Like associative democracy, its originates in the ‘interesting but short life of Guild Socialism in England, which sought to combine Marxist belief in class warfare, and the necessity for socialisation of all means of production and distribution, with an attempt to return to a somewhat earlier tradition with its roots in medieval economic organisation of craftsmen and skilled workers, and which has persisted in syndicalism and the co-operative movement’ (Berlin 106). It has several distinct sources like English and French advocates of industrial and social cooperation such as Charles Fourier, Pierre-Joseph Proudhon, and Robert Owen.

As already mentioned in section 4.1, the English political theorist and economist George D.H. Cole developed a comprehensive Guild Socialist system of economic and social governance between 1917 and 1920. He started from the supposition that political and economic power should be separated, and that no social interest could claim a monopoly on power.

He tried to transform the division of state and civil society, reducing the power of the central state and increasing the scope of middle-range institutions of social governance, subjecting them to democratic control. ‘He sought to avoid the three great social and economic antimonies of his time: 1) on the left between state collectivism and workers’ syndicalism; 2) between

54 He published two major books on Guild Socialism: Self Government in Industry (1917) and Guild Socialism Re-stated (1920), in which he designed his blueprint for a new social organisation.
free market and centralised planning; 3) between labour and management in the enterprise’ (Hirst, Associative Democracy 104). ‘He believed passionately that industries should be controlled by those who work in them, but he also thought that they should be organised efficiently. He believed that factories needed creative leaders and that such leaders required authority’ (Hirst, Associative Democracy 106). Cole claimed: ‘Only under the free conditions of democratic industry would the leader find real scope for leadership, and we would find it in a way that would enable him to concentrate all his faculties on the development of his factory as a communal service, instead of being, as now, constantly thwarted and restrained by considerations of shareholders profit’ (Hirst, Associative democracy 106).

As Hirst observes, ‘this all seems naive, but in fact, it is tragically prescient. The view of industry as a service has all but vanished. Managers regard themselves as dominated by the pursuit of profit, and workers seek the best deal for themselves’ (107).

Cole formed the National Guilds League in 1915; a National Building Guild was established after the First World War but collapsed in 1922. In the twenties of the last century, Guild Socialism went into a rapid and almost total decline.

‘It failed in part because it could not attract a distinctive enough and large enough constituency’ (Hirst, Associative Democracy 110). It was too much focused on one particular stakeholder—labour—, and turned into a political struggle between socialism and capitalism. ‘A purely worker-based social doctrine has no hope’ (Hirst, Associative Democracy 102). It was also not capable of handling innovative developments. The guilds were relatively inflexible.

4.2.2 Break through
A second wave and a real breakthrough of Industrial Democracy began in the 1960s of the last century. Workers’ management became an increasingly important issue, as stated by one of the leading advocates of Industrial Democracy, Paul Blumberg (1).

He described the major forces that were pushing in the direction of a renewal of the issue of workers’ management (1):
- The introduction of direct workers’ participation as an answer to the alienating character of much industrial labour;
- The growth and significance of public ownership in the industrialised countries and in the developing world;
- Changes in ‘European capitalism’, the ideological bankruptcy of pre-war European Social Democracy and the rise of the post-war Left Socialism;
- The emerging New Left movement in the United States supported by the liberal ideology and other social forces;
- The emerging of new socialist governments in the developing world, especially in Africa;
- The tentative success of the Yugoslav system of workers’ management.

Blumberg states, ‘It has been said that ideologies of workers’ management arise during periods of political, social, or economic unrest. More specially, however, it seems that these ideologies take root and grow when, for one reason or another, the legitimacy of an established economic elite is called into question and when the status of that group suffers a serious decline’ (9).

The introduction of direct workers’ participation as an answer to the alienating character of much of industrial labour is one of the major issues Blumberg discusses. He describes how other ‘solutions’ to the alienation problem, such as a turn towards leisure, automation, anti-industrialism, and job enlargement, have no or only limited impact. His answer to the alienation problem is participation:

‘It is just this impressive diversity in the participation literature that makes the consistency of the findings, by contrast, even more profound, significant, and valid. There is hardly a study in the entire literature, which fails to demonstrate this satisfaction in work is enhanced or that other generally acknowledged beneficial consequences accrue from a genuine increase in workers ‘decision-making power. Such consistency of findings, I submit, is rare in social research’ (Blumberg 123).

Looking back at the last decades, it is clear that Blumberg underestimates the influence of leisure, automation and job enlargement. Nevertheless, participation has proven to be of major importance in the development of decent relations between participants of modern industrial organisations. Usually a distinction is made between direct and indirect participation. Direct participation refers to involvement and deliberation of participants on the direct working conditions and working methods at the work floor. Indirect participation refers to the more general deliberations of workers’ representatives in works councils or other managerial platforms.

Blumberg noticed that indirect participation with no solid basis in direct participation is far less successful and less sustainable than direct participation. He refers to different initiatives in various countries (codetermination in Germany, tripartite-government in France, and the Histadrut in Israel) and concludes that most attempts not to involve workers directly in management, but only via remote representation at the top, have not significantly affected the workers’ attitudes towards their work or their company. As Blumberg explains:
‘The basic failure of all these schemes to change the meaning of work for the worker can best be understood through an observation George D.H. Cole made years ago, comparing the psychology of political democracy with the psychology of Industrial Democracy. In politics, it is the events at the highest (national or international) level that matters most to the citizen, and about which he or she is most likely to be informed and interested. In industry, on the other hand, it is what occurs at the lowest level, on the factory floor, that matters most to the worker. A simple change in the locus of ownership at the highest level, from private to public, with no democratisation of the workers’ immediate situation in the shop, is likely to have a minimum impact on traditional problems of work alienation’. (Blumberg 3)

On the other hand, direct involvement via joint consultation bodies or plant committees without embeddedness of these initiatives in the overall management of the company have failed to arouse workers’ sustained interest. Blumberg refers to initiatives in England, France, Belgium, Sweden, and Israel.

‘Producers’ cooperatives, which do involve workers significantly in management, have repeatedly proven both economically and socially an inappropriate vehicle for workers’ management’ (Blumberg 3). He states that ‘economically, they have always been plagued with chronic shortages of capital, stemming from their inadequate initial recourses, and the hostile milieu in which they operate makes borrowing from the private capital market quite difficult. In the Western world, they are economically inconsequential, especially when compared to the flourishing consumers’ co-operative movement. Socially, producers’ co-operatives have a tendency to ‘degenerate’ as the Webbs55 and other observed long ago, due in part to the lack of outside public control of their activities. This “degeneration” takes some of the following forms: transforming the co-operative into a simple profit-seeking business, indistinguishable from a private enterprise; exploiting a monopoly situation, often to public disadvantage (as has happened in Israel); closing off co-operative membership; raising the cost of membership to a prohibitively high level; and resorting to the anti-co-operative device of taking on hired labour’ (Blumberg 3)56.

Einar Thorsrud’s *Form and Content in Industrial Democracy* was a second basic contribution to Industrial Democracy in the 1960s. I already mentioned his definition: ‘Industrial Democracy means a distribution of the social power

55 Blumberg refers to Sydney and Beatrice Webb, founders of the Fabian Society. They did not believe in revolution but in gradual increase of state and municipal control over individual enterprise and in adaption of already existing forms of social control (Berlin 105).

56 A typical example is Mondragon, a conglomerate of worker-owned cooperatives in the Basque region of Spain. Mondragon runs its foreign subsidiaries pretty much like conventional capitalist firms (Wright, Envisioning 246)
in industry so that it tends to be shared out among all who are engaged in the work rather than concentrated in the hands of the majority’ (Thorsrud 4).

He mentions three conditions necessary for effective democracy: 1) that men are assumed to be equal human beings; 2) that all men have such freedom of movement that they may, if they desire, make an autonomous contribution to the life of the community; and 3) that the leadership is removable by and responsible to the many. Political scientists have spelled out the differences between real and apparent democracy, and according to Thorsrud it is clear that parallel distinctions should be taken care of in considering Industrial Democracy.

However, Thorsrud observes that general agreement on these issues disappears whenever people attempt to make Industrial Democracy a meaningful concept in a particular social setting. Although the general notion of Industrial Democracy is likely to be approved as in line with the democratic ideal, the practical implementation will arouse concern about its feasibility.

Thorsrud discussed in detail the Norwegian setting of Industrial Democracy initiatives. Åke Anker-Ording of the Iron Metal Workers’ Union reflects the general feeling on this subject: ‘The idea of Industrial Democracy, or rather of democracy in the enterprise, as we shall call it, has in recent years been included among the objectives of the Norwegian Labour movement. We have talked about it, and something has been achieved. But the main task remains to be done, that is, the decisive transfer of power and responsibility within the individual enterprise from the private owner to the organisational unity of all employees’. ‘It can be said with the same justification that a society cannot, in the end, cherish democracy as a leading principle and then deny the introduction of this principle in industry, which is the foundation of that society’ (Thorsrud 9).

Still Thorsrud states that there is general uncertainty about the organisational forms that would create greater democracy in industry. The overall opinion in Norway is that Industrial Democracy means that every employee will have full opportunity to participate and to develop him or herself within the limits of his or her abilities. The workers’ feeling of involvement in company affairs is a necessary condition for efficient production.

Thorsrud already takes a first step to modern stakeholder theory: ‘One of the major objectives in the years to come will be to give all the interest groups that are directly associated with the enterprise an increased democratic share of responsibility, and a rightful or appropriate share in decisions of industrial life’ (Thorsrud 13).

Blumberg and Thorsrud represent the ideas on Industrial Democracy during the 1960s. In the mean time, the Yugoslav experience failed, and direct and indirect participation models had limited but reasonably sustainable success in Western Europe. In Japan and Korea, direct participation has been organised
in a very professional and consistent way. I experienced this personally during my trips to Japan in the 1970s, visiting the major Japanese steelmakers. However, indirect participation made no real inroads.

