Associative corporate governance: the steel industry case
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7. Evaluation

I evaluate the results of Part 3 by taking into account the problems of internationalisation and globalisation of the steel industry as presented in Part 1 and the objections against ACG as presented in Part 2. In section 2.1, I described four general and five specific aspects of globalisation of the steel industry. In section 4.5, I presented six ‘critical questions and objections’ to ACG. I first evaluate the general and specific aspects. Then I evaluate the critical questions.

The general aspects

The general aspects were: 1) the operating under different Varieties of Capitalism; 2) the exaggeration of the rise of real transnational companies and the continuing importance of the role of nation states, and regional and national authorities, especially since the financial crisis of 2008; 3) the growth of the economies of the BICs; 4) the rearguard position of the ‘labour’ actor.

The first general aspect of globalisation and internationalisation, operating under different Varieties of Capitalism, is well handled by ACG given its contextualised approach and high level of autonomy for ASC’s member-companies. No exclusivity for the neoliberal approach, but acknowledgement of the different social economic contexts. No hostile takeovers but voluntary entrance into the multinational organisation of ASC. The four most well known drivers of horizontal consolidation processes in the industry (coverage of global clients, increase of scale, possibility of low cost producing units, and the spread of political and general market volatility risk) as mentioned in section 1.3, need this contextualised approach. As mentioned in section 6.1, the rate of success of the ‘classic route’ is unacceptable low, see my interview with Hans Schenk. Synergies, the intended targets for the drivers, too often do not show up.

With regard to the second aspect, the exaggeration of the rise of real transnational companies and the continuing importance of the role of nation states, and regional and national authorities, I refer to the fact that ASC starts as a steel company in Hedlund’s ‘polycentric’ phase. Only in the future, after the joining of ASC by a substantial number of member-companies, ASC can reach the third phase of ‘geocentrism,’ and become a real transnational company. The still important role of regional and national authorities will be fully recognised by their status as stakeholder in the company. This role will not change in the future, even after reaching the ‘geocentric’ phase. ASC’s stakeholder approach of combined with CSR policies and the resulting social embeddedness of ASC will stay.

The third aspect, the growth of the economies of the BICs plays a significant role in the steel industry. In chapters 1 and 2, I described the strong
growth of the Chinese steel industry and international merger and acquisition activities of the Indian steelmakers Mittal and Tata. ACG introduces the diversity of the South as expressed by Roberto Unger and Walden Bello, and does not follow the American hegemony on corporate governance philosophy.

The fourth aspect, the weak position of labour, is one of ACG’s key issues. ACG as a next step in Industrial Democracy will repair the rearguard position of this stakeholder. Still, a serious handicap to face is the substantial distance between management and labour in the BICs, as described by Geert and Gert Jan Hofstede. Each form of the sharing of decision-making power between superiors and subordinates is considered as a sign of ‘weak’ management. This consideration will be a serious handicap for the introduction of direct or indirect participation.

The specific aspects
The specific aspects were: 1) the steel industry is a latecomer on the internationalisation and globalisation front; 2) globalisation via global clients in the automotive and limited global availability of raw materials; 3) the role of the capital market; 4) historically relatively weak economic performance; 5) the specific environmental issue of global warming, the steel industry as a major CO$_2$ source.

All five aspects are integrated in Parts 2 and 3. The steel industry as a latecomer in internationalisation and globalisation creates the opportunity for this industrial sector to move away from the existing neoliberal merger and acquisition approach, the main issue from my thesis. In section 6.3, 6.4, 6.6 and 6.7, I highlight the ACG approach to global clients and suppliers. I described the role of the financial market and the ACG approach in section 6.2. The historically weak performance, one of the drivers for internationalisation and concentration, applies to the classic merger and acquisition approach as well as to concentration via ACG. I present ACG as a better answer to this driver than the classic route with its high level of failure and non-performance. Finally, I described the important issue of CO$_2$ emissions in section 6.4. ACG and the involvement of environmental NGOs on regional and international level as stakeholders in the company, guarantee ASC’s pro-active attitude.

Critical questions and objections
In section 4.5, I presented six ‘critical questions and objections’ to ACG. I will handle the ‘critical questions/ objections’ one by one. In answering the questions, I will take into account the mentioned specific and general aspects.

