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UvA Dissertation

Faculty of Economics and Business

This thesis argues for a radical change in the way multinational corporations prepare their decisions, both on a strategic level and on a day-to-day operational level. It proposes and details a new perspective of corporate governance based on the principles of associative democracy as a pre-condition for a truly sustainable company policy. The author has chosen the steel industry as the breeding ground for this new perspective. As a former managing director of one of the Business Units of the Hoogovens/Corus group, he has 36 years of experience in the steel industry. He uses this expertise to shape the new concept of corporate governance under the specific conditions of this industry. The combination of his initial technical background (MSc from the Technological University Delft) and a recent philosophical orientation (MSc degree in Philosophy from the University of Amsterdam) results in his approach as an “engineer-philosopher”.

That means a philosophical stand translated into practical solutions. By looking at corporations from this point of view, he creates new insights and ideas, following Isaiah Berlin’s statement that the task of philosophy is ‘to subvert, break through, destroy, deliberate, let air in from outside’.

Associative Corporate Governance

P.K. Joustra

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The Steel Industry Case

P.K. JOUSTRA



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Associative Corporate Governance: The Steel Industry Case

ACADEMISCH PROEFSCHRIFT

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prof. dr. D.C. van den Boom
ten overstaan van een door het college voor promoties
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in het openbaar te verdedigen in de Aula der Universiteit
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To the memory of my grandfather Pieter van der Meer

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List of abbreviations

| | |
|-------|---|
| ACG | Associative Corporate Governance |
| AD | Associative Democracy |
| AHMSA | Altos Hornos de Mexico SA |
| ASC | Associative Steel Company. |
| AT | Agent Theory |
| BHP | Broken Hill Propriety |
| BICs | Brazil, India and China |
| BOF | Basic Oxygen Furnace |
| BSC | British Steel Company |
| BSG | Business Support Group |
| BU | Business Unit |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CG | Corporate Governance. |
| CMEs | Coordinated Market Economies |
| CSN | Companhia Siderúrgica Nacional |
| CPR | Common Pool Resources |
| CSR | Corporate Social Responsibility |
| CVRD | Companhia Vale do Rio Doce (Vale) |
| DJSI | Dow Jones Sustainable Index |
| EAF | Electric Arc Furnace |
| EMF | European Metalworkers Federation |
| ECSC | European Coal and Steel Community |
| ESG | Environmental, Social and Governance criteria |
| ESOP | Employee Share Ownership Plan |
| ESTEP | European Steel Technology Platform |
| EWC | European Works Council |
| FDI | Foreign Direct Investment |
| GAN | Grupo Acerero del Norte |
| GRD | Global Resources Dividend |
| GRI | Global Reporting Initiative |
| HR | Human Resources |
| IASB | International Accounting Standards Board |
| ICS | International Corporate Senate |
| IT | Information and Communication Technology |
| ID | Industrial Democracy |
| ILO | International Labour organization |
| IMF | International Metalworkers Federation |
| IO | International Organisation |
| LMEs | Liberal Market Economies |
| M&As | Mergers and Acquisitions |

| | |
|-------|---|
| MIT | Massachusetts Institute of Technology |
| M&S | Marketing and Sales |
| MSP | Minority Shareholder Protection |
| NGO | Non-Governmental Organization |
| NSC | Nippon Steel Company |
| OECD | Organization for Economic Co-ordination and Development |
| OHF | Open Hearth Furnace |
| P&O | Personnel & Organization |
| RC | Restructuring Committee |
| R&D | Research and Development |
| RLS | Ratcheting up Labour Standards |
| RWTH | Rheinisch-Westfälische Technische Hochschule |
| SAIL | Steel Authority of India |
| SIG | Social Interest Group |
| SNPI | Stichting Nederlands Participatie Instituut |
| TCE | Transaction Costs Economics |
| TCO | Total Cost of Ownership |
| TNC | Transnational Company |
| TOP | Total Operating Performance |
| ULCOS | Ultra Low CO ₂ Steelmaking |
| VoC | Varieties of Capitalism |
| VDEh | Verein Deutscher Eisenhütteleute |
| WB | World Bank |
| WBCSD | World Business Council for Sustainable Development |
| WSA | World Steel Association |
| WTO | World Trade Organization |
| WWF | World Wildlife Fund |

Preface

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. 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. The financial crisis of 2008 underlined the impact of corporate behaviour on politics and public policies and the threat this poses to the democratic process.

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, multinational corporations remain 'black boxes' in the surrounding public domain, with many opportunities to transfer their 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 on a more democratic governance of corporations as a pre-condition for a real sustainable company policy. I want to show that governance that is more democratic will lead to an increased social embeddedness of multinational corporations and a decrease in the tension between these corporations and their environment.

For two reasons, I have chosen the steel industry as the breeding ground for the new concept of 'associative corporate governance'. First, I chose the steel industry because this industry stands on the eve of a major internationalisation and a globalisation wave and, second, because it is a labour intensive industry with relatively high investments and long-term thinking.

This thesis matters, politically as described above and socially because the social and economical future of millions of workers worldwide will be under discussion. 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. I will shift the emphasis and approach the subject from a new angle: a democratic reform of corporate governance. By looking at corporations from this new and different angle, I will 'let air in from outside' and will create new insights and ideas, following Isaiah Berlin's statement that the task of philosophy is 'to subvert, break through, destroy, liberate, let air

in from outside' (Berlin 67). Philosophy should be a perpetual search for new answers in new situations.

Associative Corporate Governance can be the next step in industrial democracy as the 21st century representative of industrial democracy ideas and practices as developed during the past two centuries.

A number of people have inspired and assisted me in writing this thesis. I would like to thank Wout Buitelaar for his contribution to the industrial democracy aspects of this thesis. We spent many hours on brainstorming sessions resulting in new and fresh ideas on this issue. I would like to thank Gerard de Vries for his critical and helpful assistance on the philosophical aspects of this thesis. Both spent many hours in reading my work and providing me with constructive and useful feedback. I thank Veit Bader for teaching me the principles of associative democracy and his assistance on the development of the associative corporate governance case.

Of great help were the personal interviews with and feedbacks from former colleagues in the steel industry and a variety of specialists from outside the steel industry, during the period 2006-2010.¹

I want to thank the employees of the Knowledge & Library Services Department of Tata Steel in IJmuiden for their faithful and reliable assistance in finding and supplying relevant articles on my case published within the international steel industry.

Writing this thesis was a long and often difficult project. I want to thank the members of the philosophical 'Gata Negro' group for their supportive and stimulating role during the years. Many thanks also to my family for their encouragement, moral support and patience during all phases of the project.

In particular, I thank my loving wife Ine for her never failing care and stimulating attitude during the exhausting stages of writing and rewriting of this thesis. She provided me with the atmosphere and care that enabled me to finish the project.

¹ See "List of Personal Interviews"

Introduction

1. The subject

I start this introduction with three recent events.

On 24 November 2010, the prestigious ‘Spinoza Lens’ was awarded to the renowned American sociologist Richard Sennett. The award aims to encourage the debate on ethics and morality. The award refers to the craftsmanship of Spinoza and fits very well in Sennett’s focus on ‘craftsmanship’. His ideas on craftsmanship play a significant role in the main issue of this thesis: the corporate governance of multinational companies in general, and in the world steel industry particularly.

In January of 2011, the Dutch employers ‘association AWWN and the main Dutch trade unions published a joint policy document on industrial relations. They state that the two basic features of solid industrial relations are ‘trust’ and ‘continuity’.

On 3 February 2011, *Nippon Steel Company* and *Sumitomo* announced that they are considering integrating their entire business, targeted for October 1, 2012. They base their decision on the excellent results of their alliance that started in 2002. ‘Nevertheless, confronted with the changes in the business environment surrounding the steel industry they come to share the understanding that it is crucial to further strengthen their mutual relationship’ (Nippon Steel Corporation and Sumitomo Metal Industries 1).

These events once again supported my writing process of this thesis and confirmed the importance of its subject. Although I focus on the steel industry, this thesis is about industrial relations in general and the way people cooperate with each other in multinational companies.

The events lead straight to the question: Why this thesis? I am concerned about the way the world steel industry 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. 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. I worked in the steel industry for 36 years. I was responsible for many projects for many steelmakers in several countries and became acquainted with the world’s major steel regions.

In the second place, I am concerned about the negative consequences

of the neoliberal merger and acquisition process for societies in general.

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. This new

perspective will be different from 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, 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 will increase 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 will result 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 of ACG 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.

2. The main issues

The main issues of this thesis are the internationalisation and globalisation of the world economy, the steel industry, multinational companies and their stakeholders, corporate governance, and associationalism. They lead the way to the development of ACG. In this introduction, I give a preliminary description of these issues as well as their mutual connection.

The internationalisation and globalisation of the world economy

Numerous publications explore the issue of internationalisation and globalisation of the world economy. The many faces of globalisation and arguments for and against cannot be dealt with to the fullest extent. I limit myself and deal with the phenomenon from the perspective of the steel industry. I describe general aspects of globalisation when necessary against the background of this specific industrial sector. Three distinct kinds of globalisation are relevant: the globalisation of firms, the globalisation of markets, and the globalisation of regulation (Braithwaite and Drahos 8).

The globalisation of the steel industry will be an example of the first kind of globalisation, globalisation of firms. Markets will still be regional, such as Western Europe, North America, China, and regulation will still be limited. However, there is a touch of the global market via worldwide operating main clients in the automotive industry, e.g. Toyota, who want to receive the same quality of steel according to the same qualifications in all of their plants.

Beddows, a leading senior consultant on corporate strategy in the world steel industry, distinguishes five specific aspects of the steel industry, as related to the globalisation process. In the first place, the steel industry, as mentioned before, is a latecomer. The process of internationalisation and globalisation has just recently started, in 1990, and came into full swing at the beginning of the twenty-first century (Beddows 1). Second, globalisation of key customer segments like the automotive industry and global suppliers of resources triggers globalisation of firms (Beddows 10). The third aspect refers to the financial market. The role of capital markets has become more important through the process of privatisation of the steel industry, beginning in the 1980s. State ownership of steel assets was predominant in the steel sector until very recently, given its strategic and social economic role in national economies (Beddows 13). This subject is closely related to the fourth specific aspect of the steel industry, the negative performance through the ages. The steel industry, until very recently, has not been able to pay the cost of capital across the economic cycles. The average return on capital for the period 1980-2000 was about 7% (Beddows 15). This negative tendency did not change until the start of this century. Finally, the environmental issue of global warming started to play an important role. Steel plants are major CO₂ producers (Beddows 19).

Besides these specific aspects, I highlight four general aspects of globalisation, which are also valid for the steel industry.

To start with, the world steel industry operates under different contemporary forms and faces of modern capitalism. The most used general term of this aspect is 'divergent capitalism' or 'varieties of capitalisms', resulting in so-called 'economic models' such as the Anglo-Saxon model, Continental Europe model, and Asian model. Related to this divergent capitalism is the second aspect, the predominantly neoliberal character of the globalisation process, resulting in the dominant role of the Anglo Saxon model, with its emphasis on shareholders' value and decisive influence from financial markets. It is still unclear how the financial crisis of 2008 has changed this situation.

Because of the growing influence of the financial markets, the steel industry too will be confronted with the next aspect, the fairly weak position of labour and the limited and insufficient international cooperation of organized labour. The third aspect is the exaggeration of the globalisation of production. Most multinational companies remain closely linked with their home bases,

and nation states still play a dominant role in the internationalisation process (Hirst and Thompson 17). The fourth aspect, closely related with the other aspects, is the growth in market-based economies as important factor for internationalisation and globalisation. The influence of the growing markets of the so-called BICs (Brazil, India and China) plays a major role in the steel industry.

In addition to these economical and financial aspects, the steel industry has to face four aspects related to reactions from civil society to the globalisation and internationalisation process. In the first place, it has to face the arguments and serious concerns of the anti- globalisation movement, often expressed in the ideas and policies of non- governmental organisations (NGOs). In the second place, regional, national and international institutes attempt to regulate international markets via institutional frameworks. This results in the third aspect, the attempts to come to international regulations and standards for multinational companies, such as UN Global Compact Rules, OECD-Corporate Governance Principles, ILO standards, WTO rules, and the Kyoto Protocol. And last but not least, the global warming issue and the environmental issue in general are of major concern for steel companies, as mentioned before.

In order to find a way in this rather complex set of specific and general aspects, it is useful to define the *main concepts* in the whole process of globalisation. These concepts are the following:

- *Actors*, e.g. corporations, NGOs, communities, business organisations, states, organisations of states;
- *Principles*, e.g. lowest cost location, best practice, liberalisation-deregulation, continuous improvement, and transparency;
- *Mechanisms*, e.g. military and economic coercion, systems of reward, modelling, coordination, capacity building, reciprocal and non-reciprocal adjustment.

This way of mapping the process has been developed by John Braithwaite and Peter Drahos in their book *Global Business Regulations* (15). I will use this approach in my thesis.

The steel industry in transition

The growth of the steel industry during the last three decades of the 20th century was slow with an average growth of 1% -2% per annum. This limited growth started with the first oil crisis in the 1970s and came to an end when the impact of China began to be felt in the late 1990s. Growth rates expanded to 4%- 5%, with an increase to 6% in 2005 and 2006 (Beddows 1). The total world crude steel production in 2005 passed the 1 billion tonnes milestone, of which 40% had been produced in China. In order to judge this growth, consider that in 1950 this figure was 189 million. Currently, China, India,

Germany, Japan, USA, Russia, Brazil, and South Korea are the major steel-producing countries. The crude steel production in 2010 was 1.4 billion tonnes (World Steel Association, *Steel Statistical 3*).

I already mentioned the specific and general aspects of globalisation of the steel industry. In discussing the pros and cons of globalisation, the question will come up whether the internationalisation and concentration of the steel industry, as recently started, should follow the same rules and patterns. On one hand, there are the economic considerations of sustainable profitability and growing markets; on the other hand, there are the serious concerns and arguments of the anti-globalists and others. Does steel really have to follow the well-known path of other industries in the past, with the well-known possibilities of failures and mistakes of international mergers and acquisitions? Recent examples of mergers and acquisitions in the steel industry, e.g. Corus and ArcelorMittal, do not show a better track record. As stated before, in this thesis I want to search for a better way of internationalisation and concentration than the well-known way.

There is no question that the process of internationalisation and concentration has to continue. The growing influence of capital markets caused by the privatisation wave starting in the 1980s, and the fact that the steel industry has never been able to pay the cost of capital across the cycle, forces the industry to change its performance. These two aspects play an important role in each model of the divergent capitalism, not only in the Anglo Saxon model. However, accepting the need for concentration does not automatically mean that the steel industry has to follow the neoliberal way of mergers and acquisitions with its focus on shareholders' value ('synergy talk'), without taking into account the interests of other stakeholders or other values like culture and human resources. Since September 2008, criticism of this focus on shareholders' value suddenly has become widespread, but without introducing alternative methods of governance. In this thesis, I will present a new perspective for steel companies to anticipate the need for concentration and internationalisation of their business.

One of the specific characteristics of the steel industry is its labour intensive character. Millions of employees are working in numerous regions all over the world along the lines of many models of the divergent capitalism. Focusing on the steel industry means focusing on labour and labour conditions in the major steelmaking countries, with Japan, Korea, the USA and Western Europe on one side and the BICs- countries on the other. Organised labour has tried to find answers for the social and economic changes that have taken place because of the globalisation process of the last decades. The unions were often major partners in development, contributing to the growth of markets and democratic institutions. They were in the first place purveyors of social cohesion. However, the political fall-out of globalisation has cast a shadow

on this cohesion role and the unions had to rethink their strategy (Jose 12). They never had real grip or influence on the globalisation process and on the employees given the dominating role of the international financial market. However, possibilities to get some grip are gradually disappearing. They are driven to the role of trying to rescue what can be rescued on important subjects as job security, job creation, and remuneration policy. The degree of unionisation, although still high in the steel industry compared with other industrial sectors, is going down, and, as a result, it is becoming more and more a problem to remain an accepted and strong stakeholder in the negotiation process within major companies. In developed countries, gained benefits such as full-time employment linked to an open-ended contract, collectively negotiated wage structure, social benefits, control over working time and safety standards, and high levels of education and training, were often embedded in a 'social pact', with compromises between capital, organised labour and the state in sharing the national product (Jose 2).

In developing countries, the situation was and is much less favourable. Exploitation of workers, especially of women and children, is too often daily practice. Remuneration and working conditions are deteriorating. Globalisation practices have changed the scenery and have brought new uncertainties. At the same time, other major changes increased uncertainties. Technological developments lead to changes in the workforce. There is an increased supply of new entrants such as women and migrants into labour markets (Jose 3). Governments adopt neoliberal economic policies such as privatisation and downsizing of the public sector enterprises. Flexible labour market policies such as outsourcing, subcontracting and temporary contracts came into existence.

The viability of trade unions and connected labour organisations became doubtful. Yet, the industry needs a loyal and experienced labour force in order to perform well in the long term. The steel industry stands for heavy investments with long lead times, and a technological character. These aspects result in the need for specific education, a high level of advanced training and upgrading of the workforce's skills on a continuous base. This means the industry needs a solid workforce with long labour contracts. Loyalty and trust form the basis of success. Companies that scored well on these aspects are nowadays the 'most wanted' companies to be acquired. A typical example is the steel plant in IJmuiden, Holland. Also in Japan and Korea, steel plants put emphasis on loyalty and trust. The steel companies in the USA choose the opposite course. They deteriorated because of short term thinking with accompanying low investment levels, low levels of education of the workforce and accompanying lack in loyalty and trust. It will become 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 of plants,

staff reductions, management decisions related only to financial parameters, head offices often far away with no human link to the plants, and lack of influence on investment programs will trump motivation and loyalty. Even the 'most wanted' plants today will slow down in performance after being used for a certain time as 'cash cows'.

For a decent and sustainable future, the steel industry needs a different approach based on the creation of conditions that are favourable for the development of trust and loyalty. Corporate governance should not follow the well-known path of neo-liberal market strategy combined with a private hierarchical organisation.

Multinational companies and their stakeholders.

Multinational companies are the carriers of the internationalisation and globalisation processes that operate under the different conditions of the divergent capitalism. Most multinational companies still have a kind of home base in a home country from which they 'conquer' the world. Transformation from multinational companies into transnational companies with no specific ties to any culture or nation is a rare phenomenon (Hirst and Thompson 17). This is certainly also the case in the steel industry. Major players like Mittal or Tata are the obvious examples of such a home base in a home culture. On the other hand, Mittal is perhaps a growing example of the slow but steady transfer from a multinational into a transnational company.

Almost daily, we are confronted with the results of the performance of multinationals. In all industrial sectors, products and services are supplied via extensive organisations with centres all around the world. Marketing and selling, production and distribution, product development and research are spread around the world following the economic rules of minimum costs and efficiency. Most citizens buy their low cost products and services; inflation rates of the developed world are kept to a minimum as result of cheap mass production and distribution costs. However, very often the multinational company also represents less acceptable aspects of our society, such as environmental problems, exploitation of cheap labour, closing of industrial production sites that leave regions behind with a sudden, sharp increase in unemployment, financial scandals, internal inefficiency and unacceptable pocket-filling behaviour by top management.

However, whether negatively or positively, multinational companies are active and strong players in the internationalisation and globalisation process. Compared to 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. These corporations are mostly governed via rigid top-down management lines. Any form of more democratic governance never made it. Only in Western Europe, within the Continental Europe model do we

find some form of formal participation of labour.

During recent decades, the rise and growth of multinational companies was accompanied by mergers and acquisitions in almost every industrial sector. Necessity of increase in the scale of production and research was the major argument used by responsible managers. However, as mentioned before, the majority of all these mergers and acquisitions failed or did not bring the forecasted gains.

Mistakes and managerial failure are, however, just one side of the coin; the other side is the refreshing speed of reaction to changes in international environment and civil society. Up to the present day, the fast response of the management of multinational companies to phenomena in society is mainly used for their own short-term advantages without taking into account the negative aspects for the rest of the society. Examples are well known and already mentioned: export of pollution to 'environmental safe havens' and transfer of production facilities to 'low cost countries' with no control of labour conditions or remunerations. In many eyes, the multinational companies are the bearers of all the evil in the world. Therefore, they should be challenged by civil society movements and public authorities.

There is a growing opportunity to create a playing field for this challenge. The management of many multinational companies is well aware of the needs in this world and is willing to contribute to feasible solutions for the above-mentioned problems. For example, *the World Business Counsel for Sustainable Development* (WBCSD) is an organisation of hundreds of corporations from all over the world that try to work on a sustainable basis (Stigson 2). Sustainability is part of their strategic thinking and acting. Although the impact of measures is limited, they give the right signals to their colleagues in their respective industrial sector and to public authorities. Cooperation between civil society and these companies very often leads to actual improvements in related issues. Progress is very often much more direct and satisfactory than using the public authority route. On a regular basis, NGOs deal with the management of many multinationals, with respect for each other's position (Van Tulder and Van Der Zwart 119), of course. Many of these initiatives come from companies that accepted the so called 'stakeholder policy' into their strategic thinking. The term stakeholder and the introduction of stakeholder management were introduced in the 1980s. The most common definition of *stakeholder* is from the 'father' of the stakeholder framework and philosophy, R. Edward Freeman: 'a stakeholder is any group or individual who can affect or is affected by the achievement of the firm's objectives' (Freeman 52). Although this stands for an extensive amount of individuals and groups, the most often used list of stakeholders includes shareholders, management, employees, suppliers, customers, trade unions, and employers associations. The use of stakeholder philosophy is widespread

nowadays and can be considered a very positive answer to broadening the strength of management decisions.

However, there are often omissions in the scope of the stakeholder's management. Major groups in the civil society in which the company operates and that fall under the definition are very often not, or only on a very limited scale, invited for participation in the stakeholder process. Typical examples are NGOs, human rights organisations, environmental organisations, minority organisations, consumer organisations, and public authorities on local, regional, national or international level. In addition, as stated, even if they are invited, the scope of the participation is often limited. Not only are major decisions on strategy and investments, such as mergers and acquisitions, part of the absolute power of the Board, also the next level of decisions, such as closing facilities and R&D programs, are too often not on the agenda of the stakeholders' approach. Policies on these subjects are changed overnight by the introduction of a new CEO; as a result, too often stakeholders' dialogues are frustrated.

Social embedded corporate governance

How to run the business or, more formally, the way 'to manage' a company is called 'corporate governance', and there are many publications on this subject. Management ideas come and go with ever-increasing rapidity. It will be impossible and unnecessary within the limits of this thesis to give a complete overview of this subject. However, in developing a new perspective on corporate governance, I have to place management style and management rules in the appropriate context. After all, they represent the corporate responsibility of the company in the broad sense.

In this thesis, I summarize the last fifty years of corporate governance history. The main reason to start in the 1960s is the focus on the 'human factor' in corporate governance theories that came about around that time. I will start the summary with the publication of *The Human Side of Enterprise* by Douglas McGregor, professor at the Massachusetts Institute of Technology (McGregor). He demonstrated, as one of the first representatives of the 'human factor' issue, the limiting assumptions of traditional management theories concerning human nature and the control of human behaviour.

Corporate governance theories and discussions have always been dominated by the North-Americans because of the strong hegemony of their industry during the first decades after the Second World War and the related strong development of North American business schools like those of Harvard and MIT. In general, they consider corporate governance as a non-political subject. The link with the surrounding environment and its politics is underexposed. However, not to involve politics in corporate governance is, or was just another way of leaving the distribution of power unchanged.

Doing this was, indirectly, an actual political choice. The recent financial crisis confirmed the important role of politics in corporate governance in a very direct way. It put emphasis on the necessary social and political embeddedness of economical activities.

Theories and practices on participation and empowerment of ‘workers’ or employees, recognising the broader impact of corporate governance, were mostly limited to the West-European continent. The political and social aspect of participation and empowerment were indicated by the term ‘*industrial democracy*’. Although industrial democracy seems to concentrate itself on participation, it does influence the governance of companies. In case of the original idea of ‘workers’ management and ownership as tried out in Yugoslavia after the Second World War, the link with corporate governance was obvious. Also in later versions of Industrial Democracy, which concentrate on participation and empowerment of employees, the influence on corporate governance is substantial as the history of German ‘Mitbestimmung’ and the development of works councils on local, national, European and world level show. Common in both the American and the European approach is the need for continual training and education of the workforce in order to anticipate a constant change of social and economical circumstances.

Although people were high on the agenda of corporations since the 1960s, they did not stay there for long. Today it seems that shareholder value dominates the agenda. The formal language of the majority of CEOs is still ‘our employees are our biggest asset’, but they treat them differently, using new management tools such as outsourcing or playing people in different subsidiaries off against one another by threatening to close one of the facilities. However, most blunt is the ignoring of employees’ interests when selling the company. Companies are sold only based on shareholders’ value aspect. Very often even the management no longer has any influence over the process, and decisions are taken by the banks involved in the process. The highest bidder gets it all. If this trend continues, we will see a growing gap between principles and agents. A typical example in the steel industry is the auction, organised by the UK Takeover Panel, in which the steelmaker Corus was sold to Tata Steel. In these takeover processes, all bidders promise to respect the interests of management and employees. However, as soon as the deal is made, they put their new CFO and/or CEO on top of the organisation, which then starts to neglect or frustrate promises, e.g. ArcelorMittal and Corus.

However, the development of new ideas of corporate governance continues. I end my summary on the ‘American’ corporate governance approach with the recent introduction of corporate social responsibility (CSR) and the ‘stakeholder theory’ as being potential bridgeheads to the development of associative corporate governance (ACG). The word ‘social’ in CSR shows

that companies are aware that there is a link between ‘internal’ corporate management and the surrounding society in which the company operates. The company needs a ‘license to produce’.

Stakeholder theory refers to the involvement of stakeholders of the company in the social and economic performance of that company. I will pay special attention to the concept of ‘living company’, introduced by Arie De Geus (De Geus, *The Living*).

Companies cannot exist in isolation. They should harmonize their values in consultation with stakeholders.

ACG will be shaped as a fusion between: 1) CSR and stakeholder theory including the ‘living company’ concept; 2) experiences with industrial democracy concepts; and 3) principles of associationalism. I will take into account the globalisation and internationalisation of the world economy with its ‘varieties of capitalisms’, the recent trends in the world steel industry, and the development of multinational companies. This leads the way to the next main issue, associationalism and its contribution to ACG.

Associationalism

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’, Paul Hirst explains (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 stakeholders². The three principles of the associative organisation mentioned above should lead to the three features of associative corporate governance of multinationals. 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 previously mentioned 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.

² For associative governance of public corporations, I refer to Paul Hirst (Hirst, *Associative Democracy* 176).

3. The main actors

Focus on the steel industry means focus on the main actors of this industrial sector. These main actors are steelmakers, the World Steel Association, national states and supranational organisations, suppliers of raw materials, major global customers, national and international business associations and NGOs, and regional authorities. They represent a rich variety of stakeholders and make the daily life of the managers of steel companies quite complicated. In developing ACG, I will describe their roles and the principles and mechanisms they use in more detail.

Here, I introduce the main actor of this thesis, the steel company ASC (the Associative Steel Company). I present ASC as a feasible model and a new perspective of an international steel company using ACG as the corporate governance model for all the company's stakeholders. The management of ASC wants to show the feasibility of ACG through a step-by-step approach to ACG in each action of the company.

ASC operates within the actual economic and social environment of recent divergent forms of capitalism as previously elaborated upon. In order to determine the recent actual 'way of life' in the steel industry and the latest trend of concentration and internalization in the steel industry, I have interviewed a selection of policymakers and experts in the steel industry. I will use the outcomes of these interviews for practical proposals and changes in the various disciplines such as corporate strategy, finance, R&D, human resources, supplies, marketing and sales, production and maintenance. Further, I take into account my personal experience of 36 years in the international steel industry worldwide.

The growth of ASC as an international steel company will be based on voluntary entry of formerly independent steel companies into the organisation of ASC. I explain how and why they should join ASC, and the advantages compared with the situation in which they become involved in a standard merger or acquisition in the neoliberal style. I describe what they should expect from their membership and how they should find their place within the ASC organisation.

ASC will use two important methods in the process of creating step-by-step ACG: the Micro- Macro method and the Learning by Monitoring method. The Micro-Macro approach is based on experiments on a limited base, micro, that will be moved up on a bigger scale, macro, in case the base experiments work out well. The methodological approach is 'to gather data on the most macro phenomenon possible from the most micro source possible' (Braithwaite and Drahos 21).

Learning by Monitoring was introduced by Charles Sabel as an intelligent 'trial and error' principle. He builds on the pragmatic tradition of democratic theory of John Dewey and developed what he refers to as a

‘democratic experimentalist approach’ (Wright, *Envisioning* 362). This concept means the monitoring of performance of the agreed goals of an organisation and the learning linked to the outcome of the results. Learning by Monitoring is based on the claim that nowadays there is no place anymore for ‘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 on motives and possible alternatives, players just try and do it. What counts is ‘does it work?’ Learning by Monitoring is a pragmatic approach, local and practical, with an emphasis on logical thinking and common knowledge. It will respect the social, economical and political differences between the regions of member-companies of ASC.

Micro-Macro and Learning by Monitoring will result in a ‘learning organisation’ and will be applied to corporate strategy, finance, supplies, R&D, human resources management, marketing and sales, and operations activities of ASC.

The total outcome of these activities determines the real face of the company to the outside world of financial institutes, consumers, public authorities, trade unions, and non-governmental organisations. ASC will demonstrate the positive results of its ACG policy. It will show an economically sound performance and a socially strong embedded company, operating in a legitimate way. The internationalisation of the company will take place on a sustainable basis without causing the deterioration of local environments and society.

4. Sustainable company values

ASC operates worldwide and its members are embedded in a rich variety of cultures and varieties of capitalisms. That means that 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.³

In principal, there is nothing wrong with an excellent code of conduct, but too often, it remains merely 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 made by the public authorities of national and supranational governments. These standards are mostly compulsory and have to do with transparency demands and legal aspects of business.

The values of ASC have to be more solid and sustainable. They are based on the associative character of its governance. ACG determines the way ASC will shape its ethical corporate policies and how it will comply

³ 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)

with initiatives on ethical issues from the outside world.⁴ They should be guaranteed by a solid institutional design of the company in order to underline the sustainability and the control on compliance.

ASC has to determine how to handle the diversity in cultures and varieties of capitalisms and the corresponding diversity in values and morality. Furthermore, it has to take into account the voluntary and highly autonomic character of associative governance. That means that the two extremes on morality are not an option. ‘Anything goes’, straightforward moral relativism will not work. The company will be faceless and stakeholders will not identify themselves 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 not work either. The distance between theory and reality plus expectable disagreements between stakeholders will frustrate practical progress in the field. It will be counterproductive.

ASC will adopt a minimalist moral theory as starting point, the basic rights to security and subsistence as defined by Henry Shue.⁵ In Part 2 of this thesis, I will explain this choice by using the ranking of differentiated moralities as defined by Veit Bader (Bader, *Secularism* 72)⁶. The latter presents a feasible approach to moral rights. It will become clear that fulfilling minimum morality obligations will be different per region within ASC. Each region will have its own cultural background and institutions. That means that the day-to-day translation of minimum morality will be context dependent. ASC has to adopt a contextual approach.

On morality, I use the ‘realization-focused perspective’ philosophy of Amartya Sen as a practical guide within ASC for systematic guidance to reasoned decisions⁷. He underlines the interdependent roles of institutions and behavioural patterns of participants in reaching workable solutions. In addition, he emphasises the importance of ‘comprehensive outcomes’ against simple final culmination outcomes (Sen 215). Comprehensive outcomes include actions undertaken, actors involved, and processes used. This leads the

4 ASC will be confronted with serious existing initiatives to shape decent ethical behavior of multinational companies. Most of these initiatives are taken by industrial business associations and international NGOs such as ILO. ASC as a steelmaker has to identify itself with the sustainable policies of the business association of the steel industry, the World Steel Association. Typical more general examples of multinational companies are the UN Global Compact initiative (since 1999) and the OECD Guidelines for Multinational Enterprises (1999-2000).

5 Henry Shue is the Wyn and William Y. Hutchinson Professor of Ethics and Public Life, and Professor of Philosophy at Cornell University.

6 Veit Bader is emeritus Professor of Sociology and Professor of Social and Political Philosophy at the University of Amsterdam and one of the main advocates of associative democracy, the modern form of associationalism.

7 Amartya Sen is a Nobel laureate in economics and social choice theory as well as a profound social philosopher. He is Lamont University Professor, Professor of Philosophy and professor of Economics, at Harvard University.

way to the Learning by Monitoring method within ASC and the way decisions are prepared, taken and accepted within the associative corporate governance of ASC. Sen states that ‘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 social argument for just doing that’ (Sen205). He calls this the ‘responsibility of effective power’. By introducing ACG, the management of ASC takes its responsibility inherent to its effective power.

As a second guide for reasoned decisions and well-organised participatory democracy, I am inspired by the ideas of John Dewey⁸. I previously referred to his early warnings against the corporate mentality and his democratic experimentalism. Democracy is the central theme in virtually all his work (Cochran 289). He puts emphasis on the importance of democratic ethos.

Minimum morality, basic human rights, contextual approach, reasoned decisions with comprehensive outcomes, and responsibility of effective power, these should all fit in the central normative claim of associationalism as described by Paul Hirst (Hirst, *Associative Democracy* 19: ‘individual liberty and human welfare are both best served when as many of the affairs of society are managed by voluntary and democratically self-governing associations’. The character of ASC as an ‘association of steelmakers’ finds its basis in the voluntary decision of a steel company to join ASC as a member. If the negotiations are successfully finalised, a company can enter the ASC organisation as a new member. The self-governing character of ASC as a multinational company is obvious. Each multinational company tries to run its own business. The key issue is the ‘democratic’ content of the governance. As described before, it is precisely the target of ACG to accomplish a first step in a more democratic governance of multinational companies. Stakeholder theory and CSR, combined with modern forms of industrial democracy, form the right starting points for this first step to more democratic corporate governance

The term ‘democratic’ needs a further specification. In this thesis, I will highlight the three different forms of democracy. These are direct democracy, representative democracy and associative democracy. All three forms will be applicable within ACG. Direct participation of employees in discussions about working conditions is an example of the first form. Indirect participation by representatives of management and employees in works councils is a typical example of the second form. The engagement of trade unions, NGOs or business associations in internal ASC discussions as stakeholders of the company fits into the third category.

⁸ ‘John Dewey (1859-1952) was a major figure of the American cultural and intellectual landscape in the first half of the twentieth century. While not the originator of American pragmatism, he was instrumental to its articulation as a philosophy and the spread of its influence beyond philosophy to other disciplines’ (Cochran 1).

I emphasise two basic aspects of the democratic process that are of crucial importance:

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

Trust is based on voluntarism. People need a culture to create a level of trust and loyalty within an organisation. I will refer to Richard Sennett's research on the necessary cultural anchor of people in organisations, and to my own experience. The abovementioned company values will be the basis for the company culture and will create the right conditions for trust among the stakeholders of the company.

For a long-term and sustainable participation of all stakeholders, it is of decisive importance to keep the gap between expectations and realisation of targets at acceptable levels. Therefore, ACG will introduce the realisation-focused perspective and the search for comprehensive outcomes, as mentioned above. This discourse policy will be combined, as previously mentioned, with Charles Sabel's 'Learning by Monitoring' approach. Sabel, like Sen, puts emphasis on process instead of outcomes in discursive relationships within the discourse process. This fits in ACG's individual and collective learning centred policy and Dewey's democratic experimentalism.

In summary, the leading ideas supporting the ACG philosophy are:

- Richard Sennett's research on company culture;
- Henry Shue's basic rights philosophy;
- Veit Bader's minimum morality philosophy and contextualized approach;
- John Dewey's democratic ethos and his call for 'creative democracy'.
- The responsibility of management to use its effective power for social changes and the realization-focused perspective of Amartya Sen;
- Charles Sabel's Learning by Monitoring method.

I will explain these choices in detail in Part 2 of this thesis. The design and practical implementation of ACG in the world of the multinational steel company ASC will be handled in Part 3. I show that the distance between theory and practice can be bridged step-by-step and that ACG is far from being a utopian project.

I consider ACG and its discourse platforms as the top of a triangle of which the two lower angular points are 'discourse ethics' and 'industrial democracy'.

This thesis is not another plea for a sustainable future and sustainable entrepreneurship. This thesis is about a more democratic corporate governance of multinational companies as a necessary precondition for sustainable targets. ACG is the 21st century's next step in 'industrial democracy'.

5. The architecture of the thesis

In this Introduction, I have explained the ‘what’, ‘why’, and ‘to what purpose’ of my thesis. I introduced the main issues and main actors. The thesis itself has four major sections:

- *Part 1, the Steel Industry.* I highlight the history and background of the steel industry. I describe its economical environment and its confrontation with globalisation and internationalisation of the world economy. I summarise history and trends in corporate governance of the steel industry against the background of general corporate governance styles. I end with a statement on Associative Corporate Governance.
- *Part 2, Associative Corporate Governance (ACG).* I introduce ACG as a prospect for a new type of corporate governance. I will create associative corporate governance by integrating, on the one hand, the two latest developments in existing corporate governance theories – stakeholder theory and corporate social responsibility – and, on the other hand, the existing theories on industrial democracy and the political theory of associative democracy. I will present the basic ideas of ACG, plus its philosophical backgrounds.
- *Part 3, ACG in Practice.* I present ASC as an international steel company using ACG as the corporate governance method. I will show the feasibility of ACG, as developed in Part 2, in each and every activity of the company, taking into account the circumstances and developments in the international steel industry as described in Part 1. Introduction of ACG will be done by optimising and maximising existing practices and experiences. It will be an evolutionary and ‘step by step’ forwards approach. I present these steps as ‘policies’ and related ‘actions’ referring to the activities Corporate Strategy, Finance, Supplies, R&D, HRM, Marketing & Sales, and Production & Maintenance.
- *Part 4, Evaluation and Conclusion.* I evaluate the results of Part 3, especially against the background of the problems in the steel industry as highlighted in Part 1 and the objections as summarised in Part 2. Finally, I present the conclusion of this thesis.