It goes beyond the scope of this thesis to describe the development of Industrial Democracy in each European country. However, I want to make an exception for Western Germany and the Netherlands because they are examples of two different ways of shaping Industrial Democracy: the German way is inclined towards power plays in ‘Blut und Eisen’ style and the Dutch way leans towards dialogues.

The development in Western Germany fits within the observation of Blumberg that social and economic unrest are perfect breeding grounds for change. The legitimacy of the established economic elite suffered a serious decline immediately after the Second World War (Pothoff 60). The rise of the ‘Mitbestimmung’ took place in ‘das Ruhrgebiet’, part of the British occupation zone. The unions gained substantial power immediately after the war. This gain was possible due to the following factors: 1) the decline of the established employers elite; 2) unions were the only social political organisations allowed by the British; 3) the need for a fast recovery of the German industry; and 4) strong support of the English Labour Party, which was in power in England at the time. Within many companies, unions and employers already agreed on the parity principle of the ‘Aufsichtsrat’ and the appointment of the ‘Arbeitsdirektor’. In 1951 ‘das Montan-Mitbestimmungsgesetz’ passed the German parliament but only after serious threats of a general strike in the steel and mining industry and frequent personal interventions by Adenauer (Lammers et al. 210). The majority of the German steelmakers still operates under this law today. The foundations of this law were already created before 1933—after a general strike in 1905 and after the First World War when the unions built a strong foothold in the German industry.

The developments in the Netherlands were less turbulent than in Germany. Cor Lammers made major contributions to Industrial Democracy literature in the Netherlands. Lammers identifies three major reasons for the growing interest in the Netherlands: 1) protection of the interests of workers through representation of workers in the management of the company; 2) efficient performance of the company; and 3) recognition of the value and satisfaction of labour (Lammers et al. 46). Item 3 refers to Blumbergs’ fight against ‘alienation’.

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57 See my interview in section 6.1 of this thesis with Hans Fischer, former CEO of the German steel company Salzgitter AG. Salzgitter is a typical example of a company governed according to the rules of this law. The Board consists of 21 directors: 10 appointed by the shareholders, 10 by the employees/unions, and 1 appointed by the 20 directors collective.
Industrial Democracy was limited on two ways: 1) to direct and indirect participation, no real transfer of ownership of the company; and 2) to the operation of the company as a separate ‘internal’ community.

At that time, Herman Wallenburg, co-author of Lammers, already noticed two major threats to further developing of Industrial Democracy (Lammers et al. 35). In the first place, an insufficient or even missing view about the link between a company and its social and economic environment: too fast and too easy, a company will be isolated from the surrounding society, resulting in insufficient consideration of influences from the world outside the company. In the second place, the Dutch attitude put too much emphasis on the ‘company as a community’ or ‘interest harmony’ between participants. It was used to keep the socialist class struggle at distance, but did not recognise a company as a dichotomous entity with conflicting players. He states that a company is a ‘plural society’. Bringing partners together as a ‘united entity’ is not the target of Industrial Democracy; instead, its main target is to create the right atmosphere for handling different interests of participants by reasonable and reliable dialogues and the creation of trust between participants.

The associative approach will be the answer to Wallenburg’s first issue; the discourse policies of ACG will face the second issue.

Lammers concludes that further progress on Industrial Democracy will be marked by two basic points of agreement between all participants: 1) efficient performance of the company; and 2) recognition of the value and satisfaction of labour. ACG will deliver both conditions.

Hans Philipsen and Dré Kampfraath\(^{58}\), two co-authors of Lammers, put special emphasis on the relation between direct and indirect participation (Lammers et al. 90, 127). In general, workers show more interest and involvement in subjects that are closely related to their daily working routines, than in more general deliberations of their representatives in managerial platforms. However, in order to be successful, direct participation needs honest and serious attention of management and staff. Direct participation asks for ‘social’ leadership instead of ‘instrumental’ leadership\(^{59}\). Philipsen looks upon direct participation just as a deliberation attitude. He does not consider it part of Industrial Democracy. He agrees that it can have a positive influence on the democratisation of the internal relation between participants, but decisions within the company are taken in a different way than in democratic organisations (Lammers et al. 96).

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\(^{58}\) Kampfraath describes the introduction of direct participation at Hoogovens, the Dutch steel plant of in IJmuiden, in 1961. When I started to work at Hoogovens, in 1965, the implementation was just finished, and many direct participation initiatives were on their way.

\(^{59}\) See also Rensis Likert, as mentioned in section 3.1.
An interesting contribution to the discussion concerning positive or negative conditions for Industrial Democracy is delivered by Dirk Horringa, another co-author of Lammers. He deals with the ‘governance climate’ of companies and its influence on participation (Lammers et al. 60). In section 3.4, I explain why the steel industry has the right conditions for becoming a breeding ground for ACG. Horringa’s findings support my arguments. He observes that conditions for Industrial Democracy differ per type of ‘governance climate’. He distinguishes four types of climates: 1) purchasing climate; here, success is mainly determined by purchasing of basic resources; 2) fashion climate, which refers to companies that have to introduce once a year new models like in the automotive industry or clothing business; 3) engineering climate, which includes companies with high capital goods costs and product designs based on physics and technological science; and 4) service climate, as can be found in the service industry. He considers the engineering climate as the most favourable climate for the development of participation given the level of education of the workers and the mentality of management and workers. It is obvious that the steel industry fits into the engineering climate. Today however, the steel industry adopts parts of the purchasing and service climate. Also, at the time, Horringa could not have foreseen the growing influence of the financial management of companies, resulting in a ‘financial climate’ in almost all industrial sectors60 not favourable at all for participation or more advanced forms of Industrial Democracy.

Lammers was very positive that the basis for authority within the company should move from rational and legal authority based on ownership to a functional authority based on approval of the targets and the means by the workers (Lammers et al. 183). Today rational and legal authorities persist, especially because of the success of the neoliberal model of the last decades. Mergers and acquisitions are almost purely based on rational and legal authority.

A second important contribution to Industrial Democracy is the work and publications of Walravens. I focus on his involvement in experiments in the Dutch industry, which play an important role in the development of Industrial Democracy. In the next subsection, I place Walravens’ experiments within the rich history of experiments.

4.2.3 Experimentalism
Experiment stands for conscious and active interference in the way things are going in order to create change, if possible in such a way that the change can be measured and the experiment can be repeated. Experimentalism plays a significant role in the early and more recent history of Industrial Democracy.

60 See also section 3.2 on marketisation of corporate control.
The tension between advocates of experimentalism as an instrument for initiating change in processes, systems or society and advocates who just want to go for the ‘one shot’ total change of these subjects exists to this day. If we study the roots of Industrial Democracy in the second half of the nineteenth century, we already find this tension between Pierre-Joseph Proudhon and Mikhail Bakunin (Walravens 40; Berlin 96). They agreed that it was desirable to initiate workers’ production co-operations but had different opinions about the strategy. Proudhon believed in experiments. Bakunin agreed that experiments could be worthwhile in order to educate workers in self-management but did not believe in survival of these ‘islands’ if the surrounding society would not change its rules. This is a typical example of two different approaches to achieving change: start with experiments and try to establish total change via appealing examples or go for the total change and do not waste energy on naive experiments without prospects.

Karl Marx and Friedrich Engels agreed with Bakunin. In their opinion, circumstances were not yet favourable for Proudhon’s experiments. They considered these experiments as ‘utopian’, the same qualification they used for experiments by Claude Henri Saint-Simon, François Fourier, Louis Blanc and Robert Owen. Besides the ‘island’-aspect, they saw two other roadblocks: 1) in their opinion, workers could not organise the necessary financial resources to challenge the capitalist system; and 2) they were afraid for ‘infection’ of the participants by the capitalist ‘virus’. In the production co-operations this could lead to a new class of exploiters of labour force.

One of the most appealing examples of ‘experimentalism’ in the nineteenth century was the New Lanark cotton mill founded by the Welsh social reformer Robert Owen. He created decent working conditions for the workers, including education facilities and the possibilities for their families to buy goods of sound quality and acceptable prices in co-operative shops. Isaiah Berlin wrote the following summary of this experiment: ‘The fruitful elements - the blessing of co-operation, the increased productivity and efficiency due to the raising of material, moral and intellectual standards in the form of health, educational and other social services, social insurance and so forth - were the foundation of workers’ co-operative movements in many countries, and of humane and scientific principles and methods of industrial legislation and management; indeed the term ‘socialism’ itself occurs for the first time in an Owenite journal as a vague name for communal solidarity as against private gain’ (Berlin 90).

Between these experiments in the nineteenth century and the use of Learning by Monitoring as defined by Charles Sabel and elaborated upon in section 5.2 of this thesis, there are myriads of experiments in organising industrial production.
I will mention three of the most well known examples of the middle and second half of the twentieth century.

In the first place, there were ‘Mayo experiments’ in the Hawthorne Works (Chicago) of the Western Electric Company in the 1920s. These experiments implied the introduction of workers’ participation into the test room of this company and were a joint activity by Western Electric researchers and members of the Harvard Business School. They gave birth to the field of industrial sociology as well as to Human Relations in Industry Approach (Blumberg 14).

A second pioneering experiment was the ‘Glacier experiment’ of the 1940s that took place in the Glacier Metal Company (London) and introduced a Works Council. This experiment was a joint experiment of the Tavistock Institute of Human Relations (London) and Glacier researchers (Thorsrud 53).

The third example is the ‘Walravens fields experiments’ in the 1970s in two Dutch companies Swagemakers-Bogaerts (Tilburg) and Thomassen & Drijver-Verbliifa (Oss). Arnold Walravens’ team examined the conditions for advanced participation of workers (Walravens 313).

ACG joins this long history of experimentalism by using Learning by Monitoring and the Micro-Macro methods. Charles Sabel introduced Learning by Monitoring (Sabel, Bootstrapping 7). It means the monitoring of performance on agreed goals of an organisation and the learning linked to the outcome of the results. The Micro-Macro method is based on experiments done on a limited micro basis, which will be moved up to a bigger scale, macro scale, if the basic experiments work out well (Braithwaite and Drahos 13).

