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Associative corporate governance: the steel industry case

Joustra, P.K.

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5. The creation of ASC

The main actor in this thesis is the Associative Steel Corporation, ASC. I present ASC as an international steel company using ACG as its corporate governance method. The management of ASC has to demonstrate the feasibility of ACG, by a step-by-step introduction of ACG in all of the company’s activities. I will show that ASC can be a realistic model, a feasible perspective of the day-to-day practice of the steel industry and its environment.

ASC operates within the general economical and social environment of recent divergent capitalism and the actual ‘way of life’ in the steel industry as described in Part 1. The rich variety in the social and economical environment of steel companies in Asia, Eastern- and Western-Europe, Russia, and the Americas, demands for ‘management of diversity’ rather than just a ‘management of change’. The correct ‘change’ to implement will also depend on the local social and cultural climate of a steel plant.

In developing the company and its ACG philosophy, I take into account:
1) the result of 43 interviews during the years 2006-2010 (see List of Personal Interviews):
   - 30 with managers and specialists in the steel industry;
   - 13 with managers and specialists from outside the steel industry.
2) my own experience of 36 years, 1965-2001, in the steel industry worldwide.

ASC adopts two important working methods in the process of creating ACG:
1) the Micro-Macro method, to be described in the following section 5.1; and
2) the Learning by Monitoring method, to be described in section 5.2. Both methods show that ACG can be developed on a systematic way, resulting in well-defined specific ‘steps forward’ instead of ‘jumps forward’. For each of the company’s activities as described in chapter 6 I indicate these specific steps. It shows that many steps can be based on optimising and maximising already available trends, attitudes or ideas. By this, I ‘construct’ ACG as a feasible and realistic perspective. I do not ‘paint’ it as a nice utopia or as a purely hypothetical picture.

In section 5.3, I introduce the actor ‘labour’ as the centre of ‘action’ of the development of ACG in chapter 6. Section 5.4 introduces the main starting features of ASC.

For a comparison between ASC and a ‘traditional’ steel company, see Box 4. It refers to the conceptual approach as described in Part 2.
### Box 4: Comparison traditional steel company vs. ASC

<table>
<thead>
<tr>
<th>Traditional steel company</th>
<th>ASC</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Traditional corporate governance</td>
<td>• Associative Corporate Governance</td>
</tr>
<tr>
<td>• Traditional management</td>
<td>• Sen’s ‘responsibility of effective power’</td>
</tr>
<tr>
<td>• Control-based management</td>
<td>• Trust- and loyalty-based management</td>
</tr>
<tr>
<td>• Globalising via neoliberal M&amp;As</td>
<td>• Voluntary membership of ASC</td>
</tr>
<tr>
<td>• Limited or no autonomy periphery</td>
<td>• Autonomy periphery</td>
</tr>
<tr>
<td>• Limited stakeholder approach</td>
<td>• Pro-active attitude</td>
</tr>
<tr>
<td>• Limited CSR</td>
<td>• Pro-active attitude</td>
</tr>
<tr>
<td>• Change management</td>
<td>• Change management combined with diversity management</td>
</tr>
</tbody>
</table>

#### 5.1 The Micro-Macro method

The Micro-Macro approach is based on experiments done on a limited basis, micro, which will be moved up to a bigger scale, macro, if the basic experiments work out well. The methodological prescription is ‘to gather data on the most macro phenomenon possible from the most micro source possible’ (Braithwaite and Drahos 21).

Micro-experiments will have broader effects on a globalised scale via so-called ‘webs of dialogue’ and ‘webs of influence’ within global communities.

*Webs of dialogue* are built both top-down and bottom-up. Top-down means defining a problem, agreeing on principles to solve it, agreeing on rules and enforcing rules. Bottom-up means defining a problem, some firms change practice to solve the problem, others modelling the new practice, globalising the new custom and globalising the law in the shadow of custom’ (Braithwaite and Drahos 32). Dialogue policies of ACG as described in section 4.3, are in line with the bottom-up approach.
An example within the steel industry: micro experiments will attract attention via conferences and working groups of the World Steel Association on best practices. It will form part of the existing attitude of competitive cooperation in the ‘epistemic community’ of steel specialists. Epistemic communities are networks of technically competent regulatory experts from the world of science, the professions, business and NGOs. The role of these epistemic communities is of much greater importance in changing regulations and best practices than generally recognised (Jasanoff)85.