Part 1: The Steel Industry

In this part, I highlight the world steel industry. Chapter 1 shows the history and background of the steel industry. Chapter 2 describes its economical environment and its confrontation with globalisation and internationalisation of the world economy. Chapter 3 summarises the history and trends in the corporate governance of the steel industry against the background of general corporate governance styles.

I will end with a statement on Associative Corporate Governance.

1. History and background of the steel industry

This chapter addresses the history and background of the world's steel industry. It highlights the growth of this industry in the twentieth century in section 1.1, the rise of the 'BICs' (Brazil, India, China) in section 1.2, and the consolidation of the steel industry in section 1.3.

I worked in the steel industry for 36 years, from 1965 until 2001, and bear extensive witness to changes in this period.

1.1. The growth of the steel industry in the 20th century

The growth of the steel industry has been substantial over the past hundred years: from 22 million tonnes in 1894 to 1.059 million tonnes in 2004 (Beddows 2⁹), and to more than 1.400 million tonnes in 2010¹⁰. 'The industry grew relatively slowly until the end of the Second World War. From that period to 1973, it grew at an annual rate of 6% per annum in volume terms until the first oil shock that caused the slowing down of the growth rate in the 1970s. From the mid-1970s to the mid-1990s, growth averaged 1%-2% per annum until the impact of China began to be felt in the late 1990s when again the growth rate expanded to 4%- 5% per annum' (Beddows 1).

I entered the steel industry in 1965, in the middle of the first high growth period. As project engineer, I worked on the expansion programs of Hoogovens, the well-known Dutch steelmaker located in the IJmuiden region, for more than 10 years. As project manager, I was responsible for the last big expansion program of that period: the 7.3 million ton steel plan, concluded in April 1976. From 1977 until 2001, I was involved in the sale of steel technology by Hoogovens/Corus Group¹¹ to major steel companies all over the world. From 1985, I worked as Managing Director of the Business Unit of Hoogovens/Corus responsible for this international activity of the Group.

In the following overview, I will chronologically guide the reader through the changing vanguard position of national steel industries during the last fifty years: USA: 1945-1970, Japan: 1970-1985, South Korea and Western Europe: 1985 -2000, and the BICs: 2000-present. Of course, the years are approximately. See Box 1 for the overview.

In 1965, the US steel industry was still the vanguard industry. At that time, it was normal practice to visit the US in order to become acquainted with modern steelmaking. At the end of the Second World War, over 50%

9 Rod Beddows, who is located in the London office of Hatch International, is one of the most well known advisors in the steel industry. The majority of the figures and facts in this section are taken from my interview with him on 22 May 2007.

10 Source: World Steel Association, Steel Statistical 3.

11 Hoogovens Group merged with British Steel Corporation in 1999. The name of the newly formed entity was Corus Group.

of the world's steel production was located in the US, and they maintained their leading position in technology and capacity until the end of the 1960s. The vanguard position was the result of the huge effort of the US industry in general, which was founded on the New Deal policy created during the presidency of Franklin D. Roosevelt.

In the early 1970s, the situation changed, and the Japanese steel industry took over the vanguard position from the US. Trips to the US were replaced by trips to Japan in order to study and acquire the latest technology in steelmaking.

Box 1: Vanguard positions in recent steel history

USA → Japan → Western Europe/South-Korea → BICs

- **USA vanguard 1945 -1970s:** global dominance based on strong position built up during the Second World War as part of the New Deal policy, and damaged steel industries in Europe. Decline due to investments in old technology and risk-averse behaviour, combined with the short-term orientation of US firms.
- **Japan vanguard: 1970s- 1980s:** based on rapid, state-led industrial development, an institutional response to new technologies since the 1960s.
- **Continental Europe/South Korea: vanguard 1990s-21st century:** based on introduction of new technologies, high levels of education and long-term orientation. The UK could not follow Continental Europe because of the short-term orientation of British firms.
- **BICs vanguard 21st century:** based on the high demands of strong growing market, entrepreneurial push, long-term orientation, and reduction of the technology gap with Western Europe, South Korea, and Japan. China produces 50% of the total world steel production. Initially, the Russian steel industry started to follow Brazil, China and India but lost track. BRICs changed to BICs.

This change was the start of a complete new global restructuring process. This global restructuring of the steel industry has been well described by Anthony P. D'Costa in *The Global Restructuring of the Steel Industry*.

He emphasises three important developments: 1) a *spatial* development, 2) a *technology change/innovation* development, and 3) a change in the *institutional settings* of a country.

The technological frontier shifted from open-hearth furnace technology in the post-war period to the basic oxygen furnace technology. This shift presented itself as a strategic problem for firms with heavy investments in open-hearth

furnaces. For latecomers in general, this was a unique opportunity to move from the rearguard to a vanguard position. In the same vein, the emergence of smaller, more flexible electric arc furnace technologies constituted another important technology change in steelmaking, offering new opportunities for technology-led industrial restructuring. ‘The massive investment program guided by the state, supported by the banking sector, and aggressively pursued by steel firms resulted in a rapid expansion of steel capacity. Unlike the US, the larger size firms and plants in Japan have been conducive to rapid adoption of the new technologies resulting in fast and huge innovations with scale advantages’ (D’Costa 22).

The *‘Nippon’ model* formed a perfect economic and social environment for this move. Visits to our Japanese colleagues at that time were not just related to new technological developments but also to new managerial methods and the influence of the lifetime- job philosophy. It was my first introduction to Toyotism with its just-in-time philosophy, quality circles, permanent improvements, and knowledge mobilisation. I was impressed by this total ‘industrial package’ of the Japanese society.

The necessary restructuring of the US steel industry was confronted with heightened capital mobility away from the steel industry. The steel companies could not meet the demand for high dividends and short-term financial results of the rising star of the Anglo-Saxon economic model. Implementation of new technologies and product development in the steel industry are long-term actions. Necessary investments failed to materialise and slowly but surely the steel plants became outdated and inefficient. This process continued until the beginning of the 21st century.

The take-over of the industrial vanguard position in the steel industry by Japan shows the important role of national governments and institutional settings on the development of the steel industry. Governments, in the past but also still today, consider the steel industry as a strategic industrial sector¹². ‘Late-industrial countries like the BICs overcame the initial structural barriers of investment and technology, making industrial policy the single most important instrument to regulate the pattern and direction of industrial change’ (D’Costa 23).

Because of this state-involvement, ‘the steel industry is far less internationalised than other industries. Foreign ownership in the steel industry is limited’ (D’Costa 29). The role of multinational companies remained small until the end of the 20th century. Due to the same reason, the steel industry is

12 For a detailed study of the economic regulations within the West-European steel industry, from the beginning of the Industrial Revolution until the foundation of the European Coal and Steel Community, I refer to Dany Jacobs’ *Gereguleerd Staal* (Jacobs, *Gereguleerd*). He describes the strong political influence of national governments in numerous restructuring processes within the steel industries of France, UK, Belgium, and Luxembourg. He maps the rich variety of regulatory mechanisms: private (through agreements with producers), public (through the state) and “anonymous” (through the market).

less concentrated than other basic materials industries. During the last decade, this situation started to change. I will address that at a later stage.

The first oil shock in 1973 slowed down the high-growth rate in the steel industry. For me, it was quite clear that I had worked on my last expansion program for Hoogovens. Although I could complete the project, the targeted level of 7.3 million tons of steel has never been reached. Production capacity remained unused; overcapacity was once again a fact in the steel industry, as it had been in the past. This development, of course, was partly the result of the previously mentioned popular state-involvement disrupting the supply-demand market rules.

The downturn in the advanced capitalist economies made it easier for late-industrialisers to acquire technologies (D'Costa 24). Quite a number of steel makers in the advanced economies began to transfer their technologies to late-industrialised countries. Hoogovens was one of them. In 1977, I became involved full-time in this technology transfer as mentioned before. I worked on many projects all around the world and gathered the experience of working in different social and economic environments.

The introduction of modern technologies by late-industrializing countries started the global restructuring of the steel industry. Countries like India, Brazil, and China began to transform from rearguard to vanguard.

Technology transfer takes numerous forms. It can range from pure technology transfer by licensing to substantial turnkey projects. Some technology suppliers even became partner by supplying foreign equity to a new joint venture. The Japanese investments of companies like NSC in the Brazilian steel industry are typical examples of these commercial arrangements. My company limited itself mostly to technology transfer via case-by-case projects purely based on engineering and supply. Management considered participations and turnkey responsibilities to be too risky.

For me these different forms of technology transfer meant that I started to learn the differences and the impact of the institutional settings on the day-to-day business with my clients. The mere transfer of technology is not sufficient for technological mastery. Rather, the national institutional context and an innovation system geared toward building technological capability are of paramount importance. A typical example for me was the transfer of hot blast stove technology to the Steel Authority of India Limited (SAIL) in the 1980s. SAIL is the largest steelmaker in India and state-owned. I signed a rather substantial contract with the Vice-Chairman of SAIL based on technology transfer via a licensing agreement. By engineering four projects one after another, our engineers were to transfer the knowledge to their colleagues. Our role should be downsized from 100% engineering plus supervision in the first project to just limited supervision in the fourth project. In practice, we did finish the first project in Bhilai, one of the plants of SAIL in East-India, although far behind schedule because of the bureaucratic

character of the client's organisation. However, the other three projects were delayed several times because the education of our Indian colleagues was not effective. Each time we had educated a few of them they were transferred to new jobs somewhere within the huge SAIL organisation. As a result, we had to start all over again. In the mean time, the head office of SAIL did pay the royalties on technology transfer on time according to the contract. The initiator of the technology deal, the Chairman of SAIL 'whose project' this was, ended up in jail for some unknown reason. The organisation of SAIL was not able to secure the technology on time and ended up paying far too much for a far too limited scope of technology. India is a typical example of an internally incoherent institutional setting, pushed and pulled by various social groups. D'Costa talks about 'over-politicisation of industrial relations' (D'Costa 103), leading to severe overstaffing and labour strife¹³. Institutional weakness and institutionally unnecessary complexity like in India make it impossible to marshal the necessary infrastructural resources, to acquire new technologies or induce local technological development. This weakness includes the educational resources of the steel regions in this country. Although we did have substantial training and education programs for local engineers and operators as part of the technology package, the transfer was never very successful.

The recent opening up of the Indian steel industry to private entrepreneurs generates a more favourable picture. Transfer of knowledge via the involvement of local industrial partners forms a more solid 'embedded' approach. Indian institutional thinking and handling became very real and close for Corus after the take-over of by Tata Steel.

My first experience with Tata Steel was in the 1980s. Tata Steel was the first private steel company in India, with a completely different management style than SAIL. The social embeddedness of the Jamshedpur steel plant is well known in the steel industry. I personally was involved in successfully training and education projects on-site.

On the other hand, there are the institutional settings of South Korea and China, both examples of strong, internally coherent states, comparable to the Japanese situation. The technological transfer is well organised and embedded in the local economy. The transfer of technology to China during the last decade shows that this country has a solidly embedded approach to technology

13 In personal discussions with executives of SAIL, I learned about the social responsibilities of organisation like SAIL in developing certain regional areas. I do not agree with Anthony D'Costa's strong statement of 'over-politicisation'. SAIL has another responsibility in addition to just making profit. It has to contribute to the social embeddedness of its steel plants into remote regions. Tata Steel in Jamshedpur, the first private steelmaker in India, represents another example of social embeddedness in this country. The embedded approach is a well-known social phenomenon in this country.

transfer, securing excellent best-practice technologies.

State ownership of steel assets was predominant in the steel sector until very recently. A substantial change in this institutional approach to the steel industry started in the mid-1980s, with the privatisation of British Steel, being the first major example. Privatisations accelerated through the 1990s, especially with the dramatic collapse of state ownership in the Soviet-Union. This transfer in ownership changes the institutional environment of steel companies.

For almost nine years starting in 1992, I was personally involved, in the privatisation of the Mexican steel industry. The Mexican government privatised the national steel industry Sidermex with British Steel as their advisor. The steel company was split up into four pieces and sold on the market. The northern plant of Altos Hornos de Mexico SA (AHMSA) in Monclova was acquired by an industrial group, Grupo Acerero del Norte (GAN), with zero experience in steelmaking. They contracted Hoogovens as their expertise partner and operational advisor for the steel operations. During nine years, our team worked side by side with their Mexican colleagues, implementing new technologies and modern management and operation tools. Our team differed in size from a minimum of 20 up to more than 100 engineers and operators. The transfer of best practices differed from case to case, depending on the quality and the willingness of the Mexican staff to follow up and implement our advice. Training and education as the most outspoken embedded elements were the key elements of the cooperation. However, the motives of the sale by GAN were dubious. They were entrepreneurs from outside (of course closely related to the authorities in Mexico City organising the privatisation), taking over the facilities and trying to implement their rules. The Mexican government did not feel any responsibility any longer. The original management and workers, together with the local industrial and political environment, were just victims of the deal and felt no responsibility at all for the whole situation.

The privatisation of the Brazilian and Russian steel industry followed the same dubious route, under the rising star of neoliberalism.

An overview of the history of the steel industry of the 20th century has to end with the impact of the strong growth of the Chinese steel industry beginning in the late 1990s. Our first contacts with and contracts for the sales of technology already began in the 1980s but it took until the beginning of this century before China became our most important client. As previously mentioned, their institutional settings guaranteed a successful and fast adaption of new technologies and best practices by local partners. Contract negotiations are short and to the point, project execution is fast and correct, which is a world of difference with our experiences in India.

Summarising my experiences: there is a straight line from India to Mexico, to Japan/Korea and to China, showing the importance of the involvement of local stakeholders in the transfer of technology.

The growth of the Chinese steel industry changed the world of steelmakers. The strong increase on the demand side resulted in increasing prices worldwide, but also in a strong increase in prices of basic resources like iron ore, coal and energy. This brings us to the next section in which I describe the situation in the steel industry at the beginning of this century.

1.2 The steel industry in the 21st century

‘In terms of the physical location of production, the industry has globalised. In 1894, when 22 million tonnes of steel was produced, there was virtually no production outside of the US, UK, Germany, France and Russia’ (Beddows 2). After the end of the Second World War, 75% of the world’s steel production was located in the US, UK and Russia of which more than two-thirds in the US (as described in section 1.1). Reason for this change was ‘the substantial destruction of the Continental European steel industry due to the Second World War’ (Beddows 2). In 2005, the world’s crude steel production passed the 1 billion tonnes milestone of which China produced 40%. In 2010, the world’s crude steel production was 1.4 billion tonnes. It will reach 1.5 billion tonnes before 2015. Nearly all of this growth will be in the emerging markets.

Nowadays, China, India, Japan, South Korea, Russia, Brazil, Germany and the US are the major steel producing countries¹⁴.

The steel industry of China, India and Brazil (the so-called BICs¹⁵) took over the leading role of the US, Japan, and the EU. This change is of great influence on the strategic thinking in the steel industry. As will be described more in detail in chapter 6, the entrepreneurial thinking in these countries replaced the more prudent and managerial thinking of the traditional steelmakers. For the first time in history, this resulted in the creation of real international steel companies like ArcelorMittal and Tata Steel, a move away from the traditional national basis of steel companies as described in section 1.1. It also led to a growing consolidation of the industry (Beddows 5).

The rise of the BICs will also introduce institutional innovations, as I will describe in section 2.4. This will have its repercussions on the world’s steel industry.

¹⁴ The top 10 crude steel producing countries are (million tonnes per annum in 2010): China 627, Japan 110, US 80, Russia and India 67, South Korea 58, Germany 44, Ukraine 34, Brazil 33, Italy 25 (World Steel Association, Steel Statistical 3).

¹⁵ At the end of the last century, it was customary to include Russia in the team of China, India and Brazil, and to refer to them as the BRICs. The lagging behind of Russia during the last century changed the term BRICs into BICs. In December 2010, China invited South Africa to join the BRICs and to change the name in BRICS. That means that China still includes Russia. However, given the fact that South Africa is just a small player in the steel industry, I prefer to use the name BICs.

1.3. The consolidation of the steel industry

There is a progressive consolidation of crude steel production. The share held by the top five producers of crude steel increased from 12% in 1995 to 21% in 2005. 'If this trend is carried forward, approximately 40% of crude steel production will be in the hands of five companies by 2020' (Beddows 9)¹⁶.

In my interview with Ian Christmas, Director General of the Brussels Office of the World Steel Association, on 30 March 2007, he confirmed the need for concentration in the steel industry:

'Concentration in industry can be based on technological developments asking for optimising of unit size, or on economical/ financial reasons. In my opinion, the first reason does not exist in the steel industry. On the contrary, mini mills brought down the unit size. The need for concentration is purely economically. The first main target is the closing of inefficient units, and the balancing of production costs within the company. This is in principle more a local aspect of steelmaking.

I consider the situation on the raw material supply and the global clients in the automotive industry as the first need for internationalisation. Possible areas of concentration are marketing, R&D and distribution/ selling. But these aspects can also be covered via strategic alliances. I expect most initiatives from 'big money movers' in the BICs or the raw material suppliers'.

The consolidation in the steel industry is horizontal in nature. 'One steel company takes over another steel company or two steel companies merge to create a larger steel company operating at a larger volume' (Beddows 6). Beddows distinguishes two types of horizontal consolidation: a regional one and a global one. The rationale for the regional consolidations is: 1) reducing overhead costs; 2) reloading of the order books on different assets to produce longer production runs and better economies; 3) savings on capital allocation through better utilisation of assets and a better phasing of capacity expansions; 4) transferring of best practices between assets and management systems; 5) savings on procurement costs, especially of raw materials and energy (Beddows 6).

The search for pricing stabilisation is of great importance in the steel industry, where the market has been highly volatile both for production and for prices. This volatility is a result of steel being at the early stage of the industrial production cycle. Historically, 'prices of steel products have been capable of varying up to 30% across a six-month period' (Beddows 7). A typical example of a regional consolidation was the creation of Corus as a merger of British Steel Corporation and Hoogovens in 1998. Examples of

¹⁶ In 2010, the figure was 13% (World Steel Association, Steel Statistical 3). That means that up to now reality is slower than Beddows' estimate.

global consolidation are the South Korean steel company POSCO building a green field steel plant in India, US Steel building a position in Slovakia and Europe in general, and the eye-catching example of ArcelorMittal. Mittal started as a small Indian steelmaker, and via an aggressive entrepreneurial strategy of father and son Mittal, they became the largest steelmaker in the world, active in 60 different countries. Mittal became the first steelmaker with a crude steel capacity of more than 100 million tonnes, representing about 10% of the world steel output.¹⁷

Recently, on 3 February 2011, Nippon Steel Company and Sumitomo, two major Japanese steel companies, announced the consideration of the integration of their businesses. The target for a possible merger is 1 October 2012 (Nippon Steel Corporation and Sumitomo Metal Industries 1).

There are a number of drivers for this horizontal global consolidation process. The most well known drivers are: 1) the objective to achieve global customer coverage, 2) the increase in scale that can enable purchasers to exert some pressure on raw material costs and the purchase of consumables and other supplies, 3) the possibility of using low costs production units for the global market, and 4) the spread of political or general market volatility risks (Beddows 7).

The second possibility for consolidation is vertical consolidation. Upstream consolidation is based on securing raw material supply. Two third of the seaborne trade in iron ore is in the hands of three companies: Rio Tinto, BHP and Vale. Prices for iron ore have exploded. ArcelorMittal and other major steelmakers are buying iron ore mines to become less dependent on the three major suppliers. On the other hand, almost all major Russian steel companies are already self-sufficient in coal and iron ore.

‘Downstream consolidation has been a constant theme in the steel sector for the last two or three decades. It has taken place in the simpler manufacturing process steps such as distribution, pipe and tube and roll forming. However, the apparent attractiveness of the industry is counterbalanced by the difficulty of managing two very different activities within the same company culture. Downstream consolidation has lost part of its attractiveness’ (Beddows 8). Today, consolidation in the steel industry limits itself to the core business of steelmaking and upstream investments in the raw material supply. ‘Back to the core business’ is the leading strategy. In the past, especially in the 1970s, steel companies sometimes adopted the opposite strategy of diversification of their industrial activities. The background of this strategy was the spread of

¹⁷ The 10 major steel companies in 2008 are (in million tonnes crude steel per annum): ArcelorMittal 103, Nippon Steel 38, Baosteel Group 35, POSCO 35, Hebei Steel Group 33, JFE 33, Wuhan Steel Group 20, Tata Steel 24, Jiangsu Shagang Group 23, U.S. Steel 23. Source: World Steel Association statistics. 10 March 2011. <http://www.worldsteel.org/statistics/top-producers.html>.

risks. The Tata conglomerate is an exceptional case as a typical example of the diversification strategy with a wide range of industry-oriented and service-oriented activities both within and outside the steel industry. As explained in my introduction, in this thesis I refer to the steel industry with its recent ‘back to the core business’ strategy. This industry, with its long-term orientation, heavy investments and labour-intensive character, forms the right background for the introduction of ACG.

After the merger between Arcelor and Mittal in 2002, further horizontal global consolidations were expected, but until now, new consolidations failed to occur. Only very recently, the above-mentioned intention of Nippon Steel Company and Sumitomo has been announced. Upstream consolidation, however, is still on the move.

It is unclear what the influence of the recent financial crisis in 2008 will be on the short and long-term future of the steel industry. Steel prices, iron ore, coal and energy prices have decreased. Steel prices recovered partly, iron ore prices recovered very quickly. Overcapacity could become an almost forgotten item on the agenda of the world steel industry.

Given the need for consolidation, the question is if the steel industry has to follow the same route of mergers and acquisitions as applied to other industrial sectors. The record of accomplishments of international mergers and acquisitions is not convincing. More than 60% ends up as a failure and 80% does not bring the synergies and strategic targets as defined at the start¹⁸. Why should the steel industry take the same road? I personally was involved in the merger of British Steel Corporation and Hoogovens, which was a perfect example of the 60% score.

ArcelorMittal appears to be successful so far, at least from an economic point of view. However, the extreme positive market conditions and connected high steel prices at the start of the new group prevent a serious judgment. The company has to prove itself first through the recent down-cycle before a final judgment can be given. For the period 2008-2011 the financial results of ArcelorMittal decreased 7,8%. This performance is worse than the performance of six other important steelmakers like Bao, Vöestalpine, Posco, ThyssenKrupp, Nippon Steel and US Steel. Financial specialists are negative about ArcelorMittal’s profit improvement potential (Depuydt *ArcelorMittal*).

The Mittal organisation follows the classic merger and acquisition route in creating their global steelmaking emporium. This means that Mittal and the associative philosophy route of my thesis are each other’s opposite. As I described before, SAIL and Tata can be found in a middle position. On the line Mittal – Tata/SAIL – ACG the former steelmaker Hoogovens is located between Tata/SAIL and ACG.

¹⁸ Figures presented by Hans Schenk, in my personal interview. For more details, see chapters 2 and 3.

My experience in steel regions like Chicago (USA), Oita (Japan), Bhilai (India), Monclova (Mexico), IJmuiden (Holland) and many others has taught me that forced consolidation from outside is a sure-fire route to the strong negative score of this type of consolidation as mentioned before. It will destroy positive living conditions of steel plant employees and its environment of suppliers and other stakeholders. The fact that the consolidation and internationalisation of steel companies has just begun and that many steel regions all around the world will be confronted with it, demands a reconsideration of the situation and development of new ways of consolidation and governance of future consolidated steel companies.

2. The steel industry and the internationalisation and globalisation of the world economy

Numerous studies contribute to this subject's scholarly discourse. I cannot deal in full extent with the many faces of internationalisation and globalisation, and arguments pro and contra. Here, I discuss the phenomenon from the perspective of the steel industry. I describe the general aspects of globalisation as far as necessary against the background of this specific industrial sector.

Section 2.1 describes the general and specific aspects of globalisation. In section 2.2, I 'find my way' through the complex world of internationalisation and globalisation by introducing the actors involved, the principles they want to follow, and the mechanisms they use in reaching these principles. I highlight two important aspects of internationalisation and globalisation that play an important role in this thesis: the creation of the multinational companies as main actor in globalisation, in section 2.3, and the 'Varieties of Capitalism' (VoC), in section 2.4.

2.1. General and specific aspects of globalisation

Three distinct types of globalisation are relevant to this study (Braithwaite and Drahos 8): these are the globalisation of firms, the globalisation of markets (products and services including financial products and services), and the globalisation of regulation.

The globalisation of the steel industry will in the first place be an example of the first kind of globalisation: the globalisation of firms. Markets are still regional: Western Europe, North America, and China. Regulation is still limited. However, there is a touch of the global market via worldwide operating main clients of the steel industry in the strong globalised automotive industry, for example Toyota, who wants to receive the same quality of steel according to the same qualifications at all of their plants worldwide.

There are five specific aspects of the steel industry related to the globalisation process (Beddows 5).

First, the steel industry, as mentioned before, is a latecomer. The process of internationalisation and globalisation has only recently started, in 1990, and came into full swing at the beginning of the 21st century (Beddows 1)

Second, globalisation of key customer segments like the automotive industry and global suppliers of resources triggers globalisation of firms (Beddows 10).

Third, the role of capital markets has become more important by the process of privatisation of the steel industry beginning in the 1980s. State ownership of steel assets was predominant in the steel sector until very

recently (Beddows 13).

Fourth, the steel industry has not been able to pay the cost of capital across the economic cycles. Only in the beginning of the 21st century, this situation changed rapidly and the strong economical performance formed a reason of the increased capital markets interests (Beddows 15). The financial crisis of 2008 once again changed the scenery but this time the steel industry is just part of the overall crisis.

Fifth, recently the environmental issue of global warming started to play an important role. Steel plants are major CO₂ producers (Beddows 19).

The more general aspects of globalisation and internationalisation also pertain to the steel industry. In the first place, steelmakers operate under the different contemporary forms and faces of modern capitalism, or the so-called 'economical models' such as the Anglo-Saxon model, Continental European model, Asian model, Scandinavian model. The most used general term of this aspect is divergent capitalism or 'Varieties of Capitalism' (VoC). Nevertheless, the globalisation process is dominated by a neoliberal economical view, resulting in the dominant role of shareholders value and financial markets. The influence of the financial crisis of 2008 is not yet clear. It may be that the character of the globalisation process will change dramatically; it may also stay unchanged after a short 'hick-up' just considered as a 'business accident'. The trendy criticism on the neoliberal market economy may disappear as fast as it appeared, as soon as the economy shows the first signs of recovery.

The exaggeration of the rise of real transnational companies is a second feature of the globalisation process. Most multinational companies remain closely linked with their home basis, and nation- states still play a dominant role in the internationalisation process (Hirst and Thompson 17). Since September 2008, the role of nation states and regional, national and international institutes is back on the agenda of the socio-political debate. Politicians undertake new and serious attempts to regulate international markets via institutional frameworks. The tendency to move from control by nation states to voluntary codes of conduct and self-regulation of multinational companies, until September 2008 a common approach, has lost part of its credibility¹⁹.

A third general feature of globalisation, and very important for the steel industry, is the growth of the market-based economies of Brazil, India and China. The remarkable growth of the Chinese steel industry was and is the overall dominating feature of the world's steel industry.

A fourth and very prominent feature of globalisation is the weak position of labour because of the limited or non-existent international cooperation of organised labour. This feature, together with the concern for

¹⁹ Typical examples of first attempts to come to international regulations and standards are UN Global Compact Rules, OECD-Corporate Governance Principles, ILO standards, WTO Rules, Kyoto Protocol.

serious environmental damage, forms the basis for the arguments and serious concerns of the anti- globalisation movement. They are often expressed in the ideas and policies of non- governmental organisations (NGOs).

2.2. Actors, principles and mechanisms

In order to find a way in this rather complex set of conditions, John Braithwaite and Peter Drahos conceptualised the process in terms of relationships between: 1) actors, for example corporations, NGOs, communities, business organisations, states, and organisations of states; 2) principles, for example lowest cost location, best practice, liberalisation- deregulation, continuous improvement, transparency; and 3) mechanisms, for example military and economical coercion, systems of reward, modelling, coordination, capacity building, reciprocal and non- reciprocal adjustment (15).

Actors

In general, the first league of major actors in the steel industry is formed by the major steelmakers, states and organisation of states, suppliers of raw materials, and major 'global 'customers.

Other actors like national and international business organisations, national and international NGOs, and regional authorities form a second league.

I will first highlight the first league. Given the fact that steelmaking has been considered as a strategic activity by many governments, it is obvious that states have been and still are major actors in the steel industry. Although the economic influence of the industry strongly declined in the US and Western Europe, representatives of the industry are still important actors on a national and international level. Especially in Western Europe, the steel industry played an important role in the origin and creation of the EU²⁰. The rise of new important steelmakers in the BICs is closely linked to the economic development of these countries, which emphasises the important role of the state. In Japan and South Korea, the role of the state has been and still is a decisive factor.

The state as important actor is of course also closely linked to the economic model. The rise of the Japanese steel industry in the 1970s and the South Korean steel industry in the 1980s are typical examples, as is the current rise of the Chinese steel industry.

The decline of the North American steel industry is an opposite but equally strong example of the important role of the state. The rise of the Anglo-Saxon model after the Second World War initiated the decline of the steel industry.

²⁰ The steel and the coal mining activities in Western Europe laid the foundation of the first supranational European organisation, the European Coal and Steel Community (ECSC).

The recent financial crisis once again underlines the importance of the state as strong actor. The national state is still the ultimate port of refuge.

Organisations of states like the EU, WTO, OECD, IMF, WB, and ILO do play a role. Especially the EU has been and is an example of a strong actor in the steel industry. It played an important role in the downsizing of steel capacity in Western Europe at the end of the 20th century. The OECD in Paris has a special steel committee.

The IMF was a major player in the economic rise of the BICs. The IMF rules may be debatable but they were of great impact.

The WB never played an important role in the steel industry. Its programs in this industry were limited. The development of a national steel industry in poor countries was, rightly, no top priority for the WB. I cooperated just once with representatives of the WB, in the Mexican project of AHMSA as described in section 1.1. The investment of the WB in AHMSA's hot rolling mill was an exception.

Suppliers of the raw materials for the steel process, coal and iron ore, became major actors in the steel industry. The strong increase of the world's steel production, due to the strong economic growth in the BICs, caused a strong demand for iron ore and coal.

The supply of these materials becomes problematic. The available capacity is limited, the development of new mines has a long lead-time given the necessary infrastructural investments, and the number of suppliers is limited. Especially the supply of iron ore is problematic with only three major suppliers, as mentioned before. Prices rose dramatically during the first years of this century and steelmakers were struggling to get their part of the cake. Important steelmakers like ArcelorMittal, Tata, and CSN tried to make their future more independent of the major suppliers by buying and developing their own mines.

The financial crisis of 2008 changed this picture dramatically. Suppliers of raw materials were confronted with a strong decrease in demands and struggled with their financial performance. However, this was only for a very limited time. Prices are up again and steelmakers will not change their strategy (Persson)²¹.

A rather new phenomenon in the steel industry is the rise of the 'global' customer as a main actor. Especially in the automotive market, major companies like Toyota want to standardise their production. They want to work with the same quality of steel for their car assembly plants in Europe, in Asia and in the US.

21 The Chinese need for iron ore increased exponential. In 2000, China used 16% of the world's total iron ore volume. In 2010, this will be 70%. Price increases in the first decade of this century were dramatic: from \$80 per tonne in 2006 to more than \$220 per tonne in September of 2008. In September of 2008, prices dropped to the level of 2006. However, they were back to \$190 in April of 2010. Prices increased 100-120% in one year.

By this, they put pressure on the steel industry, as major customers, not only from a quantitative but also from a qualitative point of view. Concentration allows the steel industry to handle this request from the market.

After elaborating on actors of the first league, I will now highlight the second league starting with international and national business associations. The most important international business association in the steel industry is the World Steel Association. This association was formed in 1967 as the International Iron and Steel Institute. All major steelmakers, 18 of the world's 20 largest steel companies, are member of this organisation, including six of the top 10 producers in China. The main offices are in Brussels and Beijing. The members produce around 85% of the world's steel. The mission of the association is to provide a forum for the world's steel industry to address the major strategic issues and challenges it faces on a global basis²². The CEOs of the major steel companies meet once a year at the annual conference. Staff members are part of this annual communication platform. Part 3 of this thesis will discuss in detail typical examples of the activities of the World Steel Association.

Another example of international business association is Eurofer, the trade organisation of European steel companies. Eurofer represents and promotes common interest of members in front of government and administrative bodies, political and social groups and the public. They are, amongst others, active in 'joint lobbying' in the EU-offices in Brussels. The European steel industry's annual revenues total around 200 billion Euros; it directly employs 360 thousand people and produces about 200 million tonnes of steel per year. More than 500 steel production sites in 23 EU member states provide direct and indirect employment and a living for millions of European citizens.²³

A more focused international business association is the European Steel Technology Platform (ESTEP). The European Commission, major steel companies, steel research centres, universities, representatives of national

22 Source: World Steel Association. 1 September 2010. <<http://www.worldsteel.org/about-us/history-and-objectives.html>>. The major areas of activity are safety and health, climate change, sustainability, life cycle assessment, automotive steel, construction, technology, raw materials, packaging and stainless steel. On a regular basis they produce reports on all these subjects. One of their reports will be discussed later on in this thesis: The Sustainability Report 2005. In 2008, an update of this report was published. Workshops and conferences for specialists are organised per activity on a frequent basis.

23 Source: Eurofer Annual Report 2010. Joint lobbying is no antitrust offence. Eurofer is not involved in the market activities of their members. Eurofer activities, considered to be permitted, are: discussions and exchange of views with regard to the market situation of product concerned, of general promotional opportunities such as possible new markets, or of new applications of the product; estimates of future trends and developments of the market; analysis of stocks held by producers, stock holders, steel service centres and end users; development of imports from third countries; information concerning the current, general and not individualised market price level.

governments, and trade unions are stakeholders in ESTEP. ESTEP searches for safe, clean, cost-effective and low capital-intensive technologies. Innovation and sustainability are their top priorities²⁴.

Each steelmaker is also a member of a national business association. The impact of this membership will differ per country and per economic model adopted by this country. Once again, the Asian and the Continental European model demand more coordination on the national level than the Anglo-Saxon model. Important steel producing countries like Germany and Japan have their own national steel business associations.

The given examples show a rich variety of business associations in the steelmaker's world. It goes beyond the reach of this thesis to present a complete summary on business associations.

Each steelmaker has to deal with a rich variety of national and international NGOs: 1) NGOs in the field of contracts and property rights (International Law Association, International Association of Legal Science, Institute of International Law, International Association for the Protection of Intellectual Propriety); 2) NGOs in the field of finance (International Accounting Standard Committee); 3) NGOs in the field of trade and competition (Consumers International, International Confederation of Free Trade Unions) ; 4) NGOs in the environmental field (Greenpeace, WWF, International Union for the Conservation of Nature, Climate Action Network, specific national environmental NGOs) ; and 5) NGOs in the field of human rights (UN, Amnesty International).

Regional authorities are also important members of the second league of actors. Steel companies are very often the centres of activity of an industrial region. The steel plant functions as the centre of a cluster of many medium and small companies. They are suppliers of maintenance, equipment and services to the steel plant. Education and training facilities are part of this regional cluster. Because of this development, the regional public authorities play an important role. Most steel plants adopt a 'good neighbour' policy with these authorities. Both actors need each other's cooperation. The steel plant guarantees economic activities and prosperity; the regional authorities must supply the environmental permits and assist in getting the necessary permits from the national public authorities. They are both active in organising education and training institutes in order to supply the necessary labour force for the plant.

²⁴ At this moment, ESTEP is committed to the global warming issue: directly through the development of long-term breakthrough technologies, indirectly to bring lightweight solutions for cars and steel-based materials for energy efficient buildings.

Principles

‘Different actors align themselves with different principles’ (Braithwaite and Drahos 18). Steel companies will support principles of economic growth and lowest-cost location; environmental NGOs will seek to institutionalise principles such as sustainable development. ‘Understanding the conflict of principles is integral to understanding the globalisation of business regulations’ (Braithwaite and Drahos 18).

In order to keep the discussions between actors straight, Braithwaite and Drahos underline the importance of getting the definition of principle right, in their connection with the concepts of norms, standards, guidelines and rules.

‘Norms is a generic category, which includes principles, guidelines and standards’. ‘Principles have a high degree of generality and are settled agreements on conduct, recognised by a group’. Agreement on a principle can be worked out more in detail by specific rules. A change in principle will change the rules. Standards are different from principles: ‘Their central feature is that they are used as measures of conduct. Standards are norms that can be applied to measure their performance. Therefore, for example, the International Accounting Standards Committee can support principles such as those of transparency. Standards, unlike principles, can have a high degree of specificity. Guidelines are used to suggest a direction for conduct in conditions of uncertainty. They arise where there is an agreement that something needs to be done’ (Braithwaite and Drahos 19).

These differences should be well understood in order to keep the discourse between stakeholders on track. No rules without the principle behind the rules; no principles without agreement on the norm.

Steel companies will be confronted with principles like lowest-cost location, world’s best practice, deregulation, continuous improvement, transparency, sustainability, national sovereignty, etc.

Mechanisms

‘Mechanisms are the tools used by actors to achieve their goals and plans’ (Braithwaite and Drahos 9). Braithwaite and Drahos define mechanisms of globalisation of business regulation as ‘these mechanisms that increase the extent to which patterns of regulation in one part of the world are similar, or linked, to patterns of regulation in other parts’ (17)²⁵.