The question arises if a company introducing ACG will become and stay an ‘island’ as defined by Bakunin, or if it will become a nucleus of change as vanguard in its industrial environment. Can such a company organise sufficient support in the financial world? In case of success, will it keep an open mind to the outside world of possible new members? Modern ICT will have a positive influence on the development of the company as a vanguard, and can prevent the creation of ‘islands’. The company will have access to financial markets worldwide, and can present itself in the world steel industry. I will address these concerns in more detail in Part 3 of this thesis.

Industrial Democracy and more specific experimentalism seem to be concentrated in Western Europe, although I mentioned the Mayo-experiments in Chicago. Still, in describing Industrial Democracy and experimentalism, I have to refer to the important contribution of two North Americans: the philosopher John Dewey and the sociologist Charles Wright Mills.

Dewey was greatly concerned about expanding democratic values and
direct participation, which he saw as central to allowing people to work on solving their own and society’s problems. He, together with Walt Whitman, formed the heart of the Progressive Movement and the New Deal. For Dewey, intelligent inquiry and arguments were central. Experimental method and procedures should be used to draw conclusions about a given situation. People began looking at what had been shown to be true through experimentation instead of looking toward authority. He put emphasis on learning through experience and the importance of the social context in which problems arise and are solved. He turned to ‘praxis’, concrete actions here and now.

I consider the sociologist Mills (1917-1962) as a strong second North American contributor to experimentalism. In his famous book *The Sociological Imagination*, he emphasised the social responsibility of scientists in creating new opportunities for the society in which they operate. The Deweyan pragmatic spirit and ‘reflection upon experience’ (Mills and Gitlin 234) has been the subject of Mills’ doctoral dissertation. I will share Mills’ focus on Dewey’s ‘social imagination’ and democratic engagement in developing ACG.

In section 2.4, on Varieties of Capitalism, I already introduced Unger as a modern Brazilian representative of the ‘Deweyan spirit’ and ‘Mills’ imagination’.

In developing ACG as a next step in Industrial Democracy, it is necessary to focus on the key issue of Industrial Democracy: the organisation of the dialogue between stakeholders.

### 4.3 The dialogue between stakeholders

Meaningful democratic representation of all stakeholders is a major feature of ACG. For this, the organisation of the dialogue must be realistic, successful and sustainable, both qualitatively and quantitatively. A dialogue between stakeholders of ACG is a dialogue between people with differing interests, perspectives and opinions. The substantive common interest is only discovered or created in an open and well-organised discourse.

From personal experiences as business unit managing director in many direct and indirect participation projects and procedures, I learned that two elements are of crucial importance:

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

### 4.3.1 Mutual trust

Mutual trust between stakeholders in the daily activities of a company refers to the way people encounter each other and how they treat each other. Trust cannot be exacted. Trust is based on voluntarism. Stakeholders’ involvement
can only truly be successful if stakeholders want to be involved, if they want to work for the company. Voluntarism, as one of the important features of associative democracy and ACG, can be translated in the simple statement: “I want to work for that company!” Or: “I want to join that company”.

Someone wants to work for a company because he or she likes the company and is proud to work for that company. In other words, this person likes the culture of the company. Two typical well-known examples of steel companies that people like to work for and are proud to work for, are the IJmuiden steel plant and the Jamshedpur steel plant of Tata Steel. Both plants are well known as top performers in the international steel industry. From many years personal experience, I learned to understand why these two steel plants reached this level of performance: they created a company culture of ‘trust’ and ‘loyalty’.

Research by Richard Sennett confirms the outcome of my experience: ‘people need a culture’. He concludes that there are three critical values that might create this cultural anchor: 1) narrative, 2) usefulness, and 3) craftsmanship (Sennett 183).

The first item, ‘narrative’ refers to the fact that people want to work for the company. This is the basis for the voluntarism aspect of ACG. Trust and loyalty are the major ingredients from this voluntarism. Both aspects are based on continuity. The company radiates this continuity, not by boasting nice statements of the management or codes of conduct but just by its day-to-day handling of problems and opportunities.

The second item, ‘usefulness’ refers to the fact that people are heard and that they understand their role and position. This is the basis for the democratic institutional structure of ACG.

The third item, ‘craftsmanship’, refers to the fact that people want to do a good job and that the organisation recognises this and creates the circumstances to make this possible. The term craftsmanship should be ‘translated’. Craftsmanship relates instinctively to an ‘all in’ job. Nowadays most jobs fit into a labour division of the production process. The organisation creates circumstances for their employees to fulfil their job as a good team member.

61 My own experience shows that only a high salary will not keep someone with the company. See also Richard Sennett (35).
62 Nowadays, Wout Buitelaar (*Het nieuwe netwerken* 10) and myself have noticed a decreased appreciation and a reduced attention for usefulness and craftsmanship of ‘labour’ both by public and private authorities. The focus switched from ‘internal’ (labour and labour conditions) to ‘external’ (CSR, neoliberal market model, financial world). Public authorities lose sight of the importance of ‘labour’ and seem to neglect the importance of the right balance between ‘internal’ and ‘external’ aspects of industrial activities. CSR must be based on a realistic ‘internal’ framework of well-organised and appreciated ‘labour’; otherwise it becomes a useless ‘gadget’ without substance.
The emphasis on Sennett’s ‘culture anchor’ will contribute to the creation of the balance.

The culture of a company is a difficult feature to describe or to define. However, one thing is for sure: culture is related to people and to how people behave in organisations. Here, people should be considered as the collection of all individuals active within the company. This brings us to the question ‘who or what represents the company?’ immediately followed by the question ‘how do we see the company as organisation?’

The first question brings us straight to the heart of corporate governance and ACG. As described, ACG wants to include a broad variety of stakeholders in the overall management of the company on different levels and on a broad spectrum of policies. The inclusion of all relevant stakeholders in speech, decision-making and implementation is a key element of associative democracy. This is a maximum answer to the question ‘who represents the company?’ It should be mentioned that the right to be heard and the right to be included in the decision process brings with it the obligation for individuals to come with constructive proposals and the obligation to accept outcomes that are not completely in line with their own ideas.

The minimum answer is that it is almost impossible to determine who represents the company. Who forms the core of the company? Is the company the total of the assets on the balance sheet and does the owner represents the company? However, in a diffused ownership as in the Anglo Saxon-model, shareholders come and go, depending on the stock exchange. Alternatively, does the management represent the company? The average career of the management top today is short. For most employees they come and go. On the other hand, do the employees represent the company? More and more outsourcing trims down the core staff. In addition, the average employment time of the core staff is decreasing. The growing emphasis on individuality in our society results in focus on employability and personal carrier planning.

The minimum answer to the question ‘who represents the company?’ could be the hard core of middle management and workers who work and stay within the company on a long-term base. They are the real ‘insiders’ of the company. Trust and loyalty is the basis of their participation. This hard core forms the backbone of the company and represents the ‘tacit knowledge’ within the company. However, too often they do not play a role in the decisive

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63 Research by Booz & Company and Elite Research. The CEO Succession Study 2010 of Booz & Company shows an average career of 5.3 (the Netherlands) to 7.5 years (international) during the last decade. Elite Research 2006 shows an average for CEOs of 2 years in 2003 to 7 years in 2006. For other top executives these figures are 3 and 5 years respectively.
64 Interview with Prof. Dr. Alfred Kleinknecht, professor of Economics at the Delft University of Technology. See also Nonaka and Takeuchi 1995 as quoted by Buitelaar and Van Der Meer (14).
strategic movements of the company.

The next question, ‘how do we see the company as organisation?’ brings us to one of the key questions in corporate governance discussions. Do we consider the company as an ‘economic, legal entity’, the dominant view, or as a ‘living entity’, the minority view? In answering this question, I refer to Arie De Geus, one of the leading corporate governance scholars in this discussion.65

In the dominant economic, legal entity view, the company is the world of ‘things’. In my interview with Bim Bensdorp, former Director of Strategy at Hoogovens Group and Corus, he states:

‘In this world, management thinks in the ‘S’- form: strategy, structure, system and synergy. In the living entity view, the world of people, management thinks in the ‘C’- form: culture, commitment, cohesion and competencies’.

ACG embarks on the living entity conception of Arie De Geus. Human beings are central, not just in HR brochures or in a new CEO’s introduction speeches, but in reality. Nevertheless, the C- form items still need cohesion and should be embedded in a solid structure in order to guarantee sustainable policies. The institutional framework of ACG will connect the two worlds of Cs and Ss but will never challenge the C-view as basic philosophy.

ACG considers all stakeholders involved in the ACG process as ‘the company’ and sees the company as a living entity that needs steering every day, every moment, as a result of growth, cost reductions and market changes. It takes away the tension between ‘insiders’ and ‘outsiders’ in order to keep the character of the company open and to prevent inside- orientation.

The stakeholders’ commitment and loyalty to the company as a living entity and trust among the stakeholders will support the social embeddedness of the company.

Democratic structures and procedures will shape the accompanying culture of the company. ACG will empower the peripheries of the company, which will lead to a high degree of autonomy for its members, a key aspect of associative democracy.

ACG challenges the economic and legal entity view of corporations and its centralised and bureaucratic governance models.

The latest developments on ICT have even worsened the centralised and bureaucratic governance. The pyramidal organisation of the past created more comfort and stability for the majority of the members of the organisation than the new structures characterised by ‘short lines’ and an ‘MP3-type’ of

65 Arie De Geus was appointed executive vice-president at the Shell Group and was with the company for 38 years. He served as head of an advisory group to the World Bank from 1990 to 1993, and was a visiting fellow at London Business School.
governing, a term introduced by Richard Sennett.66 The belief that decreasing the amount of layers in an organisation will reduce bureaucracy is correct in principle; however, the scale increase of multinational companies via globalisation and internationalisation and the new ICT techniques have replaced the old style bureaucracy by the new MP3 style of governing, with no gain on autonomy and more uncertainty for the average member of the organisation. Richard Sennett compares this type of governing with to what Michel Foucault has called ‘panoptic surveillance’ (Sennett 51).