1. The first criticism is Michael Jensen’s opinion on stakeholder theory and CSR.
   As already mentioned in section 4.5, he considers stakeholder
theory and CSR as nice tools for weak management unable to determine priorities. Managers can follow their own preferences and hobbies at 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 by the broad support of stakeholder theory. He observes that stakeholder theory has received formal endorsements from many professional organisations, special interest groups, and governmental bodies, including even the current British government. I refer here to Philip Bond, advisor of the British government179. His advice is in contrast with Michael Jensen’s view. Philip Bond is working on a new governmental strategy to strengthen regional and local economies as the basis for creating jobs. He calls it ‘localism’ as a supplement and answer to globalisation. He states ‘if the Conservatives develop a political economy of the local it would allow cities and regions to invest in and develop their own economies. As such, the Tories need to recover the notion of patriotic capital, where assets and wealth look to investment in the locality rather than speculation via global systems of finance. This is what has helped Germany to grow its small and medium businesses and remain, still, the world’s largest exporter. Ending the casino economy is a noble goal – the solution is to go global and go local’ (Tromp, Jan).

I mentioned that even Jensen made a few steps in the direction of stakeholder theory and CSR by accepting the advantages of a long-term approach on corporate governance. However, his ‘enlightened value maximisation’ or ‘enlightened stakeholder theory’ is still a one-sided legal view of corporate governance. Apart from Jensen’s hesitancy, the critical question will be how far to go on stakeholder involvement and CSR. What are the eventual consequences for the governance of the corporation at the end of the day? The answer is as far as the contextualised approach admits in the step-by-step procedure of Learning by Monitoring and Micro-Macro method. As mentioned in section 4.3, the complexity of practical reason and judgment asks for balance between moral and ethical-political ought’s, and prudential and realistic ought’s.

179 The writer is a senior lecturer at the University of Cumbria. He recently wrote Red Tory, a book on radical Conservatism (Bond).
There is no clear written handbook; it is the continuous care of all stakeholders for this balance that matters.

2. The second criticism: ACG will ‘balkanise’ the company.
ACG with its associative character will destabilise companies that introduce ACG. It will undermine social cohesion and unity. The main answer on this criticism is that, on the contrary, ACG creates real cohesion and unity. As described in section 6.7, the membership of ASC is based on serious and open negotiations of the entrance conditions. The new member-company signs the agreement on a voluntary basis. In addition, the ‘exit’ option is well defined and real. There are no surprises and both partners know their obligations and rights. As mentioned before, member-companies will be very motivated to make their membership successful. 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 company will lead to pseudo-cohesion based on power and the 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 that way. This cohesion paralyses real unity.
The contextualised ACG approach, as defined in section 4.3, results in respect and understanding of the social economic rules and behaviour of member-companies operating under different Varieties of Capitalism. The acceptance of the company values, agreed upon in the Entrance Agreement, will result in long-term policies on Shue’s human rights and participation of all stakeholders in a variety of discourse platforms. Trust and loyalty as basic ingredients of human resource policies will bring social cohesion and unity.

3. The third criticism is the tendencies of associations to become narrow-minded pressure groups subverting democracy by lobbying policymakers on behalf of ‘special interests’.
This means that ASC as an association must take care of its health as an organisation. As stated already in section 4.3, ASC leadership must be accountable to its member-companies through internal democratic processes, and the association must have significant powers to sanction member-companies. I described the legitimacy and authority of the democratic process within ASC. The ASC’s ‘minimum morality combined with a contextualised approach’, as a procedure-independent standard results in a discourse practice, guided by Sen’s realisation-focused perspective and Sabel’s Learning by Monitoring. This practice and the normative consent of
all stakeholders generates the basis for legitimacy and authority of the management.

Crucial element is the balance between autonomy of the member-companies and the powers of the head office to sanction member-companies. The Entrance Agreement defines the balance between decisions by the Central Board of Directors and the Local Boards of Directors, and between the Central Management Team and the Local Management Teams. The authority of the International Corporate Senate and the exit-option are two basic elements of the agreement. The balance can be compared to the balance in the European Union between Brussels and the national governments, including the ongoing tensions inherent in the process.

A key element is the carefulness of the decision process. The Central Board of Directors exercises due caution in taking decisions. The discourse rules apply. The continuous ‘spinning ball’ character of the corporate strategy, as described in section 6.1, eliminates surprises about corporate decisions. Consequences on technological, financial or human resources aspects will be transparent and always the product of open evaluations. The company values guarantee decent translation of consequences in acceptable measures, decided upfront before taking decisions. In section 6.5, I have given an example of due caution on a key element: staff reduction. I want to emphasise the fact that my thesis is about the introduction of ACG within ASC as a feasible and realistic perspective of a multinational steelmaker. Policies and actions, as described in Part 3, result in the first steps on the company’s way to ACG, using Learning by Monitoring and Micro-Macro. It shows that implementation of ACG does not require revolutionary changes in the day-to-day practice of the company. It can be implemented step-by-step using initiatives and practices that are already available, in order to keep a reasonable balance between change and continuity within the organisation. Implementation of ACG is a well-prepared process and not a jump forward into uncertainty.