‘We accept the idea of individual actors being the originators of change rather than mere agents of change. In philosophical language, we take

25 Braithwaite and Drahos recognise as key mechanisms: military and economic coercion, systems of reward, modelling, reciprocal adjustments, non-reciprocal coordination and capacity building. Although examples of these mechanisms will show up in this thesis, I prefer to follow their focus on individual actors as originators of change in institutional structures.

seriously the intentionality of agents and the way in which their beliefs and desires can lead them to change their regulatory worlds' (17).

The work of Braithwaite and Drahos has shown empirically that key actors matter a great deal in shaping world systems. Institutional structures have always found their origin in strategic actions by certain actors. Micro-experiments from individual actors can result in macro-action, changing principles and rules in the macro regulatory worlds.

A key role in dealing with the uncertainties of the world is played by what the authors call 'webs of dialogue' and 'webs of influence'. Actors stay in dialogue with other actors in 'webs of dialogue' (Braithwaite and Drahos 563). These webs are 'hierarchically neutral' and form the breeding ground for the micro-action to a macro-change approach. A typical 'web of dialogue' in the steel industry is the World Steel Association, in which steelmakers from all around the world create dialogues on major issues within the steel industry via working groups and informal meetings during formal conferences, both on specialist level and CEO level.

In 'webs of influence', actors influence each other through many mechanisms. A typical example in the steel industry is 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. 'The lead firm that pulls up standards is a more important upward dynamic than a (largely unenforceable) minimum standard to push up the laggards' (Braithwaite and Drahos 615).

'Webs of dialogue' can change or develop into 'webs of influence' within a certain timeframe, because of changes in power and mutual dependence.

In this thesis, I will refer to the Micro-Macro method and the use of 'webs of dialogue' and 'webs of influence' as major mechanisms for change.

2.3 The coming into existence of multinational companies

Internationalisation and globalisation of the steel industry will result in new multinational companies. It is worthwhile to highlight the history and trends of the coming into existence of these companies in order to judge the coming process in the steel industry.

Multinational companies are the carriers of the internationalisation and globalisation process, and operate under the different conditions of a divergent capitalism (see next section 2.4). Almost every day we are confronted with the results of the performance of multinational companies. In all industrial sectors, products and services are supplied via extensive organisations with centres all over the world. Marketing and selling, production and distribution, product development and research, are spread around the world following the

economic rules of minimum costs and efficiency. Most citizens buy low-cost products and services; inflation rates in the developed world are kept to a minimum as result of cheap mass production and distribution costs. However, very often the multinational company also represents less acceptable aspects of our society, such as environmental problems, exploitation of cheap labour, closing of industrial production sites leaving regions behind with a suddenly increase in unemployment, and more recently financial scandals, and unacceptable pocket-filling behaviour of higher management.

However, negatively or positively, multinational companies are active and strong players in the internationalisation and globalisation process. Compared with the speed of change in the political arena the world of the multinational companies is a wild turbulent one with all aspects of fast and strong changes.

Literature about the shaping and growing of multinational companies shows a focus on the multinational company as a 'highly rational entity'. In *Local Players in Global Games*, Peer Hull Kristensen and Jonathan Zeitlin made an empirical study of the strategic constitution of a multinational company. The title of this study fits very well in the internationalisation and globalisation of the steel industry. Local steelmakers like Mittal or Tata play global 'games'.

The following history on the coming into existence of multinational companies is a summary of their study.

'Stephen Hymer's 1960 PhD thesis is often taken to be a breakthrough in modern theorizing about MNCs'. He was the first to observe that multinational companies were more than just 'arbiters of capital'. Hymer 'asserted that foreign direct investment involved the transfer of a whole package of resources (technology, management skills, entrepreneurship, etc.) and not simply finance' (cited in Kristensen & Zeitlin 2005 7). The multinational company 'becomes a means of advancing oligarchy power and profits'. Related to Hymer is the product-cycle theory of Raymond Vernon. He considers going abroad as a defensive strategy to maintain the competitiveness of a company, whereas Hymer considers it as an offensive act as expansion of market power (cited in Kristensen and Zeitlin 8).

In the 1970s, literature on multinational companies took a next step by embracing 'Williamson's work on markets and hierarchy, along with Chandler's account on the evolution of the modern corporation' (Kristensen and Zeitlin 8). 'The multinational company was regarded as an ideal agency for reducing transaction costs on a global scale. It could be held to solve cross-border market failures to the benefit of both the firms themselves and their host economies' (Kristensen and Zeitlin 9).

'Adding to this picture, Bartlett and Ghoshal argue that multinational companies operating in a variety of environments are exposed to external

stimuli that enable them to develop competencies and learning opportunities not available to domestic firms' (cited in Kristensen and Zeitlin 9).

Given all these positive aspects, it is obvious that 'the formation of multinational companies became cumulative and that globalisation was seen as an irreversible process' (Kristensen and Zeitlin 9).

Today we can confirm that the process is indeed irreversible, but at the mean time, the world is also confronted with the negative aspects of the rise of this type of company.

The actual step-by-step growth of the multinational company has been described by John Dunning (Kristensen and Zeitlin 12). 'The firm first begins to export from its home basis, usually through commission agents, then sets up foreign sales and marketing offices, and finally establishes production facilities in host countries abroad. When choosing host economies, firms tend to choose those that look the most similar to their home markets, and then later extend their reach, so that the transformation to a truly multinational company emerges gradually from a series of small incremental changes in administrative routines. After a certain period, the company then begins to integrate its regional and global activities more systematically by developing a new set of routines' (Kristensen and Zeitlin 10). This is the general picture of the growth of a multinational company at the end of the last century and the beginning of the 21st century.

'Dunning's analysis confirms the genealogy developed by Gunnar Hedlund on the historical transformation of the multinational company' (Kristensen and Zeitlin 13). 'According to this view, organisational and managerial complexity emerges when multinational companies develop the first ethnocentric or 'missionary' phase as described by Hymer and Vernon, and enter into the new phase of polycentrism: the company becomes an assemblage of semi-independent units. The tendency in terms of control mode is to move towards looser coupling between units and from the hierarchy of ethnocentric to market solutions including transfer pricing on market prices instead of internal costs, freedom to choose external suppliers, rewards and punishment in monetary terms, and elaborate bonus payment systems that accompany greater turnover rates of personnel and organisational units being sold off and bought. Internationalisation is more and more conducted through acquisitions rather than green field venture' (Kristensen and Zeitlin 13).

'The third phase of 'geocentrism', which follows the polycentric phase, is seen as the one in which the company 'internationalises the exploitation of (country) comparative advantages'. In this phase, 'the subsidiaries have to implement strategies formulated according to global logic, they have been able to act quickly in response to competitive conditions, and they must be encouraged to look at a wider picture. Most writings on global strategy give the subsidiaries a less independent role than implied in a polycentric

multinational company. A re-centralisation of authority to head quarters often follows. The trend towards markets in the polycentric company is reversed. Also reversed is the tendency to duplicate activities in various subsidiaries' (Kristensen and Zeitlin 14).

'Hedlund proposes that in this third phase 'hierarchy should be replaced by heterarchy in order to improve the ability to foster mutual learning'. He sees a transformation to a flexible network of 'many centres, of different types'. This will result in a meta-institution, whose unique role is the effective design, on the basis of experience, of institutional arrangements for special tasks' (Kristensen and Zeitlin 14). How this all will be designed and implemented remains an unanswered question.

When I judge the situation in the steel industry using Hedlund's three phases, I notice that many steel companies are still operating in the ethnocentric phase. The industry is still much fragmented and has very often a real ethnocentric 'home basis'.

Some corporations, like ThyssenKrupp, NSC, American Steel, and Tata Steel, can be called a multinational, and are starting to enter the polycentric phase. In my opinion, there is only one company that has embarked on the third geocentric phase: ArcelorMittal.

The steel industry is 'lagging behind'. It should learn from the learning processes of other industrial sectors that are more advanced in the 'Hedlund-phases'.

Many authors put emphasises on the important role of mergers and acquisitions. It is seen as a reaction on the ongoing global competition and the growth of knowledge based technologies. Alan Rugman and Alain Verbeke see 'asset-seeking foreign direct investments 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'(cited in Kristensen and Zeitlin 16).

A major aspect of a multinational company is the fact that it links regional industrial activities to the global market. The international discussion on industrial organisations and 'competitive dynamics' focuses on two developments: 1) industrial districts or regional clusters of smaller firms, and 2) multinational companies expanding their global reach and becoming the lead agents of the globalisation process.

Originally, these two developments were seen as incompatible. However, 'multinational companies can also be viewed as potentially

complementary to existing industrial districts or regional clusters of firms' (Kristensen and Zeitlin 2).

Especially in the steel industry, multinational companies will have member-companies in regional districts, and each member-company, given the nature of a steel plant as a complicated production line of various installations, normally forms the centre of a rich cluster of small firms and educational institutions. The membership of a multinational company links the region with the global markets.

Kristensen and Zeitlin note five advantages for the regional member-companies (Kristensen and Zeitlin 2). These advantages are, firstly, easier access to low-cost capital via the financial network of the mother company. Secondly, membership can protect the region from increasing hostility of products and markets given the broader portfolio of the mother company. Thirdly, membership expands the global reach of the industrial district or region. In the steel industry, this is limited by transport costs. However, the expansion via knowledge-based products has no limits. Fourthly, member-companies can cultivate their own distinctive comparative advantage without losing access to complementary assets and competencies. This enhances 'short-term cost effectiveness, but also provides access to a wide variety of capabilities and skills across member-companies that may be highly innovative combinations in the long run, and help the multinational company as a whole to cope more effectively with the pervasive technological and commercial uncertainty of the current world economy'. And fifthly, each member-company has 'access to a multiplicity of cognitive perspectives and problem-solving approaches. This can lead to breakthrough innovations but also to continuous improvement of existing products and processes' (Kristensen and Zeitlin 2).

All five advantages play an important role also in the steel industry. I will add a few remarks to these advantages:

1) The steel industry is a capital-intensive industrial sector. Although ACG will focus on 'blockholding' ownership (see section 6.2), the availability of capital will be still a major aspect of steelmaking;

2) A typical example is the availability for the Tata Steel in India of high-grade steel qualities developed by the IJmuiden plant for the automotive industry for the Indian market;

3) The same example as in the previous remark. The IJmuiden steel plant can expand its markets for product development of high-grade qualities to the Indian market, as it had already done for the British market after the merger with British Steel Company (including in this case real supply of steel given the acceptable transport costs to the UK);

4 & 5) The combination of skills and capabilities in India and Europe in the case of Tata Steel can accelerate innovations on a broader scale.

In this thesis, I will focus on this 'bridge-function' of the multinational

company, the bridge between the region and the global market. The bridge should be designed as a two-way connection between the two sides of the bridge. It should bring the mentioned advantages and should not be a bridge that brings foreign invaders to the region. Invaders just take all the 'plus' of the region and dump the weak and the useless, on costs of the surrounding civil society. In the literature on multinational companies too little can be found on the negative aspects of their creation.

For those negative aspects, we have to refer to the arguments from the anti-globalist movement. Three of its most well known authors are Naomi Klein, Noreena Hertz and Joseph Stiglitz. They all put emphasis on the growing illegitimacy of corporate-driven globalisation.

Less well known to the public but one of the leading representatives of the anti-globalist movement is Walden Bello²⁶. Bello notices 'swiftly rising levels of resentment against the prime engine of globalisation: the multinational corporation' (6). 'Corporate-driven globalisation is a process marked by massive corruption and deeply subversive of democracy' (18). 'The so-called ethical crisis of the corporation is largely a symptom of a more fundamental structural crisis rooted in the dynamics of finance –driven deregulated global capitalism' (21).

For Bello, the multinational companies are the executive power of the Western supremacy. The IMF, World Bank and WTO preserve the rich countries benefits, with the G8 and particularly the USA as leading forces. This was all written before the financial crisis of 2008.

Besides a destructive opinion about the corporate-driven globalisation, Bello also comes up with constructive ideas on how to change the scenery. He starts with borrowing the insights of Thomas Kuhn's *Structure of Scientific Revolution* 'When a paradigm is in crisis, there are two responses. One is to make more and more complicated adjustments, the other is to break away completely from the old paradigm' (cited in Bello 107). He proposes to follow the 'break away' route and proposes a strategy of deconstruction- construction: deglobalisation of the national economy combined with the creation of a pluralist system of global economic governance.

Important names in the anti-globalisation movement are Seattle and Porto Alegre. The first big demonstration of the anti-globalisation movement, a protest against the deepening crisis of legitimacy of the prime institutions of the global system at the end of the 20th century took place in Seattle. The protest was scheduled during the World Bank- IMF spring meeting in April of 2000. One-year later 12.000 representatives of the movement met in Porto Alegre, Brazil, to declare that 'another world is possible'. The 'World Social Forum' was founded as a political and ideological nemesis of the World Economic Forum of the global elite, founded in Davos in 2001.

²⁶ Walden Bello (1945) is Professor of Sociology and Public Administration at the University of the Philippines, as well as Executive Director of Focus on the Global South.

2.4. The Varieties of Capitalism

Multinational companies have to face the differences between the various economic models of capitalism.

Subsidiaries operate in different part of the world under different economical circumstances. They have to deal with the existing regulations and mores of their social and economical environment. These differ per country and ask for specific approaches and solutions.

Literature refers to this differentiation as ‘Varieties of Capitalism’²⁷. There are two major new developments influencing the ‘classic’ Varieties of Capitalism approach: the recent growth of the economies of the BICs, and the strong influence of the financial economy on the real economy.

The ‘classic’ Varieties of Capitalism

Subsidiaries in the US and the UK have to deal with the Anglo-Saxon model in uncoordinated or liberal market economies (LMEs). Subsidiaries in Europe and Asia have to deal with the Continental European model or the Asian model of more coordinated market economies (CMEs).

This difference between CMEs and LMEs as introduced by David Soskice is the most appropriate one (Soskice 103). Soskice recognises two economic models within the CMEs: the Northern- European model with industry coordinated economies and the ‘Nippon’ model (of which the most well known representatives are Japan and South Korea) with group-coordinated economies (‘keirutsu’ in Japan and ‘chabols’ in South-Korea). Both forms of CMEs concentrate themselves on long-term cooperation in the financial system, the system of industrial relations, the education system and the ‘intercompany’ system.

LMEs as typical representatives of the neoliberal market philosophy are characterised by market deregulation, short-term orientation, sharp competition and lack of coordination between industries and industrial sectors.

Elaborating on the work of Soskice, Bruno Amable introduces five models linking them with the role of institutions and changes in this role, at the beginning of the 21st century. He distinguishes the market model (to be compared with Soskice’s Anglo-Saxon model), the social democratic model, the Continental European model (to be compared with Soskice’s North European model), the Mediterranean model (part of Soskice’s North-European model, although Soskice recognised a state-business-elite CME variety of this model in Italy and France) and the Asian model (to be compared

²⁷ Numerous publications on this subject can be found: Richard Whitley’s *Divergent capitalism* (1999), Bruno Amable’s *The diversity of Modern Capitalism* (2003), Colin Crouch and Wolfgang Streeck’s *Political Economy of Modern Capitalism* (1997), H. Kitschelt *Continuity and change in Contemporary Capitalism* (1999), Robert Boyer and J. Rogers Hollingsworth *Contemporary Capitalism* (1999). See Bibliography.

with Soskice's 'Nippon' model (Amable 14).

Soskice, Amable and other authors agree on the fact that there is no trend toward convergence. The neoliberal character of the globalisation process suggests a convergence toward the Anglo-Saxon model, but in practice, each model still survives on its own territory adopting some elements of the Anglo-Saxon model without changing its character and its institutions. The recent financial crisis confirms this trend given the negative publicity on the neoliberal philosophy.

The steel industry asks for a long-term orientation, as described in chapter 1, and finds the right conditions in CMEs. The conditions in LMEs like the UK and the US have ruined the steel companies in these countries. They became easy candidates for acquisitions by foreign steel companies.

Further detailed features of CMEs and LMEs will be elaborated in chapters 3 and 4 in relation to corporate governance.

The rise of the BICs

The recent growth of the economies of the BICs and the related changes in political and economic power can change the 'classic' thinking in models. This 'classic' approach is too much focused on industrially advanced countries. The financial crisis of 2008 has accelerated the transfer of economical and political power to the BICs (Kalse).

Roberto Unger²⁸ sees new political and economic developments in countries like Brazil, which will result in new institutional thinking, and changes in the modelling of economies. Unger took the decision to leave the 'save' academic world and became Minister for Strategic Affairs in the Lula-government, combining 'thought and practice'. He is convinced that the world will change through a 'combination of initiative and message'. He considers the 'Varieties of Capitalism' of rich countries as just a limited view on possible varieties. He does not make difference between the different models in the North Atlantic countries. The more 'social democratic' approaches in CMEs are just attempts to soften the neoliberal economic policies without really changing the scenery.

According to Unger, the social-democratic program does not face the real social economic conflict: the conflict between insiders (privileged workers hiding in their niches) and outsiders (no participants in the attractive economic processes), entrenched in the division between vanguard and rearguard industries. It will support the vanguard of business in its project of industrial renovation. It will help the people excluded from the vanguard. Not

28 Roberto Mangabeira Unger is a Brazilian philosopher and one of the leading social theorists. He represents the '*philosophical mind out of the Third World*', educated in the First World at Harvard. Richard Rorty compared Unger's vision of Brazil in the 21st century with the vision of the American philosophers Walt Whitman and John Dewey of the 'gloriously possible' of the American society in the 20th century (Rorty, *Unger; Castoriadis, and the Romance of a National Future*).

by helping them to join the vanguard but just to let them survive. This is a seriously negative statement on the ‘social democratic’ program.

Unger is looking ‘for something better than the reconciliation of European or Japanese traditions of social protection with American style market flexibility’ (Unger 28). The development of an alternative is simply the most recent variation of the broader and more enduring problem of alternative pluralisms: the diversification of the institutional forms of representative democracies, regulated market economies, and free civil societies. This requires institutional innovations. These innovations are possible given ‘the legal indeterminacy –the multiple possible forms – of abstract institutional conceptions like the market economy and representative democracy’ (Unger 23).

Unger developed his own interpretation of the democratic cause – democratic experimentalism –, combining hope with a practice of thought and action. ‘Democratic experimentalism needs the tools of the institutional imagination’ (Unger 15)²⁹. Democratic experimentalism is a plea for a step-by-step change of institutions, no revolution. Still it will be a ‘radical reform’ based on transformative politics, not a matter of ‘humanizing the inevitable’ attitude of ‘conservative, disappointed social democrats’ (Unger 20).

The growing economical and political power of the BICs together with the new leading role of the BICs in the steel industry justifies emphasis on Unger’s position. These countries and their steel sectors will take part in possible future changes in thought and action.

The same applies to Bello as mentioned in section 2.3. Roberto Unger and Walden Bello represent two voices of The South. They are important voices in the world of the BICs and for that reason important for the steel industry.

The link between the financial and real economy

The institutional links between the real economy and the financial economy are not adequately conceptualised by the ‘classic’ Varieties of Capitalism-School. The financial crisis of 2008 has shown the influence of the financial world on the real economy. I will quote three scientists in order to ‘colour’ this impact.

²⁹ ‘Institutional imagination’ as an important instrument for creating social changes in societies also applies to the way the Western world should face the trends in globalisation. The steel industry is an innovative industrial sector and has opportunities to fit into new institutional initiatives. The German answer to the global competitive struggle is already much more creative than answers from other European countries. The Germans still promote and stimulate real manufacturing industrial activities. The Netherlands has already lost many manufacturing activities and seems to concentrate itself on the service industry. The American sociologist Charles Wright Mills already emphasized the social responsibility of scientists in creating new opportunities for the society in which they operate (Wright Mills, *The Sociological Imagination*), and can be considered as a precursor of Umberto Unger.

René Tissen as professor of business administration, claims that ‘financial managers lost sight of the real character and content of companies and considered them just as “money machines”’(Tissen).

The economist Anton Hemerijck argues ‘as deregulation brought concentrated wealth to sectors that benefited from even further deregulation, accumulated wealth was efficiently translated into a strong financial lobby in London, New York, and Washington. The financial sector effectively brought political power. Therefore, the failure of politics lies in its inability to resist being hijacked by financial interests. Blaming neo-liberal ideology and intellectual inertia is insufficient’ (Hemerijck *et al.* 34). ‘Policymakers do seem to have forgotten the fundamental truth that the benefits of global economic interdependence rely heavily on robust social and political institutions, reminiscent of the era of embedded liberalism’ (Hemerijck *et al.* 35).

Frank Ankersmit, as professor of the philosophy of history, states that ‘we were confronted with various forms of capitalism. First we had the industrial capitalism, then the investor capitalism, both completely incomparable with the banking capitalism of today’ (Ankersmit).

These opinions show growing concern. However, insight into the relationship between the financial and the real economy is still limited.

Both aspects, the rise of the BICs, and the relation financial-real economy will play an important role in the future developments in the steel industry.

3. The steel industry and its corporate governance

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

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

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

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

3.1. History and trends

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

However, corporate governance is about power and responsibility, about accountability. Who controls the company and for what purpose? Corporate governance practices in part reflect public policy choices and

hence show differences among countries. Interest groups fight via political institutions. Elements of politics –interests, institutions, and political conflict– are in play all over the world. The fight about corporate governance reflects the fact that it ‘affects the creation of wealth’. ‘Everyone has a stake in the corporate governance system’. ‘Corporate governance structures are fundamentally the result of political decisions’ (Gourevitch & Shinn 3).

In chapter 1, I already described the close link between politics and economy in the world steel industry). However, even these studies still treat companies as a ‘black box’. They mainly refer to economic regulatory mechanisms and companies’ social and economical environment but disregard the internal corporate governance.

The only theories and literature that cross the factory threshold and enter the ‘black box’ are those on participation and empowerment of ‘workers’ or employees, mostly limited to the West-European continent. Participation and empowerment do have a political aspect, which is reflected the term ‘Industrial Democracy’ by which they are indicated. Although Industrial Democracy seems to concentrate itself on participation, it does influence the governance of companies. In the case of the original idea of ‘workers’ management and ownership as tried out in Yugoslavia after the Second World War, the link with corporate governance was obvious. Also in later versions of Industrial Democracy concentrating itself on participation and empowerment, the influence on corporate governance is substantial as the history of German ‘Mitbestimmung’ shows. The steel industry played an important role in this history.

The recent financial crisis confirmed the role of politics in corporate governance in a very direct way.

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

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

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

I will start with two well-known representatives of the 1960s: Douglas

McGregor, of MIT, and Rensis Likert, of the University of Michigan. Douglas McGregor presents his view on industrial organisation and management of human resources in his famous book *The Human Side of Enterprises* (McGregor). He addresses the central dichotomy of management: ‘Are workers self-motivating individuals or are they fundamentally lazy and require constant policing?’ He demonstrates the unrealistic and limiting assumptions of traditional theories of management (Theory X) concerning human nature and the control of human behaviour in the organisational setting; he states that the reliance on authority as the primary means of control in industry leads to resistance, restriction of output, indifference to organisational objectives, the refusal to accept responsibility, which results in inadequate motivation for human growth and development. He introduces the Y-theory with a high degree of participation and motivation of employees, based on advanced social science knowledge of human nature and behaviour, and resulting in high social and economic performance of organisations³⁰.

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

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

When I started to work for Dutch steelmaker Hoogovens in 1965, the American steel industry and the American way of doing business were leading in the industry. This changed dramatically in the 1970s.

‘The oil and inflation crises were followed by an even deeper crisis of business confidence’ (Crainer & Dearlove 11). In many industries, especially in the steel industry, the crises in the US and Europe resulted in an orientation on the Japanese way of business management of production, R&D and human resources.³¹

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

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

31 Mid 1970s, major investments in the European steel industry came on hold. The orientation on Japan started already in the early 1970s. I was personally involved and made several trips to Japan to learn about the new technologies. At the same time, colleagues in the Production and Human Resources Departments visited Japan to study the employee morality and the lower cost structure.

was a convergence of three factors: 1) the convulsions during and around the Vietnam War called authority into question in every sphere; 2) the Japanese competitiveness alerted the US and European industry; 3) the first signals of globalisation and ‘disruptive technological change’ (Crainger and Dearlove 11).

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

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

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

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

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

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

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

³² I became acquainted with Peters and his ideas during a Senior Management Course at MIT spring 1983. He had just published *In Search of Excellence* autumn 1982. Coming home, I introduced the ideas of Peters and Waterman in the business unit for which I was responsible at that time. We contracted Peters himself for a performance in a few sessions. His charisma had quite an impact on the organisation.

participation on the shop floor, consensus, it was all there. The steel industry was especially impacted by this management style, given the fact that Japanese steelmakers became leading companies in the world steel industry. Many steelmakers in Europe embarked on cooperation agreements with Japanese colleagues. Hoogovens worked very close together with Nippon Steel Corporation, both on technological and management aspects. I myself made several long trips to Japan as a trainee in the 1970s and early 1980s.

The second subject –the new language of business– was marked by the start of the ‘buzzword culture’ (Crainer and Dearlove 12): Peter Drucker’s ‘management by objectives’; Peters & Waterman’s ‘sticking to the knitting’; Dave Pachart & Bill Hewlett’s ‘Management By Walking Around’³³; Michael Porter’s ‘Five Forces framework’; Richard Pascale & Anthony Athos’s ‘The Seven S framework’; James Champy’s ‘Re-engineering the Corporation’; ‘Total Quality Management, TQM’ (originally introduced by Edwards Deming in the 1960s but boosted in the 1980s by the Japanese challenge).

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

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

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

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

³³ MBWA, ‘Management by Walking Around’, is second on the list of my own experience. I found it a very effective management tool and used it during my whole career.

well described in James Burnham's *The Managerial Revolution*, 1941. Until now, the focus on creating shareholder value and limiting the agency costs of management still stands, especially in Anglo-Saxon way of economic thinking. The merger between Hoogovens and British Steel Company was a rough way for the Dutch, including myself, to become acquainted with the shareholder value issue. It was a real culture shock in which the impact on the day-to-day running of the business with completely underestimated. Trust was replaced by distrust and control freaks took their chance. The attitude of working hard and keeping an open mind was challenged by calculated behaviour and covering one's back. Financial management took over the leading position, paying only lip service to issues like technology development and long-term strategy. Participation and workers councils were considered as 'Dutch disease'.

As mentioned before, the management of corporations put people high on the agenda. However, they did not stay there for long. The rhetoric of the majority of CEOs still claims that 'our employees are our biggest asset', but they treat them differently, using new management tools such as outsourcing or by playing off people in different subsidiaries against one another, and by threatening to close the facility. However, most blunt is the disregard for employees' interests when selling the company. Companies are sold only based on the shareholders' value aspect. Very often, even the management has no influence over the process, and decisions are made by the banks involved in the process. The highest bidder gets it all. A recent example in the steel industry is the auction organised by the UK Takeover Panel in which Tata Steel bought steelmaker Corus (Thomas).³⁴

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

Believe in 'taken-for-granted' recipes for success has diminished considerably among managers and boards of directors. And even more so among other stakeholders. A cynical view is that many companies use management fads as little more than a way to administer an electric shock to the organisation. The big idea itself is less important than stirring the corporate pot.

Recent frequent circulation of top management further undermines more belief in 'new ideas' on the lower levels. Every newly appointed CEO comes with his or her own program to boost performance. However, the average time he or she stays in charge is too short to put responsibility on his or her

³⁴ Thomas, Prince Mathews & Sudeshna Sen, in *The Economic Times*, 1 February 2007. See also personal interview with Rauke Henstra, Managing Director Steel Division Corus.

shoulders for the result of the program. This creates a split between power and responsibility, which makes the whole program slippery and unreliable.

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

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

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

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

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

Both developments are not very ‘new’ and, as already mentioned, extremely important for the steel industry. The focus on the social environment of the corporation and actors involved can already be found in the literature of the 1980s and 1990s. The top four on the list of experts of general management on these subjects have given various statements (cited in Van Tulder and Van

Der Zwart 149):

- Peter Drucker states explicitly that organisations should meet their societal responsibilities. He introduced the ‘enlightened’ manager: the responsibility of managers is the managing of the social effects of the corporation on its environment. More social responsibility is the price to be paid for commercial success;
- Charles Handy argues for a more holistic and ethical view of business;
- Henry Mintzberg states that the ideal corporate model does not exist: ‘Corporations are social institutions. If they do not serve society, they have no business existing. The argument that they serve society by making money and creating jobs is coming apart’;
- Rosabeth Moss Kanter ‘supports the idea that social capital along with social embeddedness of organisations is the most important form of ‘capital’ to take into account when trying to effectively change companies’.

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

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

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

Corporate Social Responsibility (CSR)

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

‘In order to analyse the functioning of societies and the relative success of specific business strategies, sociologists, political scientists, economists and management scientists often depict society in the form of a triangle with three distinct, but related, spheres: the state, the market and the civil society. The functioning of these *societal spheres*, individually and in interaction with one another, determines the manner in which a society functions as a whole’ (Van Tulder and Van Der Zwart 8). The way a company organises its contact with the state and civil society is called ‘societal management’.

In chapter 2, I have elaborated on the complex relationship between the corporation and its environment. The triangle state-market- civil society knows many varieties and hybrids. Multinational companies operate in different ‘social systems of production’ (Boyer and Hollingsworth 457), depending on the type of production and on different spatial-territorial levels: local, regional, national, transnational, and global. That means that CSR as societal management has to face different societal environments. CSR needs a ‘contextualised approach’. There will be overall minimum standards for a corporate CSR policy, but per region there will be more specific policies.

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

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

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

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

I want to add a fourth development: the increasing impact of the environmental issue. How do we handle the increased pollution resulting from the strong growth of the world steel production?

I distinguish three aspects of this issue: 1) the ‘classic’ direct pollution by steel plants; 2) the global warming aspect; and 3) the scarcity of raw materials.

Steel plants were and are well known for their ‘classic’ environmental threat of the direct vicinity. This is still the case in countries like Russia, Brazil, India and China. However, modern steel plants in Europe, Japan and South Korea show that technologies are available to take care of the direct pollutions resulting from of the primary production processes³⁵. Nevertheless,

35 Decrease in pollution is based on: 1) the implementation in the past and the present of new process technologies e.g. BOF- steelmaking replacing the ‘dirty’ ‘Open Hearth’ steelmaking, and continuous casting, replacing slab casting; 2) available ‘end of pipeline’ water- and gas cleaning technologies.

it will remain an important issue that demands for continuous care, also given the continuous development and tightening of the environmental legislation in many countries.

New and of growing impact is the recent awareness of the ‘global warming’ issue. The steel industry is one of the major greenhouse gas producers and plays a crucial role in this global warming issue. Greenhouse gas emissions are 1,7 tonne/tonne of produced steel. The steel industry and the energy production sector are the two top producers of greenhouse gas.

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

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

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

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

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

³⁶ There are three major threats to the continuation of the Chinese economy growth figures: the ever-growing population, the enormous environmental damage and the growing difference between the rich and the poor (NRC Handelsblad of 4 January 2011: Interview with Dr Yu Yongding of the Chinese Academy of Science, Beijing. The last two threats are directly linked with the social responsibility of Chinese corporations.

choosing.³⁷ The most important objection against Friedman's position is that it relies on an unrealistic market model of perfect competition. In reality, actual markets do not come close to the ideal type of perfect competition.

The tension between the interests of a company and its social environment is also well described by Sjef Stoop (312). On the one hand, extension of the company involvement in its social environment can lead to restricted freedom of citizens; on the other hand, it can result in a decreased say of the company's owners in its activities. Stoop describes the shift from increased influence by the society in the 1960s to a decreased influence during the last decades of the twentieth century. His research concerns three major Dutch regional companies, among which the steel plant in IJmuiden. He concludes that the boundary between company and society is never a constant. The steel plant in IJmuiden withdrew from many social activities like education, welfare work and housing accommodation during the last decades. The internationalisation of the company also contributed to this change. However, Stoop recently noticed an increased number of social-political initiatives like sponsoring and community services. He states that the social equilibrium between companies and society had and has a strong political aspect. To mention two examples: the still continuing possibilities for a company to pass expenses of restructuring and lay-offs on to the taxpayers, and the ongoing request from industry to public authorities to increase quantity and quality of the output of educational institutes, will feed this political aspect.

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

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

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

37 This opinion is based on the classic separation of management and ownership. The separation of ownership and management should be solved through implicit or explicit contracts in which individual rights of the management are well specified, so costs and rewards are clearly allocated. This general idea is elaborated in the *Agency Theory (AT)*, resulting in the firm as a multitude of complex relationships between the legal fiction (the firm) and the owners of labour, material, and capital input. The conflicting interests among the participants are brought into equilibrium within a framework of contractual relations. These transactions within a firm or hierarchy enhance efficiency, reduce transactions costs, and minimize the opportunism inherent in exchange relations. This focus on contracts as the ruling principle between economic players is known as *Transaction Costs Economics (TCE)*.

always be focused on two aspects, namely the responsibility for the continuity of the company and the duties towards various stakeholders. As such, CSR is of great moral importance since the interests of all stakeholders depend on it. This means that CSR should be part of the overall corporate strategy and the corporate governance.

Ans Kolk³⁸ also pleads for a next step in CSR. CSR should go beyond the ‘traditional’ approach: broad definition, low measurability, no clear compliance mechanisms, an emphasis on ‘win-win’ situations, focus on reputation aspects, and low sustainability. CSR should become part of the overall managerial systems and processes of the company. In the new approach CSR should focus on serious social and ethical issues, regional and international, and should develop rules and procedures for ‘win-lose’ situations between stakeholders (Kolk, *Het eind* 9).

Stakeholder value

This brings me to the second issue of modern corporate governance: stakeholder or stakeholder value. The often-quoted definition of stakeholder is that of R. Edward Freeman: ‘A stakeholder in an organisation is any group or individual who can affect, or is affected by, the achievement of the organisation’s objectives’ (Freeman 52).

From a moral perspective, the definition should be changed into Jeurissen’s definition: ‘Any party whose justified interests can be influenced by a business’ activities or parties which can influence the justified interests of that business themselves’ (118).

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

Besides economic stakeholders, a business has certain responsibilities towards parties in society, the social stakeholders. These stakeholders have no direct economic exchange with the business but have interests in what the business does. Henk Van Luijk and Arnold Schilder (cited in Jeurissen 119) state the following

‘ Society expects an organisation, business or industry to recognise obligations with regard to interests, be it private or public, that are clearly

38 Prof.dr. Ans Kolk, Professor of Sustainable Management at the University of Amsterdam.

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

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

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

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

Van Tulder and Van Der Zwart introduced a fourth distinction between 'local' stakeholders and 'international' stakeholders (261). International stakeholders, such as international NGOs, add more actors with diverging-

and often conflicting– interests across geographical, cultural and normative borders.³⁹

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

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

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

3.2 Marketisation of corporate control: the power shift

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

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

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

The production managers were mostly also engineers by education, so the switch from engineers to production managers was not a real change in

³⁹ Shell claims that there are over 100 stakeholder groups with highly diverse interests (Van Tulder and Van Der Zwart 261). In local projects, it engages approximately 10- 25 stakeholders who often share a common interest.

thinking and behaviour of the management. The switch to financial managers was a real ‘power switch’ with different ways of thinking and behaviour. The average financial manager has a limited knowledge of the production processes and the products, and tends to basis his governance heavily on accounting rules and reports. This fits perfectly well with the requirements of transnational mobile financial capital (pension funds, hedge funds and other institutional investors) and the shift from public to private corporate governance regulation such as the international accounting standards as developed by the International Accounting Standards Board. This switch was quite clear when Hoogovens merged with British Steel Company. Hoogovens was still a company governed by technicians. Corus was financially driven with its head office in London City. A sharper change in Varieties of Capitalism will be difficult to find: from the Continental European model to the Anglo Saxon model.

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

A typical example of the subordination of production to finance is the steadily growing volume of financial assets, which has appeared on the balance sheets of non-financial corporations in recent decades. The profits of the productive sector become increasingly related to movements in the financial markets (Perry and Nölke 567)⁴⁰.

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

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

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

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

⁴⁰ James Perry and Andreas Nölke, referring to the IAS 39 standard of the International Accountant Standards Board: Historical analyses of non-financial corporations in rich-economies show that, on average, they now make as much as 40% of their net income from financial transactions compared to just 10% in the 1950s and 1960s.

According to Henk Overbeek, this marketisation of corporate governance reflects and promotes a ‘deepening of commodification of social life’. Increasing numbers of goods and services, but also all other elements involved in production, such as human labour, land, nature, and even knowledge, are treated as commodities, that is, ‘produced for sale’ on the market. This brings us to the recent increase in outsourcing policies of companies and the ‘insider’-‘outsider’ discord, on which I elaborate in the next chapter.

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

3.3 The financial crisis of 2008

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

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

‘Twenty-four specialists were selected from a broad range of fields and disciplines, on the basis of both their expertise in their given subject area as well as their institutional imagination and ability to think beyond the present circumstances’ (Hemerijck *et al.* 9). They were invited to react to the question of how to design a new and better variety of capitalism. Major outcomes include the following: 1) economic science should again become a social science; 2) the search for new economic models beyond the well-known Varieties of Capitalism school (see section 2.4) was slowed down by the delayed arrival of the aftershocks of the crisis like the growth of unemployment, the pension fund crisis, the enormous growth of the financial deficits of nation states, and political consequences; 3) the contours of a new economic model are still unclear as a result of the struggle between two major opinions on the market–state contradiction: back to ‘business as usual’ and ‘nostalgia’ for the welfare

state; 4) politics and politicians have to search for other values than economic growth, such as full employment, high quality health care, fight with poverty, and climate protection; 5) the relationship between market and state is no longer considered a contradiction.