ACG does not fit easily in the prevailing ideas on corporate management and human resources management of the ‘sexy’ new economies, such as ICT, the financial world and the service industry. The connecting philosophy of organisations in this type of industry stands for governance based on short-term thinking, flexibility and job-hopping by well-educated individuals. These types of individuals have no outspoken desire to become very involved in one company; they have no wish to enter discourses but rather leave if they do not like the company’s conditions. Similarly, these companies are not interested in what the worker has done in the past but just interested in what he or she can do for the company in the future.

The point is that this ‘new’ world only exists within a limited number of industrial sectors for young and well-educated professionals in the rich Western society, a small group of employees. Moreover, many industrial sectors do not provide the necessary circumstances for such an environment. The majority of the workers cannot fulfil these artificial ‘light-footed’ conditions. They are either older than 35, have a family to support which limits their flexibility, are not well educated, or live under difficult economical situations.

Especially in the steel industry, and not only just in the BIC countries, we do not find these conditions. The steel industry employs millions of workers who operate under completely different circumstances. In Part 3, I explain that today HR policies within the steel industry focus on different items like continuity, education, work-life balance and diversity.

However, we should be aware that sectors like the steel industry create millions of jobs compared with the limited employment within the ‘new economy’ industry.67 In 2007, the turnover of the world steel makers was the

66 In an MP3 player, there is random access to information, flexible performance is possible only because the central processing unit is in control of the whole. Similarly, in a flexible organisation, power becomes concentrated in the centre. The centre sets the tasks, judges results, expands and shrinks the firm (Sennett 51).

67 To give an example, Thomas L. Friedman states that the Indian high-tech sector only accounts for 0.2 per cent of employment in India (Friedman 470). Adding the Indians involved in the manufacturing for export will increase the figure to only 2 per cent.
second turnover in size, after the oil industry. According to Sennett, the corporate governance models initiated and dominated by the new economy industries produce three social deficits: 1) low institutional loyalty; 2) diminishment of informal trust among workers; and 3) weakening of institutional knowledge (63). These deficits are a serious threat to the creation of the cultural anchor and its three critical values: narrative, usefulness and craftsmanship as mentioned before. As such, they form a threat to the social capital of the company.

Loyalty is one of the key aspects of ACG. Decrease of this aspect, the first social deficit resulting from the emphasis on flexibility and employability of the modern worker (awareness, self-confident and autonomous individual, ‘master of own destiny’), will lower the social capital of the company. These workers do not want to develop a strong link with the company. They do not want to be involved too much. It will take them too much time and will decrease their flexibility. Some industrial sectors adjust themselves to this trend by focusing on their image to the outside world in order to distinguish themselves from their competitors. In particular, this is the case for companies delivering straight to consumer markets.

However, a decrease in loyalty will decrease motivation and commitment and threatens efficiency and performance on the work floor. If the market conditions are positive, the company can handle this deficit. However, as soon as the market starts to become tough you need loyalty in order to establish the difference with the competitors.

The second deficit, decrease in informal trust, forms a serious threat to the day-to-day performance of a company. Informal trust oils the machine of company operations. It also forms the strength of the company when handling exceptional circumstances or accidents on the work floor.

The third deficit, the weakening of institutional knowledge, forms another serious threat to the performance of the company. It complements informal trust and is concentrated on the lower levels of the corporate hierarchy (Sennett 69). This practical knowledge about ‘how the machine runs’ cannot be replaced by computer systems or any formal knowledge centre. The importance of this practical knowledge of the company and its hierarchy, often called tacit ‘knowledge’, is very often underestimated.

Loyalty, trust and institutional knowledge - the social capital of a firm - will

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68 Statement by Marjan Oudeman, former Managing Director of the Corus Steel division of Tata Steel, on 25 January 2008, during meeting former Hoogovens executives.
69 There is no agreement among sociologists about the term social capital. Robert Putnam defines social capital in terms of people’s voluntary engagements in social and civic organisations (willingness to become involved). Alejandro Portes and Harrison White focus on networks (how deeply and widely people are involved in networks). Richard Sennett emphasises the judgments people make of their involvements (Sennett 63).
70 Philips is a typical example of a company that works on consumer’s identity.
improve the performance of the company and will shape the culture of the company. A firm’s culture, like all cultures, depends on how ordinary people make sense of an institution, not the explanation that those at the top decree (Sennett 72). Here is the link with the Learning by Monitoring and Micro-Macro methods and direct participation. According to Sennett, catastrophic disaster can only be prevented by finding the underlying cause of the immediate surroundings, the everyday experience and by connecting it to practical consequences (Offermans 20).

ACG policies must fulfil the conditions under which the company culture can flourish and can create and maintain its social capital. The willingness to work for the company and to be proud to be part of it means that the company should ‘stand for something’, that the company should embrace precious values.

### 4.3.2 Company values

Given the rich variety of cultures and Varieties of Capitalism as explained in section 2.4, the company values should be determined in a cautious and prudent way.

By values, we do not mean the top down code of conducts as announced by many companies. In principal, there is nothing wrong with an excellent code of conduct, but too often, it remains no more than an overall statement from the top with no check on compliance in the day-to-day practice of the company.

With values, we also do not mean standards and rules from public

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71 This focus on the details underlines the right choice to award Richard Sennett with the Spinoza Lens 2010, on 24 November 2010 in The Hague, as mentioned in the Introduction to this thesis.

72 ‘A code of conduct is a system of agreements and basic principles through which a company communicates the kind of conduct its members –and possible business partners– are expected to exhibit in specific situations’ (Van Tulder and Van Der Zwart 240). 58% of the hundred largest companies in the world have a code of conduct. It is considered to be a desirable instrument to manage ethics, integrity and social responsibility, and to show responsibilities towards internal and external stakeholders (Kaptein 17).

73 Ans Kolk distinguishes ‘two types of codes designed by four groups of actors: codes adopted by international organisations (IOs) and social interest groups (SIGs), and codes drawn up by business support groups (BSGs) and transnational companies (TNCs). It seems that IOs and SIGs design codes primarily to guide and/or restrict firms’ behaviour, while the BSGs and TNCs draw up codes to influence other actors and/or to anticipate or prevent mandatory regulation’ (Kolk, International Codes 16). ‘Comparing the four types with regard to focus, measurability and compliance mechanisms, BSG codes are weakest on all scores’. ‘On average, TNCs score slightly better, especially concerning the organisations targeted, their reference to standards, monitoring systems and position of the monitoring actor’ (17). The compliance likelihood of SIG codes and their measurability are not high. IO codes often have ‘to lower their standards as a prerequisite for becoming accepted’ (18). Ans Kolk does underline the possible progressive vanguard position of TNCs, which can have an impact on SIGs and IOs (17).
authorities of national governments and supranational governments. These standards are mostly compulsory and have to do with transparency demands and legal aspects of business.

The values of a multinational company introducing ACG have to be more solid and sustainable. They have to do with the position the company takes in discussions on basic rights of human beings and morality, and the way the company organises the relationship with its social environment (CSR). The values will determine the way the company shapes its own ethical policies and how it complies with initiatives from the outside world. They should be guaranteed by a solid institutional design by the company in order to underline the sustainability and the control on compliance.

The company will be confronted with serious existing initiatives to shape decent ethical behaviour of multinational companies. Industrial business associations and international NGOs like ILO take most of these initiatives. As a steelmaker, the company has to identify itself with the sustainable policies of the business association of the steel industry (World Steel Association, WSA Sustainability). More general examples are the UN Global Compact initiative (since 1999) and the OECD Guidelines for Multinational Enterprises (1999-2000). I elaborate on these initiatives in Part 3.

A multinational company introducing ACG has to determine how to handle its diversity in cultures and Varieties of Capitalism with the corresponding diversity in values and morality. The two extremes are no option: ‘everything goes’ or straightforward moral relativism will not work. The company will be faceless and stakeholders will not identify with the company. There will be no reason to be proud to work for the company. The other extreme, an ideal theory on human rights and egalitarian-liberal morality, will also not work. The distance between theory and reality plus expectable disagreements between stakeholders will frustrate practical progress in the field. It will be counterproductive.

I use Veit Bader’s ranking of ‘differentiated moralities’ for a realistic and feasible approach on moral rights (Bader, Secularism 72). He distinguishes four different tiers of morality with increasingly demanding character: 1) minimal morality and rights: basic rights to security and subsistence; 2) liberal-democratic morality: equal civic and political rights; 3) more egalitarian morality: equal socio-economic and fair cultural rights and opportunities; and 4) comprehensive moral liberalism: specific liberal way of a good life.

For ACG, I adopt the ‘minimal morality and rights’ theory as a starting point with the basic rights to security and subsistence as central issues. This starting point forms a solid minimum basis for operating under diversity in cultures and Varieties of Capitalism with a corresponding diversity in values

74 The sustainable policies of the association are laid down in the Sustainability Report 2008, and are signed by more than fifty steel companies.
and morality.

To specify this minimal morality basis for ACG, I choose Henry Shue’s theory of basic rights (Shue). Basic rights are the morality of the depths (Shue 18). They specify the line beneath which no one is allowed to sink. They are everyone’s minimal reasonable demands upon the rest of humanity. Basic rights need to be established securely before other rights can be secured (Shue 20). Shue does consider the right to physical security and subsistence as basic rights. However, he adds two other basic rights: freedom of physical movement, and economical and political participation. He considers them basic rights because their enjoyment is an integral part of the enjoyment of anything as a right.

Shue puts special emphasis on the right of subsistence in order to rescue it from systematic neglect within wealthy North-Atlantic nations where rights to liberties are conventionally most emphatically endorsed. However, he criticises the easy way the ‘friends’ of liberty in the North-Atlantic nations and rulers in the poorer countries find each other in the ‘trade-off’ thesis: ‘subsistence can probably be enjoyed in poor countries only by means of trade-offs with liberties’ (Shue 65). This method of repressive development differs from Shue’s theory on basic rights. The major difference is the acknowledgement of political liberties and certain freedom of movement as equally basic as the right to subsistence and security. This acknowledgement is based on his definition of moral rights: ‘A moral right provides (1) the rational basis for a justified demand (2) that the actual enjoyment of a substance be (3) socially guaranteed against standard threats’ (Shue 13).