A new impulse for the creation and growth of webs of dialogues is the rising influence of the new social media. It goes beyond this thesis to study this new development, but it is obviously that it will play an important role in creating webs of dialogues and epistemic communities.

Another typical example within the steel industry is ESTEP, the European Steel Technology Platform86. This platform is committed to both developing innovative manufacturing technologies to save and produce energy, and to inventing new steel materials. One of its targets is to develop a holistic approach from concept to completion to eliminate the ecological footprint of steel products. It is a true epistemic community with a network of around 8000 researchers from steelmakers and universities.

‘Webs of influence’ play an equally important role in the history of globalisation. ‘Many actors deploying many mechanisms ‘can influence each other, which can lead to coalitions on certain proposed changes by a single actor (Braithwaite and Drahos 31).

In section 2.2, I already mentioned the example of the dialogue between actors from the automotive industry and specialists from steelmakers on the needs of car designers to make stronger cars (safety aspects) and lighter cars (environmental aspects). The continuous improvement philosophy results in the ratcheting-up of standards. This is a typical example of reciprocal influence of actors in industrial chains.

‘The most important difference between webs of dialogue and webs of

85 I refer to the work of Sheila Jasanoff of Harvard University. The role of epistemic communities is well summarised in States of Knowledge: The Co-Production of Science and Social order, edited by Jasanoff. She states: ‘Co-production calls attention to the social dimensions of cognitive commitments and understandings, while at the same time underscoring the epistemic and material correlates of social formations’ (3). I do recognise the correlation within the steel industry, the way in which knowledge has been developed in correlation with steel communities.

86 The stakeholders of ESTEP are the European Commission, the major steel companies and the whole European steel industry represented by Eurofer, steel research centres, industrial stakeholders linked to the priorities of the Platform (suppliers and customers), universities, representatives of national EU governments, representatives of trade unions (EMF, the European Metalworkers’ Federation). Source: European Steel technology Platform: A Bridge to the Future, ESTEP 2002.
influence is that webs of influence are webs of reward and punishment. They are accessible only to actors with concentrated and liquid resources. Webs of dialogue can work quite well in globalising compliance without any sanctions’ (Braithwaite and Drahos 552).

In chapter 6, in the Corporate Strategy section 6.1, I refer to the strategic management theories of Michael Porter. ‘Chain management strategy’ with the aspects of value adding, mutual dependencies and the management of these dependencies, fits into the ‘webs of influence’ reality.

The creation of webs or networks of influence is also well described by Manuel Castells in his well-known book The Rise of the Networking Society. He describes the shift in governance of multinational companies from vertical bureaucracies to ‘horizontal’ corporations and global networks (webs of alliances, agreements, and joint ventures), with decentralisation and autonomy as main features. He defines ‘horizontal’ corporations as dynamic and strategically planned networks of self-programmed and self-directed units based on decentralisation, participation and coordination (Castells 174). There is no longer ‘one best way’ of production and governance of organisations. A variety of models and organisational arrangements emerged, prospering or failing according to their adaptability to various institutional contexts and competitive structures. He calls it ‘variety of organisations’ or ‘network enterprise’. He even considers multinational or transnational companies as ‘outdated’ and announces the emergence of international networks of firms (Castells 206). He specially refers to the East Asian area.

In my interview with Fred Huijgen, former Professor in Business Administration at the Nijmegen Business School, University of Nijmegen, the Netherlands, he comments on of Manual Castells’ book. In his opinion, Castells prefers to thinks in structures. Fred Huijgen prefers to rely on the importance of conviction and guidelines for cooperative action87. In section 6.7, I refer to ‘chain management’ within ASC. I consider ‘chain management ‘to be a hybrid of the ‘network society’ and ‘cooperative action’.