4. The fourth criticism: discourse ethics will not work.

I can imagine that the discourse ethics and discourse process of ACG might raise doubts about frequency and quality of the dialogues between stakeholders. I first want to comment on the frequency. Already today, the frequency of dialogues between stakeholders is very high. In chapter 6, I described many examples of existing discourse platforms between:

- Steelmakers and suppliers, see section 6.3;
- Steelmakers and customers, see section 6.4;
- Steelmakers and national, regional and local authorities, see section 6.1;
- Steelmakers and educational institutes, see section 6.4 and 6.5;
- Steelmakers and NGOs, see section 6.4;
- Steelmakers among themselves, see section 6.1;
- Management and labour, see section 6.5;
- Management and financial stakeholders, see section 6.2.

Especially direct and indirect participation of employees as described in section 6.5, result in a dense framework of discourse platforms. The new opportunities of modern ICT-technology and social media have accelerated this process during the last decades. The emphasis on knowledge exchange and ‘learning organisation’ also supports and stimulates the process.

To mention just one recent example of a new installed discourse platform: representatives of the top of Tata Steel, the Dutch Tata management team and HR-managers will start a dialogue on a very delicate subject: which decisions of the Tata top will have direct influence on the Dutch legal rules of indirect participation. If necessary, participants in the discourse platform will discuss and will propose, new internal agreements and regulations (Van Lamberen).

These examples show the already existing density of discourse practices. Introduction of ACG discourse policies will be a matter of integration and perfection of these practices and adding general policies and procedures.

As described in section 4.3, the discourse process is based on Sen’s realisation-focused perspective and Sabel’s Learning by Monitoring. They are by far the first ‘rules of play’. They are the basis for trust among participants and for the sustainability of the process. Further ‘rules of play’ will be:

- ‘Translate’ the overall policies and procedures in local discourse policies for each ASC member-company matching its cultural, social and political environment. This contextualised approach will be part of the Entrance Agreement of each member-company. It will define the starting point plus the intended progress during the first three years of its membership;
- Organise the overall central ASC discourse policy between member-companies;
- Organise necessary links between local and overall policies – the representation of local discourse platforms in central platforms;
- Take care of regular progress reports based on Sen’s ‘comprehensive outcomes’ approach and Sabel’s focus on the discourse process, as being as important as the outcomes;
- Initiate actions for improving the quality and quantity of the discourse as part of Sabel’s Learning by Monitoring and Micro-Macro methods;
- Educate and train employees and other stakeholders in discourse ethics and practices, especially in the techniques and rules of decision-making and obligated duty to respect decisions taken after careful deliberation along well defined rules and conditions;
- Stimulate and reward employees and management for participating in the discourse. This is of crucial importance given the voluntary character of participation;
- Limit the participation of each representative in the discourse to a period of three to four years, in order to prevent favouritism and to prevent the forming of a class of ‘discourse animals’ with no direct link with the day-to-day running of the company;
- Take care of the diversity of the participants in gender, age, race, ethnicity and social background;
- Take care of the diversity of the discourse character: formal and informal, permanent and temporary, well embedded and ad hoc;
- Take care of the diversity of the discourse character in timeframes and project phases. Sometimes a discourse deals with the ultimate start of a project via brainstorming and developing of different alternatives. Sometimes it deals with the concrete filling-in of a determined policy.

These ‘rules of discourse’ should be followed carefully and persistently. They result in a realistic and sustainable discourse. The discourse policy of ASC will be a serious attempt to make a first step toward democratic government for a multinational company. I call it ‘a first step toward democratic government’ because the gap between existing Anglo-Saxon corporate governance methods and a full-fledged democratic government is too big to cover in one-step.

There are two reasons to detail the organisation of the discourse practice. In the first place, it refers to a key issue within ACG. In the second place, I wanted to show how each action as developed in Part

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180 Ewald Engelen recognises a split up in different moments (ex ante, ex post and in actu), phases (preparation, negotiation, decision-making, and implementation) and domains (routine decision-making to strategic decision-making) (Engelen 281)
3, is the starting point for a complete program with all stakeholders involved in many detailed aspects of the action. It goes beyond this thesis to detail all actions. However, it underlines that each action as defined in Part 3, is just the starting point of many detail activities by many participants.