He considers ‘being socially guaranteed’ the single most important aspect of a standard right, because it necessitates correlative duties. In case of a multinational company introducing ACG, this means the duty to organise the social guarantee against threats of not only the right of physical security and subsistence, but also of freedom to physical movement and participation. This will result in three types of duties: to avoid depriving of these rights, protect from deprivation, and aid the deprived. This will meet needs and rights as described by Hirst: ‘security, stability and the capacity to have a measure of control over one’s own affairs are part of human well-being’ (Hirst, Associative Democracy 98). These duties will result in policies and procedures of ACG for all disciplines, as I will develop in Part 3.

It will become clear that fulfilling minimal morality obligations...
will be different per region within the company. Each region will have its own cultural background and institutions. That means that the day-to-day translation of ACG’s minimum morality will be context dependent and that it has to adopt a contextual approach.

Bader gives three major reasons for a contextual approach in political philosophy (Bader, Secularism). All three will apply to ACG.

In the first place, the existing moral pluralism. ‘Difficult moral trade-offs cannot be resolved in a context-independent way’ (89). The outcome of the local discourse will lead to different and specific trade-offs.

Second, the under-determinacy of principles: ‘our interpretations are embedded in and shaped by institutional contexts’ (89). The local discourses will have to come up with specific solutions per region.

Third, the complexity of practical reason and judgment. ‘Moral philosophy may specialise in moral reasons exclusively; political philosophy has to deal with the complexity of practical reason and judgment’ (90). It has to handle the four normative ‘ought to’s: moral ought’s (what we owe to humanity), ethical-political ought’s (what we should do as a member of a specific community), prudential ought’s (to do what is in our well-informed, rational, long term interests), realistic ought’s (‘ought’s implies can’) (90).

By developing policies and procedures based on the minimum morality approach, ACG has to take into account these three considerations. Especially the prudential and realistic ought’s must prevent unrealistic initiatives.

4.3.3 Sustainability of the discourse process
For long-term and sustainable participation of all stakeholders, it is of decisive importance to keep the gap between expectation and realisation of targets within acceptable proportions. In more than twenty years of hands-on experience with both direct and indirect participation projects and procedures, I learned that sustainability of the discourse process is of decisive importance. Unrealistic expectations of the discourse process itself, its progress and its results, too often end up in disappointment and frustration. Participants pull out. It is of crucial importance to focus on actual issues and actual feasible solutions, understandable for the participants in the discourse process and of direct impact of their daily routine.

It is for this reason that ACG will focus on Amartya Sen’s philosophical ‘realisation-focused perspective’. Sen distinguishes two ‘schools of justice’: the realisation-focused comparisons that focus on the advancement of retreat of justice and the transcendental institutionalism of ‘arrangement-focused’
approaches to justice (Sen 7).  

The realisation-focused comparative approaches are concerned with social realisations, ‘resulting from actual institutions, actual behaviour and other influences’. Transcendental institutionalism focuses on ‘the common aim of identifying just rules and institutions’ (Sen 7). Sen’s ‘realisation-focused perspective makes it easier to understand the importance of the prevention of manifest injustice in the world, rather than seeking the perfectly just’ (Sen 21).

ACG’s realisation-focused perspective concentrates on social realisations resulting from the actual institutions, actual behaviour and other actual influences within the company, as experienced by the participants in the discourse process. It will be a practical guide for systematic guidance to reasoned decisions. Participation projects and procedures will be aimed at advancement of practical and feasible social and economic performance indicators. Participants decide which issues will appear on the agenda of the discourse platforms at which moment and start dialogues based on the wish to decrease injustice or to improve incorrect situations with regard to these issues. They will not start up-front never-ending ‘transcendental’ dialogues with respect to perfect solutions. These dialogues will delay reasonable and practical progress and will frustrate the discourse atmosphere. That does not mean that participants do not recognise that there are certain norms and values that should be respected, but these aspects will be taken care of during the discourse process at a well-chosen moment, not upfront. In the case of ACG, stakeholders respect the company values as developed in subsection 4.3.1.

All stakeholders enter the discourse process out of their own experiences and thinking. It is unrealistic to expect that they would be willing and capable to go entirely beyond them. For a company introducing ACG it means that it focuses on search for ‘comparatives’ amongst stakeholders as a systematic guidance to reasoned decisions.

‘Comparative broadening is part of the persistent interest in innovative epistemological, ethical and political work, and it has yielded a great many rewards in the intellectual history of the world’ (Sen 170).

Sen refers to the difference in Sanskrit literature between niti and nyaya. Sen explains the difference between the two terms which both stand for ‘justice’: ‘among the principal uses of the term niti are organisational propriety and behavioural correctness. In contrast with niti, the term nyaya stands for a comprehensive concept of realised justice. In that line of vision, the role of institutions, rules and organisation, important as they are, have to be assessed in the broader and more inclusive perspective of nyaya, which is inescapably

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76 Different versions of realisation-focused comparative thinking can be found, for example, in the works of Adam Smith, the Marquis de Concordet, Jeremy Bentham, Mary Wollstonecraft, Karl Marx, John Stuart Mill’ (Sen7). Sen considers Immanuel Kant, John Rawls, Jürgen Habermas, Ronald Dworkin, as ‘taking the transcendental institutional route’ (Sen 8).
linked with the world that actually emerges, not just the institutions or rules we happen to have’ (Sen 20).

Justice depends on a combination of institutional features and actual behavioural characteristics. Sen underlines the interdependent roles of institutions and behavioural patterns. ACG will follow Sen’s orientation on *nyaya*.

In Part 3 of this thesis, I discuss the organisation and formal structure of the discourse platforms. However, I put equal emphasis on the behavioural patterns of participants in the discourse process. The training and education of participants in discourse ethics and behaviour is a key issue of ACG. As mentioned before, all stakeholders will enter the discourse process with their own experiences and thinking. Discourse training focuses on respect and understanding of each other’s background and on reasonable and practical rules and behaviour in actual dialogues. It explains the importance of the institutional setting of discourse platforms and their formal rules and procedures, as part of the sustainability of the process.

Sen emphasises the importance of ‘comprehensive outcomes’ against simple final ‘culmination outcomes (Sen 215). Comprehensive outcomes include actions undertaken, agencies involved, processes used. They explain the result of the outcome against the background of all available and relevant information. Comprehensive outcomes fit in the dialogue policies of ACG and form important building blocks in consequential evaluation.

The broader aspect of *nyaya* demands examination and evaluation of the final social realisations generated through the discourse process and its institutional setting. Stakeholders cannot neglect the real outcomes of their dialogues. The consequences are important indicators for the trust and the acceptance of ACG. Learning by Monitoring fits into this focus on social realisation. It will improve, step-by-step, the quality and the credibility of the institutional setting and its social realisation, and it will map the behavioural patterns of stakeholders. I agree with Sen when he states: ‘if the justice of what happens in a society depends on a combination of institutional features and actual behavioural characteristics, along with other influences that determine the social realisations, then it is possible to identify ‘just’ institutions without making them contingent on actual behaviour (not necessary the same as ‘just’ or ‘reasonable’ behaviour’ (Sen 68). For ACG it means, that a ‘just’ discourse process can be developed based on actual behaviour of stakeholders. Besides Sen’s focus on the realisation-focused perspective and the importance of reasoning in democratic processes, I want to mention two aspects that are of great importance for the start-up and development of ACG. These are the ‘responsibility of effective power’ and the idea of ‘open partiality’.

‘If someone has the power to make a change that he or she can see
will reduce injustice in the world then there is a strong argument for just doing that. ‘Sen calls this the ‘responsibility of effective power’ (Sen 205). The management of multinational companies can take this ‘responsibility of effective power’ by introducing ACG and by starting up experiments on ACG. I consider this to be the logical result of the increased power of the management of multinational companies on the social and economic future of our societies.

The second issue, ‘open partiality’, refers to a possible weak spot of the associative philosophy. The decentralised and contextualised approach of ACG could result in ‘procedural parochialism’ or ‘closed partiality’ of only local groups based on shared prejudices or biases of the group itself. The process of participation and deliberation should guarantee the exposure to ‘fresh winds’ and independent opinions from outside in order to create ‘open partiality’. Sen appeals to the ‘impartial spectator’ as introduced by Adam Smith (Sen 187) as a possible way to organise ‘open partiality’. In shaping the details of ACG with its discourse policies, I show how the condition of ‘open partiality’ will be created.

Sen recognises that the central issues in a broader understanding of democracy are political participation, dialogue and public interaction (Sen 326). ‘The role of unrestricted reasoning is central to democratic politics in general and to the pursuit of social justice’ (Sen 44). The demands of participatory social decisions are central to the practical challenge of making democracy more effective’ (Sen 112). Participation, dialogues and discourse ethics are part of a nyaya-oriented understanding of democracy. The niti-oriented understanding of democracy sees democracy in terms just of ballots and elections (Sen 326). The necessary combination of direct and indirect participation in Industrial Democracy, resulting in a strong network of dialogues, all reported via the comprehensive outcomes approach will be nyaya-oriented and will create the basis for trust. Formal reporting on indirect participation, e.g. on works councils meetings, will be niti-oriented and will not fulfil the necessary conditions for ACG.

I started this chapter by expressing my concern with regard to the threatening of the democratic process of societies by the increasing influence of corporate decisions of multinational companies on the social and economic performance of societies. With this concern in mind, I quote Sen: ‘the success of democracy is not merely a matter of having the most perfect institutional structure that we can think of. It depends inescapably on our actual behaviour patterns and the working of political and social interactions. There is no chance of resting the matter in the ‘safe’ hands of purely institutionally virtuosity. The working of democratic institutions, like that of all other institutions, depends on the activities of human agents in utilizing opportunities for reasonable realisation’ (Sen 354).

