Associative corporate governance: the steel industry case
Joustra, P.K.

Citation for published version (APA):

General rights
It is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), other than for strictly personal, individual use, unless the work is under an open content license (like Creative Commons).

Disclaimer/Complaints regulations
If you believe that digital publication of certain material infringes any of your rights or (privacy) interests, please let the Library know, stating your reasons. In case of a legitimate complaint, the Library will make the material inaccessible and/or remove it from the website. Please Ask the Library: http://uba.uva.nl/en/contact, or a letter to: Library of the University of Amsterdam, Secretariat, Singel 425, 1012 WP Amsterdam, The Netherlands. You will be contacted as soon as possible.
Summary

This thesis examines the corporate governance of multinational corporations and the way corporations take their decisions. The ever-growing impact of the outcome of these decisions has a major effect on the public domain and the future of many citizens. The financial crisis of 2008 and its aftershocks underlined the impact of corporate behaviour on politics and public policies. I argue for a radical change in the way multinational corporations prepare these decisions both on a strategic level as well as on a day-to-day operational level.

Many corporations are aware of this impact. They need a ‘license to produce’ from the society in which they operate. The modern corporate governance concept for testifying this awareness is ‘corporate social responsibility’ or ‘sustainable entrepreneurship’.

However, these concepts do not change the way corporations take their decisions. From a democratic point of view, a multinational corporation remains a ‘black box’ in the surrounding public domain, with many opportunities to transfer its business to other parts of the world whenever they consider the pressure of the labour market or environmental requirements too compelling.

In this thesis, I propose and elaborate a new perspective of corporate governance of multinational companies based on the principles of associative democracy. I consider this new perspective to be a pre-condition for a real sustainable company policy. It will lead to an increased social embeddedness of multinational corporations and a decrease in the tension between these corporations and their environment.

I have chosen the steel industry as the breeding ground for the new perspective. As a former managing director of one of Business Units of the Hoogovens/Corus group, I have 36 years of experience in the steel industry. I will use this expertise in shaping the new concept of corporate governance under the specific conditions of this industry. I combine my experience with my recent MA degree in Philosophy on the University of Amsterdam. The combination of my original technical background (MSc Technological University Delft) and the philosophical orientation results in a typical approach of an “engineer-philosopher”. That means a philosophical stand translated in practical solutions. By looking at corporations from this point of view, I hope to create new insights and ideas of ‘reflective business studies’, following Isaiah Berlin’s statement that the task of philosophy is ‘to subvert, break through, destroy, deliberate, let air in from outside’ (Berlin 67). Philosophy should be a perpetual search for new answers in new situations.

The steel industry stands on the eve of a major internationalisation and a globalisation wave. I am concerned about the way it will handle the existing
need for concentration and internationalisation. My concern relates, in the first place, to the specific threat of the social and economic future of many industrial steel regions in the world. The steel industry is a labour intensive industry with relatively high investments and long-term thinking. Steel plants all around the world form the nucleus of regional industrial activities. The future of these steel plants will influence the economic development of these regional areas and the livelihood of numerous workers. During my years in the steel industry, I was responsible for many projects for many steelmakers in several countries and became acquainted with the world’s major steel regions. Concentration and internationalisation of the world steel industry will have a serious impact on these regions and its citizens.

The first steps in the last decade show that Boards of Directors and top management in the steel industry will most likely follow the well-known financial driven approach of mergers and acquisitions as dictated by the rules of the neoliberal economic market model. Historical examples of this approach can be found in other industrial sectors such as oil, chemicals, textile, automotive and ICT. The steel industry is a latecomer given the marginal results of this sector in the last century. The world of finance has only recently turned its attention to this sector, because of its extremely positive financial result in the first decade of this century. The financial crisis of 2008 delayed this interest only temporarily. The financial results dropped dramatically and the world steel industry was once again in deep trouble. However, the need for internationalisation and globalisation is still there, as I will elaborate. Steel prices recovered partly, and shortage of raw materials, a major issue in the steel industry, is back on the agenda.

When I mention the negative consequences, I am not only referring to the economic and social consequences of this model. The majority of mergers and acquisitions fails and does not create economical value (Schenk, Economie 107). Costs are transferred to third parties, like employees, suppliers and society. Only the shareholders of the acquired company and the financial promoters and specialists in charge gain from the deal. However, I particularly want to refer to the political consequences of the model in relation to the functioning of democracies. The ever-growing impact of the outcome of the process of mergers and acquisitions has a major impact on the public domain and the future of many citizens. National politicians lose control of the economic process given the ‘black box’ character of the model, as seen from a democratic point of view. The financial crisis of 2008 was a clear confirmation of this trend. Politicians became ‘unreliable’ agents in the eyes of many citizens and lost their respect, in addition to all the well-known political consequences for the functioning of democracies. The American philosopher John Dewey already gave a ‘first warning’. He was alarmed by the growth of the corporate mentality in America. What he wrote in 1930 seems even
more threatening today: ‘The business mind, having its own conversation and language, its own interests, its own intimate groupings in which men of this mind, in their collective capacity, determine the tone of society at large as well as the government of industrial society, and have more political influence than the government itself. We now have, although without formal or legal status, a mental and moral corporateness for which history affords no parallel’ (Cochran 297).