The Micro- Macro method fits in with the philosophy of ACG. ACG promotes active contribution by its member-companies to a decentralised associative regional policy. Each micro industrial initiative in the region of an ASC member-company can be the start of a macro ratcheting-up within ASC and, in a later stage, within the steel industry as a whole.

5.2 Learning by Monitoring

As described in chapter 4, Learning by Monitoring or ‘bootstrapping’ has been introduced by Charles Sabel. It means the monitoring of performance

87 For more aspects of this interview, see section 6.1.
on agreed goals of an organisation and the learning linked to the outcome. An important pre-condition of Learning by Monitoring is cooperation between agents or stakeholders through discursive economical relations instead of cooperation by contract and hierarchy. This fits in the discourse policies of ACG and Sen’s realisation-focused perspective and Dewey’s experimental empiricism as explained in chapter 4. Learning by Monitoring puts emphasise on process against outcomes or even better: as outcomes always in process. In section 6.1, I introduce the corporate strategy process as a typical example of Learning by Monitoring.

Learning by Monitoring will strengthen the notion of the region. Member-companies of ASC will open their organisation to cooperation with stakeholders on a local and regional level. Learning processes, originally focused on economical developments can lead to political institutional changes in the region as part of the associative philosophy of ASC, without threatening the specific social cultural conditions of the region.

Training of employees in Learning by Monitoring processes will focus on increase of ‘career security’ instead of lifetime employment within one company. Regional political authorities can play a decisive role in the institutional foundation and safeguarding of the openness of the system. Open systems are more robust in pooling risks.

The next level of Learning by Monitoring for each member-company of ASC will be within the ASC organisation. Each member-company can open its organisation to the rest of the ASC organisation. ACG policies of ASC guarantee that openness of agents will be safeguarded and rewarded. In chapter 6, I give examples of this level, e.g. the possibilities for local suppliers to show their specialised knowledge within the ASC organisation, and training and career possibilities for employees within ASC.

Learning by Monitoring rebuilds a company bottom- up via decentralisation of the organisation. Actors enable and oblige themselves at each step to strategise about what to do next. This fits in with the previously mentioned situation that today there is no longer place for the ‘one solution fits all’ thinking. Experiments at the basis of organisations will show what is useful and what does not work. Instead of endless discussions about motives and possible alternatives, players just

88 Regional settings and regional open systems do very well when the economy does well. However, in times of an economical recession the regional setting can become a problem. Member-companies of ASC very often form the core of the regional economical activities. In times of strong decline in the steel market all local and regional stakeholders will suffer immediately, especially as they are completely focused on the steel plant as major client. For that reason, the associative approach should focus on diversity of industrial activities by encouraging stakeholders to use their knowledge to increase their economical reach outside the direct region. The steel plant itself should stimulate this policy. The institutional settings of the region should develop reasonable rules and financial budgets for difficult economical times, in advance.
'try and do it’. What counts is ‘does it work?’ This will result in a pragmatic approach, both local and practical, with an emphasis on using one’s brains and knowledge.

As mentioned before, Micro-Macro and Learning by Monitoring will be applied to all activities of ASC: Corporate Strategy, Finance, Supplies, R&D, HR, Marketing & Sales, and Operations.

The total outcome of these activities determines the real face of the company, shown to the outside world of financial institutes, consumers, public authorities, non-governmental organisations, and others.

5.3 ASC and Labour

In chapter 2, the main actors in the steel industry are highlighted. They all play their roll in the creation of ASC. I place ‘labour’ in the centre of the development of ACG in the next chapter, as the centre of all the company’s activities.

With ‘labour’ I am not referring only to the ‘blue collar unionised workers’ of the main actor ASC but to all persons working within the boundaries of the steelmaker including management representatives; to every person who passes the gate of the steel plant on his or her way to plant, workshop or office. It can be a regular employee of ASC, but also representatives of clients, suppliers, NGOs, etc.