ACG will provide opportunities for stakeholders to participate in
the corporate decision process, which are of great importance for the overall performance of our societies. It creates a new platform for political and social interactions in societies and is part of actual behaviour patterns within these societies.

Of great importance is the statement of Sen that the importance of public discussion is a recurrent theme in the history of many countries in the non-Western world. He mentions examples in Asia (Iran, Bactria and India) and Africa (South-Africa) (Sen 330). That means that the basis for the discourse policy of ACG is much broader than just the Western regions. Democracy is not a ‘Western’ discovery.

One aspect in the discourse process needs further attention. Sustainability of the discourse process needs a guarantee of the long-term character of the process and the reliability of rules and procedures. Participants are willing to accept decisions that are against their will only if they have the confidence that: 1) the rules of the discourse are reasonable and acceptable; and 2) that decisions on next discourse items can be according to their will (‘better luck next time’). These two conditions require reliable discourse rules and procedures. Rules and procedures should not be changed and manipulated by participants if the outcome of a certain discourse item threatens not to go the way they would like.

Exercising due caution on procedures makes it necessary to judge the purely procedural route approach to discourse ethics of Jürgen Habermas (Habermas). Although Sen sees the force of Habermas’ procedural route (Sen 43), he rejects the transcendent ‘ideal speech’ situation as too restricted. Reliable procedures can be determined by ‘reasoned scrutiny coming from diverse quarters’. ‘The principles that survive such scrutiny need not to be a unique set’ (Sen 45).

Besides Sen, there are many critical analyses of Habermas’s discourse ethics, for example Veit Bader and David Estlund.

Like Sen, Bader criticises the transcendent foundations of the ‘ideal speech’ situation although he still accepts Habermasian strategies ‘as long as they are translated in practical procedures and attitudes’ (Bader, Schmerzlose 308).

According to David Estlund, procedure-independent standards for evaluating political decisions can and must play a role in the accounts of the authority and legitimacy of those decisions. That means that he cannot agree with the purely procedural route of Habermas. ‘Proceduralism is not the problem, but the effort to rely on nothing but proceduralism is’ (Estlund 87).

I understand the critiques of Sen, Bader and Estlund. I do consider the
realisation-based perspective as most suitable for ACG. The only reason I refer to Habermas is my earlier mentioned personal concern for sustainable procedures as a decisive basis for trust of the participants in the discourse process. The procedural route of the ‘ideal speech’ situation should not be pushed out too easily. Habermas will stay alert behind the scenes.

I already mentioned Learning by Monitoring as instrument for Sen’s comparative broadening. Charles Sabel introduced Learning by Monitoring as part of ‘bootstrapping reform’ of firms: ‘The homespun American name for guiding events subject to these restrictions is bootstrapping. It is just the strategy by which the actors enable and oblige themselves at each step to strategise about what to do next. They do this by provisionally fixing goals and distributing authority and by setting rules that force themselves continually to re-evaluate those choices as they progress toward their original ends’ (Sabel, *Bootstrapping* 7). With restrictions, Sabel indicates the impossibility of parties concerned to specify the outcome of organisational changes by agreement. Managers, employees, and unions, all cannot specify the outcome of decentralisation and participation projects within the company. They all run the risk of losing their job or part of their authority. The starting point is the introduction of ACG with its decentralisation of decision-making and its discourse process. The bootstrapping reform will reconstruct the company piece by piece. Like Sen, but in slightly different wording, Sabel states: ‘Big pictures and talk of principles divert attention from fundamental particulars’ (Sabel, *Bootstrapping* 34). Together with Sabel’s emphasis on comprehensive outcomes and process instead of outcomes, bootstrapping fits in Sen’s realisation-focused perspective78.

Bootstrapping also introduces a ‘discursive relationship that is distinct from both the hierarchical ordering it replaces’. ‘Continuous discussion of efforts to reach targets becomes simultaneously the means of revising the goals and monitoring the partners ‘performances and capacities; because learning and monitoring are inextricably connected in this relation, I refer to it as learning by monitoring’ (Sabel, *Bootstrapping* 35,36). The discursive relationship of parties with Learning by Monitoring and mutually fixed goals leads the way to the discourse process of ACG. However, parties need the assurance that participation will be rewarded. They need job protection because they do not know the outcome of the bootstrapping process. Sabel prefers career security in an open system, meaning across company boarders, instead of lifetime employment in a closed system, meaning within the same company.

78 Sen’s realisation-based perspective and Sabel’s Learning by Monitoring, fit into the history of the economic regulatory mechanisms in the steel industry as described by Dany Jacobs. ‘Trial and error’, combined with monitoring results of incremental changes, was more important than rational formulation of new concepts (Jacobs, *Gereguleerd* 736).
Sabel sees an important role for the region as economic and political entity. He refers to associative democracy as a related development. According to Sabel, regional authorities play an important role in the bootstrapping process. They assist on regional level in organising training and open system career security, and fulfil an advisory role for small and medium companies.

Finally, Sabel ‘meets’ Dewey as he advocates a learning-centred approach to development: ‘learning to learn’ (Sabel and Reddy). Sabel refers to local experiments combined with interlocal exchange and review. The learning-centred approach recognises the limits of our knowledge and the advantages of collective action via exchange and review. ‘Why should we learn how to learn? One reason to favour experimentalist arrangements is that they may enable us to better solve the problems that we face’. ‘A deeper reason, though, is that democracy favours and is favoured by experimentalism. This is true because experimentalism requires openness, and openness requires democracy’. ‘The natural language of experimentalism is democracy. Perhaps democracy will now discover that its natural language is experimentalist?’ (Sabel and Reddy 89).
Box 3: Main intellectual sources of ACG

Associative philosophy:
- **Paul Hirst**, main representative of renewed interest in associationalism in the last decade of the twentieth century. Standard work and main work for this thesis: *Associative Democracy*
- **Veit Bader**, social philosopher and main Dutch representative of renewed interest in associationalism.
- **Philips Cooke & Kevin Morgan**, Main work for this thesis: *The Associational Economy: Firms, Regions, and Innovation.*

Morality:
- **Amartya Sen**, social philosopher on global justice. Most recent main work for this thesis: *The Idea of Justice.*
- **Veit Bader**, minimum morality and contextualised approach.

Democracy:
- **John Dewey**, philosopher. His experimental pragmatism and plea for expanding democratic values. His emphasis on education.
- **David Estlund**, philosopher. His work for this thesis: *Democratic Authority: A Philosophical Framework.*
- **Paul Blumberg, Einar Thorsrud, Cor Lammers, Wout Buitelaar** on Industrial Democracy.
- **Charles Sabel**, social scientist. Introduced Learning by Monitoring.

4.4. ACG as a new step in Industrial Democracy

The success of the neoliberal model during the last decades was a real roadblock for further progress in Industrial Democracy. A typical example of this struggle is the creation and start-up of European Works Councils (EWCs). This process has been well described by Fred Huijgen, Michael Whithall and Herman Knudsen. On EU-level, all regulations and policies concerning Industrial Democracy were heavily restrained by the neoliberal context within the Union.
Huijgen, Whitfall and Knudsen state: ‘The individual and collective ability to command in some degree of the sovereignty over our lives, in this case our working lives, has diminished with the advance of global economic and political forces. We take heart in the fact that we are not alone in our concerns, as witnessed by a fast number of NGOs and social movements addressing the negative consequences of globalisation. In the case of employment, the emergence of what Manuel Castells terms the network society provides the technological knowhow not only to increase the mobility of production and investment, but equally also to develop a degree of transparency in capital and labour relations never known before. In the case of the latter, this has led to a rise in the control of the labour process, an attack on employment terms and conditions, derecognition of labour representation and the increase in the level of job insecurity’. (Huijgen et al. 214)

Of course, this was all written before the financial crisis of 2008. Until then, pressure and criticism on the Continental European or ‘Rheinland’-model increased and its survival was questioned. However, its main feature, an economic order that gives the free market the necessary space without damaging the social cohesion, still exists. Since September 2008, the Anglo-Saxon model lost most of its credits. The Continental European model might be a better answer to the worldwide distribution of prosperity, environmental protection and international justice. The Chinese government is working hard on its own realistic alternatives of neoliberalism (Knapen).79

New approaches will be necessary to increase the dynamic character of these Varieties of Capitalism. However, the tendency of politicians to move on and to forget about the lessons that can be learned from this crisis is growing.

I consider ACG to be a new attempt putting Industrial Democracy back on the agenda of corporate governance. The recent financial crisis and its outcome form a window of opportunity for new developments in corporate governance. I repeat Blumberg’s statement: ‘it has been said that ideologies of workers’ management arise during periods of political, social, or economic unrest. It seems that these ideologies take root and grow when, for one reason or another, the legitimacy of the established economic elite is called into question and when the status of that group suffers a serious decline’ (Blumberg 9).

The outcome of the financial crisis and the resulting economic crisis meet the qualification of ‘political, social and economic unrest’. Once again, the legitimacy of the established economic elite is called into question. Now, we are experiencing the aftermath of the crisis, a period of increasing political,

79 See article of Ben Knapen in the Dutch paper NRC Handelsblad of 11 October 2008: Professor Cui Zhiyan on the Tsinghua University of Beijing is working on a Chinese model. Consulting companies like McKinsey and the Boston Consulting Group are enthusiastic about the hybrid type of companies: huge companies with a mixed public-private character.
and social, and economic unrest. This means that once again there will be opportunities for dialogues on industrial organisation and performance. This does not mean, however, that the conditions for further development of Industrial Democracy are by definition positive, but there are possibilities for change.

As described in section 3.3, the worldwide search for new economic choices has been well mapped by Anton Hemerijck.

ACG can be considered a positive and feasible proposal for the change of management culture of multinational companies fitting in this search for new economic models. Governance of multinational companies is of great influence on the economic, social and political performance of any existing and newly developed economic models.