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

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

- The state emerged, or re-emerged, as a key strategic actor (Hemerijck et al. 16). ‘Without public authorities capable of exercising legitimate coercion, capitalism would be impossible. This is what the economic anthropologist Karl Polanyi has called the ‘embeddedness’ of economics’ ‘The notion of embeddedness underlines the fact that economic activity is created and shaped by political decisions, social conventions and shared norms and understandings’ (Hemerijck et al. 16,17). ACG recognises this fact. National and regional authorities become stakeholder in the discourse process as key aspect of the social embeddedness of the company;
- The balance between international economic integration with diversity in domestic institutional arrangements (Hemerijck et al. 189). ‘Increasing domestic policy space is both politically and practically necessary to ensure the support and the security of the population through the difficult process of globalisation’ (Hemerijck et al. 190). ACG, with its emphasis on autonomy for member-companies and its contextualised approach, tries to shape this balance between internationalisation and regional diversity.

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

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

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

7. The steel industry stays on the eve of a concentration wave.

The long-term attitude

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

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

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

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

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

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

Long lead-time new products

R&D in steel, both the ‘R’ of long term research on new technologies and new products and the ‘D’ of medium term development of new products for the market, also asks for the long-term attitude of the owners and the management.

New products are developed systematic in Product Application Centres by experienced specialists and very often in cooperation with customers. There are almost no sudden breakthrough developments. Breakthrough development in the steel industry is the result of hard and long work. There is no comparison with the ‘new economy’ sectors like ICT, in which breakthroughs can show up overnight and where the inventors can enjoy the results in a couple of years.

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

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

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

Training, education and labour

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

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

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

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

Although the amount of man-hours per tonne of steel has reduced substantially⁴³, the steel industry is still considered to be a labour intensive industry. An average medium size steel plant with a capacity of 5mln tonnes of steel will directly create work for at least a 10.000 own employees plus another 20.000 jobs in the periphery.

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

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

A handicap for ACG will be that in all four BIC- countries the distance between management and labour is substantial (Hofstede and Hofstede 56). Each form of empowerment⁴⁵ is considered as a sign of ‘weak’ management. This can be a real obstacle for ACG.

The regional factor

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

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

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

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

45 Empowerment: each attempt to share the power of decision-making between superiors and subordinates. Other terms for the same issue: participation, workers representation, workers self-government, Industrial Democracy, joint consultation, and “Mitbestimmung”. The feasibility of such processes depends strongly on the culture and values of the persons concerned. The “power distance- index” (Hofstede and Hofstede 54) for countries is an important feature. A high index is a serious handicap for the realisation of empowerment processes. Other relevant sociological indexes for countries introduced by Hofstede are the “masculine index”(124) and the “insecurity avoidance-index”(169). Both indexes have a negative correlation with empowerment possibilities. China, India and Brazil have a high masculine index, Russia very low. Russia and Brazil have a high score on the insecurity avoidance index, China and India very low. This all underlines the importance of the differentiated ACG approach.

necessary for the long-term orientation of these companies. They were able to organise welfare and education on a more efficient way than the regional authorities (Stoop 316) were. The impossibility to spread production facilities and the influence on the regional economy increased the necessity and the possibilities to interfere with the social environment. Stability was of great importance.

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

The environmental issue

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

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

⁴⁶ See articles in NRC Handelsblad of 27 February 2009 on the dramatic results of the financial crisis in the region Eindhoven, and NRC Handelsblad of 31 January 2009, in the IJmuiden region.

⁴⁷ Greenhouse gas emissions are 1,7 tonne/per tonne produced steel. The steel industry and the energy production sector are the two top producers of greenhouse gas.

On top of that, the industry has to face another major environmental issue: the increasing scarcity in raw materials and energy. Prices of iron ore and coal, the two major raw materials, exploded during the last few years. The financial crisis of 2008 has changed this development for the moment, but the scarcity of raw materials will become even more pressing in the upcoming decades. The highly increased use of steel per capital in the BICs⁴⁸ lies at the basis of this shortage (Depuydt, *Prijsexplosie*)⁴⁹. The World Steel Association expects that the world steel demand in 2010 exceeds pre-crisis levels of 2007. In 2011 the demand will grow by 5,3 % to reach a historical high of 1.306 million metric tonnes (World Steel Association, *Worldsteel*). A sustainable future for the steel industry, of course a key aspect of ACG, is a heavy target for the industry self and for the world as a whole. The choice for steel is a challenging one for ACG and its stakeholders.

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

The need for concentration

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

Of quite interest is the recent announcement, 3 February 2011, of NSC and Sumitomo that they consider integrating their entire business, targeted for 1 October 2012. They basis their decision on the excellent results of their alliance started in 2002. Nevertheless, ‘confronted with the changes in the business environment surrounding the steel industry’ they come to share the understanding that it is ‘crucial to further strengthen their mutual relationship’ (Nippon Steel Corporation and Sumitomo Metal Industries 1).

48 2009 growth figures BICs: 2009 17,5 %, 2010 8,0% and 2011 4,1%. Source:Depuydt, *Prijsexplosie*.

49 NRC Handelsblad of 7 June 2009: ‘*Prijsexplosie van grondstoffen dreigt weer*’. The World Mining Investment Congress of June 2009, London, confirms the long-term shortage on iron ore. Between 2009 and 2025, China will construct 50.000 skyscrapers. In China, the current amount of 33 cars per thousand inhabitants will increase dramatically (for comparison: in the US, at this moment, this number is 800). At the same time: it will become more difficult to develop new iron ore deposits, technically and financially. The Conference expects a fast return to the ‘supercyclus’: the long-term structural shortage on raw materials.

These ‘changes’ are according to these companies: ‘1) expansion of steel demand all over the world, especially in the emerging countries; 2) increase in need for higher quality and technology; 3) commissioning of newly constructed steel mills in various countries and intensified competition in the steel markets globally; 4) globalisation of steel consuming industries and rapid and drastic changes in the markets for procuring raw materials for steel’.

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

I consider the intended integration of business as a ‘hybrid’ model between the ‘classic’ neoliberal model of mergers and acquisitions and ACG⁵⁰. The intended integration is on a *voluntary* basis, with a long-term excellent strategic alliance as the trigger and the Nippon model as social economic environment. The statement on local communities fits into the associative initiatives of ACG.

Both NSC and Sumitomo, the number 4 and number 19 steelmaker in the world, are examples of Hedlund’s ‘polycentric’ phase, perhaps on the way to a real ‘geocentric phase’⁵¹.

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

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

⁵¹ The production figures of the two companies for 2009 were: NSC 26,5 million tonnes, Sumitomo 11 million tonnes. The new company will become the number 2 steel producer in the world, with a total capacity of 37,5 million tonnes. Source: World steel Association statistics. 10 March 2010. <<http://www.worldsteel.org/statistics/top-producers.html>>

Summerising Part 1

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

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

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

Part 2: Associative Corporate Governance

In Part 2, I will introduce ACG as a prospect for a new type of corporate governance. I create associative corporate governance by integrating, on the one hand, the two latest developments in existing corporate governance theories – stakeholder theory and corporate social responsibility – and, on the other hand, existing theories on Industrial Democracy and the political theory of associative democracy. I present the basic ideas of ACG plus its philosophical backgrounds.

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)⁵³. 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

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.

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 actions 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 1920.⁵⁴ 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 antinomies 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 Histradut* 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.⁵⁷ 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 Blumberg's fight against 'alienation'.

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 Kampfraath⁵⁸, 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’ leadership⁵⁹. 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).

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 Horrynga, 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. Horrynga’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, Horrynga 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 by 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-Verblifa (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 qualitative 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.⁶¹ 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.⁶²

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 represent 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.⁶³

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.⁶⁴ However, too often they do not play a role in the decisive

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 Bendsorp, 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.⁶⁸

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 company⁶⁹.

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 markets⁷⁰.

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

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)⁷¹.

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.⁷² 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 company⁷³.

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

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*).⁷⁴ 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)⁷⁵. 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

⁷⁵ Henry Shue, like Charles Beitz and Thomas Pogge, support an 'interdependence-based' cosmopolitanism. The scope of distributive justice is defined in terms of who belong to which schemes, in which a 'scheme' refers to some kind of systematic interaction and independence. A second approach of cosmopolitanism (e.g. by Peter Singer) is a 'humanity-based' conception, in which 'the natural duty of justice to aid others is general regardless of whether they are in one's scheme, or not' (Christiano and Christman 391). Stakeholders of multinational companies belong to the scheme of the international network of a company including the regions of its community-based subsidiaries.

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).⁷⁶

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

⁷⁶ Different versions of realisation-focused comparative thinking can be found, for example, in the works of Adam Smith, the Marquis de Condorcet, 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 transcendental '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 Estlund⁷⁷.

Like Sen, Bader criticises the transcendental 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

⁷⁷ David M. Estlund is Professor of Philosophy at the Brown University, Providence USA.

His research interests centre on liberalism, justice, and especially democracy.

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 borders, 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:

- **Henry Shue**, representative of human right philosophers. Standard work and main work for this thesis: *Basic Rights: Subsistence, Affluence and U.S. Foreign Policy*.
- **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.
- **Richard Sennett**, sociologist. Main work for this thesis: *The Culture of New Capitalism*. Emphasis on ‘craftsmanship’ and ‘loyalty’.

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.
- **Peer Hull Kristensen & Jonathan Zeitlin**, sociologists. Main work for this thesis: *Local Players in Global Games*.
- **Roberto Mangabeira Unger**, social philosopher. Main work for this thesis: *Democracy Realized: The Progressive Alternative*.

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 participation⁸⁰. 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.⁸² 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.’⁸³ 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:

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 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 'mischief 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.

Part 3: The Road to a new perspective

In Part 3, I present ASC as an international steel company using ACG as the corporate governance method and describe the road to this new perspective. I demonstrate the feasibility of ACG, as developed in Part 2, in all the company's activities, taking into account the circumstances and developments in the international steel industry as described in Part 1.

I introduce ACG by optimising and maximising existing practices and experiences. Chapter 5 describes this 'step by step' approach using the Learning by Monitoring and Micro-Macro methods. Chapter 6 presents these steps as 'policies' and related 'actions' referring to the activities Corporate Strategy, Finance, Supplies, R&D, HR, Marketing & Sales, and Operations.

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

| Traditional steel company | ASC |
|------------------------------------|--|
| • Traditional corporate governance | • Associative Corporate Governance |
| • Traditional management | • Sen's 'responsibility of effective power' |
| • Control-based management | • Trust- and loyalty-based management |
| • Globalising via neoliberal M&As | • Voluntary membership of ASC |
| • Limited or no autonomy periphery | • Autonomy periphery |
| • Limited stakeholder approach | • Pro-active attitude |
| • Limited CSR | • Pro-active attitude |
| • Change management | • Change management combined with diversity management |

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 think 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 risks⁸⁸.

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 over shadowed 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

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 fragmented 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.

6. Development of ACG via the main activities of ASC

Whatever will happen in the long term or overnight inside or outside ASC, the only way to react to it is by ‘labour’ within the company. ‘Labour’ as defined in section 5.3. I will mention a few examples.

If there are dramatic, political or environmental changes in the outside world the management of the company will come together and take immediate action. Financial health of the company is based on right policies and intelligence of the financial specialists within the company. If prices of resources change, the employees of the Supplies Department will react with both short and long-term measures. If markets drop, the sales managers of the Sales Department will adjust prices and look for substitution. The management of Operations will adjust the production level. If the labour market changes, the HR employees will react by changes in, for example, remuneration or the labour intake level. New environmental restrictions will result in new technological developments and orientation of the company’s R&D employees, or in the purchase of more emission rights by the Supplies Department. In general, every development will result in actions and reactions by the company’s issue-involved representatives of its stakeholders. Labour is really the only direct instrument of the company. The changes from outside can be too dramatic to overcome; still, the only way to influence the scenery is via the actions of these representatives. Even if help comes from the outside from politicians or other stakeholders, representatives inside the company must face and adapt this help.

For that reason, I take ‘labour’ as the main entrance in the development of ACG within ASC. It is the ultimate consequence of the introduction of the ‘human factor’ in corporate governance theories as described in section 3.1.

Within ASC, the management of the company takes the main decisions. This is no different from any other ‘classically’ governed company. However, the high-level participation and involvement of all employees and other stakeholders form a qualitative healthy and solid basis for management decisions within ASC. It is for that reason that I will and can use this entrance. By dealing with the following main activities within ASC, I cover the total action playing field within the company:

- Corporate strategy, see section 6.1;
- Finance, section 6.2;
- Supplies, section 6.3;
- R&D, section 6.4;
- Human Resources (HR), section 6.5;
- Marketing and Sales, section 6.6;
- Operations: integration of activities, section 6.7

In these sections, I discuss how ASC develops the appropriate policies per discipline within the institutional contexts of ACG as defined in Part 2.

I deal with the specific role of the management of ASC and its member-companies in section 6.7. In chapter 3, section 3.2, I explained the ‘power switch’ from engineers to production managers during the 1980s, followed by a ‘power switch’ to financial managers at the end of the last century and the beginning of this century.

I stated that production managers were mostly also engineers by education, so the switch from engineers to production managers was not a real change in thinking and behaviour of the management. The switch to financial managers was a real ‘power switch’ with different ways of thinking and behaviour. The average financial manager has a limited knowledge of production processes and products, and tends to basis his governance heavily on accounting rules and reports. Governance by rules and reports does not exactly fit in the ACG philosophy. ASC will not follow the last ‘power switch’ to financial managers and chooses for management by production managers. Financial managers will still play an important, but advisory and supporting role in the management team of ASC and its member-companies.

I introduce two levels of management. A Local Management Team will manage the facilities of each member- company. This team reports to its local non-executive Supervisory Board of Directors, and to a Central Management Team of ASC in the head office. The Central Management Team will manage ASC and reports to a central non-executive Supervisory Board of Directors. Rules and procedures between the local and central authorities are agreed upon in the member ‘Entrance Agreement’ (see section 6.7).

In principle, local shareholders remain shareholder of the local member-company after entrance into the ASC organisation as part of the associative philosophy of social embeddedness. However, in order to create a solid shareholder framework ASC will become shareholder of each member and each member will become shareholder of ASC. This reciprocal *shareholders policy* of ASC and the accompanying procedures and rules of the Boards are also part of the ‘Entrance Agreement’.⁹⁰ Members of the Boards will be representatives of the major stakeholders and not just of the

⁹⁰ The role of Local and Central Management Teams and Supervisory Boards of Directors needs, of course, much more explanation and clarification. I refer to this in section 6.7. Nevertheless, further research will be required, but goes beyond the possibilities of this thesis.

shareholders⁹¹.

Although it seems tempting at first to structure ownership arrangements and management systems, in order to define the conditions and environment in which the following policies and actions of the different disciplines will take place, I start the creation of ACG at the bottom of the organisation. The other way around should be in contradiction to the ACG philosophy.

In the following sections, I introduce a ‘three-step’ approach. First, I evaluate each activity: Corporate Strategy, Finance, Supplies, R&D, HR, Marketing & Sales, and Operations. Second, I develop for each discipline possible ACG policies based on the two principles of Learning by Monitoring and Micro-Macro. Third, these policies are translated in realistic actions.

Although it may not be possible to develop a mature ACG-policy for each discipline in one ‘three-step’ round, each action should be at least a step in the direction of a full-grown ACG-policy. ACG will be built up stone-by-stone in a practical way. There will be meetings to measure progress and to adapt the program along the lines of Learning by Monitoring and Micro-Macro. However, these meetings are all dedicated to well-defined projects and focused subjects.

The following ‘journey’ through the activities of the company will be a long and serious job for the reader of this thesis. In order not to lose track I present upfront the results. The introduced three-step approach, from activity to policies to actions, results in 27 policies and 64 actions dedicated to the 7 main activities. The division of policies and actions per main activity will be summarised at the end of Part 3.

7 main activities → 27 policies → 64 actions

Each policy and each action contributes to the fulfilling of one or more of the ACG features as developed in Part 2:

- A set of realistic and vivid company ‘values’ supported by the stakeholders;

⁹¹ I refer to the guideline of Hirst as mentioned in section 4.1. He proposed a composition of one-third shareholder representatives, one-third employee representatives, and one-third community representatives. The change from 100 % shareholder representatives to a decent representation of other major stakeholders in the board is a typical Learning by Monitoring target. The first examples in this direction have already been demonstrated in Western Europe by appointing board representatives for the stakeholder ‘labour’ and regional or national government’. An interesting proposal for a next step is made by two well known players in the world of M&As: Michiel Scheltema, former chairman of the WWR (Wetenschappelijke Raad voor het Regeringsbeleid, an advice board of the Dutch Government) and Arjan Scheltema, business lawyer. They have advised the ‘Vereniging voor Effectenrecht’, the Dutch business association of business lawyers, to limit the representation of shareholders in boards of directors of corporations to 50% (Trappenburg). This is a possible interesting first step.

- Long-term orientation. Continuity via sustainable growth;
- A meaningful democratic representation of all stakeholders, supported by a stable institutional design. The institutional design will create the platform to be heard, to feel useful, and to guarantee continuity in the discourse. This continuity is necessary for creating trust and loyalty;
- 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 on the company has only real value if you have the freedom to leave;
- A high degree of autonomy within the company for the peripheries;
- A solid training and education policy to support the craftsmanship approach and the creation of circumstances to fulfil this craftsmanship;
- The stimulating of initiatives on associative democracy within the company as a whole and within the regions of its members;
- The resulting company culture will lead to a solid social embeddedness of the company and to a high social and economic performance.

The main purpose of this approach is to show that realisation of ACG is a feasible and realistic possibility. Part 3 is a necessary ‘practical’ supplement to the theoretical framework of ACG as presented in Part 2.

Each stakeholder in each activity can recognise each policy and action and can see how it fits within the main stream of the associative approach. As such, it will be a bottom-up process supported by all stakeholders. Each participant can participate in his own way and using his own expertise. The introduction of ACG becomes a topical subject throughout the whole company and direct on the shop floor.

Having summarised the overall picture the reader can now start to ‘grind his way’ through the seven sections and witness the gathering of ‘bricks’ for the step-by-step construction of ACG.

6.1 Corporate Strategy

Corporate Strategy is the highest level of policymaking within a company. Normally, the Chairman and his colleagues on the Board, the CEO himself and his management team members, are all directly involved in the strategy of the company. Very often, a Corporate Strategy Department team and many outside consultants will advise them. In most multinational companies corporate strategy decisions are implemented in a top-down process guided by outside consultants. Too often, the new strategy is linked to the appointment of a new CEO.

Internal discussions and outside advices by consultants trusted by this

group are the basis for the decision to introduce ACG as a strategic decision, as made by the Board and the management of ASC. Trust is already a key-item on this level. In practice, outside consultants are chosen based on trust and long-term relationships. Employees of Corporate Strategy are part of the ‘trust- environment’ at the head office. This sounds rather like ‘inbreeding’, but the nature of corporate strategy demands trust and liability between the players involved.

The key-issue is that the top of the company, in this case ASC, must be convinced of the fact that social embeddedness of the company leads to a higher performance. However, this is the weak spot of this thesis. Why should the top of a company come to such a conclusion? Nowadays, top management of multinational companies too often display behaviour completely in line with the Anglo Saxon model. Greedy executives, short-term thinking and the hegemony of financial stakeholders can be found almost weekly on the front pages of the major newspapers.

Hans Schenk’s study on mergers and acquisitions presents a cynical view. He refers to John Kay’s statement on corporate strategy in *Foundations of Corporate Success*: ‘What should our strategy be?’ as virtually interchangeable with the question, ‘What company should we buy?’ ‘When CEOs talk about strategic management, nine out of ten times they refer to preparations of and decision making concerning acquisitions (cited in Schenk, *Fusies* 65). In my interview with Hans Schenk, discussing this cynical view, he states:

‘In general, CEOs make decisions using the ‘minimax-regret’ principle. They do know the low success rate on mergers and acquisitions, namely 15 %, but they do not want to run the risk being blamed by their Board for inattention when successes of the few positive examples are announced. It could have been their success if they had proposed a merger or acquisition!’

Remunerations of CEOs in the Anglo-Saxon world are more related to turnover than profitability. For that reason, they focus on increasing turnover. On top of that, they often receive an extra bonus as part of the acquisition deal (Schenk, *Economie* 110).

However, there are many signs of different and changing attitudes among top management, even before the financial crisis of 2008. The ‘Enrons’ of the world are still there, and the overall attitude of CEOs may be as described, but many companies are dedicated to long-term thinking, a sustainable future, good relations with stakeholders, and correct treatment of employees. In the steel industry, companies like Tata and Nippon Steel Company are in this league.

More and more managers are well aware that the future of coming generations is on stake. They too have families with children and they too are often respectable members of the local society to which they belong. There

is a growing awareness that they have to contribute to a sustainable future in their day-to-day fulfilment of their job, and that commercial decisions cannot be withdrawn from moral considerations. There is a growing awareness to re-evaluate the role of the corporations and to reconsider its governance. This growing awareness and the competitive advantage of social embeddedness and sustainable future policies, as will be elaborated upon later on, means that the weak spot as mentioned above is perhaps not that weak!

One of the best signs of this growing awareness is the voluntary membership of more than 200 international companies of the World Business Council for Sustainable Development (WBCSD)⁹², and the existence of the Dow Jones Sustainable World Index (DJSI World).⁹³ I will come to these initiatives in the upcoming sections.

However, ACG goes beyond sustainability discussions. In the first place, ACG asks of the company more democratic governance. To convince top management of the advantages of more democratic governance is perhaps possible in Western Europe within the Continental European model, but it will be much more difficult in other cultures and/ or economic and social models. Still the importance of respecting each employee as a ‘member of the family’ can be found in the Asian model as well. I can refer to my own experience in dealing with Japanese steelmakers and equipment suppliers. In addition, I refer to Sen (Sen 329). In investigating the global origins of democracy, Sen states that the importance of public discussion and open deliberation is a recurrent theme in the history of many countries in the non-Western world.

92 For more detailed information on WBCSD, see <<http://www.wbcd.org>>. WBCSD is a coalition of 200 leading international companies of various industrial sectors, including mining and metals, and the majority of the service industry. They represent a total number of company employees of 13 million. Its members supply products and services to half of the world’s population every day. The most well known representative of WBCSD is its President, Björn Stigson. He presents papers to international platforms and conferences on a regular basis. His major message is that our world sustainable development issues will increasingly shape our world. Corporate governance should include economical, social and environmental issues as one belief or mindset. He presented the most relevant paper for the steel industry during the 42nd annual conference of the World Steel Association on 7 October 2008 in Washington, DC (Stigson). This paper highlights the business opportunities for the steel industry in helping to reduce global CO₂ emissions. CO₂ emissions are the Achilles heel of the environmental policy of steelmakers (4-5% of the total world CO₂ emissions with no break through strategy on substantial reductions).

93 ‘Launched in 1999, the Dow Jones Sustainability Indexes (DJSI) are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide’ (<<http://www.sustainability-index.com/>>. ‘Currently 50 DJSI licenses are held by asset managers in 19 countries to manage a variety of financial products including active and passive funds, certificates and segregated accounts. In total, these licensees presently manage close to \$8 billion based on the DJSI’ (<http://www.sustainability-index.com/07_html/licensing/licensing.html>).

In Part 2, I described the general philosophy of ACG. CSR and the stakeholder approach will form the ‘stepping stones’ to ACG. I implement this approach into the Corporate Strategy of the company.

In subsection 6.1.1, I deal with Corporate Strategy as a process and how to start-up this process. In subsection 6.1.2, I highlight the organisation of the practical framework of the discourse, in subsection 6.1.3 the organisation of the information flow to all participants and in subsection 6.1.4, the monitoring of quantity and quality of the process. In subsection 6.1.5, I describe recent trends within the steel industry in determining the corporate strategy. Finally, I summarise policies and actions in subsection 6.1.6.

However, before embarking on the subject I have to introduce a strong pre-condition for the process as described below. Introducing the discourse on corporate strategy assumes an available long-term timeframe for the company and its stakeholders. This requires the protection of the company, or parts of it, from unexpected or unwanted take-over by third parties, as already mentioned in section 5.4. The ownership arrangement should be a defence against this threat. I will deal with this critical and important subject in section 6.2 on Finance. The associative philosophy allows a merger and acquisitions but only along the guidelines of ACG. That means after approval of the relevant stakeholders and after approval of both parties involved.

6.1.1. Corporate Strategy as a process

Perhaps the best way to start is to use Michael Porter’s vision on CSR (Porter & Kramer). Michael Porter has been a well-known authority on Corporate Strategy in recent decades. Almost every Board member and every member of a Corporate Strategy Department of a multinational company knows his ideas and uses his views. To start with, his opinion on CSR is an approachable first step. It combines the art of corporate strategic thinking and CSR as an important cornerstone of ACG. Michael Porter considers CSR as a strategic activity for a corporation. It shapes the relationship between the corporation and the outside world. This relationship plays a decisive role in the future of a company. For that reason, CSR should be considered a strategic issue and should be high on the agenda of the Corporate Strategy Department. According to Porter, many companies have already done much to implement a CSR policy; yet, these efforts have not been nearly as productive as they could be, for two reasons. First, they put business opposite society, when clearly the two are interdependent. Second, they pressured companies to think of CSR in generic ways instead of in the way most appropriate to each firm’s strategy. They state: ‘when looked at strategically, CSR can become a source of tremendous social progress, as the business applies its considerable resources, expertise, and insights to activities that benefit society’ (Porter and Kramer 2).

However, this demands a strategic approach beyond the four prevailing justifications for CSR: moral obligation, sustainability, license to operate, and reputation. According to Porter, ‘all four schools of thought share the same weakness: they focus on the tension between business and society rather than on their interdependence’. (5)

This leads to fragmented and uncoordinated CSR practices and initiatives, often isolated from operating units and without a systematic dialogue with all possible stakeholders. Porter wants to advance CSR beyond this fragmentation and puts it on the agenda of Corporate Strategy in order ‘to root’ it in a broad understanding of the interrelationship between a corporation and society. To achieve success, companies need to operate in a healthy society. Any business that pursues its ends at the expense of the society in which it operates will find its success to be illusory and ultimately temporary.

In order to put these broad principles into practice, Porter integrates the social perspective into the core frameworks he already advocates. Members of the Corporate Strategy Department will recognise his ‘value chain’ and ‘competitive context’ approach. ‘Mapping the social impact of the value chain shows all inside-out linkages between society and company, a company engages in while doing business’ (Porter and Kramer 8).

This leads to issues like relationship with universities, product safety, recycling, ethical research practices, transparency, reporting, education and training, safe working conditions, layoff policies, procurement and supply chain practices, environmental issues, marketing and advertising practices, pricing practices, consumer information, and privacy.

‘Social influences on competitiveness, the social dimension of the company’s competitive context- the outside-in linkages between society and company that affect its ability to improve productivity and execute strategy’ (Porter and Kramer 9).

This leads to issues like the availability of human resources, access to research institutions and universities, sustainable natural resources, efficient access to capital, intellectual property protection, rule of law, availability of local suppliers, presence of clusters instead of isolated industries, access to firms in related fields, regulatory standards, local needs and demands, etc.

The key to a successful strategy is to come to the right prioritising of all these issues, or what Porter calls the ‘corporate social agenda’ (6). A right agenda will achieve social and economic benefits simultaneously. It moves from mitigating harm to reinforcing corporate strategy.

The agenda will be time and place dependent. Issues will change over time as social standards evolve and science progresses. A typical example is the asbestos issue. The character of a social issue also differs per location for each of the business units and primary locations.

Porter and Kramer even ask companies and societies to change the way

they think about each other. NGOs, governments, and companies must stop thinking in terms of corporate, social responsibility and should start thinking in terms of corporate, social integration. Michael Porter and Mark Kramer state that ‘CSR will become increasingly important to competitiveness success’ (13). This statement follows naturally from Porter’s line of argument in his influential book *The Competitive Advantage of Nation’s*. Environmental sensitivity and concern for social welfare are rising in all advanced nations. Find and choose the localities whose regulations foreshadow those elsewhere and develop the competitive advantage of the company.

Porter and Kramer’s appeal to this ‘social integration’ is serious and sincere. This appeal will stimulate Corporate Strategy Departments of multinational companies to develop a strategic CSR approach. However, he leaves them in the dark on how to organise this process. He assumes that this process can be organised as ‘business as usual’, which means top-down (although in a decent and careful way) and according to the rules of the company. Although Porter and Kramer mention the word ‘dialogue’, they are quite outspoken in their judgements of stakeholders groups: ‘These groups can never fully understand a corporation’s capabilities, competitive positioning, or the trade-offs it must make’, and ‘a never-ending public palliative with minimal value to society and no strategic benefit for the company’ (4).

In one of Porter’s few visits the Netherlands, he advised the government to abandon the ‘polder model’ because it undermined the innovative spirit of the industry (Van Nieuwstadt).⁹⁴

Therefore, it is quite unclear how he wants to determine the right priorities and how to create the ‘corporate social agenda’. The strategic process asks for acceptance by all participants involved in the process of coming to clear and well-considered decisions. Stakeholders from business and society have to understand and accept CSR policies in order to make them successful. In order to take Porter’s view seriously, a company has to engage in a long-term dialogue with all stakeholders. This is even more of importance given the ‘change in time and place’ on social issues as mentioned before. I can agree with Porter on the strategic importance of CSR. However, in order to create the necessary change, I will not follow his top-down approach.

Strategy gives direction to the long-term development of the company and determines which necessary resources the company needs for this development. The strategic process asks for clear and well-considered decisions.

‘Strategy is related to the development of the organisation, not to planning of

⁹⁴ NRC Handelsblad, 4 December 2001; Porter’s visit to the Netherlands on that day. Report by Michiel van Nieuwstadt. His statement sounds in contrast to his book *The Competitive Advantage of Nations*. He states that countries are successful in sectors in which producers, suppliers, clients, and public authorities closely cooperate and assist each other in innovations.

the future'. This statement and the following elaboration on planning 'new style' are based on my interview with Bim Bendsorp, former Director Strategy of the Hoogovens Group and Corus.

'Old style' *planning* is a periodical and linear process determining a stable near future. It supposes that the future can be planned as a top-down process of analysis. This deliberate process will lead to a standard ongoing strategy, which means 'just doing things a little better and faster'. According to Bim Bendsorp:

'The request and call for 'innovation' by top management and politicians is a well-known 'song'. Innovation should stand for 'change', 'improvement', and 'renewing' but is too often of limited impact. 60% of innovations are related to improvement of existing activities (ongoing- strategy), 30% is related to changes in existing activities, only 10% is related to real breakthrough activities'.

However, in order to create more than just an average performance, improvement of a company needs more than a deliberate strategy: it needs change. In order to create accelerated performance generating growth outreaching markets and competitors, ASC needs a breakthrough or emerging strategy. Here is a direct link with one of the key elements of ACG: the facilitating of change as central HR policy and mind-set of ASC. In section 6.5, I will elaborate this aspect more in detail.

According to Bim Bendsorp, the 'new style' planning to reach this breakthrough strategy will be a circular and continuous process. The future will be seen as an unforeseeable and dynamic target. An increasing choice, freedom in the (unpredictable) future is the essence of strategy formulating. A limited stability in the world asks for flexibility. At any given moment, participants are involved in the closed loop of analysis, findings, conclusions, objectives, and implementation. The loop never stops; it is a 'spinning ball' to be rolled uphill on a steep slope. Repeatedly, choices should be made, clear and well considered.

Perhaps, the term 'circular' is not appropriate. It could suggest that after 'finishing the circle', everything is back to the original situation and that no progress has been made. 'Recursive', the repeated application of a particular procedure to the previous result, is more suitable⁹⁵. This process needs active support and participation from all stakeholders. For this, the strategic process should be disposed of any secrecy; it should be clear and understandable for all participants. The involvement of all ASC's economic and social stakeholders can only be real if ASC's organisation and environment penetrate each other's world.

⁹⁵ The term 'discursive' was proposed by Gerard De Vries, co-supervisor of this thesis, during the discussion of the first draft of this thesis, on 26 November 2010.

Different to Porter's top-down approach the ASC process will be *top-down and bottom-up*. Top-down because management will initiate the 'spinning ball' and supply all necessary and available information during the process. Bottom-up because strategy forming is no longer an exclusive subject for the top of the organisation but for all participants. This is necessary for the learning-process within the company but also for the company's 'learning-in' process, which means the outside stakeholders' understanding of the company. It should be a Learning by Monitoring process for management and organisation.

This all will be a highly demanding task for the company and all participants in the process. The availability of well-educated discourse participants is a key condition for success. The 'smelling of opportunities', the balancing act between thinking and doing, between today and in the future, between company and environment and between ratio and vision or ambition, and the translating of all this into the right decisions at the right moment is the key to a breakthrough strategy. Many organisations are unable to make these choices and just follow the crowd. ASC needs a continuous training and education policy in order to facilitate the learning by monitoring process of this 'spinning ball'. By optimising the use of available knowledge and experience in the company and its environment on a continuous basis the performance of ASC will be higher than steelmakers 'old style'. The high performance of the steel plant in IJmuiden with its long history of continuous emphasis on knowledge and education proves this approach.

In order to implement this process of change, a company must put emphasis on innovation of the organisation or social innovation. The process of social innovation will break down bureaucratic structures and will motivate management, employees and all other stakeholders to repeatedly re-invent the company's targets and strong points, and to challenge the dominant logics within the organisation (De Graaf, Heleen).⁹⁶ Social innovation needs a proactive attitude from the management and cannot be delegated to the HR Department as just another HR-'tool'. The introduction and implementation of ACG is a social innovation project. It will challenge the existing corporate governance logics.⁹⁷

96 Heleen De Graaf: Interview with Prof.H. Volberda, one of the leading promoters of social innovation and professor at the Erasmus University in Rotterdam, the Netherlands. He criticizes the one-sided emphasis on technological innovation. Innovation of organisation and management is a key-condition for reaching breakthrough strategies. NRC Handelsblad 13 October 2004.

97 For further investigations on social innovation, see section 6.5.

The project should follow the next five steps⁹⁸:

1. Conditioning: ask all participants to think about the introduction of ACG;
2. Charting: make a map of the way participants work with each other at this moment;
3. Challenging: challenge the existing way and find out how ACG will change the dominant logics;
4. Changing: start the implementation of the real change for ACG;
5. Creating: shape the real conditions for ACG.

However, there are two threats to this approach. In the first place, it appears to be a linear path. All participants should be aware of the discursive and layered character of the discourse. Each participant can be involved in different steps concerning different subjects. He or she can be involved in the charting of ASC's procurement policies, but at the same time be involved in creating new HR policies. Second, it gives the impression that ACG will be implemented after a final definite ACG scheme has been determined. This will never be the case. The discursive character of the discourse already means that ACG will be shaped step-by-step, accepting that continuous improvement via Learning by Monitoring will be the necessary follow-up in the near future. General and abstract discussions on the principles of ACG will be necessary in order to create the right conditions– 'imagination' and 'spirit'– for its moral pluralism. However, they should be translated in specific terms applicable to actual contextualised situations. Otherwise, ACG does not work. The abstract terms of basic needs and rights and the practical and prudent handling of reality are two sides of the same coin.

In using the word 'imagination', I refer to Charles Wright Mills. In section 4.2, I already introduced the North American sociologist and his famous book *The Sociological Imagination*.

Participants of discourse platforms within the ASC organisation should show democratic engagement and adopt the spirit of 'imagination'. They should search for fresh opportunities and solutions via free and unlimited reflection on experience without 'the technical rationality of business calculations and scientific research' (Mills and Gitlin 235). Shue's 'right of subsistence' and Mill's emphasis on the 'potential influence by concerted action on the social forces that shape people's lives' and 'his commitment to dignity'(230) fit very well together.

However, in order to create the environment for this 'spirit of imagination' ASC has to adapt the right attitude towards 'change'. I want to refer to the work of Jaap Boonstra on trends and movements in studies

⁹⁸ Personal interview Bim Bendorp. See also subsection 4.3.1: the different worlds of the 'S-form' and the 'C-form'.

of organising and changing (Boonstra and De Caluwé).⁹⁹ He distinguishes four paradigms on organising, changing and learning. Two paradigms based upon radically changing (structural conflict, dominance, contrasts) and two paradigms on change via regulations (social order, consensus, solidarity). Both types of paradigms represent an objective (positivistic, determinism, academic research) and a subjective approach (voluntarism, exploring, meeting, action research). ‘The subjective perspective sees people as creators of their own environment who can change their environment’ (Boonstra and De Caluwé 12). ASC will choose for the combination ‘change via regulations’ and the ‘subjective perspective’. The two aspects of change via regulations, consensus and solidarity, fit in the discourse ethics and company values of ASC. The four aspects of the subjective approach – voluntarism, exploring, meeting, action research – fit in the associative character of ASC. Boonstra calls this combination the ‘social-interpretative’ paradigm (Boonstra and De Caluwé 11). Continuous change via the ‘spinning ball’ approach with feedback processes and self-organisation, and continuous learning and monitoring fit in this paradigm. It is a typical example of acting in accordance with Sen’s realisation-focused perspective, a key feature of ACG.

The Corporate Strategy Department has the task to facilitate the process. It has to organise the practical framework of the necessary discourse on ACG and to take care of the information flow to all participants. At the same time, it has to monitor the quantity and quality of the process, and to report on progress and results.

6.1.2 The organisation of the practical framework of the discourse

The organisation and implementation of the discourse, as the main carrier of ACG’s participation policy, will be a huge and long-term project with changing prospects and numerous potential roadblocks. Learning by Monitoring and Micro-Macro as guiding methods will be of utmost importance. If the organisation of the discourse fails, the associative philosophy will lose ground. Partly, the discourse begins where existing platforms within the organisation of ASC member-companies are available: in the different works councils, or in other forms of continuous or ad hoc forums of direct and indirect participation. In part, it will be necessary to start up new initiatives.

Although there will be a huge variety of discourse initiatives after a few years, the first initiatives should be limited in scope and location. The first step will be to initiate discourse platforms in three different locations within ASC: first, at plant level via existing works councils or comparable participation initiatives (see section 6.7); second, at corporate strategy level as described; and third, on HR level (see section 6.5).