There are two reasons why I use ‘labour’ as a central starting point. In the first place, because at the start of the 21st century labour is on the ‘losing’ side, completely overshadowed by shareholders interests and an increased financialisation of contemporary capitalism. See also chapters 2 and 3. And in the second place, because the focus of corporate governance on human potential as described in chapter 3.

The steel industry is a high-investment industrial sector and the acquisition of sufficient financial resources plays an important role in the day-to-day activities of steel companies. However, the steel industry remains one of the most labour-intensive industrial sectors in the world. This combination of heavy investments with long lead times and a character of high technology, and the labour intensive character of the steel industry, results in a labour force with specific education qualities and a high level of skills.

For this, steel companies have to train and upgrade their employees on a continual basis. That means that the industry needs a solid workforce with long labour contracts. Loyalty and trust form the basis of success. New trends, such as flexible labour and job-hopping, do not fit in too well. Well-paid top managers, and flex workers at the bottom do not form the core and the value of the company. They come and go, and see the company only as a pocket filling-mechanism. The steel industry needs a loyal and well-experienced
labour force in order to perform well in the long term. Companies who scored well on these aspects are currently the ‘most wanted’ companies. A typical example is the IJmuiden steel plant, in Holland.

In Japan and Korea, steel plants also provide loyalty and trust. A typical example of the opposite is the steel industry in the United States. This industry deteriorated because of short-term thinking, accompanied by low investment levels and low levels of education of the work force and the accompanying lack of loyalty and trust. It is obvious that the recent trend of concentration and mergers will not have a positive impact on the mentioned preconditions for success in the long term. Closing plants, reductions in staff, self-enrichment at the top, management decisions related purely to financial parameters, and lack of influence on investment programs will bring down motivation and loyalty. Even the ‘most wanted’ plants today will slow down in performance after being used as ‘cash cows’ for a certain time.

By introducing ACG as the major governance policy, ASC will try to create a solid workforce based on loyalty and trust. The loyalty and trust focus applies mainly to the HR-policies of ASC, given the central place of ‘labour’ as mentioned before. In chapter 6, in the HR section 6.5, this aspect will be highlighted in detail.

Learning by Monitoring especially focused on labour was introduced by Archon Fung, Dara O’Rourke and Charles Sabel, in 2001 under the name RLS: Ratcheting up Labour Standards (Fung et al.). RLS is a strategy for strengthening labour standards based on voluntary initiatives by corporations resulting in a continuous discourse on international labour standards. RLS creates official, social, and financial incentives for firms to monitor and improve their own workshops and those of their suppliers, and creates a pool of information (Fung et al. 2)

According to the authors, multinational companies should adopt a code of conduct and should participate in a social monitoring program. Firms should select monitors from among NGOs or auditing companies that provide this service. The monitor should also report its findings to a ‘super monitor’, an umpire constituted by international organisations such as the World Bank and the ILO, together with NGOs and international confederations of trade unions.

This will lead to continuous improvement of labour standards via social and competitive pressure of consumers, journalists and financial analysts: social performance as a key performance indicator. Here is the link with Micro-Macro: micro initiatives of ‘leaders’ will end up in macro regulations for a whole industrial sector including ‘laggards’.

During the creation of ACG in chapter 6 all key actors, as mentioned in chapter
2, will be involved. Involving all actors is essential in the creation of ASC. One of the reasons of the failure of associationalism in the beginning of the 20th century was the focus on a purely company worker-based doctrine (Hirst, *Associative Democracy* 101).

ASC, with its ACG, will escape such a limited view. First, as a major steelmaker, ASC must face the competition of all other major steelmakers. The performance of ASC should be equal or better than of its colleagues.

Second, ASC must cooperate and collaborate with the governments of the various nation states in which its member-companies or future member-companies are located. The role of the state has been reinforced by the financial crisis of 2008. It is obvious that governments and public opinion suddenly became aware of the dangers of an uncontrolled financial sector with short-term targets. In principle, ASC has no problem with the latest developments because it shows once again the limitations of the ‘classic’ merger and acquisition approach. The ACG-philosophy will be of interest for politicians in many countries (Leijendekker)89.