There is a serious appeal for changes in corporate governance by many leading economists. Arie Van Der Zwan, for example concludes that it is necessary to organise the economy along different lines, especially the socio-economic relations between stakeholders. The temporary financial support of the governments must be replaced by investments of the production economy itself. In order to initiate this process, the economy needs a favourable investment climate. He states that this requires close cooperation and participation of all stakeholders. He mentions local and national authorities, employees and management of industrial sectors. For the past twenty years a limited group of ‘winners’ has been able to impose their will on the majority of participants in the economic process. This phenomenon should be eliminated. In order to look after the interest of the real economy, corporations have to adopt long-term sustainable strategies. This requires involvement and participation of all stakeholders in order to create the necessary trust among all participants. Without trust, there is no basis for real and substantial changes (Van Der Zwan).

ACG as the next evolutionary step in Industrial Democracy has the following features:

1. ACG introduces feasible and vivid company values supported by all stakeholders, namely a contextualised approach combined with minimal morality conditions. It extends the original orientation of Industrial Democracy in ‘workers’ interests toward an orientation on all stakeholders. It moves beyond a one-sided focus on workers’ interest or neoliberal shareholders’ value. It adapts the positive features of Industrial Democracy—empowerment, motivation—and shareholders’ value—transparency, minority shareholders protection—and will drive out the negative features of both. This will result in a meaningful democratic representation of
all stakeholders, supported by a stable institutional design. The institutional design creates the platform for being heard, for feeling useful, and guaranteeing continuity in the discourse process. This continuity is necessary for creating trust and loyalty;

2. ACG creates the right connection between direct and indirect participation of stakeholders. Direct participation is a pre-condition for indirect participation\(^{80}\). However, direct participation must be embedded in the right institutional setting; otherwise, it will fade away. Indirect participation, as part of the institutional setting, is the necessary condition for sustainable direct participation. ACG, with its emphasis on discourse practices, is the right way to bring together direct and indirect participation; \(^{81}\)

3. In order to organise direct and indirect participation on a sustainable basis, ACG focuses on the philosophical ‘realisation-focused perspective’ of Amartya Sen and the bootstrapping approach of Charles Sabel, all as described in subsection 4.3.2. It will be a practical guide for a systematic guidance to reasoned decisions. Participation projects and procedures will be aimed at advancement of practical and feasible social and economic performance indicators. The practical guide includes the two methods Learning by Monitoring and Micro-Macro, to be described in detail in chapter 5;

4. ACG introduces a high degree of voluntarism for its members and stakeholders, based on the possibility of free entry and free exit. The statement that you want to work for the company and that you are proud of the company only has real value if you have the freedom

\(^{80}\) Buitelaar compares the relationship between direct and indirect participation by comparing it with an ‘iceberg’. Ninety per cent of the iceberg, being direct participation, is below sea level and forms the basis for the small tip of the iceberg, being indirect participation, above sea level.

\(^{81}\) The key role for direct participation, the logical result of ACG, fits in the frontrunners role of multinational companies on direct participation programs as ascertained by the European Foundation for the Improvement of Living and Working Conditions. This role includes the involvement of networks of small and medium sized companies as described in a survey of the EPOC Research Group of the European Foundation, and as such fitting in the stakeholder’s approach of ACG. The survey emphasises the role of the networks and resources of a multinational company to learn from and implement ‘best practice’ from around the world. It underlines the relationship in the supply chain and the embeddedness in local communities. It shows the results of the survey of direct employee participation in Europe. It underlines the importance of training of social skills, the benefits on performance and motivation, and the positive experience of managers with direct participation (EPOC 211).
to leave. The high degree of voluntarism will be combined with a high degree of autonomy within the company for the peripheries; 5. By involving regional authorities, unions, education institutes, and NGOs, ACG prevents isolation from surrounding society as noticed by Wallenburg in earlier stages of Industrial Democracy (Lammers et al. 35). It results in a well-supported ‘license to produce’. The resulting company culture leads to a solid social embeddedness of the company and to a high social and economic performance. ACG represents a holistic concept for the relationship between a corporation and the society in which it operates. Accepting Shue’s needs and rights results in ‘positive duties’ for the company and a proactive approach. It goes beyond fashionable and ad-hoc sub-concepts such as ‘social entrepreneurship’, ‘corporate responsibility’, ‘accountability’, ‘transparency’, and ‘corporate citizenship’. The likelihood that a holistic concept will become outdated like most part-concepts will be much smaller. It is not built on fashionable concepts. It is about the discourse between society and corporations, and it does not claim to having the ‘correct’ answer. The associative corporate philosophy is by its nature the right tool to shape the corporate societal responsibility. The associative philosophy shapes the ‘living together’ of company and society. The social embeddedness character of ACG is corporate societal responsibility pur sang. I want to refer to an initiative of the Technological University Aachen. In my interview with Wilfried Hinsch, professor of Practical Philosophy at the RWTH Aachen, he announced the developing of a consultancy activity for the industry:

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82 This requires further explanation. In Part 3, I will translate free entry and exit into practical terms in. In principle, each worker can always leave the company and can look for another job elsewhere. What I mean is the opportunity for a member-company to enter or leave the multinational company. This decision should, of course, be supported by the internal discourse of the stakeholders of the concerned member-company. The exit option should, of course, be supported by the internal discourse of the stakeholders of the concerned member-company. The exit option should be a real option, not frustrated by threatening side effects.

83 This term was introduced by Lisa Whitehouse in her article ‘The Global Compact - Corporate Citizenship in Action. But Is It Enough?’ (Whitehouse 108). She questions the Global Compact initiative of the UN, brainchild of Kofi Annan. The voluntary character, designed to encourage participating companies to adopt and publicise examples of good corporate practice, should keep those companies out of range that really should improve their bad performance. Whitehouse searches for alternative forms of control on corporate social power. She wants to see the corporation as a citizen, engendered with rights and responsibilities in much the same way as other citizens. What I really support is her vision on CSR is a duty, imposed on corporations to prevent or remedy any ‘social costs’ that arise out of corporate activity.
‘We will present to the industry a ‘general framework’ for human rights. We will offer as a service the analysis of the existing situation of an industrial corporation along the lines of this framework. We also are able to teach managers how to fulfil the obligations resulting of the outcome of the framework. My special focus is on the basic rights philosophy of Henry Shue. But I also introduce the ideas of other human right philosophers like Onora O’Neill, Thomas Pogge, Christian Barry and Charles Beitz. I am rather disappointed about earlier contacts/presentations/advice work for politicians, unions and even the UNESCO. They are all too political, too short term oriented, with no real interest for action. I am hopeful about the attitude of managers in the industry’.

I started this thesis with the same hopefulness. As stated in section 2.3, compared with the speed of change in the political arena the world of the multinational companies is a wild, turbulent world with all aspects of fast and strong changes. Negatively or positively, multinational companies are active and strong players in the internationalisation and globalisation process;

6. ACG will broaden Industrial Democracy beyond the issue of participation and empowerment of employees. Long-term orientation and sustainable growth creates the right conditions for ‘the learning organisation’ (learning and knowledge development as a continuous activity of all participants including the learning of democratic rules and procedures), for community thinking, for economic citizenship within the company, and for sustainable character of production and products. As Lammers and Walravens already stated, serious engagement is a pre-condition for successful participation. The pursuit of a ‘learning organisation’ and active participation, the increased mutual dependency via outsourcing and networking activities, and the increased accessibility of knowledge as a dynamic process fit into the associative philosophy. Special emphasis will be put on a solid training and education policy as support of the craftsmanship approach and the creation of circumstances to fulfil this craftsmanship;

7. ACG broadens Industrial Democracy not just beyond the region or nation; rather it adapts it to the internationalisation and globalisation of the industrial world. It develops its features according to the existing Varieties of Capitalism such as the Anglo American model, the Nippon model, the Asian model, the Latin American model, and the Continental European model. It contributes to the international search for new economic models initiated by the financial crisis of 2008 (Hemerijck et al.). In this, it recognises the important and
decisive role of the BICs, especially in the steel industry. It will be the ‘meeting point’ between Western ideas and experiences of participation and social innovation, and the ‘patriarchal’ governance and social ‘control’ of steel industries in the BICs. That means that ACG minimises general ground rules (‘one size fits all’) and strives for local measures for local subjects via direct and indirect participation as long as philosophical associative principles stay (contextualised approach and minimum morality conditions);

8. ACG is aware that a company is not just a ‘united entity’ bringing partners together. Consider Wallenburg’s statement: ‘the main target is to create the right atmosphere for handling different interests of participants by reasonable and reliable dialogues and the creation of trust between participants’ (Lammers et al. 52). ACG creates a companywide discourse attitude among its stakeholders via continuous education in discourse ethics of all involved;

9. ACG develops the notion of ‘dominant industry’ in industrial regions in developing the associative approach. It stimulates initiatives on associative democracy within the regions of its member-companies.

Recent developments in corporate governance—stakeholder theory and CSR—as described in chapter 3 show the recognition of the fact that participation of stakeholders will improve the motivation and will have a positive effect on company performance. In principle, this is in accordance with the general feelings as already expressed by Blumberg and Thorsrud. An important difference between the stakeholder theory and CSR as corporate governance instruments on the one hand and ACG on the other is that stakeholder theory and CSR do not challenge the ownership of the company. That means there is no change in the political agenda of the board and the management of the company. Participation as such will mostly just be seen as means to an end or the increase of efficiency.

ACG creates the conditions for a new step in the development of Industrial Democracy. ACG is not just an attempt to increase efficiency and performance by changing the corporate governance methods of a company. ACG is more; it is focused on the sociological and philosophical issue of sustainable and human organisation of industrial production. This fits in the original approach of participation as expressed by Blumberg: ‘We do not see participation as a device to lower costs, to improve quality, to increase productivity, to undercut trade union or workers’ demand, or to give workers the illusion of power without its actuality, the more easily to guarantee jealously guarded managerial prerogatives within the framework of private enterprise. We are interested in the question of participation as it bears on the larger sociological and philosophical issue of alienation of labour, and we are prepared to follow
wherever this research leads’. (129)

This approach is the necessary defence against the possible dangers of ‘the Webbs’ degeneration’ as mentioned in section 4.2.