These three types of platforms will immediately show the intention and

⁹⁹ Prof.dr. Jaap J. Boonstra is professor of Organisational Development and Learning at the Faculty of Social and Behavioural Sciences, University of Amsterdam.

the scope of ACG's participation policy without overstretching in the initial phase. This demonstrates that the discourse issues will cover the whole range of ASC's activities, from labour conditions and day-to-day practical aspects on the shop floor, initiated by the platforms on plant level up to policies and decisions on investments and technology and R&D initiated in the discourse platform on corporate strategy.

It further shows that HR plays an important facilitating role in the implementation and development of the discourse. HR has to organise courses on deliberation techniques and ethics; it has to develop and maintain a reservoir of potential participants in the different discourse platforms; and, it has to assist management and participants in quality and quantity control of the discourse within the different platforms. In addition, it is essential that it stimulates and maintains the necessary diversity among the participants.

The overall responsibility for the discourse performance of each of ASC's member-companies lies at the highest level: the CEO of the Local Management Team. The HR Department or other facilitators will, of course, assist him or her, but he or she cannot delegate the responsibility.

It is tempting to delegate the discourse organisation to a special team, but that would change the discourse issue from an on-going activity, embedded in the day-to-day routine, to an ad hoc activity, which will lose momentum after the initial and enthusiastic phase. Management, labour and all other participants in the discourse have to take on-going personal responsibility. The above-mentioned activities of the HR department are facilitating activities.

The participants in the discourse should be hands-on, active representatives of the different stakeholders, using only part of their time on one or more discourse activities and with a limited membership in length of time of discourse platforms¹⁰⁰. This will lead to a broad, efficient participation level for many players, and will prevent the birth of a class of 'discourse-animals' running from one meeting to the next with limited and insufficient contact with reality of the company and the creeping growth of another overhead cost. This is, in my opinion, a key pre-condition of the discourse organisation, and based on my personal experience with the functioning of works councils.

Another key aspect of discourse platform performance is the chosen scope of the discourse. On the one hand, participants should have the feeling that they are not locked up in a limited scope of discourse; on the other hand, active participation is very often linked to personal involvement and experience with the agenda items. Participants have the obligation to search for additional useful information on the agenda items and to study all available documents.

100 With the emphasis on 'active' representatives, I refer to the danger of 'escape' representatives, a well-known phenomenon in organisations. 'Escape' representatives are persons who no longer perform in active production process and 'escape' to a representative platform, e.g. a works council, as a smart way to 'survive' within the organisation.

To find the right balance is crucial for the performance of the platform.

For this reason, I will introduce two types of discourse platforms: general and specific platforms. The agenda of general platforms, e.g. an overall works council per plant will cover the whole field of plant activities. Specific platforms will deal with specific issues like product development, safety, environment or education.

The latter platforms can handle certain discourse items on their own, or they prepare certain items for a later discussion in general platforms. They also are breeding grounds for participants of the general platforms. For example, a young employee of the R&D department can be involved in a discourse between ASC specialists and specialists of major customers on product development. This experience can spark interest in participation in more general discourses on future R&D – programs, and in a later stage in participation in general platforms. Participation will become one of HR's functioning criteria.

The discourse organisation and implementation can and should learn from already available examples of participation and deliberation as implemented and used in many companies worldwide. The majority of these examples relate to the local or national level. However, the organisation of discourses on an international level within multinational companies is unknown territory. The only available example is the organisation of European Works Councils (EWCs) within companies operating in a number of EU countries. In the steel industry, ArcelorMittal is a typical example. The experiences are still limited. In my interview with Enrico Gibellieri, Co- Chairman of the EMF in the Consultative Commission on Industrial Change of the European Economic and Social Committee, he states:

‘The role of the EWC is useful but has a low image. The council is always passive and defensive. As a member, you always hear what has already been decided or done. At best, they meet twice a year; the minimum level is once a year’.

Frits Van Wieringen, Chairman of the EWC of Tata Steel Europe, has a more positive opinion about the functioning of the European Works Council. In my interview he states:

‘I am positive about the functioning of the council. My English colleagues are very active and creative. They understand the power game within a multinational organisation. Of course, European legislation is limited and a typical product of the neoliberal orientation of the EU during past decades. Nevertheless, we find our way day-by-day by just ‘doing our job’ via pragmatic solutions. As a practical example, via my contacts within the International

Metalworkers Federation, I have initiated to arrange an annual meeting between the management of Tata Steel and the Federation. In our meeting of October 2010, the management presented their strategy in the European council. The legal obligation of 'information' fits in the top-down philosophy of Tata. They have little experience with European 'empowerment' initiatives but we will try to influence their thinking by just initiating open discussions'.¹⁰¹

In *Towards a European Labour Identity*, by Fred Huijgen, Michael Whittall, and Herman Knudsen, a detailed report on the history of the development of EWCs is given including threats and opportunities of the process. It includes a short history of collective 'identity' in sociological theory, including Emile Durkheim, Talcott Parsons, Adam Smith, and Max Weber (1970). Only if an EWC is organised as a 'participating working team' there is something like a 'European identity'. In my interview with Fred Huijgen, he confirms the focus on identity, participation, trust and respect. Without these features there is nothing more than the 'calculating behaviour' described by Enrico Gibellieri.

This means that ASC's 'corporate identity' as crystallised in its corporate values, is a necessary pre-condition for the success of the participation process within the company. Corporate identity will promote the coming into existence of epistemic communities of specialists of member-companies within ASC, as mentioned in section 5.1. Fred Huijgen considers the EWC as a steppingstone to further global regulation of participation. Although the functioning of EWCs is still marginal, it is a supranational platform for discourses between stakeholders within multinational companies born under unfavourable neoliberal EU regulations. As such, it represents a 'window of opportunity' for further developments.

Volkswagen made the final step to a World Works Council¹⁰².

This means that the organisation of the discourse within ASC on an international or global level will be a difficult but challenging job. It becomes even more complicated when introducing a number of stakeholders. The few available examples relate to just two stakeholders: management and employees.

It is obvious that the Learning by Monitoring method demands a lot of monitoring and a lot of learning from all participants. I learned from personal experience that communication between international participants should be based on roughly 80 % modern communication systems and 20% face-to-face communication. Limited or almost no face-to-face communication will

101 See also section 2.4.

102 In May 1988, the Volkswagen Group Board and the European Works Council agreed upon the foundation of a 'World Group Council', which will include employee representatives from Volkswagen subsidiaries all over the world. The experiences are varying. The council has done good work in reorganisations in Brazil, but could not play a decisive role in recent job reduction programs in South Africa. Source: Eurofound. 23 April 2010. <<http://www.eurofound.europa.eu/eiro/1998/06/inbrief/de9806271n.htm>>

not work; however, modern communication technologies will be of decisive importance in the organisation of the international discourse.

The first step in the organisation of the discourse should be to condition the organisation: ask the participants to think about the ACG process. The Central Strategy Department appoints a multidisciplinary Central Strategy Team to handle the kick-off and follow-up of the discourse. Initially, this team represents management and employees, appointed by and reporting to the Central Management Team and the Central Works Council.¹⁰³

In a later version, it includes representatives of other stakeholders. ACG demands involvement of all stakeholders. Corporate Strategy has to determine the list of ACG's economic and social stakeholders. The Central Strategy Team organises the discourse between these stakeholders on the local and central level.

On the local level within ASC, which means within the organisation of the ASC member-companies, the Local Management Team and the Local Works Council appoint a Local Strategy Team. The Central Strategy Team feeds relevant information to the Local Strategy Teams. The local teams inform the central team of the progress on local level. The central team is responsible for the exchange of information between the local teams.

In the initial stage, the list of stakeholders is limited to the following economic stakeholders: management, employees, and shareholders. The involvement of other stakeholders takes some time or even a long time. As mentioned before, the first step in the implementation of ACG is the conditioning of all participants. This requires time and prudent behaviour in the case of other economic stakeholders – clients, suppliers, partners in joint ventures – and social stakeholders (Janssen, Caspar).¹⁰⁴ The 'spinning ball' of the introduction of ACG can be compared with a snowball. The longer the ball keeps rolling, the bigger it becomes. The size will also depend on the local conditions of the teams.

In the steel industry, there already exists a wide range of existing cooperation and discourse practices between the management of steel companies and a

103 I assume that ASC operates within the Central European model, and that a European and Central Works Council exist. It is obvious that during the further development of ASC a World Works Council will be introduced.

104 A typical example is the negative reaction of some members of IUCN (International Union for Conservation of Nature) to the open discourse between Shell and the IUCN. The discourse agreement between IUCN and Shell provides for the posting of a Shell employee at the IUCN head office. Three or four member organisations of the Dutch division of IUCN (in total more than 1000 NGOs are member of IUCN, the Dutch division counts 36 members) declared not to agree with this practical approach of the discourse. They are afraid that the safety of their scientists in Nigeria, who study the oil pollution in the Niger delta, will be jeopardised. They will be associated with the Shell organisation. Casper Janssen, *Volkskrant*, 8 May 2008. This example shows the complex character of the discourse between MNCs and NGOs.

variety of economic and social stakeholders.

However, on top of that, there is a growing amount of discourse practices between management and employees of the steel plant on the one hand, and representatives of clients, competitors, trade unions, local and regional governments, national and supranational authorities and training and education institutes on the other hand. The content of the discourse practice differs per stakeholder. Many steelmakers develop new products with long-term clients via working groups of specialists from both sides. The contact with the local and regional authorities is based on the wish from both sides to develop good neighbourly relationship. This good neighbourly relationship will be the basis for reaching agreements and cooperation on environmental, educational and other social aspects.¹⁰⁵

The contact with competitors is concentrated within the international business association of steelmakers: the World Steel Association. This association organises several conferences every year on CEO and specialist level. Working groups and special purpose committees further shape cooperation.

All major steelmakers cooperate with local, regional and national training and educational institutes in some shape or form. On the national level, we find senior specialists of the steel industry working as teachers and professors at technological universities or institutes. Many of their students work on their PhD within that same steel industry. Given the labour-intensive character of the steel industry, the contact between steelmakers and trade unions is frequent and important from strategic point of view. Although the emphasis normally lies on direct aspects like labour conditions, job security and remuneration, unions do embark on a more future-oriented strategy (Jose 16) based on cooperation with other actors who share the values and concerns of the labour movement: communities, religious organisations, ethnic groups, environmental groups and neighbourhood associations. Unions also get involved with existing initiatives of NGOs on human rights, a safe environment, gender equality, education, and health¹⁰⁶. They cooperate with other national and international unions in order to strengthen democratic institutions and to create a minimum social basis, based on the rights and

105 Tata's steel plant in Jamshedpur is an extreme example. Its community outreach programs covers the Tata Steel managed city of Jamshedpur and over 600 villages in and around its manufacturing and raw material operations. Source: Tata Steel. 31 January 2007. <<http://www.tatasteel.com/company/profile.asp>>

106 'The International Trade Union Confederation (ITUC) is the main international trade union organisation, representing the interests of working people worldwide. The ITUC was founded at its inaugural Congress in Vienna, Austria, on 1-3 November 2006. It groups together the former affiliates of the International Confederation of Free Trade Unions (ICFTU) and the World Confederation of Labour (WCL), along with trade union organisations which had no global affiliation' (Source: ITUC. 2 December 2007. <<http://www.ituc-csi.org/about-us.html>>). ITUC issues are child labour, forced labour, climate change, human rights, gender equality.

entitlements of workers in all countries.¹⁰⁷ This cooperation can also be found within a few multinational companies by establishing international platforms for discourse and dialogue. ASC can expect a positive role from the unions in its corporate strategic discourse based on their basic role as purveyors of social cohesion and alliances and their growing willingness to make long-term agreements with national and international corporations (Jose 152).

Finally, there is a growing cooperation between steelmakers and NGOs. Most contacts with NGOs are on a case-by-case basis. There are, however, good examples of a more systematic cooperation between steelmakers and NGOs.

A typical example is the already existing ‘*Zukunftsrat Stahl*’ in Germany. In my interview with Prof.Dr.-Ing. Dieter Ameling, Chairman of the *Verein Deutscher Eisenhütteleute* and President of the German Steel Federation, he states:

‘I am very positive about the constructive and cooperative dialogue with NGOs within the ‘Zukunfrat’. This platform is a meeting place for a dialogue on the future of the steel industry between German environmental NGOs and the German steel industry. They exchange ideas and opinions and learn to understand the motivations from both sides. Of course, this is only a beginning but it is a step in the right direction’.

Participants of this rich variety of existing discourse practices are responsible for a fair and just discourse process as far as possible. The level of fairness of the process will determine the level of legitimacy and the success of implementation of the outcome. As stated in chapter 4, ASC will use the realisation-focused perspective of Amartya Sen with its emphasis on comprehensive outcomes, in order to create practical procedures and attitudes and to create a sustainable basis for the discourse process. The key point is the acceptance of dialogues between all participants instead of monologues from the top. Especially within a company, it will be almost impossible to neglect the power asymmetries and the difference in available information. However, Learning by Monitoring can bring reality closer to ideal by continuous awareness of the existing tensions between reality and ideal, and the ASC policy to accept discourse ethics as a leading principle. It is quite possible that NGOs or other stakeholders join the discourse in one location and stay out in

107 Especially the Korean Union Movement, FKTU, and the Japanese national union Rengo play an important role in supporting unions in surrounding countries like Malaysia and Taiwan. The ILO considers the union movement in the Republic of Korea to predict the future of organised labour in Asia (Jose 233). This is of interest given the position of the Korean steelmaker POSCO as one of the leading steelmakers in the world. One of its latest initiatives was the organisation of a ‘grand social discourse’ on the recent financial crisis with employers associations, unions, social groups, and academic and religious groups as participants.

other locations. In addition, the degree of cooperation can vary between full cooperation and just a case-by-case information exchange. The 'spinning ball' character of the process combines the reality of today with possible potential improvements in the future.

The discourse within the teams has to fulfil certain minimum basic conditions (open character, a reasonable level of dialogue, solid reporting), but they can vary in style and atmosphere according to the type and character of the participants, and the local tradition of the participation process. The contextualised approach of ACG has to prove its merit.

ASC's member-companies in developing countries operate under different economic, political and social environments than their colleagues in developed countries (Reed 180). The creation of dialogues and the organisation of discourse platforms will show a rich variety of features and shapes. Nevertheless, the intention will remain identical and unchanged, to create loyalty and trust within the organisation of the member-company. The economic environment may be less mature, unemployment may be higher, and the economic structure may be different, but there can also be different reasons, such as geography, postcolonial governmental policies that limit the role of the market or implemented programs of international economic institutions like IMF or WTO. The political environment shows different civil and political rights, political-administrative institutions and practices, and lower levels of civil society activities. With respect to the social environment, developing countries are less well off in terms of a number of important social areas, such as education and access to information, health, food and shelter and gender equality. The associative philosophy will show two faces: in the first place, it will respect the local environments; in the second place it has the obligation to increase corporate responsibilities to fulfil obligations not taken up by other actors in society¹⁰⁸.

The voluntary character of ASC will have a positive influence on the participation and willingness to reach progress. Member-companies were aware of the ACG policy when they joined ASC. As already mentioned before, one of the key conditions for the success of local teams is the availability of well-educated participants. They should be trained in discourse ethics and discourse skills. This means that the continuous learning attitude within ASC is of crucial importance. When I discuss HR in section 6.5, I will detail this policy, including the cooperation with regional education institutes.

The decision-making procedures within the teams are of crucial importance to the credibility of the whole discourse. The economic and social performance of ASC demands a correct balance between discourse and action.

¹⁰⁸ I refer to the 'responsibility of effective power' principle of Amartya Sen (Sen 204) as part of the ACG philosophy. 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.

If everyone agrees on certain actions, there will be no problem. If no agreement can be reached after a serious and well-balanced discourse on a certain aspect of the ASC operations, someone has to take the necessary decision. If the impact of the decision has of pure local or regional character, the management of the regional member of ASC has to take its responsibility and has to decide. However, every decision will have the following six preconditions:

1. The subject of the decision must have passed the discourse conditions of openness, fairness and thoroughness;
2. The decision will be firm and valid as long as there are no new facts. In principle, it can show up again on the agenda if new facts show up. This makes it acceptable for the participants to accept decisions and to support the outcome without sabotage;
3. Local teams must have the opportunity to ask the Central Strategy Team for assistance if the discourse gets stuck;
4. The decision should be made within a certain time span. If no decision is reached within this period, the company or the process may be hurt disproportionately;
5. Management should have the authority and legitimacy to act and to take decisions. Authority and legitimacy play an important role within each organisation, especially within ASC. ACG, with its participation policy and intensive involvement of stakeholders, will be the basis for the authority and legitimacy of top management. Democracy yields moral reasons to obey the rules and a moral permission to enforce the rules;
6. Decisions by management should be necessary on a limited scale, say 1-2 times per 10 subjects. With 'decision by management', I mean the situation in which the management overrules the decision of the discourse platform, e.g. the decision of a works council¹⁰⁹.

In section 6.5, I develop *the framework of employee' participation, including the decision-making procedures via Works Councils*. The results of the strategy discourse are a regular agenda item of the Councils. The final decision-making process on strategy will be handled in line with customary decision-making, on a local level via the Local Works Council, the Local Management Team, and the Local Board of Directors, and on a central level via the Central Works Council, The Central Management Team and the Central Board of Directors.

The discourse within the Central Strategy Team needs some more thoughts. What will the balance be between the Local Strategy Teams and

¹⁰⁹ I refer to my own experience in working with Works Councils. If the management has to force decisions on a more frequent level, there are serious signs that something is wrong with the management or the dialogue quality.

the Central Strategy Team? It is quite possible that on a central level the international branch of an NGO will be a stakeholder, while at the same time the local branch of the NGO will be a stakeholder in one of the local teams. It is possible that the international branch of an environmental NGO does not agree with some of ASC's environmental policies, while at the same time local branches can agree with these policies because they judge certain local conditions, such as employment, as more important. In general, the central team and its stakeholders have to limit their activities to the overall aspects of ASC. They should limit themselves, as far as possible, to facilitating the strategic process in the local teams.

Together, the Central Strategy Team and the Local Strategy Teams can decide to install separate specific discourse platforms in the company on certain detailed subjects. This encourages participation by a broader field of stakeholder representatives. Especially younger people prefer a more ad hoc and flexible approach. They are willing to participate in a subject that catches their interest. To become a member of an overall team for a longer period will scare them. That could become a second step for them in a later future.

6.1.3 The organisation of the information flow to all participants

Discourse ethics is about processes, not about outcomes. Discourse ethics facilitate the discourse process and result in solid outcomes. As previously elaborated in chapter 4, ASC adopts Sen's realisation-focused perspective in the discourse process and works with 'comprehensive' outcomes. They include actions undertaken, stakeholders involved, processes used along with the final culmination outcome. They are important building blocks of a well-organised dialogue and a consequential evaluation of the dialogue, and fit perfectly in the Learning by Monitoring method. Employees of the Corporate Strategy Department are responsible for supplying all relevant information to the participants in the corporate strategic discourse in order to facilitate the process with high quality input of information. They have to gather information necessary for the discourse. Webs of dialogues play an important role in this process. The most relevant aspects include: existing ASC documents on corporate strategy, political developments, economical and financial evaluations, developments in corporate governance, labour and labour-conditions aspects, and sustainability and environmental aspects.

In the first place, this information should refer to the steel industry, but it could also refer to useful initiatives in other industrial areas such as sustainability and corporate governance. Information gathering will be a continuous process, very often in close cooperation with economic and social stakeholders.

Existing ASC documents on corporate strategy show strategic decisions and policies in the past and will be very relevant in order to show the tension between strategy and actual performance. They can show failures

and successes, and, more importantly, they can show where ‘things went wrong’ or why the implementations of strategic choices were successful. This evaluation can also be used to answer the following question: could the new approach have influenced the outcome in a positive way?

The sources of information on political developments, economical evaluations, and financial evaluations should be a point of discussion in the central and local strategy teams. They should be as neutral and reliable as possible and should be evaluated on a regular basis. As mentioned before, each participant in the discourse has the obligation to search for useful additional information to increase the quality of the dialogue on a continual basis. To withhold information or to bring it to the table at a politically chosen moment should not be accepted and should be discouraged by critical evaluation. Financial evaluations refer to the ASC’s financial performance and to general information of the financial world. The reporting on the company results and policies should be transparent. ASC should report along the lines of the Global Reporting Initiative (GRI).¹¹⁰ This creates the opportunity to benchmark the organisational performance of ASC with respect to laws, norms, codes, performance standards and voluntary initiative. I elaborate this aspect in section 6.2.

Developments in corporate governance should be monitored closely, given the fact that ASC is trying to implement a new corporate governance style. It will be important to follow the mainstream developments in order to judge the position of ACG. Especially CSR and stakeholder theories are ‘hot’ items in this field. New ideas can and should be included in the dialogue. Information on labour and labour conditions aspects plays a key role given the fact that ACG stands for more democratic corporate governance. On corporate level, information will be gathered via the ILO and other international labour organisations.

In addition to ILO, important international stakeholders in the steel industry are IMF and EMF. In my earlier mentioned interview with Enrico Gibellieri, co-chairman of the Consultative Commission on Industrial Change of the European Economic and Social Committee, he gave the following examples of relevant information:

110 ‘The Global Reporting Initiative is a multi-stakeholder non-profit organisation that develops and publishes guidelines for reporting on economic, environmental, and social performance (‘sustainability performance’) (GRI 2). It installed a disclosure framework for sustainability information. The cornerstone of this framework is the Sustainability Reporting Guidelines-known as G3 Guidelines. Sustainability reports based on G3 can be used to benchmark organisational performance with respect to laws, norms, codes, performance standards and voluntary initiatives. It demonstrates organisational commitment to sustainable development. The guidelines have been used by over 1000 organisations worldwide (GRI 2). During their conference in Amsterdam, on 9 May 2008, the Director of GRI, Ernst Ligteringen, stated that companies cannot perform, or even survive, in a ‘rotten society’.

‘I consider the EMF Work Programme 2007-2011, adopted by the 3rd EMF Congress in Lisbon in June 2006, as a very positive contribution to the European dialogue on work and working conditions. I am member of the Steering Committee of the EMF Working Group ‘Structural Change’ by the EMF, a working group from the EMF Sector Committee Steel, initiated in 2007. We discuss changes within the European steel industry and how to shape the dialogue between relevant stakeholders. A typical example of successful EMF involvement is the role EMF played in the negotiations with Arcelor and in a later stage ArcelorMittal for the successful implementation of employee-representative bodies within the new company ArcelorMittal. This is an example for comparable negotiations in case of future mergers of in the steel industry. I have never understood the refusal of the British and Dutch unions to accept the assistance and experience of the EMF on this aspect at the merger between British Steel and Hoogovens’.

Finally, yet importantly for labour, the shaping and improving of the participation model within ASC needs strategic attention. Participants of the central and local works councils in the central and local strategy teams should present fresh thoughts and ideas on how to improve the performance of the representative bodies. Of course, the result has to fit in local rules and habits. However, the basic rules can and must be in accordance with the company values as described in chapter 4.

It will be obvious that information gathering on sustainability and environmental aspects has a high priority within the central and local strategic teams. Although, in the first place, ACG stands for more democratic corporate governance, it will result in a sustainable sustainability policy. With sustainable sustainability, I mean a sustainability policy independent from coincidental personal interest of the CEO or short-term financial targets of the company. The embeddedness of the sustainability strategy in the democratic governance process of ASC guarantees the sustainability of this strategy.

Within the steel industry, the international steel organisation WSA has taken the lead in formulating sustainability indicators. Forty major steel makers report annually on WSA-sustainability indicators on a voluntary basis (World Steel Association, *Sustainability*)¹¹¹. Besides this initiative, some steelmakers take a more aggressive attitude. The German steel industry established more detailed indicators on sustainability, going well beyond the WSA level¹¹². Some steelmakers are listed on the *Dow Jones Sustainability World Index*

111 These indicators are: investments in new processes and products, operating margin, return on capital employed, value added, energy intensity, greenhouse gas emissions, material efficiency, steel recycling, environmental managements systems, employee training, and lost time injury frequency rate.

112 Interview with Prof.dr Dieter Ameling, president of the German Steel Federation and chairman of the Steel Insitute VDEh.

(DJSI World).

ASC should become a member of the World Business Council for Sustainable Development (WBCSD), as elaborated earlier. This cooperation is based on the commitment of these companies to sustainable growth along the lines of economic growth, ecological balance and corporate social responsibility. By being a member, the Central Strategic Team will get relevant information on sustainability for the corporate strategy process.

DJSI index, GRI Guidelines, and WBCSD are typical examples of webs of influence as introduced in section 5.1.

On one hand, ASC has to play its cosmopolitical role as a player in the global civil society via communication with the international political scenery and NGOs; on the other hand, ASC has to deal with the local civil society amongst which are local politicians and local trade unions. This is part of the balancing act within ASC between the Central Management Team, with a focus on care for the global civil society, and the Local Management Teams, taking care of the local civil society. ACG must be quite decisive on this point. The information gathering should follow this same pattern.

6.1.4 The monitoring of quantity and quality of the process

To get the right information to all participants is one aspect; the next important aspect is to take care of an open and fair discourse based on this information and the opinions of the participants. In the first place, participants should be legitimate and recognised as active representatives of the relevant stakeholder. This will be very difficult. How to check if a representative of a trade union really represents the majority of his union or if his union represents the majority of the employees? In other words, not all stakeholders themselves are organised democratically. Here, ASC has to follow the Learning by Monitoring approach. Try to make the best possible decisions and make changes if necessary. An important rule should be that participants should be part of the discourse for a period of three years. After three years, each stakeholder has to deliver one or more new representatives who will be accepted by the discourse platform¹¹³. In this way, the process keeps an open character and participation does not lead to the formation of an ‘in-crowd,’ that has lost contact with the majority of the stakeholders they represent. Therefore, having the relevant information and the right participants is a necessary precondition for an acceptable level of discourse, but it is not the only precondition.

The discourse itself should follow the rules of communication accepted by all participants. I am well aware of the fact that the discourse can never be free of power influences amongst the participants and that there will

¹¹³ The representative of the stakeholder can be chosen in a democratic way, or can be appointed by the management of the stakeholder organisation. Although ASC would prefer democratically organised stakeholders, it will accept exceptions. As mentioned before, as an example, most NGOs are not democratically organised or lack transparency.

be many hidden agendas. Nevertheless, the following important typical ACG conditions and aspects should keep these negative influences sufficient under control:

1. Balance between the central process and the local processes;
2. Availability of all information to all participant;
3. Open and fair discourse methods;
4. Progress reports on a regular basis to all participants;
5. Limitation of the participant- status to three years;
6. Respect for and use of the Learning by Monitoring and Micro-Macro methods by all participants;
7. Discipline of all participants and the stakeholders they represent, in accepting the outcome of the discourse.

In section 6.5 on HR, I will refer to the important task of the HR organisation to teach and educate participants in discourse ethics, and rules and procedures¹¹⁴.

Monitoring of the quantity and quality of the process is of great importance. It is the basis for the Learning by Monitoring and Micro-Macro approach. Monitoring is of greater importance than it was in the old-style corporate strategic approach. In this approach, the process ended up with the presentation of a formal Strategic Plan by the Board. Implementation started from there. However, before implementation the document had to be ‘sold’ to the organisation. Presentation and explanation brought a stream of publicity for a certain limited period. After that initial phase, the whole plan got less and less attention, and for the majority of the employees nothing changed.

The new-style approach will be a continuous process. All participants are involved in several subjects in different phases. They are part of the ‘spinning ball’. The Corporate Strategy is a living document and part of real life on the shop floor. This means that accurate and frequent monitoring of the process will be crucial for the overall progress reporting. Finally, the Corporate Strategy outcome forms the basis for more detailed medium-term and short-term plans within ASC on investments, M&S, R&D, HR and Operations.

I elaborated on the discourse as a process of communication and dialogue, including the decision-making aspect. Progress and health of the process are crucial to the outcome. However, the *agenda* of the various platforms needs the same care. The agenda of the discourse on Corporate Strategy show *vital general aspects* such as strategy on product-market

¹¹⁴ Much can be learned from available experiments in the industry in order to approximate the ‘free of power’ situation as closely as possible. One of the most successful, but not very well known experiments is the ‘sociocratic circle-organisation method’, developed in the 1960s by Prof.dr.ing. Gerard Endenburg. It is more than a participation model. It is a complete method for management based on parity in the decision process (TAP 182).

combinations, or ‘how and where to make our money’, investments and R&D policies and programs, HR policies, and environmental policies. The associative philosophy adds to the agenda issues like: the autonomy balance between the member-companies and the central organisation, the rules and conditions of the entrance and exit principle, the ACG’s normative consent resulting in ‘trust environment’ and ‘social embeddedness’ of ASC and its member-companies, and the sustainability of the corporate main policies and strategy, especially in economic down turns.

The general aspects are well handled in various corporate governance publications. In the following sections I limit myself to typical ACG aspects: how to organise the entrance and exit principle, how to shape the right balance between central governance and autonomy of the members, and what are the specific ACG policies and rules on cost and staff reductions?

6.1.5 Recent trends on Corporate Strategy within the steel industry

In my interview with Ton Doeleman, former Strategic Development Officer of Corus IJmuiden, he states:

‘Until the mid 90s, the executive directors of the steel companies handled strategy as a discourse process for the top layers of the management and they invited outside consultants like McKinsey to assist in the strategy developing process. For the executive directors, it was just part of their job and they played the game without special inspiration or without showing an inspired vision. The whole process was slow and ‘careful’. During the last decade, this picture changed. Strategic options in the steel industry are determined by a few ‘strong personalities’ (e.g. Mr Lashmi Mittal, Mr Ratan Tata) with strong visions and decisive actions. They can draw on big financial resources backing up their decisions. The process is fast and ‘courageous’. The decision-makers are surrounded by a limited, dedicated, well-paid staff.’

This fits in with Geert and Gert Jan Hofstede’s cultural evaluations of management cultures (Hofstede and Hofstede 241).

The ACG strategy development process is completely different from this new-style strategy. Still, the ACG style can be decisive as long as participants respect Learning by Monitoring and Micro-Macro. It should combine the thoroughness of the former executive director style and the inspired attitude of ‘strong personalities’. Although the style of the ‘strong’ looks rather successful, it is still too early to judge the results. Until September 2008, the strong market covered a lot of mistakes and dubious actions. The empires built up by the ‘strong’ still have to prove their viability during the recent economic downturn. Most probably, the strong shoulders of the ‘unique strong personalities’ will pass on the social costs to the weak shoulders of labour and society in general. ASC will always take full responsibility for its

decisions, in good and bad times. It will not use cheap escapes or the transfer of ‘negatives’ to society. In addition, we should be aware of the fact that there are still representatives of the former executive directors style (ThyssenKrupp, Salzgitter, and Vöest). It will come as no surprise that these companies are typical examples of credit-based financial institutes with long-term investor relations. One of the best examples is the German steelmaker Salzgitter Stahlwerk as described in Box 5:

Box 5: Salzgitter Stahlwerk

Based on the interview with Hans Fischer, Steel Division, Chairman of the Executive Board, on 29 July 2008.

Salzgitter is a typical example of a successful representative of the Continental European or ‘Rheinland’ model. They operate under the rules of the ‘*Montanmitbestimmungsgesetzes*’ of 1951. The Supervisory Board has 21 members: 10 labour representatives (amongst others the Chairman of the German Federation of Trade Unions DGB, and the 1st Chairman of IG Metall), 10 shareholders representatives, and 1 member appointed by the 20 other members. The German state Niedersachsen owns 25,2 % of the shares and controls the major decisions of the Board. Interest from Mittal has been declined. Salzgitter does cooperate with other steel companies, but on a case-by-case basis. A typical example is the cooperation with Tata Corus IJmuiden on Ultra High Strength Steel for the automotive industry.

Hans Fischer:

‘I’m an absolute supporter of the Rheinland model. It guarantees a long-term orientation of trade unions, banks, and all stakeholders, and initiates the development of new innovative ideas’. ‘I recognise in the Asian and Korean model features of the Rheinland model’.

6.1.6 Summary of policies and actions

Summerising the activity of Corporate Strategy results in the following policies:

- Introduction of ACG in the company via the creation of discourse platforms on corporate strategy on central and local level;
- A pro-active attitude on social innovation of the corporate governance process;
- The organisation of the Corporate Strategy discourse as an ongoing process (‘spinning ball’);
- The introduction of the basic ACG policies on the corporate strategy agenda: autonomy balance within ASC, entrance and exit policy,

and ACG company values.

These policies will result in the following actions by the Corporate Strategy staff:

- Monitoring the quantitative and qualitative progress of the discourse process;
- Controlling the balance between careful consideration and the Learning by Monitoring and Micro-Macro methods, taking into account the ‘spinning ball’ character of the process;
- Searching for real change and break through strategies, especially on ACG aspects such as autonomy, entrance and exit option, and company values;
- Initiating and performing control of the discourse platforms between stakeholders, taking into account cultural, social and political differences within ASC;
- Initiating and monitoring the information flow and progress reports to participants of the discourse;
- Initiating participation of economic and social stakeholders who are not yet involved in the discourse process;
- Initiating and controlling the procedural rationality of the process, including decision making, combined with the general acceptable moral constraints of ACG;
- Initiating an active role of ASC in existing associations like WSA and WBCSD.

6.2 Finance

Managing capital needed for planned activities is a crucial function of the Finance Department of each company. There is a lot of capital available around the world but the key-aspect is, of course, the conditions of the capital supply. Capital suppliers and consumers are the two big ‘watchdogs’ for each company, also for a multinational company like ASC. For ASC, with ACG as the driving force within the company, the conditions should fit in the overall governance strategy.

The main aspect for ASC is the long-term approach to its stakeholders as described in chapter 4 and section 6.1 on corporate strategy. That means that the relation with the capital suppliers as important stakeholders should also be long-term and credit-based as much as possible.

The long-term approach in capital supply creates the right conditions for implementation of corporate strategy as explained in section 6.1. It is, therefore, crucial in the excellent performance of ASC.

The merger between Hoogovens and British Steel Company at the end of the 1990s was a perfect example of the influence of financial policies on

corporate strategy. British Steel Company, with its typical Anglo-Saxon short-term finance policies, did not create the right conditions for the development of a corporate strategy. Its management was ‘impressed’ by the first class corporate strategy policies of the Dutch.

6.2.1 Blockholding model

Credit-based financial systems are a well-known arrangement in the steel industry worldwide. Managers are supervised by insiders, concentrated ‘blockholders’, who control large blocks of shares. This blockholder model tightly links ownership and control.

In the German, French, Russian, South Korean and Japanese steel industries large shareholders like financial institutions, banks, or other firms hold substantial blocks. In Germany, the dominant institutions are large, ‘universal’ banks. In France and Japan, we find a combination of commercial banks and long-term credit banks coordinated by state agencies and ministries. In the Indian and Brazilian steel industry, we see blockholding by family networks, and in China, blockholding by state agencies. All these blockholders maintain a long-term relation with these steelmakers.

It is quite remarkable that the ‘family-type’ companies, like Mittal and Tata, with a long-term view on continuity, are among the most successful steel companies in the world. In all mentioned countries, blockholding was a precondition for success of their steelmakers. As mentioned in chapter 2, the long-term character of the steelmaking process asks for a long-term attitude of the financial stakeholders.

The short-term oriented Anglo-Saxon shareholder model does not fit in with this long-term character and leads to insufficient investments. American and British steelmakers became laggards in this industrial sector. Merger with and acquisition by outside- partners became their only possible way-out. Their assets-contribution in these deals was almost literally ‘pieces of scrap’.

As mentioned in section 6.1, an important pre-condition for ACG will be the protection measure against unexpected and unwanted take-over’s by third parties of ASC or parts of ASC. The blockholding model of ASC should provide for this condition. I will refer to the example of Salzgitter Stahlwerk as presented in subsection 6.1.5 as a possible solution for ASC. By signing the Entrance Agreement, the two parties will exchange shares. ASC acquires 10 per cent of the shares of the new member-company, and the new member-company gets 2 per cent of the shares of ASC. In principle, ASC finances the 10 per cent by making available for the new member-company the complete technological knowhow within the ASC Group. The financing of the 2 per cent will be part of the total specific calculation per member-company including the value of the technology package. The combination of ASC and one of the major existing shareholders, like at Salzgitter a local public authority, should hold 25 per cent of the new member-company. Major strategic decisions would

need approval of more than 75 per cent of the shareholders. On the one hand, this provides protection against a take-over by companies like ArcelorMittal; on the other hand, it guarantees the autonomy of the member-company. If a member-company wants to leave the ASC Group, ASC cannot block the decision. Of course, this refers only to the discussion and decision-making by the Board. Use of the exit-option is much more than just an agenda item for the Board. I refer to this in section 6.7.

ASC will be protected at the same way. ASC's member-companies will own a total of 25 per cent or more of ASC, which can be combined with 15 per cent shares of a local public authority. A take-over can be prevented by the member-companies, or by the local shareholder plus five member-companies.

It is obvious that antitakeover practices will be much more complicated and that it needs further research and investigations. However, I am convinced that suitable and more detailed arrangements can be worked out. The Salzgitter case is an existing example.

Most countries provide blockholders with an 'elaborate armamentarium of potential antitakeover practices, including 'poison pills' (of which there are several flavours), 'dead hand' provisions, staggered boards, stock transfer restrictions and 'golden shares' triggered only in contest' (Gourevitch & Shinn 45). 'In most countries, the government imposes a minimum amount of due process to protect minority-voting rights'. 'The commercial code in most countries requires an explicit vote by either the board or a shareholder majority in order to adopt antitakeover provisions' (Gourevitch & Shinn 46)¹¹⁵.