Besides frequency, I mentioned the quality aspect of the discourse ethics and discourse process. In section 6.5, I describe the important role of ASC’s HR Department in educating existing and new staff in discourse ethics. From own experience in discourse practices on works councils, I learned that in general participants lack sufficient knowledge of the ‘rules of play’. I summarised five HR actions:

- As already mentioned above, educating and initiating employees and other stakeholders to participate in the associative process at regional and company level, with special emphasis on the ACG’s decentralised and democratic management style;
- Developing the communication and deliberation skills of all participants;
- Training participants in discourse ethics and rules;
- Continuous monitoring of the functioning of the participation process and the discourse platforms. This will result in a continuous improvement program of both associative elements, via learning by monitoring and Micro-Macro methods;
- Taking a pro-active role in the introduction and guidance of new stakeholders. In addition, an important contribution to the aspect of ‘right attitude’ is the HR action on the right ‘leadership profile for social innovation’. A profile based on the intrinsic motivation of employees and other stakeholders via focus on delegation of responsibilities as part of the associative philosophy, on clear and straight communication of company values and vision, on care for education and self-development of the employees, and on the emphasis on team performance.

5. The fifth criticism, how to combine social embeddedness and CSR with effectiveness and efficiency?

Without effectiveness and efficiency, the performance of a company decreases below acceptable levels for the financial market. It will be difficult and perhaps impossible to finance new investments or new R&D initiatives. Social embeddedness and CSR are key features of ACG.
I can answer on this criticism in two ways. I can refer to the arguments as presented in Part 2. Social embeddedness and CSR increases the commitment of stakeholders resulting in better performance. However, because financial specialists have no real warm feelings for company values and long-term aspects, I prefer to refer to more practical arguments as presented in Part 3. In the first place, I refer to Michael Porter’s vision on CSR as presented in section 6.1. This well-respected authority on corporate strategy underlines the importance of CSR as part of corporate strategy. In the second place, I refer to the steel plants of Jamshedpur and IJmuiden. As described, these two steel sites, both with a high degree of social embeddedness and CSR are well-known examples of high performance operations. I personally experienced this social embeddedness. IJmuiden was my home basis and in Jamshedpur, I worked on many projects on site. The commitment of all stakeholders and the maximum use of available knowledge within the company made and still make the difference181. I refer to my interviews with Debashish Bhattacharjee and Doc Mukherjee, in section 6.4. CSR practices were already in full swing on both sites even before corporate governance theories invented the name CSR. In my opinion, these two examples, combined with high performance of social embedded steel plants in South Korea and Japan, show the strength of social embeddedness.

On the other side of the spectrum, as I explained in section 1.1, the steel sites in the USA and the UK have long traditions of low social embeddedness combined with marginal or even unacceptable performance. This low performance does not refer to a different attitude of labour, but to the short-term neoliberal view of this variety of capitalisms. In sections 6.1 and 6.2, I described the link between two features of ACG: long-term corporate strategy (the ‘spinning ball’) combined with long-term capital supply. I have given an example of two extreme opposites: British Steel Company and Hoogovens IJmuiden. The long-term approach is a necessary condition for social embeddedness, commitment of all stakeholders, and optimum use of available knowledge. Section 6.4 on R&D and 6.5 on HR show the same effects of ACG’s long-term policies. ACG’s recruiting policies, focus on learning and education, discourse policies, long-term R&D policies, focus on craftsmanship, social innovation, and change management combined with a leadership profile focused on delegation, communication, education, and

181 I refer to the general attitude of management and employees of believing in commitment. That does not mean that sometimes certain forms of commitment such as self-steering teams in IJmuiden have been discontinued (as described in section 6.5). The organisation of commitment is also a matter of Learning by Monitoring.
team performance, create the right conditions for commitment and optimum use of knowledge within ASC as the basis for effectiveness and efficiency.

I refer to subsection 6.5.2 (item 4, ‘change management’) in which I mentioned the detailed study on the effects of HR practices on productivity of 36 steel finishing lines within 17 companies in the USA. It confirms the increase in performance by using innovative work practices, such as extensive recruitment policies, employment security, skills training, flexible job assignments, communication, and teamwork (Ichniowski et al. 311). This shows that social innovation also can work in North-American steel plants.