4.5 Critical questions and objections to ACG

There will be critical and even more than critical questions and/or threats from the outside world. I discuss six of these critiques.

1. The first criticism of ACG comes from the most outspoken and well-known opponent of the stakeholder theory, Michael C. Jensen of Harvard Business School. Jensen starts by underlining the importance of the recent high-stakes debate on corporate governance (Jensen 7). He states that the major part of this debate relates to policies and procedures to improve oversight of corporate managers by boards of directors. Of course, he refers to the American reaction to the Enron case. The Anglo-Saxon model is only about control and more control. Distrust forms the basis for this way of thinking. However, Jensen’s real concern is that at the heart of the debate there is a remarkable division of opinion about the fundamental purpose of the corporation: ‘fuelling the controversy are political, social, evolutionary, and emotional forces that draw on the concept of family and tribe’ (Jensen 7).

He describes this model as an anachronism, a residue of an earlier period of human development. It is obvious that the stakeholder philosophy and ACG belong to this category. In his opinion, supporters of stakeholder theory are ‘people who still regret the widespread failure of centrally planned socialist and communist economies’ (Jensen 20). They embrace stakeholder theory as a new opportunity to reallocate wealth. ‘Stakeholder theory gives them the appearance of legitimate political access to the sources of decision-making power in organisations, and it deprives those organisations of a principled basis for rejecting those claims. The result is to undermine the foundations of value-seeking behaviour that have enabled markets and capitalism to generate wealth and high standards of living worldwide’ (Jensen 20). In order to face this strong criticism on stakeholder philosophy (and on ACG), I will concentrate on the three major aspects of Jensen’s argument: 1) discussions on corporate governance are very actual; 2) what is the purpose of a corporation? and 3) how to measure the performance of a corporation? I can agree with the first aspect. This thesis reflects Jensen’s opinion that the debate on corporate governance
is more actual and more important than ever. The second aspect brings us straight to major questions: ‘Who or what represents the corporation?’ and ‘Why do people and institutes like to be involved and to stay involved in the corporation?’ For Jensen, the answers are simple: the owners represent the corporation and they want to stay involved in order to maximise the value of the firm and the return on their investment. This is directly linked to the third aspect; namely, how to measure the performance of the corporation. Jensen accepts just one criterion for the performance: value maximisation, the maximisation of the long-term market value of the firm. In Jensen’s opinion, value maximisation and stakeholder theory are each other’s opposites. Stakeholder theory burdens the manager with diverse criteria, which are difficult to weigh and which end up in trade-offs with dubious contributions to value maximisation. Stakeholder theory is a nice tool for weak management unable to determine priorities. Managers can follow their own preferences and hobbies on the costs of the company. It gives more power to the managers, and that is why they like it. Value maximisation has its roots in the economic world, whereas stakeholder theory originates in the world of sociology, organisational behaviour, the politics of special interests, and in the world of managerial self-interest.

It is obvious that Jensen denies any link between motivation, loyalty, commitment, social embeddedness and performance of the firm. Still, he is concerned about and impressed with the broad support for stakeholder theory. He observes that stakeholder theory has received formal endorsements of many professional organisations, special interest groups, and governmental bodies, including even the current British government. It is for that reason that he tries to develop a compromise: enlightened value maximisation or enlightened stakeholder theory. He accepts the long-term approach of the company and understands the negative influence of short-term thinking on the continuity of the company. He introduces long-term value maximisation and long-term market value of the expected stream of benefits, as the realistic approach in defining the right trade-offs. Here, we find the key to a compromise between ‘the world according to Michael Jensen’ and ACG. The long-term approach and the need for value maximisation are also on the agenda of the stakeholders of multinational companies using ACG. In this way, we can agree on the third aspect of Jensen’s argument. ACG also wants to reach value maximisation via the commitment of stakeholders and the social embeddedness of the company.

In Part 3, I will show that ACG can meet the challenge of Jensen’s
value maximisation, just by doing the right things in the right way via commitment, trust and loyalty. However, Jensen should also accept a broader definition of value: value defined as maximised value equilibrium for all stakeholders, not just for the shareholder. Jensen will distrust these sociological and political terms. He distrusts stakeholders. In his opinion, they are all by definition short-term oriented. He is perhaps right when he focuses on the short-term oriented shareholder, his primary idea of a stakeholder. According to Jensen, value maximisation is different from ‘social welfare maximizing’. ‘Externalities’, determined or not determined by local, regional or national government, determine this difference. The company follows the rules on environmental issues, or dismissal rules, the way they are. The company has no social welfare responsibility. Jensen is a typical adept of the legal school on corporate governance. Here we see a huge gap between Jensen and ACG. Enlightened value maximisation and ACG can perhaps still find each other if Jensen adapts some form of CSR, just the way he adapted his view on the stakeholder theory as mentioned above. Jensen leaves the question ‘added value for whom?’ unanswered. I assume he does not mention it because in his thinking it is obvious that the added value goes to the owners.

In conclusion, we will take Jensen’s arguments very seriously. It would be unrealistic to try to unravel his arguments with general statements on trust, loyalty and commitment.

2. The second criticism claims that ACG with its associative character will destabilise companies that introduce ACG. It will ‘balkanise’ the company. It will undermine social cohesion and unity. However, it should be noted that membership is on a voluntary base. The ‘exit’ option is well defined and real. This means that member-companies will be very motivated to make their membership successful. That means that cohesion will be much stronger and more real than in multinational companies shaped via a process of hostile mergers and acquisitions. The hostile character of this type of companies will lead to a pseudo-cohesion based on power and inequality of participants. It is only a united company on paper or on financial statements, not in reality. In reality, the stakeholders feel like prisoners and they behave like it. This cohesion paralyses real unity.

3. The third criticism refers to the tendencies of associations to become narrow-minded pressure groups subverting democracy by lobbying policymakers on behalf of ‘special interests’ and in other ways ‘mischiefs of faction’ rather than promoting rule by the people and the general interest (Wright, Envisioning 180). Aad Van Der Velden,
former CEO of Hoogovens/Corus Group Steel division, shares this criticism. In my interview he states:

‘How to sell difficult decisions? If you close a steel plant how do you organise the compensations for employees and shareholders? The local CEO shall never agree to close his site. They appointed him to fight for the survival of it. A possible solution can be that multinational companies adapting ACG should only accept viable member-companies, if necessary after serious restructuring measures to be agreed upon during the entrance negotiations’.

In order to avoid these tendencies associations must comply with the following three rules: 1) associations must be relatively encompassing, representing a substantial proportion of the relevant social category; 2) the association leadership must be accountable to membership through meaningful internal democratic processes; and 3) the association must have significant powers to sanction members (Wright, *Envisioning* 182). ACG will meet these conditions, but should be alert to the continuous health of its own association and associations involved in its discourse.

4. The fourth criticism is that the discourse process will not work. Examples of discourse processes can be found in the Continental European model and in some form in the Japanese model. It is not widespread in the industrial world and does not get much support. Especially in the Anglo-Saxon world participation or empowerment is not wide spread.84 Even in Continental Europe, support decreased dramatically during the last decade. It is difficult to find workers to join the discourse. The trend in EU regulations is also not hopeful. How to change this trend and how to organise the discourse in cultures and regions where there is no basis available at all? In chapter 6, we will see if and how ACG will handle this criticism. Once again, we will see that there will only be contextualised solutions. However, these contextualised solutions will form the base for a systematic development of a realistic and believable discourse ethics. The financial crises of 2008 created a ‘come back’ of the Continental European model. Suddenly, many management gurus and politicians changed their preference and rediscovered the advantages of this model with its focus on discourse between stakeholders. Nevertheless, I have doubts concerning the sustainability of their new preference.

5. The fifth objection comes from the financial world. Members of this

84 Within the former Corus head-office in London the Dutch system of participation was called the ‘Dutch disease’.
specialised discipline will be extra critical and distrusting. What is the influence of the introduction of social embeddedness and corporate societal responsibility on effectiveness and efficiency? How to satisfy the financial performance as asked for on the capital market? Corporations are confronted with an increased financialisation of contemporary capitalism resulting in marketisation of corporate control, as described in section 3.2. Besides this, financial specialists are not concerned with values and long-term aspects like continuity and sustainability. They speak a completely different language. The company introducing ACG has to show the financial world that it can fulfil requirements of private corporate governance regulations like the International Accounting Standards of IASB. It has to demonstrate that social embeddedness will not be a threat but an opportunity for better performances. In Part 3, I show that its answer to marketisation of corporate control will be different from the general trend to a deepening commodification of social life. Nevertheless, external regulations with all their modern features are also part of the embeddedness of the company.

6. Finally, companies introducing ACG will also be confronted with strong and frequent corporate governance regulations from national and supranational authorities. Public authorities are almost daily confronted with the results of corruption and bad management. The Enron case, the Parmat case, and the corruption in Germany at VW and Siemens all resulted in more regulations. The trust in self-regulation of the industry has been undermined by these scandals and the recent financial crisis.
Summarizing Part 2:
I have presented ACG as a new perspective of corporate governance and a potential next step in Industrial Democracy. In the next part of this thesis, Part 3, I introduce ASC, the Associative Steel Company, as a realistic and feasible model of a steel company using ACG as its corporate governance model for all stakeholders.

I show that my philosophical line of approach as presented in this part can be converted into realistic policies and actions, necessary to go beyond the level of good intentions and idle considerations. It shows that ACG will be a useful corporate governance method for solving problems and removing shortcomings of existing approaches as mentioned in Parts 1 and 2.

The critical questions and objections against ACG, as mentioned in section 4.5, will receive special attention. I show how these objections and other possible obstacles arising during the day-to-day application of ACG can be handled in a decent and sufficient way.