Opinions of financial experts on the effect of antitakeover practices refer almost exclusively to the effect on shareholders value. They take no or only limited interest in other stakeholders. Still, among these experts, there are two different hypotheses fighting for priority: the 'stockholder interest'-hypothesis and the 'management entrenchment'-hypothesis (Van Der Krans and Van Der Kolk 35). According to adherents of the 'stockholder interest'-hypothesis, antitakeover practices have a positive effect on shareholders' value and are useful instruments to protect the interests of the shareholder. They enable board and management to adapt a long-term strategy for the company. Without an antitakeover provision, they have to focus on short-term performance in order to prevent a hostile takeover. Adherents of the 'management entrenchment'-hypothesis state that antitakeover practices have a negative effect on shareholders' value. Management uses these practices to protect their own position at the cost of the shareholders (the 'agency theory' approach). They also state that antitakeover practices decrease the effectiveness

¹¹⁵ The demolition of antitakeover practices in the Netherlands and Western Europe since the 1980s has ended nowadays. In 2004 on European level, the European Committee did not succeed to include a ban of antitakeover practices in the 13th European Guideline (Assers 801). New proposals are not considered.

of the market for corporate control, as described in section 3.2 of this thesis. Empirical research supports the management entrenchment approach (Van der Krans and van der Kolk 35).

Peter Gourevitch and James Shinn link antitakeover practices with ‘minority shareholder protection’ (MSP), provisions concerning information, oversight, control and incentives (Gourevitch & Shinn 40). They state that strong regulations on MSP and high thresholds for antitakeover practices result in higher shareholders value. The ‘MSP-school’ of experts fits into the ‘school’ of management entrenchment- hypothesis.

However, the overview of Gourevitch and Shinn on the link between MSP and ownership concentration shows the huge possible varieties in different countries (Gourevitch & Shinn 51). Of course, the differences correspond for a great deal with the Varieties of Capitalism as described in section 2.4.

I conclude that provisions for antitakeover practices are quite common within all Varieties of Capitalism. The neoliberal approach, e.g. within the EU, of the last decades has introduced many thresholds but could not eliminate these practices. In my interview with Hans Schenk, he stated: ‘I notice a renewed interest and research in upgraded and new forms of antitakeover practices, because of the financial crisis of 2008’.

Therefore, I consider the antitakeover-condition for the development of ASC as a feasible condition. However, it will demand a contextualised approach given the variety of rules and regulations per country and region, and given the variety of shareholders.

ASC and its member-companies have to focus on long-term investors (pension funds, banks, and insurance companies), strategic investors (families and regional and national governments) and interest groups of small private investors with long-term involvement in companies. The antitakeover provisions will keep the ambitions and interest of short-term investors (day traders, hedge funds) on an acceptable level.

I have elaborated on credit-based finance, as an important precondition of ACG. This precondition is wide spread in the steel industry and ASC, as a steelmaker, should try to maximise its credit-based financing basis. The dependency of capital-based financing, if any, should be kept as limited as possible.

There should be two levels of capital supply. First, at central level, handled by the financial specialists at the head office. This office should take care of financing of centralised investments and projects like R&D and control of the overall lines of credit of ASC. They should monitor the overall financial position of ASC and the right balance between the central and the regional investments. Second, capital supply at the regional level for the financing of the local investments of each member-company as key aspect of its autonomy.

ASC has to rely on the quality and loyalty of the employees of the Finance Department and their relationship with the company's financial stakeholders. However, the company's overall economic performance is the key to healthy financial arrangements, in accordance with expectations of the financial world. Without this performance of the company as a whole, it will be difficult for the Financial Department to do their job.

If we refer to Paul Hirst's ideas the financial specialists should try to develop new arrangements based on alternative financial institutions (Hirst, *Associative Democracy* 147). Hirst considers the use of alternative financial institutes as an important instrument to incremental company democratisation. He mentions the following examples: regional investment banks, mutual manufacturing investment funds (non-profit making agencies that resemble building societies for manufacturing and attract ordinary citizens' deposits), and industrial credit unions (where non-profit making firms would bank their short-term trading surpluses and their funds not required for immediate investment). National legislation could greatly favour these funds by giving a privileged tax position to investors and institutions. Civil society should support the promotion of these funds. As examples of this support, Hirst mentions 'the religious interest in ethical investment and the environmental interest in promoting the use of renewable resources and earth-conserving technologies' (Hirst, *Associative Democracy* 148).

Of course, a lot has changed since Hirst developed his ideas at the end of the last century. The financial world has become very international since then. Even local players like the Landesbanken in Germany jumped on the 'haut finance' wagon and tried their luck on the international financial markets. The results were disastrous and the German government had to intervene. Until now, mutual manufacturing investments funds and industrial credit units were unknown alternatives.

There are, however, new developments in the financial world that can be of interest to ACG. Where Hirst talks about 'alternative financial institutions', we could now add the alternative of investors who call themselves 'sustainable investor'.

6.2.2. Sustainable investors

Sustainable refers in this case not only to environmental aspects of the investment, but also to moral aspects such as labour conditions and child labour. The non-profit-making feature was not successful, the regional aspect is limited, but the growing support of the civil society is a serious fact and goes far beyond religious and environmental interests as noticed by Hirst. In addition, the national legislation of the privileged tax position for individual investors is an accepted instrument. The origin of these sustainable investors is the growing interest in ethics and investment (Jeurissen 241). Herein, we can

distinguish two types of investors. First, 'direct' or morally oriented investors (banks, investment funds and insurance companies) who are aware that they too have to take responsibility in subjects such as climate change, biodiversity, arms trade and labour conditions.

Second, 'indirect' or financially oriented investors who care about the financial implications of undesired behaviour or activities. They are afraid of aspects such as environmental claims, lower attractiveness for qualified staff and a diminished reputation, which will have negative influences on key performance indicators such as 'economic value added' or 'discounted cash flow'

The ASC's Financial Department has to face both groups, although ASC prefers to deal with the morally oriented investors. Still, they probably have to face distrust in the financial world on economic performance of a company governed by ACG, and supply of decent and transparent information to the financially oriented investors is a necessary task of the Financial Department. Either way, the requested transparency is a key element of attracting both types of investors.

During the last decade of the last century and the beginning of this century, most ethical funds evolved into so-called sustainable investment funds. These funds take ecological, social, and governance aspects, the so-called ESG- criteria, into account. In principle, each fund has its own criteria, but they all refer to well-known international standards.

The ASC's Financial Department should be orientated towards the most common already existing standards:

- The OECD Guidelines for Multinational Enterprises;
- The UN Global Compact, PRI (Principles for Responsible Investment);
- The IIGCC (Institutional Investor Group on Climate Change);
- The ILO Tripartite Declaration of Principles concerning multinational enterprise and social policy.

There is a steady growth in the number of investments and the amount of capital invested in sustainable investment funds. The availability of 'alternative financial institutions' as mentioned by Hirst has become a much more realistic road than he could have hoped for.

Pension funds are important suppliers of investment money for sustainable investors. Pension funds controlled by employees or beneficiaries are on the forefront of movements for improved corporate governance (Gourevitch & Shinn 239). Their only mission is the managing of the assets of the pensioners. They are not exposed to the temptations of institutional investors to ally with corporate chieftains whose business they aggressively seek. If they take an active stance and show up in shareholders meetings, they can influence the corporate governance of corporations.

Pension funds use the following five instruments for judging and influencing sustainable investors:

1. The first and most aggressive instrument is ‘exclusion’. This instrument is used if products and processes of corporations are in defiance of international agreements or conventions. This is the heaviest and most straightforward instrument and often difficult to justify;
2. The use of the previously mentioned ESG-criteria. Investors that signed the UN Principles for Responsible Investment have to use ESG-criteria in their investment decisions. In order to use ESG-criteria, information gathering on corporations’ sustainable behaviour is needed. This information can be bought from specialised research institutes. A different approach is participation in the Enhanced Analytics Initiative, a coalition of investment bankers and pension funds that try to influence financial analysts to spend more time on and give more attention to ESG-criteria in their reports;
3. *Third*, and truly fitting into the associative philosophy, is ‘engagement’. The active stance is shaped by pursuing a dialogue with the corporation on the corporation’s governance principles outside the shareholders meeting or boardroom. Willingness to enter into dialogue is considered as a positive sign;
4. Active presence at shareholder meetings. By submitting shareholder resolutions on ESG- subjects, the governance of the corporation can be influenced in a more sustainable direction;
5. Active investment in companies that can be considered as frontrunners in sustainable projects like innovative clean technology, sustainable energy resources, etc. The return on investment is often too long for commercial banks. ASC should present itself as frontrunner in renewing corporate governance and Industrial Democracy.

By using a mix of these instruments, pension funds can really influence the policies and behaviour of the financial world.

The importance of sustainable investors is growing very rapidly¹¹⁶. Trade unions, as participants in many pension funds, recognise a second front in their negotiations with management, in addition to the empowerment instruments of Industrial Democracy. The rise of sustainable investment funds can mainly be found in Western Europe and the US, although examples of improved corporate governance as a result of pressure from pension funds controlled by employees or beneficiaries can be found in Chile, Malaysia and Singapore (Gourevitch & Shinn 239).

Hirst's final aim, 'the rebuilding of the institutions of economic ownership', is still far away. However, the coming into existence of the 'indirect' financially oriented investors shows the growing strength of the 'direct' group.

The Finance Department has to present a distinct sustainable profile for ASC. One of ACG's key elements should be the feedback between the overall performance of ASC and the Finance Department. Employees of M&S, Operations and all other key activities should learn about the way they influence the attractiveness of the company to the investors. They should be aware of the possible and impossible acts of their colleagues in the Finance Department. In order to meet the requirements of sustainable investment funds, ASC should report its performance by using the Global Reporting Initiative (GRI) guidelines, as noted in subsection 6.1.3. The G3 guidelines refer to reporting by corporations on their current practices of community performance and impact. The most recent report was published in 2008 and shows the impact of corporate activities in local and regional environments. These guidelines are of great importance to ASC, given ASC's company values. The social embeddedness of ASC members should result in high scores on these guidelines.

Another measure should be to present ASC as a member of WBCSD, as I discussed in the 'corporate strategy' section. The Financial Working Group of WBCSD focuses on influencing the capital markets on sustainable aspects. Besides this, ASC should show up on the Dow Jones Sustainability World

116 I refer to three important frontrunners. First: the Government Pension Fund-Global of Norway, the biggest pension fund in the world. It has worked with Ethical Guidelines since 2004. A *Council on Ethics*, consisting of scientists, judges the performance of companies. Companies like Raytheon, United Technologies, Rio Tinto, and Wal-Mart were already excluded from investment. Source: Government Pension Fund Norway. 2 August 2010. <<http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund.html>> Second: CalPERS, the California Public Employees Retirement system, the second largest pension fund in the world. They have outspoken ESG-criteria. Source: CalPERS. 2 August 2010. <<http://www.calpers.ca.gov/index.jsp?bc=/investments/home.xml>> Third: Eurosif, the European Sustainable and Responsible Investment Forum. Their members' sustainable investment funds try to promote sustainable investments. Source: Eurosif. 2 August 2010. <<http://www.eurosif.org/media/latest-news/item/488-eurosifs-corporate-pension-funds-sustainable-investment-now-available-to-member-affiliates>>

Indexes, as noted in section 6.1. This index reflects the growing demand on sustainable funds and the development of a measurement scale on sustainability.

There are a few complicating aspects for the Finance Department. First, the normal procedure of the Financial Department will be, given the long-term arrangements, to contact their blockholding partners if ASC needs new investment money. In my interview with Frank Brouwers, former Director Finance Corus, he states: ‘The preference will be to ask for a loan or a new long-term line of credit’.

Normally, there is no direct contact between the Finance Department and sustainable investors. Only if, after consultation with the Finance Department, a blockholding partner, like a commercial bank, contacts outside investment bankers for market-based financing arrangements, sustainable investment funds can become involved. ASC should match its corporate strategy with interested sustainable investors. Both parties should be aware of each other’s expectations, with no surprises.

Second, the opinions on the role and strength of sustainable investors vary greatly. Despite all the attention on sustainability, many experts do not believe in a real breakthrough in the financial world. In my interview with Frank Brouwers, he states: ‘Sustainable investors should be and will be just a marginal phenomenon. I never had to complain about the interest of regular merchant banks and investment banks. They like the cyclical character of the steel industry: they love it! They are just interested in the stock exchange business’.

Third, pension funds limit themselves or are limited by their board of trustees in the percentage of investment per company or per industrial section (Engelen 183).

This should be a point of further research to study this aspect of ACG.

6.2.3 Other funds

Hirst expected that the democratising conditions of associative governance would ultimately open up the possibility of Employee Share Ownership Schemes (ESOPs) (Hirst, *Associative Democracy* 148). I am not convinced that ESOPs really fit into the associative philosophy. Until now, the application of this instrument has been mainly limited to the UK and the US, and the gap between theory and practice of ESOPs is substantial¹¹⁷. This raises questions concerning the feasibility of this instrument. However, that is not my main concern. It could be possible to close the gap gradually by further experimentation and adaption. In particular, I question whether an ESOP brings more to the table if a corporation applies the associative corporate philosophy. Engelen mentions four advantages of ESOP for the employees:

¹¹⁷ For an extensive overview of theory and practice of ESOPs, see Engelen 197.

more influence on strategic decisions, more commitment, preservation of qualified jobs, and creation of capital and the possibility to share in the company's financial results. (Engelen 200).

Considering these advantages, introduction of ACG already takes care of the full empowerment of the employees. This includes participation in the corporate strategy of the company. The philosophical background of the associative approach is the commitment and motivation of the participants. The Works Councils handle the creation and preservation of jobs. The transparent and reasonable sharing of the company's results is part of the ACG- policies. Profit sharing by employees will be standard practice. Therefore, there is no urgent need for implementation of ESOPs. However, it should be on the agenda for further study.

The 2008 ESOP-study by SNPI, *Stichting Nederlandse Participatie Instituut* or Dutch Participation Institute, contributes to further scrutiny. Different authors highlight vision and practice. Paul De Beer refers to the positive contribution of ESOP to long-term commitment of stakeholders and participation practices (SNPI 20). He also underlines the positive aspects on the financial position of the company. The introduction of ESOP lowers the dependency of external funds. However, most important according to Paul De Beer, it will contribute to a necessary decrease in the tension between the factor capital and the factor 'labour'. Fred Huijgen states that there are serious indications that EPOS can result in improved direct and indirect participation practices. Like Paul De Beer, he underlines the increased commitment of employees to the company and to the multi-stakeholder approach. He considers it as a 'useful weapon' to 'shareholder capitalism' (SNPI 30). Wout Buitelaar puts emphasis on the double role of employees as 'shareholder and stakeholder'. He considers this a positive step in the further development of Industrial Democracy or 'economic citizenship' (SNPI 45).

This all means that implementation of ESOPs fits in with ACG and eventually can be a useful instrument in the further development of ACG.

The Finance Department should assist ASC's regional member-companies in organising their local investments via local investors. On this regional level, the associative idea of regional networks can be established via regional blockholders and financial institutes. In addition, the local pension funds and the local political forces should play an important role. Here, we can really develop the regions as described by Philips Cooke and Kevin Morgan (Cooke and Morgan)¹¹⁸. See section 4.2.

Using Learning by Monitoring, the financial specialists should develop a healthy balance between local and central financing. The learning of

¹¹⁸ Recently the Dutch government asked pension funds to increase their investments in the 'region' of Holland.

one ASC member-company, well monitored and reported within ASC, can be of great value to other member-companies. Via Micro-Macro the right micro example in one region can become the macro approach within the whole company.

A centralised investment could be the R&D budget or the investment in new technologies being of value for each member-company of ASC.

If local institutes cannot fulfil the local investment needs, a mix between local and central financing (70-30 or 50-50 per cent) can be considered between central and local finance specialists.

Prior to September 2008, private equity funds and their role on the financial market was already a 'hot' item, from a financial, political and social point of view.

Private equity funds provide a large potential circuit for private blockholders to sell down to foreign portfolio investors. 'Private equity funds purchase control from private blockholders in private transactions, and then they may repackage or relist parts of these firms on local exchanges or even on global equity exchanges. These funds are largely subscribed by the same Anglo-American institutional investors who also hold large amounts of foreign equities' (Gourevich & Shinn 110). Private equity funds and especially the speculators amongst them - hedge funds - are often referred to as 'vultures' or 'grasshoppers' and usually use the leveraged buy-out method as financing method. The high percentage of failures in the classic mergers and acquisitions during the last decades created a market for these funds. They were able to present themselves as 'clean-up' specialists, cleaning-up the mess left behind by incompetent managers. They bring 'winds of change' to organisations that show features of 'inbreeding' culture and narrow-minded 'insiders'. Their interest is per definition short-term-oriented, not more than a couple of years, and it is obvious that ACG with its stakeholder policy does not fit within their strategy. Representatives of these funds will not join participation platforms. Their behaviour and targets do not fit in with the stakeholder philosophy; they are only interested in shareholder value and high financial performance on the short run.

An important activity of the Finance Department is a watchdog function on this phenomenon. ASC should not become involved in this type of private equity, which is quite a complex task with no easy solution. The possibilities to keep these funds out of the company finances are limited. Of course, the best way will be to convince ASC's blockholders not to sell their shares to these funds. This could be a problem if a blockholder 'e.g. a state or a family,' needs money', or if the temptation to sell their share becomes too big. ASC's financial stakeholders should develop a code of conduct for cases, e.g. the obligation to offer its shares first to sustainable investors, of course within reasonable limits. September 2008 changed the operational

opportunities for the funds. Suddenly, politicians and economists became aware of the economic and social results of their policies. I refer to section 3.3. An extensive debate has started on how to control and regulate private equity funds. National governments are considering creating rules and regulations in order to increase control on their performance. Not only private equity funds, but also the financial world as a whole is under great pressure from politicians and public opinion to change their performance and organisation. However, it is a two-way street. Likewise, politicians are recently under great pressure to change their performance and to react clearly and honestly to financial issues. It is too early to draw any conclusions as to the outcome. Without a doubt, however, it will have a positive result on the growth of sustainable investment funds, which increases the possibilities of ASC's Finance Department, to realise their contribution to ACG.

6.2.4 Summary of policies and actions

The Finance Department's policy, both central and local, as an important tool of the ACG philosophy, will include a number of objectives:

- To maintain and further improve the long-term relationship with blockholding financial partners;
- To arrange protection measures against unexpected and unwanted take-over's by third parties of ASC or parts of ASC;
- To increase the attractiveness of ASC for sustainable investors in order to create the opportunity for its blockholders to involve these investors in the company. ASC should seek the right sustainable investors that fit into the corporate strategy (Janssen, Roel); ¹¹⁹
- To create the right balance between central financing by ASC and regional financing by the member-companies of ASC.

Subsequently, the resulting actions will be useful:

- To organise the necessary financial means for all ASC- activities;
- To maintain and monitor the relationships with the blockholding financial partners;
- To construct the protection against unwanted take-over's via shareholders arrangement;
- To monitor the overall financial position of ASC, and to report in accordance with GRI Guidelines;
- To present ASC to sustainable investors according to their ESG-criteria;
- To assist as much as possible in the day-to-day necessary measures resulting from the WBCSD membership;
- To try to score on the DJSI World index;
- To create close cooperation between central and local financial

¹¹⁹ Interview with Peter Blom, CEO Triodos Bank in NRC Handelsblad of 14 April 2007.

specialists in order to shape the ACG financial features, and to assist and balance the financing demands within the company.

6.3. Supplies

Procurement and handling of all necessary resources are summarised under the name '*supplies*'. It is standard practice within the steel industry that supplies are split up in two categories, handled by two different departments:

- Raw materials such as iron ore, coal and energy;
- Medium and smaller supplies: equipment, construction materials, and commodities.

Within multinational companies, centralised procurement of resources is very popular. The higher the volumes, the higher the pressure on the suppliers. It is even one of the main reasons for the recent mergers and acquisitions in the steel industry. Especially the shortage on raw materials like iron ore and coal and the limited amount of suppliers demand concentration on the buyer's side. Also for other supplies, volume increases play an important role. The price advantages of this policy go to all subsidiaries.

What will the influence of ACG be on this approach? Why should ACG lead to any changes?

6.3.1 Raw materials supply

The procurement of raw materials is an activity, characterised by spending large amounts of money, handled by only a relatively small staff. The price of raw materials like iron ore, coking coal and energy, can be a considerable part of the total cost price of a product, especially in the steel industry.¹²⁰ For that reason, the department handling the procurement of raw materials enjoys lots of attention from higher management. The general attitude and opinion is that every euro or dollar that can be saved in procurement, contributes directly to the overall result of the company. It is considered 'easily earned money'. To earn the same amount of money via an increase of efficiency of the production process is much harder. This is especially the case when it concerns raw materials where there is no 'high-level' technological link between the procured material and production processes.

Especially during the last decade, the shortage of raw materials, resulting from the growth of the Chinese steel production, has become a point of real concern and of extreme price increases. An additionally disturbing factor for the buyers of iron ore is the concentration of supply in the hands of just three mining companies, as noted in section 1.3. Steelmakers are wrestling

¹²⁰ The costs of iron ore and coal as raw materials counts for 80% of the cost price for liquid iron, the base for producing crude steel.

with each other to try to arrange long-term contracts with these suppliers. Here, good stakeholder relationships are a must for the steelmakers. Given the market situation and the amount of money involved in the procurement of raw materials, it is obvious and understandable that procurement of these materials is handled by a centralised department. In this way, at least the negotiating power can be increased.

Nowadays, the answer is also found in diversification of steelmakers in the field of mining ('upstream consolidation'). As already explained in section 1.3, they try to become shareholders of iron ore mining companies, and of coal mining companies, in order to secure their supplies of raw materials for the future. In the recent mergers and acquisitions, this also plays a major role. Corus was pleased to become part of the Tata Group given the available iron ore facilities within the Group.

The future will tell whether this trend is the right approach. In the 1970s, there was the same move into this industry, but it did not work out. Most participation was de-invested. Concentration on the 'core business' was the main reason to move away from this trend.

The financial crisis of 2008 changed the picture for a moment. Iron ore suppliers decreased their capacities and lowered their prices. However, as it worked out, just for a very limited period. Prices recovered very fast and we are back to a situation as before the financial crisis.

In the first place, ASC has to consider the position of suppliers as external stakeholder. However, the associative philosophy cannot pass over the broader institutional context of raw material supplies. I discuss both aspects.

In principle, all suppliers of ASC, including the raw material suppliers, are stakeholders of ASC and should be involved in ASC in accordance with its associative character. In reality, the actual relationship between steelmakers and raw material suppliers is, given the shortage on resources, a pure one-sided relationship. Steelmakers have to fight on the market to guarantee the availability of their raw materials. They are glad to keep the production process running. In this one-sided relationship, there is no real space for developing the right conditions for a stakeholder approach. Suppliers are not interested in becoming too involved with any specific company. They just sell their products against the highest prices and consider themselves to be in the middle of a 'super cycle'. Until the end of 2008, the sky was their limit (Depuydt, *Prijzsvorming*).¹²¹. As previously mentioned, the financial crisis

121 Consider the following two examples: 1) in August of 2008, the Chinese steel industry announced it was renewing contracts with Rio Tinto, the British-Australian supplier of iron ore. The price increase for the period 2008-2009 was 96, 5%; 2) the price of coke increased from \$100 to \$300 dollar per tonne in one year. (Source: NRC Handelsblad, 25 June 2008 (Depuydt, *Prijzsvorming*)).

changed this picture only for a very limited amount of time. Prices are again on the same level as before the crisis.

The only possible aggressive way for a steelmaker to establish a closer relation with the suppliers is to become a shareholder straight away (ArcelorMittal).¹²² The conditions for the associative approach under these circumstances are simply not there. ASC can try to keep its relationship with the major suppliers as open as possible, but they cannot do this without the cooperation of the suppliers. Perhaps a future change in market positions can change the conditions. The drastic production cuts in the autumn of 2008 by the major steelmakers, recent acquisitions of mines by steelmakers, development of new mines and the decline of economic growth in China will influence the market and the relationship between supplier and customer. ASC should keep an eye on it and keep the associative stakeholder approach ready at hand.

In general, when suppliers show interest in a more associative relationship with ASC, they should be aware that at the end of the day they have to meet the ACG company values. These values will refer to the existence of acceptable labour conditions and human rights within the facilities of the supplier or sub suppliers. In the case of raw material suppliers, the market conditions make it almost impossible for ASC to discuss labour conditions and environmental issues with mining companies. Steelmakers are not in the position to argue with their suppliers on these issues given the shortage on raw materials and the threat of production cuts if they do not procure on time. Unfortunately, labour conditions and environmental issues in the mining industry are quite an issue and should be high on the agenda (Ministry).¹²³ In practice, they often stay low on the agenda.

Therefore, whatever the progress may be in the associative philosophy on all other activities, ASC has a long way to go in the field of raw materials. Still, progress is possible. ASC has to open the dialogue within the World Steel Association on this subject. ASC should try to put in on the agenda of this association and should try to initiate an open dialogue with the suppliers.

122 ArcelorMittal wants to become shareholder of Rio Tinto; it increased its share in MacArthur Coal in Australia from 14,9 to 19,9 %; it acquired three coalmines in Russia. Source: NRC Handelsblad 30 June 2008 (ArcelorMittal) Other acquisitions in mining companies were made in Kazakhstan, Ukraine, Algeria, Bosnia, Mexico, Canada, USA, Brazil, South-Africa, Senegal and Liberia. In 2008, ArcelorMittal's own mines cover 45% of the necessary raw materials. ArcelorMittal wants to increase this percentage to 75% in the future. However, the financial crisis of 2008 has delayed further investments. The future is far more uncertain than expected until recently.

123 The Government Pension Fund of Norway, the biggest pension fund in the world, put Rio Tinto on their 'black list' in 2008 due to contributing to severe environmental damage. According to the Council on Ethics, the Fund runs an unacceptable risk of contributing to severe environmental damages and serious or systematic violations of human rights. Rio Tinto will also be excluded from any investment because there are no indications that the company will change its attitude in the future and because the company shows no interest in a reasonable dialogue on the problems. (Source: Press release of the Ministry of Finance Norway, 9 September 2008).

ASC can start the dialogue within the association by referring to the sustainable policies of the association as formulated in its Sustainability Reports. The sustainable indicators already formulated by the WSA in their 2005 and 2008 reports, are a perfect starting point for this initiative (World Steel Association, *Steel*):

- Policy statement IV: ‘demonstrate social responsibility by promoting values and initiatives that show respect for the people and communities associated with their business’.
- Policy statement V: ‘conduct the business with high ethical standards in their dealings with employees, customers, suppliers and the community’.
- Policy statement VI: ‘engage their stakeholders and independent third parties in constructive dialogue to help fulfil their sustainable development commitments’.

In my earlier mentioned interview with Ian Christmas, Director General of the WSA, he makes a few remarks on the three policies:

‘First, I consider the real meaning of ‘corporate social responsibility’ as not clear. Companies are part of their surrounding society and have to fulfil certain responsibilities. The translation of this policy in real measures depends strongly on the social environment. Steel companies operate under different Varieties of Capitalism and economic models. Second, the statement in relation to ‘ethical standards’ is still fresh and undefined. A discussion could help to take the first steps in translating this statement in a practical measure. In addition, there will be leaders and laggards. Third, with stakeholders the report means local unions, local authorities, suppliers, customers, but no NGOs or independent third parties. NGOs are considered as problematic parties, given their attitude and their internal, very often undemocratic, governance. Examples of independent third parties are financial and environmental auditors’.

In my opinion, these remarks show the necessity that ASC takes the initiative within the World Steel Association to ‘translate’ these statements into real workable conditions for the members of the association.

6.3.2. The broader institutional aspect of raw material supplies

I give special attention to the broader institutional aspect of raw material supplies. The mining of most of the raw materials takes place in the developing countries of this world. One of the key issues of ACG is the ambition to contribute to international justice via UN programs or other international initiatives. The ownership and use of the world’s resources of raw materials is a key element in political and ethical dialogues on world justice. In principle, the benefits of these resources should be distributed among all people of this world. It is beyond all logics that ownership of resources is determined by

the pure coincidence of being born on top of these resources. One of the most outspoken advocates of this viewpoint is the American philosopher Thomas Pogge:¹²⁴ ‘What entitle global elite to use up the world’s resources on mutually agreeable terms while leaving the global poor empty-handed?’ (Pogge 202)

However, the political reality is that the ownership and use of these resources are key issues for and instruments of almost every politician worldwide. To plea for changes directly is a ‘mission impossible’. The recent discussions and the political game in relation to the North Pole resources are the latest examples of unchanged positions and viewpoints. In order to take a first small step in the right direction, Pogge proposes the creation of a ‘Global Resources Dividend (GRD)’ (Pogge 196). From every transaction in natural resources, a dividend should be donated to an international fund for the fight against poverty and environmental problems. This fund should be managed and controlled by the UN. Pogge comes up with examples related to oil transactions, but in our case, it will be related to transactions in ore and coal for the steel industry. It can even be connected to the procurement or use of energy by the steel industry. The recent international discussions and organisation of CO₂ certificates is a typical example of an attempt to find a suitable financial answer on a worldwide threat. Many environmental specialists and politicians consider poverty a bigger threat for the environment than global warming.

Mining of iron ore and coal takes place in many developing countries but also in rich countries like Australia and Sweden. ASC should introduce GRD within the WSA and should try to find support amongst colleagues. It should come up with a practical approach and in order to show its commitment. Initiatives by ASC to formulate a GRD policy are a logic element in the sustainable policy statements of the association. This initiative should be the first responsibility of ASC. If the initiative does not create real support from other steelmakers or if the discussion drags on without real progress, ASC should start up its own GRD initiative, along the lines of ACG’s realisation-focused perspective, as described in chapter 4.¹²⁵ The introduction of the GRD policy within the WSA seems to be an example of transcendental institutionalism. In chapter 4, I explained why ASC should stay far away from such an approach. However, in this case, I consider it useful and practical to start up the discussion on GRD within the WSA. It will massage the thinking of WSA members and will place the initiative of ASC in the right perspective.

124 Thomas Pogge is Associate Professor in the Department of Philosophy at Columbia University. He published many articles and books on world justice. Here, I am referring to his book *World Poverty and Human Rights*, (Pogge).

125 ASC can start with a GRD of 0,1% on each tonne of iron ore procured on the market. Supposing an annual production of 25 million tons of crude steel, resulting in procurement of 34 million tons of ore against an average price of \$120, means an annual GRD of approx. \$4.million. If 40% of the WSA members should support the initiative this number could grow to \$ 60 million.

Discussions within the WSA organisation can be reactivated after ASC's first reports and results. As a first step, the fund can be operational within ASC, and representatives of ASC's member-companies located in developing countries should manage the fund. They can judge the right way per country to channel the money in a decent and correct manner, given their embeddedness in the local regions. Another possibility is to outsource the distribution to one of the UN organisations. Although this looks more practical, the internal handling is more motivating and direct to the employees of ASC. ASC can combine Pogge's GRD idea with Noreena Hertz's idea of National Regeneration Trusts (Hertz, *IOU* 213). These trusts are managed by representatives of local NGOs such as trade unions, churches, female organisations and environmental groups.

The initiative will be limited but realistic and practical. It appeals to ASC's stakeholders and the positive results will be in ASC's direct local environments. This gives the initiative human dimensions and the necessary local feelings and support. In future steps, it can be extended to other countries or players.

6.3.3. Other supplies

Once again, as with the supply of raw materials, it is important to highlight the contribution of this part of the business to the philosophical idea behind ACG.

Also for ASC member-companies, the 'high volume' approach of ASC as a multinational company is of interest. It is one of the advantages for a company to join ASC. However, the focus on high volume should be balanced with the advantages of more regional or local supply. If a company becomes part of a multinational company, the procurement activities of the new subsidiary will be screened and stripped in accordance with the rules of the new owner. Sometimes the mother company discovers attractive suppliers to the acquired company, who, until then, were unknown by the procurement department of the mother company. ACG asks for a more sophisticated approach to this aspect. ACG strives for the strong regional development of its members. That means that existing local relationships between a new member-company and local suppliers have to be respected. It is against the ACG policy to drop the local supplier only because there are cheaper alternatives somewhere else. The head office will ask the local management to start consultation with the existing supplier by confronting them with the opportunities of new possible suppliers from abroad and to start a dialogue on how to adapt to the situation. A new equilibrium should be created: the negative aspect for existing suppliers of a 'threat' from abroad should be balanced with the 'opportunities' of the existing suppliers for potential new clients within the ASC network. It should lead to fair compromises without damaging the long-term relationship in the region and the reliable image of the ASC member-company in the region.

The balance between centralised and decentralised supplies within

ASC will also be different from other multinational companies. ASC promotes supplies as close as possible to the plants as part of the associative philosophy of increased social embeddedness of ASC. It leads to an increased consultation between supplier and user, resulting in an increased process performance.

In order to learn about the latest leading aspects of ‘supplies’ as a discipline, I interviewed Evert Castelein, Director Supplies Mainland Europe Tata Steel Europe Strip Products. He states:

‘Leading aspects of my discipline are ‘low cost country sourcing’, ‘e-procurement’, ‘category- input’, ‘spend analysis’, ‘energy’, ‘all-in outsourcing of maintenance’, ‘total-cost-of ownership’. I do advocate to locate the supply-function as close as possible to the site in IJmuiden’.

ASC’s ‘close to the client’ policy fits perfectly in the ‘*total-cost-of-ownership*’ (TCO) policy, as mentioned by Evert Castelein. TCO or ‘*value and use*’ refers to the total costs of the chain supply-maintenance-performance, instead of just ‘easy’ focusing on the cost of supply.

As a typical example of TCO, Evert Castelein mentioned the process oriented supply of lubricating oil and refractories:

‘Talking about TCO, I can mention the example of the supply of lubricating oil for the rolls of rolling mills. Some oils are half as expensive as others are but lead to an increased wearing of rolls and increased volumes of oil. Consultations by specialists from both sides will result in an overall cost reduction for the company. A second example is the supply of refractories. Procurement of low quality refractories will lead to low direct costs of supply but to decreased lifetime of installations with high production and maintenance costs. Exchange of knowledge and ideas between refractory specialists from supplier and user will lead to lower total costs. The supplier will become a real stakeholder of the company’.

In order to decide ‘what should be procured and where’, ASC adapts two other modern aspects of the Supplies discipline: ‘category input ‘and ‘total maintenance outsourcing’.

Category input means the clustering of supply packages in global, regional and local packages. A raw material is a typical example of a global package, cleaning services of a local package. ASC will ask the Supplies Departments of its members to develop such a clustering of packages taking into account the associative approach of the company.

Total maintenance outsourcing tries to develop a strategy on outsourcing of maintenance. It tries to answer the question: which part of maintenance services should be outsourced and which part should be kept

‘in-house’? Services that are crucial to the company such as knowledge-based activities representing direct typical know-how should be kept in-house.

In order to develop the ASC-strategy on *category input* and *total maintenance outsourcing*, ASC organises a dialogue between all stakeholders – representatives of the Supply Departments of its member-companies, of the Central Supply Department, and of main suppliers – on a continuous basis. The associative aspect of ACG, the social embeddedness of the member-companies, puts more emphasis on the importance of regional and local supply, without neglecting the ‘high volume’ aspect of global supply. It is a matter of the right balance.

TCO should give a constant feedback on actual results of the chosen balance. Once again, the Learning by Monitoring method will be the only workable approach. Circumstances will change constantly and will ask for a constant update.

ACG advocates the involvement of all stakeholders; in this case, it advocates the involvement of all suppliers to ASC. It is obvious that including all suppliers is impossible. Nevertheless, a start should be made somewhere. In order to determine the first step ASC has to establish the right platform for a dialogue between stakeholders on this subject. As mentioned before, ASC also has to organise a strategy on *total maintenance outsourcing* and *category-input*, on TCO and spend analysis. Many other aspects of Supplies will ask for discussions and involvement of specialists and stakeholders. In order to develop these activities and to monitor progress, ASC assigns a Central Supply Team to cover all aspects of Supplies through the whole company. Member-companies are representatives of the Supplies Department of ASC members, of the Central Supply Department for raw materials, of a few of the most outspoken and long-term suppliers of the company and of the production and maintenance departments. The team assigns working committees for each aspect of the business as described. In relation to the start-up of stakeholder involvement, the team could advise to start on ASC-level with a group of ten stakeholders: three from the raw materials area and seven representatives of other important supplies such as refractories, energy or ICT-equipment.¹²⁶ ASC member-companies should develop their own Local Supply Teams for the involvement of stakeholders on local or regional level.

All suppliers of ASC have to meet the ACG standards of the company. These standards refer to the existence of acceptable labour conditions and human rights within the facilities of the supplier or sub-suppliers. Suppliers with a long stakeholder relationship with ASC are part of the coordination meetings with the relevant NGOs. Labour conditions have to meet the ILO standards on labour conditions; the environmental policy of suppliers has to meet reasonable standards as discussed within the coordination meetings

¹²⁶ It will be no surprise for the supplier of safety gloves or office commodities, not to be invited in the first rounds.

of the environmental NGOs. These types of initiatives fit very well into ACG's Learning by Monitoring and Micro-Macro methods. Specialists try to formulate reasonable and possible steps forward. Every step will be monitored and will deliver points of concern and interest to move to a next step. Successful initiatives by one member-company can be copied by other member-companies and can result in an overall policy of the company.

It should be noted that ASC has to consider the relationships with suppliers as a two-way traffic situation. A lot will be asked from the side of the supplier. However, that also means that ASC has to show its interest and concern about the outcome of the cooperation. ASC has to fulfil the role of reliable and trustworthy client. ASC cannot switch suppliers overnight without any warning or reason. If the supplier does not maintain its performance because it considers ASC as a 'fixed' client, ASC should warn the supplier and give it the possibility to improve its performance. If the supplier does not react adequately, ASC can decide to switch to another supplier.

Three new developments support ASC's associative long-term approach (Van Ede 30):

1. An increase in outsourcing of services;
2. The consolidation and specialisation of suppliers;
3. The shortage on raw materials.