The associative link with suppliers, customers, educational institutes, NGOs, a local and national authorities will further increase the knowledge base of ASC. I have presented several examples in section 6.3 on Supplies and section 6.4 on R&D.

Finally, the proof of the pudding is in the eating. The only way for ASC to convince the financial markets is to show the increase in performance in practice. The step-by-step approach of ACG makes this possible. As already stated it is not necessary to jump forwards or to make revolutionary manoeuvres. Practical outcomes will convince investors. I presented 27 policies and 64 actions for this practical step-by-step approach in order to show the feasibility of the process.

In section 2.3, I refer to Alan Rugman and Alain Verbeke. They see asset-seeking foreign direct investments (FDI) through mergers and acquisitions as an outcome of: 1) the emergence of knowledge as the ‘key wealth creating factor’; 2) the rise of ‘transactional benefits’ of spatial proximity in the knowledge development process, which have led affiliates of multinational companies to become increasingly embedded in host country innovation systems; 3) the emergence of ‘alliance capitalism’ i.e. a collaborative, stakeholder approach guiding intra-firm relationships and inter-firm cooperative agreements in knowledge creation (Kristensen and Zeitlin 16). All these three outcomes can be reached via investments in ASC. In section 1.1, I put emphasis on the introduction of local stakeholders in successful adaption new technologies. ACG takes care of this aspect and increases the success of foreign investments in new technologies.

Furthermore, I refer to my interview with former Director Finance Hoogovens/Corus Frank Brouwers in section 6.2. He states that he never had to complain about the interest of regular merchant banks and investment banks. They like the cyclical character of the steel
industry. They are just interested in the stock exchange business.

6. The sixth criticism, ACG and the strong and frequent corporate governance regulations from national and supranational authorities. As explained in section 6.1, discourse practices ask for the supply of all relevant information to participants of the discourse platforms. The reporting on the company results and policies should be transparent. As announced, ASC will report along the lines of the Global Reporting Initiative (GRI). This will guarantee that ASC will have no problem in following national and international regulations against corruption and bad management. As an example of GRI reporting, I referred to the G3 Sustainability Reporting Guidelines. These guidelines refer to the organisational performance with respect to laws, norms, codes and voluntary initiatives.

**Advantages**
I have summarised and evaluated criticism and potential obstacles for the successful introduction of ACG. I now summarise features and advantages of ACG in Box 6, as described in Part 2 and 3.
<table>
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<tr>
<th>Box 6: Summary of advantages of ACG</th>
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<tr>
<td>• A set of common company values supported by the stakeholders. These values are the binding element within the association of ASC’s member-companies. They represent the ethical basis for management on local and central level.</td>
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<td>• Long-term orientation. The continuity of the company is based on sustainable growth policies. Without continuity there will be no basis for the creation of trust and loyalty between the stakeholders. This refers specifically to HR policies.</td>
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<td>• A meaningful democratic representation of all stakeholders, supported by a stable institutional design and stable procedures. They create the platform on which to be heard and to feel useful, and they guarantee continuity in the discourse. They form the basis for the legitimacy and authority of the democratic process. ACG will be the meeting point between realistic, well-proven American corporate governance principles as described in section 3.1 and modern Industrial Democracy as described in section 4.2.</td>
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<td>• A high degree of voluntarism for its member-companies and stakeholders, based on the balance between rights and duties as agreed upon in the entrance agreement between ASC and each member-company. The possibility of ‘free entry’ and ‘free exit’ will result in true unity.</td>
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<td>• A high degree of autonomy within the company for the peripheries. This is a necessary condition for social innovation policies.</td>
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<td>• A solid training and education policy to support the craftsmanship approach and the creation of circumstances to fulfil this craftsmanship. I have highlighted the necessity of training and education and the creation of a ‘learning organisation’ as a condition for social innovation. I put special emphasis on the training in discourse ethics and procedures, a neglected element in education institutes.</td>
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<tr>
<td>• The stimulating of associative-initiatives within the company as a whole and within the regions of its member-companies. In section 6.7, I summarised the five advantages for a region of a previously independent steelmaker, if this steelmaker becomes a member-company of ASC: easier access to low-cost capital, insurance against the increasing volatility of markets, expansion of the global reach of the industrial region of the member-company, cultivation of own distinctive comparative advantages of the region without losing access to complementary assets and competencies, access to a multiplicity of cognitive perspectives and problem-solving approaches.</td>
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<tr>
<td>• The solid social embeddedness of the company. This will be the basis for a high social and economic performance as described before.</td>
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After summarising objections and advantages, I will now conclude in the next and final chapter.