I will ‘translate’ my concerns into the development of a new institutional perspective for international cooperation between steel companies as an alternative to the classic neoliberal financially driven method of mergers and acquisitions.

As an inevitable consequence, a change in model requires a change in corporate behaviour and corporate governance of companies involved in the process of concentration and internationalisation. Therefore, I will present a change in the existing corporate governance model of multinational companies. This change implies a transition to an associative way of corporate governance combined with an associative way of cooperation with its social and economic environment. This means cooperation based on loyalty and trust, voluntarism, long-term orientation, transparency and high levels of autonomy of partners, resulting in high social and economic performance. I call this new corporate governance perspective ‘associative corporate governance’ (ACG).

Experience and practice will play a crucial role in the developing of this associative philosophical concept of corporate governance.

ACG increases democratic governance of multinational companies. It will be a next step in the pursuit of ‘industrial democracy’ as initiated in the 19th century and developed in the 20th century.

It results in better social and economic performance for the companies. It will create better working and living conditions for all stakeholders involved in the companies ‘industrial process. As I will show, implementation does not require revolutionary changes in the day-to-day practice of a company. It can be implemented step-by-step using already available initiatives and practices, in order to keep a reasonable balance between change and continuity within the organisation.

The thesis has four major sections:
In Part 1, The Steel Industry, I highlight the steel industry and its need for concentration and globalisation. I describe the steel industry’s long-term orientation as a suitable industrial sector for introduction of ACG with its long-term orientation, and its labour- and capital-intensive character. The steel industry is a unique industrial sector with a huge target for the twenty-first century. It has to fulfil the growing demand on steel products because of the growing consumption of the population of the BICs and other
developing countries. It has to face serious environmental threats because of the handling of huge amounts of raw materials and energy and the nature of the steel process as such. It has to fulfil the growing demand on new advanced products for the automotive, construction and packaging industry.

I describe the general and specific aspects of globalisation, the role of multinational companies and the Varieties of Capitalism in the world. I put special emphasis on the rise of the BIC- countries given their big impact on the world of steelmakers. Against the background of the main corporate governance issues from the last half-century, I describe history and trends of corporate governance in the steel industry.

In Part 2, *Associative Corporate Governance*, I introduce ACG as a new perspective of corporate governance based on associative democratic principles. I integrate two recent corporate governance theories, corporate social responsibility and stakeholder theory, with the principles of associative democracy.

In order to fully understand the term associative corporate governance, it is necessary to elaborate on the concept ‘associative’. This term is linked to associationalism, a political theory with the central normative claim that individual liberty and human welfare are both best served when as many of the affairs of society as possible are managed by voluntary and democratically self-governing associations. ‘Associationalism seeks to square the aims of freedom for the individual in pursuing his or her chosen goals with the effective governance of social affairs’ (Hirst, *Associative Democracy* 2). Associationalism as idea was born in the 19th century as an alternative to both liberal individualism and socialist collectivism, and as a criticism of state centralisation and the growth of bureaucracy. The history and future of associationalism and its most recent appearance, associative democracy, will be a separate section of this thesis.

The institutional changes proposed in an associative democratic reform of existing forms of representative democracy and centralized bureaucratic state administration can be summarized in three principles of political organisation (Hirst, *Associative Democracy* 20). First, voluntary self-governing democratic associations become the primary means of democratic governance of economic and social affairs.

Second, associative democracy asks for a change in distribution of power. Power should be distributed as far as possible 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.

Third, democratic governance does not just consist of the powers of citizen election or majority decision, but of the continuous flow of information
between governors and the governed, whereby the former seek the consent and cooperation of the latter.

In this thesis, I limit myself to the possible role of these associative principles in fighting centralisation and the growth of bureaucracy in the corporate governance of private corporations combined with an increase of direct participation of stakeholders. The three principles of the associative organisation mentioned above should lead to the three features of ACG. In the first place, it should lead to a more delegated management, to the creation of an accountable hierarchy or ‘heterarchy’, a term introduced by Gunnar Hedlund (cited in Kristensen and Zeitlin 14), and the devolving of decision-making powers, resulting in high-motivated employees with high performance. In the second place, it will offer a new model of organisational efficiency, resulting in a strong social embeddedness of the company. In the third place, it will lead to a substantial democratic attitude in the internal governance of the company based on information and cooperation, resulting in trust and continuity as the two main pillars of a sustainable company.