These developments change the nature of the relationship between customer and supplier. Customers become more dependent on the willingness of suppliers to supply excellent services. Suppliers start to develop a preference for '*best clients*'. They prefer to share their new developments with highly respected clients. The insight that there is a mutual dependency gains ground. Recent research shows that attractive clients respect and trust their suppliers (Van Ede 31). Cooperation on product development is one of the important issues in creating this trust and respect. Clients try to become the 'customer of choice'.¹²⁷ All of this requires a long-term, stable approach to the relationship between customer and supplier. Trust and respect grow slowly.

Although this seems a promising development there is yet another side to the issue: 'low cost country' sourcing is a hot issue for many steel companies. The background of this policy is purely price driven. Ethical aspects as part of an overall Corporate Social Responsibility hardly play a role. According to Evert Castelein:

'There is just a limited or no control on labour conditions in case of equipment and commodities procurement in China or India. In the most favourable case, the choice of a supplier in a low cost country is made after a few orientating visits to the workshops of the potential supplier. If the conditions are judged

¹²⁷ Companies like Philips, IBM, Ikea, Nokia, Atlas Copco and Honda periodically measure the 'supplier satisfaction'. (Van Ede 31)

as reasonable and if the organisation of the workshop is judged as sufficient, supplies can start. It is obvious that these types of supplies are limited to commodities that are of no direct influence on the production process, e.g. simple mechanical equipment like steel pouring ladles. There is no need to deepen the relation by considering these suppliers as potential stakeholders of the company. There is also no systematic follow-up or control on labour conditions and human rights aspects’.

Translation of CSR in corporate sustainable supply management is still a ‘point of interest’ and no reality. Corporate ‘chain management’ and ‘chain responsibility’ is still a rare phenomenon in the steel industry compared with other industries. ASC develops the right characteristics for ‘chain organisations’ in order to shape ‘chain management’ and ‘chain responsibility’. ASC fulfils a vanguard position in the steel industry on these aspects. In section 6.7, I will elaborate this policy.

6.3.4. Summary of policies and actions

ASC should develop a policy of long-term relationships with suppliers in order to fulfil the requirements of ACG on associative and sustainable aspects.

ASC suppliers have to meet the ACG standards of the company. These standards refer to the ASC company values, ‘translated into the need for acceptable labour conditions and human rights within the facilities of the supplier or sub-suppliers

In developing ACG- supply policies, the following actions should be initiated by the Supply Departments:

- ASC has to open the dialogue within the WSA concerning the responsibility of steelmakers for labour conditions and human rights in the mines of their raw materials suppliers. ASC should try to put it on the agenda of the WSA and should try to initiate an open WSA dialogue with the relevant suppliers. ASC can start the dialogue within the association with reference to the sustainable policies IV, V and VI of the association;
- ASC has to start a dialogue within the WSA on the creation of a Global Resources Dividend (GRD). ASC will open this dialogue by creating a first realistic GRD approach within ASC;
- ASC starts to organise the introduction of suppliers as involved long-term stakeholders on a central and regional associative level. Total- cost-of- ownership, category -input and total maintenance outsourcing policies should reflect the associative approach;
- ASC has to develop the right balance between high volume centralised supply and local supply as part of the social embeddedness of its member-companies;

- ASC has to introduce corporate sustainable chain management and chain responsibility, including low cost country sourcing policies.

6.4. R&D

One of the major aspects of R&D in the steel industry is the ‘long breath’-character. Technological developments are expensive and show a long lead-time compared to other industrial sectors. New developments and innovations, either process-wise or product-wise, do not come overnight because of a sudden brainwave from a brilliant employee, as is possible in the ICT industry.

In the steel industry, technological innovations are always a result of long-term oriented work by experienced specialists in the labs or in the plants. In my interview with Jean-Claude Charbonnier, Secretary General of the ESTEP, he uses the term:

‘Steady grinding of specialists with long-term experience’.

This fits perfectly within ACG’s long-term approach to long-term employment agreements and relationships built on trust and loyalty.

One of the reasons that Tata Steel was interested in acquiring Corus was the excellent record of accomplishment on innovative behaviour of the steel plant in IJmuiden. This record of accomplishment is based on the described long-term approach of this plant through the years. The British part of Corus with its short-term business approach and low investments in new developments did not bring any innovation to the party. In this aspect, the attitude of Tata Steel is comparable with the IJmuiden philosophy.

The R&D activity plays a crucial role in this thesis and is one of ASC’s ‘raison d’être’s’. It creates the possibility for new member-companies of ASC to join large-scale and diversified R&D-programs as a necessary answer to internationalisation and globalisation of the steel industry.

6.4.1 The innovative character

There are two major sources of innovations within steel technology: 1) the steelmaking companies themselves; and 2) their equipment suppliers.

Steel makers normally limit themselves to product development in steel qualities for the end-users and improvement of existing process technologies. The development of new process technologies is very often an activity of the equipment suppliers. Steel makers just ‘buy’ new technologies as soon as they trust the reliability of the new design. Western-European and Japanese companies operating in CME- environments as described in section 2.4, are the major equipment suppliers. This environment shows the needed product regime for advanced technological developments: cooperation between different industrial sectors, cooperation between industry and education centres, such as universities and high-level vocational training facilities.

Sometimes hybrid approaches appear. A first, rather recent example is the establishing and growth of Nucor, the US steelmaker. Nucor invested heavily in new thin slab casting technology in close cooperation with equipment suppliers. The management of Nucor had the strength and entrepreneurial courage to adopt this new technology and to work it out into a reliable production facility. Nucor is currently one of the leading steelmakers in North America and still frontrunner in thin slab casting technology.¹²⁸

A second, less recent example is the development of BOF steelmaking after the Second World War by Austrian company Vöest, a steelmaker and equipment supplier combined into one company as part of an associative industrial environment.¹²⁹

The examples show that both entrepreneurial behaviour or an associative environment can lead to innovations that go beyond the limited level of product development and improvement of existing production technologies.

However, as already mentioned, normal practice is that steel makers limit themselves to product development in steel quality for the end-users and improvements of existing production processes. Main focus of the last 10 to 15 years was on the development of new ‘advanced high strength steels’, based on the demands of the automotive market. Special ‘product application centres’ were created as part of the R&D organisation. This development has been slowing down (the last horizontal part of the S-curve). The market introduction is on its way, and no major developments are expected in the near future. The big steps forward have already been made. Now, the focus shifts to ‘customer-service’ product development.

A typical example is the development of sheets with variable thickness as wished by car designers and engineers (hydroforming) for stronger and lighter steels in automotive and transport applications. There are currently more developments in construction of steels: energy-driven (‘climate change’ pressure) design and construction of new buildings (zero carbon housing, sustainable construction). A typical example is the development of photovoltaic cells in cladding and roof systems.

These developments of new steel qualities in close cooperation with end-users and the ‘customer-service’ product development are typical examples of existing practices already fitting in with the stakeholder philosophy of ACG

128 Nucor produced 14 million tonnes of steel in 2009, which ranks it as the nr.14 steelmaker in the world. Source: World Steel Association statistics. 7 April 2011. <<http://www.worldsteel.org/statistics/top-producers.html>>

129 In 1963, I worked as student on work placement at the research centre of Vöest for three months and witnessed the positive drive of the company on the ongoing improvements of this break through strategy.

perfectly¹³⁰.

Steelmakers, active in supplying automotive steel qualities, enter cooperation agreements with major clients. Of course, those agreements are not specific to the associative approach but they show that close cooperation with stakeholders is a well-known way to go. It shows that the associative approach does not demand revolutions but fits in with existing developments.

A new trend leading to an even closer cooperation between steelmakers and end-users is the involvement of advanced computer modelling.¹³¹ These new computer simulation techniques create the link between engineering and research. This modelling creates better opportunities to select the right process development in an earlier phase. This results in more lab-testing and more pilot plant work instead of testing in existing production equipment.

6.4.2 The organisation

It is obvious that the innovative character, as described in subsection 6.4.1, determines the way R&D is organised by the steelmaking companies. Although the creation of a specialised staff demands long-term orientation as described before, management will use capacity and time for short-term oriented-product development of new qualities of steel and limited improvements of existing process technologies. In my interview with Peter Jongenburger, Chief Technology Officer of Corus, he states:

‘The introduction of the ‘business unit’- concept of multinational companies in the last decades of the 20th century has also stimulated this trend to short-term orientation. Business units want direct control over their R&D budgets and look for short-term results, which limits the opportunities for long term Corporate R&D. In the past, Corporate R&D was strong ‘blue sky’ and fundamental, with no direct link to the day-to-day business. As a reaction, following the business unit-trend, there was a move to more ‘short horizon’ research (services to clients, new products within one year on the market). The funding moved from majority corporate funding to less than 5 %. This resulted in a decline of breakthrough developments. The pendulum had swung too far to one side. As a result, there is recently a swing back to more corporate research (General Electric, Shell), also in the steel industry.¹³² Still, there is a problem! Companies do not receive any reward by embarking on an entrepreneurial way in fundamental research. It is impossible to expect a reasonable rate of return

130 Personal interview with Rob Boom, Director R&D Strategy & Competence Tata Steel Research, Development & Technology.

131 Personal interview with Rob Boom.

132 As an example of the ‘swing back’, Peter Jongenburger mentioned two major budgets which were allocated to Corporate Research Corus: 1) A Climate Change activity, as a result of the increasing political pressure on CO₂ emissions; and 2) the development of a new iron ore reduction process as a real ‘breakthrough’ activity.

on basic research, at least in the steel industry’.

This being a fact, it is understandable that business unit managers plea for a “zero” budget for corporate research, which means no corporate research at all. Peter Jongenburger considers this a failure of the system and has no solution available.

Nevertheless, the next logical step, namely to rely only on the R&D of equipment suppliers, as mentioned before, is also a risky situation. Take the example of refractory technology. Refractory suppliers only want to sell more refractories instead of less. The IJmuiden steel plant still has his own refractory- research staff, saving millions of Euros on refractory costs.

‘Good leadership’ for R&D should be based on finding the right balance between on the one hand the ‘blue sky, free thinking’ approach, which is absolutely necessary for the health and the spirit of the R&D staff and the company as a whole, and on the other the local need for short-term targets such as service to clients, and new products with a short lead time.

The R&D budgets of steel plants are reasonable substantial but not so substantial that they become a point of direct negotiations between capital suppliers and technologists.¹³³ The Corporate R&D budget is handled internally between the Board and the management of the business units, and the management of R&D. Normally Corporate R&D operates as a cost centre, not as a profit centre. The target is to operate at a ‘black zero’ result. The spin-off and profit of technological innovations invented by R&D will be made by the business units and are much higher than the project result of the R&D work.¹³⁴

The recent concentration in the steel industry, as described in chapter 2, resulted in reduced total manpower R&D figures (less duplications, higher efficiency).¹³⁵ The financial crisis of 2008 has result in even further reductions.

Finally, as stated by Rob Boom, Director R&D Strategy & Competence at Tata Steel:

133 Personal interview with Peter Jongenburger. The R&D budgets (percentage of the overall budget) differ per region and company. The Koreans and Japanese steelmakers are always top level: POSCO 2,5%, NSC and other Japanese steelmakers > 1,0%. The Europeans are in the middle segment: Vöest 1,5%, Tata Corus 0, 8%, ThyssenKrupp low. The US steelmakers are always low-low: 0,2- 0,4%.

134 Normally an average of 25% profit on ‘customer service oriented R&D’. Source: interview Peter Jongenburger.

135 Corus reduced its staff from 1.250 to 900. After the take-over by Tata, further reductions were planned. Tata plus Corus staff was expected to be 1.050. In the USA, the reductions were disastrous. ArcelorMittal reduced its staff to 1300, the same figure as Arcelor on its own in the past. The amount of research centres went down by 50%. Another example, CRM, a famous steel research centre in Belgium, owned by European steelmakers, reduced its staff from 450 to 135. (Source: Personal interview with Rob Boom).

‘Another recent trend within the steel industry is the trend to ‘close doors’ headed by ArcelorMittal. They consider themselves that big that they do not need cooperation with colleagues. They do not have colleagues, only competitors. The ‘old’ trend in the steel industry of assisting each other and sharing resources or certain special equipment is fading out’.

In the coming decades, a completely fresh and new R&D approach could come from the growing steel markets in China and India. According to Dr Debashish Bhattacharjee, Group Director Research Development & Technology at Tata Steel Group, major steelmakers in these countries will embark both on the ‘Western’ limited product development attitude and on *real* ‘breakthrough’ process technology research¹³⁶. With the acquisition of Corus by Tata Steel and especially the steel plant in IJmuiden, Tata acquired state-of-the-art product development. Relevant expertise from IJmuiden will be implemented in the Tata organisation. However, Dr Bhattacharjee does not want to limit himself to this program of ‘continuous improvement’ of current operations but intends to increase his efforts on ‘breakthrough’ or, to use his expression, ‘*cutting edge*’ process research into long-term sustainability. He will concentrate these efforts in research labs and plants in India for three reasons: the better conditions of growing markets¹³⁷, the hands-on approach of Indian researchers, and the low man-hour costs compared with Europe or the USA.

He mentioned two examples of ‘cutting edge’ research. The first one is aimed at securing raw materials for the company. He states:

‘High quality mines become scarce and no longer available; the low quality ones are left. In order to be able to use coal and iron ore from these ‘difficult’ mines, Tata process engineers try to find new innovative technological solutions for handling, for example high ash coal, high Al-iron ore, and high P- iron ore from these mines. Existing technologies do not work, and no one is working on feasible solutions. Recently process engineers patented the treatment of high Zn-iron ore from mines in the South of Vietnam. The target is obviously: to take advantage from the lower prices of these materials’.

The second example of CO₂- reduction research refers to the global warming problem. He states:

‘Tata does not limit itself to CO₂ reduction on existing installations, for example

¹³⁶ Personal interview with Dr Debashish Bhattacharjee.

¹³⁷ In 2009 the steel demand in India increased with 7,6%. In 2010 steel producers have to face an increase of 9%. Source: World Steel Association. Worldsteel Short Range Outlook. 20 April 2010. <<http://www.worldsteel.org/?action=newsdetail&id=293>>. A number of green field projects in the East and the South by companies like Tata, ArcelorMittal, JSW and Bhushan are in development or already under construction.

via top-gas recycling, but also works on more fundamental and disruptive developments by introducing H₂ in the blast furnace process. Process engineers patented a method for producing H₂ via the slag granulation process’.

These examples show the interest in fundamental process research. According to Dr Debashish Bhattacharjee they show the willingness of companies like Tata to enter ‘break through’ areas.

Tata defines the role of R&D as fundamental for the sustainable future of the company. The two examples on raw material supply and environment are self-evident. It goes beyond the limited and low-risk product development approach of European steel companies. Dr Bhattacharjee considers the European approach to be a ‘low entrance barrier’ activity and European steelmakers will lose this game’ to steelmakers in India and China. The question is not ‘if’ but ‘when’¹³⁸.

ULCOS is the ultimate example of the low-risk non-entrepreneurial attitude of the European steel industry on process research: complicated organisation, limited funds and a very relaxed time schedule. ULCOS (Ultra Low CO₂ Steelmaking) is a ‘forward technology’ initiative by Eurofer¹³⁹. It is trying to develop a ‘low CO₂’ process route, which should result in a 50% reduction of CO₂ emissions. This new process should be available in 2050. However, the credibility of this initiative is low given the very limited budget of €50 million and the huge technological barriers. It looks like a political instrument in the discussion on emission rights and costs with the European authorities. Dr Bhattacharjee states: ‘Cutting edge research activity asks for an entrepreneurial attitude of the organisation. Researchers should go for the challenge of new solutions and approaches with a focus on process and problem solving. First comes the ‘idea’ or ‘thought’, the necessary budget will follow if the target is clear’.

Tata prefers to talk about ‘necessity’ instead of budgets. In Europe R&D is limited by ‘affordability’ or the question ‘can we afford the budget?’ Cooperation with the Production Department will be organised via hands-on testing and bench scaling in the existing operational environment, and not via the ‘European’ style of expensive test equipment and pilot plants in R&D labs. This asks for a special entrepreneurial mind-set as mentioned before, a mind-set no longer available in Europe with its low production growing rates and overcapacity.

Mr Bhattacharjee recognises the problem, both in Europe and elsewhere. He

138 A good measure for judging the importance of R&D for a steel company is the amount of filed and obtained patents. The top four steel companies are POSCO South Korea, Bao in China, and NSC and Sumitomo in Japan. POSCO obtained 5.000 patents in three years; Corus obtained 300. This shows the rise of the leading role of Asian steelmakers, because each patent represents a unique step forwards in process technology.

139 I introduced Eurofer in section 2.2 as a major actor in the European steel industry.

states:

‘Governance of the ‘continuous improvement’ activity of current technologies and operations by addressing chronic problems is different from governance of the entrepreneurial ‘cutting edge’- break through role of R&D. You almost need two different organisations with different approaches in HR policies and administration’.

Although I understand Dr Bhattacharjee’s R&D approach of, I have some doubts about its feasibility. My experience within the Indian steel industry does not confirm an entrepreneurial attitude among workers and management. The entrepreneurial attitude is strictly limited to the top of organisations. Representatives of top management are well educated and well advised by consultancy companies like McKinsey. Their language is always promising, a heritage of the British. Tata Steel is a typical example.

In my interview with Mr Doc Mukherjee, non-executive member of the Board of Directors of Tata Steel, he explained how Tata Steel introduced TOP (Total Operating Performance), a management tool introduced by McKinsey. He summarises three conditions of success:

‘Tata Steel recognises three basic conditions, essential for success. In the first place, ‘emotionally charged’ involvement. Emotions play an important role in innovation processes. Mr Ratan Tata personally emotionally inspired me when I joined a TOP project for cost reduction within Tata. The resulting level of aspiration was very high. In my opinion, this was not the case in the set-up of Corus.

In the second place, we want to take away ‘fear of failure’. Employees should be judged via ‘input of effort’ and ‘action mind’ instead of just the results. I know that this is exactly save the company.

In the third place, we push the entrepreneurial mind-set. We want to involve all employees via *employment engagement impact*’.

6.4.3 The ASC answer

ASC must find a synthesis between, on the one hand, the need for its members to become part of a substantial R&D network within ASC, both in product development and process research in order to face the consequences of globalisation, and on the other hand, the decentralised associative philosophy of the company.

The best way to reach this synthesis is, on the one hand, to create two larger R&D centres, preferable in a CME- environment, for example in Europe and India, and on the other hand, to create decentralised ‘satellites’ per region.

The satellites will have two functions. In the first place, they will

assist in the implement of new process research as developed by the two R&D centres. In the second place, they will focus on detailed research, based on specific expertise available at these locations (Schumpeter II-type innovation). The satellites can become 'centres of excellence' within ASC. According to the ACG philosophy, its member-companies should invest in cooperation with regional education centres in order to develop the specific knowledge needed for these 'centres of excellence'. This could result in the creation of regional 'science parks'. New developed steel technologies can find applications in other industrial sections, such as high temperature control.

The 'excellence' could be in refractory design, rolling process technology, process automation or melting technology. In practice, these excellences should preferably be based on specific local historical developments within certain member-companies of ASC. The available knowledge and the freedom of the specialists to experiment during construction of new iron making facilities, made the IJmuiden refractory design world famous within the steel industry. Until today, the iron making facilities are among the best in the world. Many colleague steel makers adopted the knowhow of IJmuiden, recognizing its excellent character.

Other examples include rolling process technology in England and Germany, continuous casting technology in Germany and Austria and sponge iron technology in India.

ASC should follow this proven concept of regional excellence and should organise its R&D activities as a network between the centres of excellence. The products will be available for all member-companies of ASC against reasonable transfer costs.

The two central facilities concentrate themselves on three activities. In the first place, they handle R&D activities that are too demanding for regional facilities (Schumpeter I-type innovation). In the second place, they can invest in test equipment that is too expensive for the regional facilities. In the third place, they can initiate and develop new R&D, not yet suitable to spread out in the ASC network.

They also coordinate between the centres of excellence and should carefully map the development of new centres in the rest of the world. They should point out which part of the ASC R&D network should try to catch up with outside new developments. This can be done via joint ventures or by creating cooperation agreements.

The R&D organisation and network will be closely related to ASC's education and training philosophy. For that reason, it can be developed as cornerstone of the ACG-philosophy.

Here the associative idea can really demonstrate that it works and that it creates excellence. To this end, the following four features of R&D are important.

In the first place, R&D forms a direct link with the future and health of the company on the long term. Each member-company of ASC wants to be involved and wants to use the output of the centres of excellence.

In the second place, R&D has a crucial direct link with the HR policy for attracting and keeping intelligent, fresh people with the company. Traditionally, in the steel industry, high-educated, new employees start at the R&D department.

I want to refer to two interviews on this aspect. In my interview with Dr Bhattacharjee, he summarises the Tata Steel approach:

‘We introduced at Tata Steel plant in Jamshedpur a slightly different approach. Operations attract fresh graduated engineers, the R&D Department fresh master and PhD level students. On plant level, it is difficult to keep and retain fresh people. On R&D level, it is easier to keep the interest of master-level students because they have chosen a career in research. Research is a challenge for them, they are proud on their work. This shows the need to give them this challenging work by creating an atmosphere of freedom. Tata creates the possibility for a sabbatical leave in order to enter the PhD or post-doctoral route. After 3 to 4 years people come back with more experience to the advantage of both parties’.

In my interview with François Mudry, Director Research of ArcelorMittal Liège, Belgium, he states:

‘For the master-level technical staff, we hire staff mainly through R&D. Usually, just graduated students are more interested by R&D than going straight to the plant or the commercial department. Moreover, we propose many traineeship positions for last year of masters to show to students what is really steel industry in order to change the image. However, the average level definitely changed. We also compensate hiring many different nationalities trying to create an attractive international atmosphere in R&D’.

Cooperation with universities in the regions of ASC member-companies leads to outsourcing of research to these universities and to potential PhD opportunities for students¹⁴⁰.

In the third place, the R&D organisation maps the differences in education level within the ASC regions, which will be translated in measures for improvement of education programs.

In the fourth place, the spread of work within the network as described

¹⁴⁰ According to Dr Bhattacharjee, 25 % of the £5 million R&D activity at Jamshedpur, Tata Steel, is spent on projects based on collaboration agreements with technological universities and institutes worldwide. Nearly 60 to 70% of the research carried out with these partners results in new ideas for process and product development, protected by patents.

above shows the real face of ACG. The rules within the network have to fit in with the ACG philosophy. There cannot be a top- down organisation of work. ACG asks for participation in the decision-making process via central and local R&D discourse platforms on all R&D aspects, including the corporate strategy on R&D and related investments. Each region must have realistic ideas about their own capacities. Each region has to develop an education and training plan.

The management of ASC will be confronted with the general human hesitation at new technological implementations, resulting in a possible resistance and aversion. This attitude will be different per country or region, depending on the level of education as well as on influences of local stakeholders like trade unions. If introduction of new technologies leads to the closing of shops or staff reductions, the resistance will be understandable. The associative character of ASC asks for acceptable solutions in which the R&D network has to pay its contribution. The social and political aspects cannot be neglected or just transferred to management and HR colleagues. See also section 6.5.

In my above-mentioned interview with Rob Boom, he defines a possible opportunity for ASC, fitting in the associative philosophy and an example of institutional innovation: the development of a ‘small scale production site’ for steel regions.

‘The general trend of integrated steel plants is towards ‘big scale, less space, less resources’, resulting in a reduced numbers of steel sites. Still there is a need for small-scale plants (1, 5- 2 million annual tonnes) close to the market. For example, three sites in Thailand close to the market and close to HR resources would be more practical than one big site. The technology for that is until now just the electric arc furnace route. The classic integrated route could become a smelt reductor, combined with thin slab casting in line with rolling mill facilities. The construction of the steel plant Saldanha Bay, South Africa, is a typical example. This route is important from a quality point of view. For high quality steel grades, you need iron ore input instead of scrap’.

A second technological solution can be the development of mini- blast furnaces (capacity between 500.000 and 1 million annual tonnes of liquid steel) that can produce iron ore for liquid charge into the electric arc furnace. This as an answer to the ever-demanding scrap market, which is the principal feedstock for electric arc furnaces. There is simply not enough scrap around since cars, for instance, have a longer lifespan (Zonneveld 3). The geographic need should steer the development of small-scale units close to the market, in order to reduce transport costs and environmental damage. The overhead costs of those small-scale plants should be remarkable lower. Companies can use

the existing HR knowledge and expertise of existing sites in India and South-East Asia. BHP, the Australian steelmaker, once had the idea of developing an Asian-rim of small-scale plants along the Asian coast, close to the markets.

6.4.4 Climate change

Why to spend a subsection on ‘climate change’ in a thesis on corporate governance? Unlike other industries, the ‘global warming’ or climate change’ issue is not just an environmental issue for the steel industry. For the steel industry, it is a major issue with no easy solutions. Not only is the steel industry one of the most notorious CO₂ producers, there is also no technological solution available to solve the CO₂ problem. The production process always needs carbon to reduce iron ore. That means that the only available option for steelmakers is the partial reduction of CO₂ emission via process improvements.

ACG shows a pro-active attitude on social and environmental issues as emphasised in chapter 4. This means that ASC has to use current technology to achieve the current best practices. In the discourse with environmental NGOs, this difficult topic should be discussed openly. Given the fact that there is no real technological solution, it becomes a social and political hot item. In subsection 6.4.2, I already introduced the ULCOS project as the low-risk non-entrepreneurial initiative of the European steel industry. The ULCOS project aims to develop a ‘low CO₂’ process route, which should result in a 50% reduction of CO₂ emissions. The credibility of this initiative is low given the very limited budget of €50 million and the huge technological barriers. It looks like a political instrument in the discussion on emission rights and costs with the European authorities.

The whole CO₂ issue can result in closing of ‘relatively clean’ steelmaking facilities in Western Europe and transferring steel productions to the BICs or other developing countries with less or no CO₂-emission costs. This, however, will not reduce CO₂ emissions; in the short term, it will lead to an increase of CO₂ emissions because of increasing capacity of ‘dirty’ plants in these countries. This quite complicated situation needs to be handled by the environmental discourse platform. The ‘normal game’ of NGOs putting pressure on unwilling multinationals to implement or develop clean technologies is not available. As a result, the issue has become a real social and political issue.

In the direct future, European steelmakers are already confronted with possible costs of CO₂- emission rights of approximately €20 per tonne of steel. This figure can increase to approximately €50.¹⁴¹ This will all also depend on possible global agreements in the international political arena.

For the moment, the discourse within ASC should focus on possible

¹⁴¹ Personal interview with Peter Jongenburger.

improvements in order to face the climate change threats. In the first place, ASC should reduce its carbon ‘footprint’ by using Learning by Monitoring for process improvements. This could lead to reductions of approximately 20 % in the coming decade. In the second place, ASC should reduce CO₂ emissions in the supply chain via stakeholder dialogue with its suppliers. In the third place, ASC should develop an internal policy on how to deal with the distribution of the carbon footprint between the member-companies. In the fourth place, ASC should support pro-active policies and actions in the political arena, within WSA and within other regional steel associations.

6.4.5 Summary of policies and actions

The following R&D policies and actions can be summarised:

Policy 1: Creation of an active and creative R&D network in and outside the company.

Actions:

- First, create two large R&D centres with large teams, substantial budgets and long-term programs for Schumpeter I- type innovations within ASC;
- Second, create centres of excellence within ASC based on locally available strengths and opportunities for Schumpeter II-type innovations within ASC;
- Third, active use the Micro-Macro approach by a possibly translating successful R&D initiatives of one ‘centre of excellence’ to create overall ASC policy;
- Fourth, in cooperation with HR colleagues, develop and maintain close relations with universities and other educational institutes in the regions of ASC member-companies as crucial part of the local AD- policies. See also the HR section 6.5. Monitor the relationship with the educational institutes in the regions of ASC member-companies, and develop education programs for students, including possible entrances in the company.¹⁴²

Policy 2: Stimulate ‘cutting edge’ research in order to create the right balance of ‘continuous improvement’ research of current products and operations.

Actions:

- First, entrepreneurial initiatives for new break through process technologies in cooperation with equipment suppliers, also an example of increased stakeholder involvement;

¹⁴² Tata Steel IJmuiden has an average input of 60 young graduates each year, of which 40 are transferred to other disciplines within 2 years. Source: personal interview Peter Jongenburger.

- Second, as the first activity, but with raw material suppliers.

Policy 3: Encouragement of customer and supplier oriented associative cooperation on product and process development.

Actions:

- First, introduction of ‘customer-service’ product development via product application centres at the site of ASC member-companies as a logic step to increased stakeholder involvement of customers;
- Second, instalment of combined research-teams of specialists from ASC and from customer(s).

Policy 4: Introduction of central and local R&D discourse platforms.

Action:

- Installing of the central and local R&D discourse platforms (in line with Corporate Strategy and HR activities) in close cooperation with its direct stakeholders, customers and suppliers. This action needs the Learning by Monitoring approach given the complicated and long-term character of the discourse philosophy.

Policy 5: Creation of conditions in which entrepreneurial initiatives can flourish.

Action:

- Set up of activities as part of the overall creation of trust and loyalty within ASC as part of ACG.

Policy 6: Support of the pro-active role of ASC in social and environmental issues, with special emphasis on the ‘climate change’ issue.

Actions:

- First, emphasise promotion of initiatives within the regions of ASC member-companies with local stakeholders;
- Second, emphasise the ‘climate change’ issue by pro-active membership of working committees of WSA and international technology platforms like ESTEP.¹⁴³ This is in line with the moral values of ASC as described in chapter 4.

All policies are based on existing trends and possibilities within the steel industry, and show that ACG does not require revolutionary changes or utopian conditions. ACG asks for further extensions and serious attempts to broaden the scope of these policies. Examples as discussed in this subsection

¹⁴³ ESTEP, the European Steel Technology Platform, is part of the Eurofer organisation and responsible for the ULCOS project. ESTEP considers its involvement in lightweight steel solutions for cars and steel based materials for energy efficient buildings to be an indirect contribution to the climate change issue. See also section 5.1.

show that the steel industry is the right environment to take next steps, given the long-term orientation, the already existing cooperation with stakeholders, and the composition of the workforce.

6.5. Human Resources

Human Resources (HR) activities will be one of the key elements of ACG. The associative philosophy with its strong emphasis on discourse ethics and the company values, also asks for a long-term orientation in human resources policies. The two key elements of ACG, trust and loyalty, must be based on long-term work relations and job security. The selection of top management and the way leadership is defined form crucial elements in the development of ACG. The development of ACG must be supported by management's associative attitude¹⁴⁴ based on reciprocity. In defining leadership further on in this section, I elaborate this aspect in detail.

I will not contribute a special subsection to the organisation of the HR Department. Different from R&D, as described in section 6.4, the corporate HR department limits itself to a coordinating function. In principle, each member of ASC has its own HR department as a logic consequence of the decentralised and autonomic character of ACG. On a corporate level, there will be a relatively small HR staff. This staff has three tasks. First, it assists Corporate Strategy in defining and developing of HR aspects of the associative philosophy. Second, it coordinates and facilitates HR services throughout the whole company in close cooperation with the local HR departments of the member-companies. Third, it handles the HR aspects of head office employees.

I do want to put an emphasis on the functioning of the local HR departments and the position of the HR representative in the management team ASC's organisation units of. In my interview with Kees Blokland P&O Director of NS Group, and former P&O Director of Corus, he explains his ideas on how the HR organisation should be structured:

‘In my opinion, you need operational excellence at the basis and corporate strategy at the top. At local level, the HR department has to develop local policies and rules. Especially on labour conditions and remunerations, the ‘Blut und Boden’ work at the basis. At the top, HR specialists should be involved in corporate strategy discussions and policies’.

He distinguishes four different positions or roles for a HR representative based

144 In Box 2, I summarized the main ‘associative’ line: associationalism, associative democracy, ACG. When I use the term ‘associative attitude’ I refer to the general attitude of a person in support of the main features of associative democracy like restriction of scope of hierarchical management, a democratic accountable hierarchy, strong social embeddedness, trust and loyalty as main pillars of a sustainable company.

on the combination of professionalism and management alignment: 1) ‘his master’s voice’ (high management alignment and low professionalism); 2) expensive expert (low management alignment and high professionalism); 3) bureaucrat (both aspects low); and 4) professional partner (both aspects high). Kees Blokland prefers the ‘professional partner’ position. He highly values ethical behaviour as part of this professionalism and as a necessary ingredient of the credibility and effectiveness of HR representatives.

His specification of the different roles of the HR function partly corresponds with the roles as defined by David Ulrich, the ‘world-acclaimed leadership expert’ on HR ¹⁴⁵. As elaborated by Luc Dorenbosch in his article on Ulrich’s HR philosophy, Ulrich distinguishes four roles: strategic partner, administrative expert, employee champion and change agent crosswise ordered on the dimension ‘long/short-term focus’ and ‘people’ (Dorenbosch 1). He believes that the only future for HR is the long-term strategic role. However, his rather strong and outspoken opinion is not undisputed. Other well-known HR specialists like Raymond Caldwell do not expect fundamental strategic role changes in the future (cited in Dorenbosch 4). Hereafter, I will come back to this professional discussion in relation to the aspects ‘change management’, subsection 6.5.2.

I prefer to look at HR from a different angle. I elaborate and summarise the HR task by focusing on the two, in my opinion, main aspects of HR:

- ‘To get them’, which means to create the right staff by recruiting effective and purposeful;
- ‘To keep them’, which means to keep employees within the company through motivation and commitment. Important feature of this aspect is the HR role within the company as knowledge intermediary that is ‘to connect them’.

6.5.1 ‘To get them’ or recruiting

In my interview with Ruud Van Neure, HR Manager of Tata Steel Europe IJmuiden, he states:

‘At this moment, HR officials recognise two major recruiting issues: 1) management of demographics; and 2) work-life balance. The two major aspects of demographics are ‘diversity’ and age structure. Each steel plant is still a ‘men’s world’, and in Europe steel plants are even a ‘middle aged white men’s world’. The composition of the workforce does not reflect the growing diversity in modern societies. In order to recruit the right people and to recruit the needed volume, HR has to focus itself on this mismatch’.

Tata Corus developed a ‘diversity policy’ to try to reduce this mismatch (Corus).

¹⁴⁵ This is the most frequent used designation of David Ulrich. Business Week declared him the ‘world’s top management guru’ of 2001 (Dorenbosch 1).

This policy fits into ACG. I will mention three features. First, ‘employees have the right to be treated equally and with dignity, regardless of gender, sexual orientation, race, colour, ethnic origin, disability, religion, political views or age’ Second, ‘encourage taking advantage of available and relevant training facilities and opportunities for advancement’. Third, ‘respect local customs and good practices in different countries and regions’ (Corus 16).

Of course, it is easy to be cynical about these ‘nice’ words. The background of the diversity policy can be a practical one and not in the first place an ethical one: to increase the opportunities for successful recruiting. However, it is important that management show commitment to these items in order to promote them and protect them on each level in the organisation. It also shows that ACG does not require revolutionary new recruiting policies. It can be implemented by extending existing policies and taking them seriously.

The age structure is becoming a big problem in Europe and North America. The average age in the steel industry is high. Retirement will reduce the workforce considerably, and recruitment of fresh young people has a high priority.

Especially in Eastern Europe, the restructuring of the steel industry will embark on this process. A typical East European example is the restructuring of the Polish steel industry. Privatisation and concentration of the Polish steel industry resulted in the creation of ArcelorMittal Poland. In my interview with Andrzej Wypych, HR Director of ArcelorMittal Poland, he summarises this process as follows:

‘ArcelorMittal Poland has embarked on a HR project to ‘clean up’ the workforce. Thousands of employees, older and with limited education, must be laid off and hundreds of new, young and well-educated employees must be recruited. This measure must be implemented against the background of new and numerous trade unions. Since the fall of the communistic regime and the role of Solidarnosc free trade unions are a hot item. They are well protected by new labour laws, and the threshold to set up a new union is very low. In the Polish steel industry, I have to negotiate with more than 25 unions, actively supporting union members in the staff reduction programmes’.

The privatisation of the Eastern Europe steelmakers will lead to demographic changes in the education programmes of the universities. In my interview with Zbigniew Malinowski, dean of the Faculty of Metals Engineering at the University of Science and Technology in Cracow, he states:

‘ArcelorMittal Poland, the biggest steel company in this country, reduced or stopped existing long-term research programs with my university. These types of programs were part of the old regime of state owned companies. Suddenly, I am confronted with a surplus on metallurgical graduates in Poland, which will

result in a brain drain to Western European steelmakers’.

An additional problem particular to the steel industry in recruiting young people is the ‘old and dirty’ image of the industry. In April 2007, a special conference between European universities and steelmakers was organised under the title: ‘Working together for growth and jobs’.¹⁴⁶ I visited the conference and participated in the workshops as a reporter. The outcome was that the steel industry could definitely be very attractive given the great variety of technical processes and jobs. However, the bad image and the volatile market are the main drawbacks. I already mentioned the male-domination and old-fashioned culture. Besides the image and the previously discussed demography of the sector, the recent concentration and internationalisation of the steel industry, the constant cost pressure, and the limited innovation power were mentioned as decisive factors for the future.

It is obvious that these aspects are in the first place related to the steel industry in developed countries, where young, well-educated people can easily find jobs in other industrial sectors. Nevertheless, even in countries like China and India this aspect will come up earlier than may be expected as already indicated by Dr Debashish Bhattacharjee.¹⁴⁷

ASC should fight against this traditional image by following the recommendations of the Warsaw conference. The first recommendation is to create job security and reliable career pattern. The second one is to create a stable and motivated workforce with an HR policy based on long-term vision, continuous training and education programs, attractive and reliable career patterns and open communication.¹⁴⁸ The third recommendation is to create cooperation between the industry and universities or polytechnic institutes by promoting joint research projects and traineeships¹⁴⁹. These recommendations are fitting for ACG, as described in chapter 4.