Third, ASC must comply with the rules of the international finance world with its rules, procedures, and targets.

Fourth, ASC like any other steelmaker must face the rather complicated and problematic negotiations with raw material and energy suppliers.

Fifth, ASC must deal with the growing demands of global clients, regarding quality and quantity.

Sixth, ASC should be a member of international and national business associations such as the World Steel Association and other steel-based associations on technical and commercial matters.

Seventh, ASC has to deal with national and international NGOs in the various fields as mentioned in chapter 2.

Eight, ASC must cooperate with regional authorities in the locations of its member-companies. This is of course a major issue given the character of ACG and the fact that its member-companies are the centres of industrial activity of these regions.

Although ASC and its employees create new possibilities and methods to handle its business, it has to face the existing principles – lowest cost location, best practice, liberalisation- deregulation, continuous improvement, transparency –, and international mechanisms – economical coercion, systems of reward, modelling, coordination, capacity building, reciprocal and non- reciprocal adjustment– as already mentioned in section 2.2.

It has to find a way to handle the possibility of different interests

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89 Leijendekker refers to a major, well-known and influential European politician as advocate of the Continental European model: Michel Albert, former Chairman of the French Planning Office. He underlines the growing importance of business ethics and dialogues between stakeholders of multinational companies.
for different actors. In section 6.1 of this thesis I will explain the company strategy of ASC on this aspect of corporate governance; how it will balance the interests between competitors, suppliers, clients, financial authorities, national and regional authorities, and associations. Each actor has to be straight on his or her concerns and wishes, and has to accept the ACG-rules and decision-making process of the discourse platforms and management.

5.4 Main starting features of ASC

Many steel companies are still operating in Hedlund’s ethnocentric phase (see section 2.3). The industry is still much fragmentised and has very often a real ethnocentric ‘home basis’.

Some corporations can be called multinational and have started entering the polycentric phase. Examples of this are ThyssenKrupp, JFK, American Steel, and Tata Steel.

In my opinion, there is only one multinational company that has embarked on the third geocentric phase: ArcelorMittal. ASC starts entering the polycentric phase and can be compared with ThyssenKrupp, NSC, American Steel and Tata Steel.

ASC presents itself as a vehicle for steel plants in the ethnocentric phase to become a member-company of an international company on geocentric level, without losing their identity and on a voluntary basis. Many smaller steel makers are faced with the need for concentration in the steel industry, and are candidates for future mergers and acquisitions in the ‘classic’ neoliberal style.

ASC is able to offer the advantages of a large-scale operation to a new member-company without destroying the regional settings of the member. This results in a corporate structure with one main office and a number of steelmaking member-companies active in different parts of the world. For practical reasons and in order to stay in touch with the real world, the main office will be located near the main plant of ASC. I consider the main plant the plant where the first initiative was taken to introduce the ACG. This is merely a logical starting point in the polycentric phase. As soon as ASC enters the geocentric phase this arrangement should be adapted.

According to the rules of ACG ASC ask its member-companies to adopt the associative democracy policies in their regional social environment. The member-companies will operate within ASC along the same policies.

However, there are two main preconditions for developing ASC and its policies and activities along the lines of Micro-Macro and Learning by Monitoring.

In the first place, the ownership of ASC and its members must guarantee a reasonable timeframe for relevant stakeholders to work in a sustainable way for the future of the company. That means that ASC and its members should be
protected for hostile acquisitions by third parties like ArcelorMittal or others. How to organise this ‘protection-wall’ will be handled in section 6.2.

The second key condition is a clear ‘entrance’- and ‘exit’-agreement in order to guarantee the associative character of ASC. In order to meet the autonomy aspect of associative cooperation, member-companies must be free to enter and to leave the ASC organisation according to clear and open procedures. Obligations and rights of member-companies, and their mutual relations must be well described in these agreements. In the next chapter, I will develop the main features of these agreements. These features will include mutual shareholding positions, mutual arrangements on investments and R&D programs.