The majority of corporate governance theories consider ‘democracy’ and ‘corporate governance’ as incompatible with each other. Democratic governance of corporations is inefficient and unrealistic or so it is said. The maximum extent of employee participation in the governance of their companies is the participation practice in the Continental European model with its works council’s organisation on local, national and European level. Moreover, even this practice is under growing pressure given the neoliberal tendencies within the EU. Nevertheless, in my opinion, a democratic attitude in corporate governance will be possible and advisable. There is no real basic argument that democracy in a democratic society should stop at the main entrance of plants or corporations. Why rely on the judgement and participation of citizens on a huge variety of important political questions regarding the governance of the society as a whole, and deny the usefulness of participation of these same persons in their working environment where they spend a considerable part of their lives.

This thesis attempts to contribute to the further development of industrial democracy and associative democracy in a world of divergent capitalism and globalisation. I will develop industrial democracy beyond the European practices of participation, and associative democracy beyond regional levels. Until now, associative democracy has been rather successful on regional levels in Western Europe (Cooke and Morgan 218) but it still has a ‘small-scale’ image.

I describe history and trends in democratic experiments and institutional settings in the industry, and consider ACG, as mentioned before, as a next step
in Industrial Democracy. It bridges the unrealistic gap between corporations and their social environment by introducing community involvement in the development of the corporation.

ACG fuses corporate social responsibility and stakeholder theory and CSR and tries to meet the challenge by mobilisation of all available talent within all stakeholders of the company and by creating a strong social embeddedness of the company. It improves the living and working conditions of people that are involved in the steel industry. It creates ‘social guarantee’ and a high level of participation. It is a first step on the way to democratised corporate governance of multinational companies. It stimulates further discourse on this issue by ‘just doing it’ and by showing positive results.

I develop the main features and conditions of associative corporate governance and its moral and ethical basis. It uses the ‘minimum morality with contextualised approach’ as moral basis and has chosen Shue’s ‘basic rights’ philosophy as minimum morality. For the dialogue between stakeholders it uses Amartya Sen’s realisation-focused perspective combined with Charles Sabel’s ‘learning by monitoring’.

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.

ACG as a democratic reform of the existing corporate governance rules tries to contribute to necessary reforms. On the one hand, I worked out a philosophically conceptualised framework; on the other hand, I developed a feasible and practical framework for the introduction in order to show the feasibility of the approach. It is dangerous to combine both in one work. Philosophers will criticise the limited philosophical depth, while non-philosophers will doubt the benefit of philosophical considerations. However, a retreat to one of the two one-sided approaches will not be sufficient. Practical approaches still have to face questions like ‘why more democracy?’ or ‘why to consider ethical and moral values in business?’ Philosophical considerations without a check on reality are toothless. Therefore, I took the challenge of the combined approach.

In Part 3, *The Road to a New Perspective*, I introduce the steel company ASC
(Associative Steel Company) as the steel company that introduces associative corporate governance as its corporate governance principle. I show that implementation can be done via reasonable and feasible actions. It can be a supplement to and a process-like transformation of existing institutions and procedures.

I present 27 feasible policies and 64 feasible actions, making it possible for all stakeholders to contribute to the implementation of the associative approach.

Most policies and actions are based on examples and experiences in existing steel plants or with existing corporate governance methods in other multinational companies. I consider it as ‘one step forward’. In Paul Hirst’s words: ‘in the search for profit and ultimate management control with institutional forms that allow their members involvement and that give incentives to motivated services’ (Hirst, Associative Democracy 109). With the conditions fulfilled for an acceptable starting level and the actions ready to take, ASC can make a feasible start with a successful implementation of ACG. Its target is to become a vanguard within the steel industry by performing very well in a sustainable way. Via the World Steel Association, the world’s major association of steelmakers, it can start the introduction and promoting of ACG. It will be a positive and sustainable answer to the need for the concentration and internationalisation of the steel world. It is a positive and sustainable implementation of the sustainability subsections of the association.

In Part 4, Evaluation and Conclusion, I conclude that the introduction of ACG within the steel industry is a feasible and realistic target. It can be an answer to the two already mentioned social and political concerns that inspired me to write this thesis: the threatening of the social and economic future of millions of people living in many steel regions in our world, and the political consequences of the neoliberal model in relation to the functioning of democracies.

It contributes to the development of a sustainable future for the steel industry and its stakeholders.

ACG is a next step in Industrial Democracy. It avoids the hegemony of one stakeholder, labour or shareholder. Both hegemonies did not work out. ACG balances and respects the interests of all stakeholders in the industrial process.

To try to change the functioning of multinational companies by increased political and financial control from outside, as nowadays proposed by politicians, is looking at these companies from a traditional, unchanged angle. Unchanged because the principle of black box’ and the dogmatic opinion that corporate governance and democracy are incompatible, remains unchallenged. ACG opens the ‘black box’ and accommodates Isaiah Berlin’s statement that ‘air from outside’ brings new answers in new situations.