Besides the demographics issue an important role, both for recruiting and in maintaining the right workforce is the ‘work- life balance’ issue. The two major aspects here are health and motivation. People should stay healthy and vital. ASC should create healthy working-conditions and should promote attention for its employees on this aspect of life. The care for healthy working

146 European Steel Companies- Universities Joint Conference, Warsaw, 26-27 April 2007. Organised by Eurofer in cooperation with the Warsaw University of Technology. Representatives of major European steelmakers and technological universities worked together in three workshops on training needs, recruiting needs and networking needs.

147 Personal interview Dr Debashish Bhattacharjee. See section 6.4 on R&D.

148 Presentation by Prof. Dieter Senk, *RWTH Aachen*. He even suggests combination of studies: for example materials plus social study.

149 My own decision to join the steel industry was heavily influenced by the fact that I worked as a trainee for the Vöest steel plant in Linz, Austria, during summer 1962. This traineeship was part of the cooperation agreement between the Technological University of Delft, Holland, and Vöest.

conditions fits perfectly in the existing safety and health policy of the steel industry and the social sustainability target of the World Steel Association¹⁵⁰. ASC staff should play an active role in the working group on safety and health of the association.

Of less direct impact but of major importance for a vital workforce is the balance between working hours and private hours. An important aspect of this is the growing part-time status of jobs compared with the standard fixed term status in the past. Part-time jobs fit the living circumstances of many young families around the world as well as the changing attitudes of young people towards work. The special attention Tata Corus IJmuiden pays to this aspect fits in the Dutch pioneering on this socio-economic aspect. The Dutch developed a system in which available work is divided in halves or thirds. This job sharing faces many problems but the principle is accepted and when practiced it is a useful tool in a volatile economy and a useful instrument to increase the potential of new employees (Sennett 185). Within the steel industry, the Austrian steelmaker Vöestalpine is trying to develop a best practice via its LIFE program, which aims to attract young people to join the company¹⁵¹.

In practice, young people are becoming more and more assertive in this and making their own decisions. The work-life balance influences the employee's decision to accept a proposed career, or to accept a job at a different location. This will influence the way corporations have to organise their management development policies. ASC should anticipate this development by trying to meet the existing best practice and joining the vanguard in order to develop new HR policies along these lines.

6.5.2. To keep them

Recruiting a staff is an important task for the HR department, but to *maintain* a motivated and committed staff is quite another challenge. The most important

150 One of the most common indicators of safety is 'lost-time injury frequency rate'. WSA members reported a lost-time injury frequency rate of 8.8 injuries per million hours worked in 2006 compared with 6,6 in 2004. The lost-time injury frequency rate is one of the 11 sustainability indicators of the World Steel Association. BlueScope Steel's Port Kembla Works, Australia, is recognised as best practice within the steel industry: 14.9 million hours without a lost time injury. This represents approximately 6,000 employees and contractors who worked on average 13 million hours a year (World Steel Association, *Sustainability* 17).

151 A key challenge is to improve the work-life balance and to relieve health-related stress in the work place. All employees are allowed to spend 2% of their annual working time on further education. In some areas of the company, employees are free to choose their weekly working schedules (World Steel Association, *Sustainability* 19). The program started in 2005. The greatest problem in implementing the program was reconciling workers' expectations with the slow pace of developing, discussing and implementing the LIFE measures. After two decades of downsizing, neither managers nor workers' representatives could easily cope with a 180-degree turn in HR policy.

condition for meeting this challenge is the long-term character of ASC 's HR policies.

This long-term character will result in the following policies:

1. Creating job security and transparent career patterns as already noted by the Warsaw conference.
2. A long-term vision on training and education programs, and HR's role within the company as knowledge intermediary resulting in networks of knowledge and a 'learning organisation'. As previously mentioned, the task is 'to connect them'.
3. A high level of employee participation of in the governance of the company, combined with a decentralised organisational approach.
4. Managing 'change'.

Apart from measures and actions along the line of these general policies, which every responsible and dedicated management can initiate, the associative character of the organisation of ASC demands extra contribution to these policies. Once again, trust and continuity, the two basic pillars under the associative concept, are crucial elements and determine the actual content of these policies.

The actual fulfilment of these policies in the existing organisation of ASC will also be a strong tool for the recruiting officers as elaborated in subsection 6.5.1. I will now highlight the four policies.

1. Creating a job security and transparent career patterns

Job security has always been high on the list in the steel industry. The most outspoken example is the Japanese steel industry. Companies like Nippon Steel Company offered their employees lifelong employment agreements. Other steel industries in different parts of the world, very often state owned, followed this policy. The volatile character of the steel market in the last decades of the 20th century and the recent trends toward concentration changed this picture. Cost reduction measures, initiated by declining market opportunities, resulted in substantial lay-offs and early retirement schemes.

This trend went hand in hand with the general attitude of younger people to be less dedicated to one company. Frequent job change became more common.

At the same time, outsourcing policies became popular. Activities considered as non-core businesses were outsourced to third parties. In most cases, this concerned lower ranking jobs like catering, cleaning, security and maintenance. In addition, more high-qualified staff tasks like IT and HR are outsourced.

As described in chapter 2, the expected concentration and internationalisation of the steel industry will result in mergers and acquisitions.

Obsolete plants will be closed and staff will be sent home. So why should 'job security' be on the agenda of steel companies? Is this a realistic policy?

There are two reasons to continue the plea for job security although the character of this security can differ.

In the first place, there is the recent development of demographic problems in the steel industry. The average age of the employees is increasing rapidly and will lead to a shortage of workers in the near future. It will be difficult to attract new staff under unchanged conditions. It is of great importance to keep people aboard. As already described in the R&D activity, section 6.4, the steel industry needs long-term commitments for many jobs. In the same way, many operations skills are based on long-term experiences on the job.

As confirmed by the Warsaw conference delegations from steel companies and universities, job security and transparent career pattern are on the top of the list of many new employees. The recent trend of working couples diminishes the flexibility needed for job-hopping. Transparent career patterns give them the opportunity to plan their life and to reduce uncertainties.

The second reason for a job security policy is the associative philosophy as described in chapter 4. It takes care of the first two conditions of Sennett's 'cultural anchor': 'narrative' and 'usefulness'. Each human being needs a sense of narrative movement, 'which means that events in time connect, experiences accumulates' (Sennett 183). Each human being wants to feel useful, wants to contribute something that matters to other people.

Employees are important stakeholders in the company. The company should stand for their future as a logic and reasonable answer to and condition for loyalty to and trust in the company. Layoffs are a cheap and short-term way of solving problems, too often also related to mismanagement. It is the transfer of responsibilities to the society. The taxpayer has to pay the bill when unemployment costs increase. It is like in the old days when dumping pollutants in open waters and in the open air was allowed. Nowadays, it is quite accepted by all political parties and civil society that companies have to take care of or have to pay for their own pollution. ACG, given its feature of strong social embeddedness, will ask a company to take care of all aspects of running the company. Jobs will disappear because of market changes or technology changes. However, the results from these changes should be taken into account in the calculations of the proposed new solution.

ASC has pre-determined policies and budgets on job changes or redundancies, of course 'translated' to regional conditions and rules on labour and compensation. All member-companies of ASC have to use these policies. They should be pre-determined policies in order to make the right calculations and decisions in an orderly way via dialogues in the HR discourse platforms. How can you otherwise ask stakeholders to agree with the closing of their plant, without knowing the compensating measures? Here, we are close to the

‘heart’ of the associative governance of the company where ‘nice words’ are of no use and where the associative philosophy is really challenged.

During the last decade of the 20th century, ‘job security’ was considered to be ‘old-fashioned’ and replaced by ‘employability’. The ‘old psychological contract’ between employer and employee, which was based on the exchange of job security for loyalty, should be replaced by a ‘new psychological contract’ based on the exchange of employability for commitment’ (Jeurissen 173). This switch means a massive shift in risk from employer to employee, and it does not fit in Shue’s basic subsistence right and ACG’s basic ‘loyalty and trust’ character.¹⁵² It also threatens Richard Sennett ‘cultural anchor’ of the employee as described in section 4.3 on company values.

That does not mean that ACG accepts the other extreme of job security: job security ‘without maintenance’. By ‘maintenance’ I mean the obligation of employee and employer to contribute to ASC’s the long-term vision on training and education programs, resulting in a ‘learning organisation’, as described in the next subsection. Too often, companies do not use the broad opportunities for these programs. They consider this the responsibility of the employee. They do not simulate their employees to the continuous learning attitude and do not compensate the costs. This results in ‘overdue maintenance’ (Blokland and Nauta 66) and the creation of threatening conditions for a realistic job security (De Waard).¹⁵³

ACG answers loyalty and commitment from the ‘bottom’ with job security and responsibility for long-term training and education programs from the ‘top’. Credible commitment and mutual monitoring of the real content of ‘job security’ should be a key aspect of HR. Job security and transparent career patterns will be part of the ‘social innovation’ policy of ASC as will be described further on in the subsection on ‘managing change’.

The real test of the ASC policy on job security is ‘how to handle job insecurity in case of redundancy’, resulting from changes in the market, changes in technology or any other change that disturbs the balance of a regional member of ASC.

The difference between ASC and other multinationals is that: 1) the policy is pre-determined as mentioned before; 2) ASC’s training and

152 My own experience with employability as a HR instrument taught me that employability policies increased inequality. It is a nice approach for young well-educated employees but it doesn’t work for people who cannot keep up with innovations and it has no answer for the problem of people who are hard to train in today’s labour market. It is a step back in the direction of ‘right of the strongest. See also Jeurissen 174.

153 A typical example of the growing understanding that lay-offs are counter-productive for the economy and the relationship between stakeholders involved is the appeal by the chairman of the Dutch employers association VNO-NCW, Bernard Wientjes, to the trade unions to improve rules on redundancies in order to completely avoid lay-offs in the future. Michèle De Waard, NRC Handelsblad, 22 April 2010.

education policy will take care of ‘well-maintained’ employees with no overdue education program; and 3) the associative regional network of each member-company is the natural and available setting for practical measures and solutions.

It will be the shared responsibility of all stakeholders involved in the change. Leading guidelines are Shue’s basic rights, together with reasonable and smart recommendations from the ILO (Jeurissen 179).

The first important condition for the downsizing or closing of facilities within ASC by the Central Management Team and the relevant Local Management Team is that it needs approval from the stakeholders in the Central Works Council and the Local Works Council. The decision to downsize should not be taken too quickly and too easily. Possible alternatives such as reduction of working hours, pay-cuts, and hiring freezes should be investigated. This means that if the decision to downsize does come, it is only after free and open discussions between stakeholders, during which all stakeholders had the opportunity to develop possible alternatives. This is one of ASC’s major conditions. If, at the end of the day, the decision to downsize has been made, it will be obvious to all participants that there was no reasonable and realistic alternative. As mentioned before, it is almost impossible for the Local Works Council to agree with downsizing if the representatives in the council do not know the consequences of downsizing for the employees. Therefore, the downsizing should be organised along a well-determined ASC redundancy policy.

The main idea behind the ASC-policy is that the negative outcome of restructuring should be transferred into new opportunities for the people involved, and that, in case of a negative residual of the change, this negative result should not be put on the shoulders of just a few victims or the surrounding society. The key- instrument is the instalment of a Restructuring Committee that coordinates all restructuring actions resulting from the pre-determined rules of the ASC-policy. The Committee will consist of management representatives and Local Works Council representatives, and reports on progress to management and the Local Works Council.

ASC combines main features of ACG such as strong social embeddedness, loyalty and trust, and long-term approach, with the recommendations of the ILO. This results in the following tools and measures for the ‘work to work’ principle, to be used and implemented:

- Counselling. The Restructuring Committee will install a team of specialists to support each individual employee in coping with the change;
- Competency evaluation. Each employee will be given a competency test in order to determine his or her strengths and weaknesses;
- Training and development. This is part of ASC’s ongoing training and education schedule, one of the key- aspects of an associative

company. The results of the competency evaluation will be extra input in this, essentially, continuous process;

- Internal reassignment. The HR department assists the Restructuring Committee in internal reassignments;
- Outplacement. The assistance in finding a new job is normally outsourced by companies. In the case of ASC the outsource activity will be linked to a regional organisation, installed by the regional industry as part of the associative policies within the region. This regional organisation monitors the supply and demand of jobs in the region on a constant basis. There are close links with training and education institutes in the region, and with the local authorities. The Restructuring Committee discusses this with this organisation and asks them to handle the outsourcing. Financing of the organisation will be done partly via the local membership arrangements and partly by charging costs per project. If associative regional arrangements are not available, the Committee has to organise the outsourcing itself. The ASC subsidiary in the region should take initiatives to establish such an organisation as soon as possible in close cooperation with the regional industry, education institutes and authorities. The company should not wait until there is a problem;
- Help for self-starters. The start-up of small businesses should be handled by the same organisation;
- Promotion of employee mobility. ASC will offer on a constant basis assistance in geographical mobility. The ASC network will create excellent opportunities for young people to change environment by accepting a job in one of the many international settlements of ASC. However, this will work just for a limited amount of well-educated employees;
- Early or partial retirement. This should also be part of ASC's overall existing HR rules in this aspect;
- Alternative work schedules. The ILO refers to part-time work, temporary posting of employees with other businesses, subcontracting, etc. This will also be handled in close cooperation between RC and the regional organisation;
- Compensation for dismissal. This should be done strictly according to ASC's standard existing rules within ASC. The basis should be equal throughout the whole organisation, all based on the basic moral right of 'being socially guaranteed'. Each region should translate this starting point into locally realistic arrangements;
- Communication. There is a great need for information and communication during these 'tough times'. It should be obvious that ACG is a strong player on this subject. The local Works Council is the centre of communication and the Restructuring Committee is the

main instrument.

ACG handles all of these tools in a transparent and discursive way. The result will be that almost every individual will get his or her own solution to the problem. Perhaps the term ‘job security’ should be changed in ‘*work security*’. This change in HR focus needs the ‘learning organisation’ focus as explained hereafter.

Examples have shown that just a few employees will end up with no new opportunity.¹⁵⁴ These individuals should be compensated in a decent and humane way, each as in individual case.

It is important to describe this ‘downsizing’ or ‘redundancy’ process in detail. It is here that the basic right of subsistence really will be challenged and the trust of the stakeholders in the associative attitude is made or broken. It is a project where ‘nice words’ and ‘good intentions’ don’t work.

2. Long-term vision on training and education programs resulting in a ‘learning organisation’

The ‘*learning organisation*’ is a hot item on the list of HR departments all over the world. People within an organisation should ‘learn’ from each other and ‘learn to learn’. This happens, of course, quite often in the direct working environment of the relevant employee. Colleagues learn from each other how to perform a job and how to improve certain details. This is, however, not what is meant by ‘learning organisation’. ‘Learning organisation’ means that people learn from each other all over the company. The ‘best practice’ will flow free through the organisation wherever needed. This demands a systematic approach on skills and ‘craftsmanship’ and the establishment of the HR role as knowledge intermediary resulting in networks of knowledge as essential part of a ‘learning organisation’.

Learning by Monitoring and Micro-Macro fit into this idea and will be an essential part of it. Both methods assume an open mind and a positive attitude to the outcome of the learning process. Challenging targets can only be pushed if ‘fear of failure’ can be taken away and if the organisation has a long-term outlook. I refer to the interviews with Mr Mukherjee and Mr Bhattacharjee¹⁵⁵. This sounds rather ‘general’ but it needs a working environment similar to that, which can be found in the Continental European economic model. In the Anglo-Saxon model, failures are dangerous because stakeholders in this model are scared of what they call ‘surprises’ for the

154 I refer to own experience. In 1996, I had to reduce of my BU-staff by 50%: from 200 to 100 employees. By using the tools as described I could solve the restructuring for 95%. I made individual compensation packages for the final 5 employees. All in close cooperation with the Works Council. As a second example, I refer to the latest staff reduction (800 employees) of the steel plant in IJmuiden because of the financial crisis of 2008.

155 Personal interviews; see section 6.4 on R&D.

shareholders environment. The ‘control’ attitude kills spontaneous initiatives and the guts to take risks, and will not end up in a ‘learning organisation’.

The third element of Sennett’s analysis of ‘culture anchor’, ‘craftsmanship’, will be fulfilled in a learning organisation. Broadly understood, ‘craftsmanship’ means ‘the desire to do something well for its own sake’ (Sennett 194). The ‘learning organisation’ is linked to ACG’s long-term training and education approach as described in chapter 4. This aspect was one of the main issues during the conference in Warsaw between European steelmakers and European universities. Many speakers underlined the importance of the long-term vision on training and education¹⁵⁶.

In my previously mentioned interview with Kees Blokland, he confirms the importance of ‘craftsmanship’:

‘I consider the focus on ‘craftsmanship’ as an instrument for increasing the sense of standards and values within the company. In my long-term experience in HR, I learned that the meeting point between hierarchy and craftsman plays an important role in the day-to-day performance of the organisation. Especially in the steel industry with its high organisation complexity and well-educated staff’.

ASC creates professional vocational and general training facilities on a regional level, combined with a central facility on general skills like languages, accounting and management. ACG seeks cooperation with local and regional educational institutions in order to fulfil associative policies. In my interview with Prof. Dieter Senk of the Technological University Aachen, during the Warsaw conference, he stated:

‘Many steelmakers in Europe are already developing such cooperation agreements. Major examples are the German, Spanish and Polish steel industry. The Aachen University attracts young students from all over the world. They organise special projects with German steelmakers and special master programs’.

On the European level ESTEP, the technological arm of Eurofer, is activating and organising numerous projects between universities and the steel industry. The financial results of the steelmaking industry in the first decade of this century boosted these types of activities in order to attract young people.

¹⁵⁶ The World Steel Association accepted most of the advices from the conference. Steel companies try to attract the most talented people and enhance knowledge transfer by providing employee training and opportunities for educational advancement and career development, by investing in educational partnerships, and by developing knowledge management resources like steeluniversity.org. In 2006, the steel industry provided an average of 10.4 days of training per employee. This figure is one of the 11 sustainability indicators of the association (World Steel Association, *Sustainability* 18,29)

On the corporate level, ASC creates the opportunity to bring together the high potentials of ASC. The possibilities for young people to learn from experiments within the whole organisation of ASC and to have the opportunity to join corporate teams on specific items increase the scope of the learning organisation.

ASC policies fit in this general feature of the steel industry. Best practice examples are available and well defined.

I personally was involved for more than 20 years in training activities as Managing Director of Hoogovens Technical Services. This business unit within Hoogovens/Corus supplied training and operational assistance to many steelmakers all over the world, especially in the developing countries. Originally, we supplied training as classroom training and training on the spot, and in the 1990s we extended it to ‘e-learning’¹⁵⁷.

ASC develops excellent educational programs in close cooperation with its members and regional educational institutes as key-element of the associative philosophy. In practice, this means embarking on, and extending existing policies of many steelmakers.

3. High level of employee participation of in the governance of the company, combined with a decentralised organisational approach

Creating job security and transparent career patterns’ and developing a long-term vision on training and education programs fits very well in existing benchmark approaches, as elaborated above.

For the third long-term HR issue, a high level of participation of employees in the governance of the company, combined with a decentralised organisational approach, it is much more difficult to find acceptable existing benchmarks in the steel industry. The only available substantial examples for direct participation can be found in Western Europe¹⁵⁸ and Japan, and for indirect participation only Western-European steelmakers with their Works Council policies on local, national and European level deliver an acceptable starting point for ASC. ASC has to develop its own benchmarks as a real vanguard.

On the other hand, the steel industry has played and continuous to play an important role in the Industrial Democracy history in Europe. The fact that economists and politicians considered and still consider the steel industry to be a so-called ‘basic’ industry, in combination with the long-term character of

157 Via e-learning, trainees step inside a virtual steel plant, operate the equipment, produce and test their own grade of steel. The World Steel Association developed its own e-learning ‘steel university’ via Steeluniversity.org. Steeluniversity.org is used in more than 50 universities worldwide (World Steel Association, *Sustainability* 18). Another example of close cooperation between a steelmaker and educational institutes is the Tenaris University of the Riva Group with offices worldwide (Gonzales *et al.* 72)

158 EPOC report of the European Foundation for the Improvement of Living and Working Conditions (1997) as already referred to in section 4.2.

the industry, as described in chapter 1 form a natural background for this role. In addition, the renewed emphasis on maintaining and enlarging a healthy ‘manufacturing and value-adding real economy’, since the financial crisis of 2008, can create conditions for a possible next step in Industrial Democracy.

There will be a need to educate and to initiate people to be active in the associative processes at home and in the company as a whole. It is not a self-evident subject but requires special attention from the HR Department and influences a lot of HR policies and actions. Associative behaviour needs care and maintenance. That means that communication and deliberation should be important skills for every employee. Of course, the ‘ideal employee’ in relation to these skills is not available but at least it should be high on the agenda of the ‘learning organisation’; training courses should be available to strengthen these skills and maintain them.

Training in discourse ethics requires special emphasis. Employees must learn to go back to the ‘zero level’ of communication:

- ‘In discourse, whatever was taken for granted as true or normatively right in communication is treated as problematic, and everyone is free to contribute to the discussion’ (Edgar 42). Discourse will ideally end in new consensus between participants in the discussion;
- ‘The task of finding solutions remains that of the people who will be affected by that solution and who will have to live with it’ (Edgar 44).

It is important to teach Sen’s realisation-focused perspective and the idea of comprehensive outcomes as described in section 4.3. In order to handle the difference in outcome employees need training in practical communication and deliberation skills. They should learn how to accept outcomes of discourse practice they originally did not support without becoming frustrated. In the future, new information may arise, challenging a former outcome and initiating a new debate. Judgment of these skills is an important part of the annual assessment of the employee.

The best way to keep every employee in touch with the associative conditions is to *keep trust and loyalty at high levels*. This careful process has to be built up slowly and gradually. Management representatives must keep their words and must show commitment and passion. The selection of the higher management functions by the Management Development Department within the HR Department must be understandable and transparent. A manager should be able to fulfil the requirements of ACG in the day-to-day processes.

The most important aspect of ACG is the decentralised and democratic management style. Participation by all employees in general and specific discourse platforms, in particular, must be institutionalised. Skills for this delicate task should be taught constantly at the training and education

facilities¹⁵⁹.

In addition, the trade unions play an important role in the functioning of the Works Council. They deliver candidates for their ‘list’ during elections, although sometimes or even very often, candidates are independent.

The responsibility of the HR Department goes beyond the support and guidance of the process as such. They also should control the quality of the process. Very often, the functioning of Works Councils is complex and it is difficult to find the proper candidates for this institute, even in the steel industry where the trade unions still hold a strong position compared with other industrial areas.¹⁶⁰ The HR Department must try to analyse the reason for this decline of the process and should come up with improvement programs.

One of the reasons is that the participation process extends too far beyond the real work environment of the members. Units become too big and the distance to the day-to-day working conditions became too large. In addition, the Anglo-Saxon process of mergers and acquisitions alienates the employee from the identity of the company. It takes away his or her narrative. Here we see the results of a change of economic model, e.g. from the continental European to the Anglo-Saxon as happened to the employees in the steel plant in IJmuiden. The people in IJmuiden still function according to the old model, but they are embedded in the new model. Denying the real change both by local management and the ‘man on the floor’ leads to erosion of local institutions like the Work Councils. In addition, a change should be initiated via the new ‘diversity policy’. Members of Works Councils are still too often ‘old white men’ with fixed opinions and old-fashioned solutions.

In my interview with Rienk Goodijk, professor of Internal Labour-relations and Corporate Governance on the University of Groningen, he summarised the strong and weak points of the Dutch Works Councils. He tries to develop new initiatives:

‘We have to search for new ways of connecting people, for new structures with the right balance between coherence and differentiation in order to increase motivation. I propose to develop new rules on decentralised participation via networks and /or dialogues. The balance between fixed structures and flexible arrangements changes. We must try to find new equilibriums, fitting in the special circumstances of the company. I expect new interest for the cooperative approach: a re-defining of the Rhineland-model, resulting in new ways of participation. As a strong answer on the increased influence of the Anglo-

¹⁵⁹ In the Netherlands, it is quite common that new members of Works Councils are trained and educated on the Dutch Participation Laws. Tata Corus IJmuiden organised special programs for interested employees on participation in the Works Councils.

¹⁶⁰ Source: personal interview with Ruud Van Neure.

Saxon model. I put question marks at the role of Central Works Councils. Perhaps participation on this level can be replaced by networks and structured dialogues’.

A typical example of new ‘Goodijk’-initiatives is the introduction of a ‘Core Works Council’ within Philips with the limited number of nine members replacing the Central Works Council with twenty-one members. The ‘Core Works Council’ can install project groups and special committees. Normal employees, non-members of the Works Council, are invited to join the dialogue in this groups and committees. These teams prepare pre-advice for the ‘Core Works Council’. The advantage of this initiative is that a broader range of employees can be involved in the participation process. In addition to this ‘Core Works Council’, Philips installed a new discourse platform for all twenty-three Works Councils. Main agenda item is the discourse on corporate strategy and employment developments (Buitelaar and Van Der Meer 86).

For a second example of innovative change I refer to my interview with Frans Pistorius, former director *DSM Nederland BV*:

‘I visited each location of my unit once a month in order to discuss running business with management and works council members. Based on these dialogues, I introduced ten new initiatives in the functioning of the Works Council: amongst others the limitation of council membership to four years, reducing the amount of members from twenty to eight, strong improvement of the council facilities, membership as part of the career planning, introduction of core teams and special platforms on HR and social issues, and practical measures for avoiding ‘wallflowers’ amongst the members. Participation and dialogues must be credible and reliable. It must be possible to score’.

In addition to the care and guidance of the participation process in the general and specific discourse platforms, the HR Department must develop HR policies for associative behaviour in the different decentralised regions within ASC. The differences between the regions are numerous. We discussed the problem of keeping the participation process alive and fresh in the Continental European model. In other models, it will be quite a challenge to start up a participation process. The Asian and Latin model will be easier than the Anglo-Saxon model, but even more difficult will be the start up of the process in the developing countries.

My own experience has taught me how difficult it is, to organise participation in the Anglo-Saxon context. I tried to organise participation in our office in Pittsburgh along the lines of our experiences with Works Councils in Holland. The Pittsburgh employees did not trust our intention at all and were reluctant to give their opinions on almost any subject. In the best case,

they just gave us the opinions they thought we wanted to hear. No dialogue, no discourse! Our intention did not fit in the American ‘hire and fire’ culture. We gave up.

However, even within Continental Europe it can be a problem. In my above-mentioned interview with Frans Pistorius, he gave another example:

‘In my Belgian subsidiaries, they did not understand the harmony model of the Dutch. This model was well based on the regional culture with informal contacts in several organisations like the church, the unions and the rich variety of clubs. The Belgians did not trust informal ‘coffee meetings’ and the ‘no surprise’ policy. Also the attempt to introduce the ‘Maaslandse’ DSM-model in USA subsidiaries by Henk Walravens, former Dutch union leader, did not worked out very well.¹⁶¹

Each region has to face the reality of the cultural and economical environment. I used the term ‘diversity’ in talking about the demographical situation, but in the participation-process, diversity is also the name of the game. Per region, a participation model should be designed, compromising between reality and the associative philosophy. In addition, here, the Learning by Monitoring and Micro-Macro methods are the only practical way to move forward and to make progress.

One of the best contributions in the literature on *cultural differences* and their influence on organisations is by Geert and Gert Jan Hofstede. The functioning of multinational companies is based on intercultural communication and cooperation. They state that successful performance of multinational companies is shifting more and more from technological and market aspects to the *successful handling of the cultural factor* (Hofstede and Hofstede 334).¹⁶² This means that ASC, with its ACG policies on diversity and autonomy, is on the right track. On the one hand, the lack of institutional design in certain regions makes it easier to create a first participation model; on the other hand, it is difficult because there is no back up or help from existing institutions, such as local trade unions, or substantial and reasonable functioning local public authorities. This puts extra responsibilities on the shoulders of ASC’s local management teams.

A potential conflict of interest can develop if discussions in discourse platforms on corporate level between stakeholders on corporate level, like the international NGOs lead to certain macro policies within ASC on environmental and human right aspects, which can differ from the micro solutions developed

161 For a detailed description of this model I refer to Buitelaar and Van Den Toren.

162 Geert and Gert Jan Hofstede present a list of examples of mergers and acquisitions in which the cultural differences at the end destroyed the financial expectations (336). In each case, insufficient attention by financial specialists was given to the cultural differences. I can confirm by personal experience two identical examples.

by local stakeholders, including local NGOs. Coordination between local and central discourses with local and central NGOs is necessary.

Each ASC member-company shapes the participation by its stakeholders as a balance between the principles of ACG and local cultural and economic reality. The HR Department has to monitor the participation process. It must measure results at the basis of the organisation, and it must measure the support of the different stakeholders.

Monitoring the quality of the ACG process is a complicated but feasible task as far as it concerns employees and management as stakeholders. It really becomes a challenge when it concerns outside stakeholders like trade unions and local authorities.

For a proper development of ACG policies and practices, it is important to look for cooperation with the unions. A positive attitude from the unions with respect to ACG as a new step in corporate governance could improve their image and could increase their attractiveness to young people. This is quite a problem in Western Europe and North America. Some initiatives have been taken, such as the creation of ‘parallel institutions’ in the UK and the United States, which seek to afford workers the continuity and sustainability missing in short term, flexible organisations. These efforts focus on rethinking the nature of labour unions (Sennett 184). The United Auto Workers in America now admits young university lecturers into its ranks.

In the steel industry, the unions still function relatively well, although they are reluctant to embark on new ideas from management. Very often these ‘new ideas’ place heavy burdens on the shoulders of labour without being clear about the burdens on the shoulders of other stakeholders.

A positive example of cooperation between management and trade unions is the earlier mentioned set-up and organisation of the participation institutes within the European steel plants of ArcelorMittal. Negotiations took a long time, but in April of 2007, an agreement was reached on the institutional setting of the participation councils.¹⁶³

4. Managing change in order to create continuity

As previously mentioned, the management of ASC is convinced that ACG forms the best answer to the changes and challenges of globalisation. Changes are more frequent and come faster than expected. The growing Chinese steel export is a typical example. The international steel industry was aware of the growing strength of the Chinese colleagues, but it would take a ‘considerable amount of time’ before they could produce high quality steels and it should take even longer to feed the internal market. Export was ‘far down the road’. Much faster than expected by anyone, China is now exporting to the European and American markets. In order to react to this threat, European steelmakers are

¹⁶³ Personal interview with Enrico Gibellieri, EMF representative.

trying to switch the focus of their organisations from ‘operational excellence’ to ‘business excellence’. Instead of focusing on production improvement programs, they are trying to focus their employees on ‘added value’ in the production chain.

ACG is the right instrument for this. Its focus on participation and the creation of the ‘learning organisation’ shape the right attitude towards changes and challenges.

The everyday practice of these policies can be very tough. Introducing changes and reacting to them with new ideas and initiatives is a stimulating process with positive results in the first phase. However, it happens too often that after some time the positive results slow down and enthusiasm decreases. This is a crucial moment in the process of change. The participants have to straighten their backs. Changes should be introduced according to the Learning by Monitoring and Micro-Macro methods and results will start to move in the right direction. However, they do so at a slower rate than in the original phase, the phase of ‘picking the low hanging fruits first’. Too often, participants and management become impatient and the enthusiasm slows down further. HR should educate and train employees and management on this aspect and should teach them to recognise this phase.

The management of ASC should not react in the way that is common within companies by introducing a new tool or hype. This ‘new toy’ is very often motivated by the cheap statement that ‘you have to stir the pot’ occasionally with a new management gadget. This is a very dangerous route eroding the enthusiasm and motivation of many employees. ASC should stay away from these cheap practices and focus on sustainable issues in order to keep up the credibility of the participation process.

A typical example within the IJmuiden steel plant of Tata Corus is the decision of the management to stop the use of self-steering teams.¹⁶⁴ The idea of self-steering teams was introduced with great enthusiasm in the 1990s as an excellent example of direct participation. The results were promising and management and participants were very positive. However, in certain teams the operational tasks and the organising aspects of the team grew out of balance. In addition, it was not always clear to each team member where and how the responsibilities were divided. In the mean time the ideas at management level about the balance centralised- decentralised actions started to move again in favour of centralised actions. Instead of using Learning by Monitoring and adapting the organisation of the teams based on experiences, the whole idea of self-steering teams was abolished. This hurt the credibility of management and HR. The managers and HR employees who previously ‘preached’ the concept of ‘self steering’ now suddenly killed it. A new toy was introduced: ‘policy deployment’, a way of translating strategic targets in real

¹⁶⁴ Sjaak Slingerland, HR manager Facilities Tata Steel Europe IJmuiden. Personal interview.

work floor activities. In principle, the same ‘self steering’ philosophy is used. The difference is the re-introduction of the middle management role, which had deteriorated, in the self-steering philosophy. A better solution would have been to keep the self-steering philosophy and via Learning by Monitoring adapting changes on the aspect of the middle management role.

Change management refers to ‘changes’. Which changes can be expected? Hans Van Der Heijden and Saliha Bochhah in their book *DE WERKelijkheid van morgen* recognise seven ‘megatrends’ that will turn HR theories and policies ‘upside down’. These trends are: 1) more digital; 2) more global; 3) more multiform; 4) more uncertain; 5) more responsible; 6) more vital; and 7) more entrepreneurial.

ASC has to recognise these trends and has to have its own answers or intentions. *More digital* is part of the new possibilities for increased autonomy via modern digital communication and information instruments. *More global* is the basis for the introduction of ACG. *More multiform* is translated in the contextualised approach of ACG. Management of change is very often a matter of management of diversity and differences. *More uncertain* is the key for the need for a different corporate governance attitude as delivered by ACG. *More responsible* is the justification of ACG’s discourse policy. *More vital* is part of ACG’s diversity and the work-life balance policy. *More entrepreneurial* is part of the ACG philosophy, away from the ‘control freaks’ of the Anglo-Saxon attitude.

HR has to play a crucial role in training of the right attitude in change management. In principle, all stakeholders are involved in changes and change management. Traditionally HR refers to management of the human resources of two stakeholders: employees and top management of the company. Of course, this is also the case in ASC. However, the HR Department of ASC has to develop a ‘third front’: communication and coordination with other major stakeholders such as suppliers and clients, on the ‘discourse quality’ of their employees and management. Involvement as stakeholder in ASC activities means accepting the right balance between rights and obligations. It is easy to think of this item as ‘a bridge too far’ and impossible to introduce. However, not facing the reality of the damage by unprepared agents in discourse processes is not an option. The HR Department could, as a first step, *introduce and explain the ASC discourse education programs to HR representatives of major stakeholders*. ASC could even ask its stakeholders to train their major participants in these programs. Training in discourse and dialogue can reduce standard meeting durations with 60 to 70 % (Kohlrieser 25) and increases the quality of the discourse process.

Although this ‘third’ front needs attention and demands ‘start-up’ policies I limit myself to the first and second front: the education and training of employees and top management.

The expression ‘*change management*’ needs some criticism. It can put too much emphasis on ‘change’. ACG wants to balance change and continuity as two sides of the same coin. ASC’s company values as determined in section 4.3, ask for continuity, trust and loyalty. Changes are necessary in order to react to the competitive outside world, but they are also necessary in order to save the continuity of the organisation. The target is to *maintain continuity* and changes must be managed to protect this continuity. As already mentioned in the introduction to this thesis: 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.

I link the issue of change management with another HR issue: ‘leadership’. Leadership is back on the agenda of HR departments¹⁶⁵.

Too often top management of MNCs is involved in creating company growth via mergers and acquisitions according to the Anglo-Saxon style, of course combined with accompanying remunerations. As a forced leadership act, management introduces HR tools lower in the organisation to ‘control’ performance, for example business balance score cards, key performance indicators, competence profiles, and leveraged bonus systems. These tools suggest a reliable way of measuring the performance of employees, an accuracy that hardly exists in practice¹⁶⁶. This ongoing ‘control’ is often combined with top down incidental managerial ‘hypes’ as mentioned before, or new reorganisations initiated by Corporate Strategy. Intrinsic motivation is replaced by extrinsic stimulants, with a growing distance between management and employees. It becomes more and more difficult to manage change. Employees react with a cynical persistence to the top-down flow of ongoing hypes and reorganisations, which frustrates changes on an active and passive way (Brakman and Witteloostuijn).

ASC manages changes on a different way. It reacts on changes via ‘social innovation’. The social and economic performance of the organisation is increased via an innovating process in which employees and other stakeholders are heavily involved (Blokland and Raalte 94). In my interview with Kees Blokland, he states:

‘I consider ‘social innovation’ to be the search for new ways of functioning of employees in order to optimise the company performance and to improve the working climate

In my opinion, the *key elements* in this process are: 1) a high level of participation combined with increased level of own responsibility of the participants; 2)

165 Personal interview with Ruud Van Neure, and personal interview with Kees Blokland.

166 In my interview with Kees Blokland, he calls these tools ‘mechanical’ tools.

management by trust instead of control; 3) talent development via education and training; and 4) integration of theory and practice’.

I use this definition of social innovation but want to add two elements: the involvement of the tacit knowledge of employees and the organisation of the discourse platforms with all stakeholders as part of knowledge networks within companies. This leads to a ‘knowledge triangle’: ‘associative culture’ and ‘discourse policy’ as the basis, the resulting ‘learning culture’ at the top of the triangle.

The corresponding leadership profile is: 1) focus on delegation of responsibilities fitting in with the associative features of autonomy and empowerment; 2) clear and straight communication of company values and vision at the discourse platforms; 3) care for education and self-development of the employees; 4) emphasis on team performance and remuneration. This results in a growing common associative company culture within ASC. Participants are proud to work for the company and willing to support and initiate social and technological innovation. Intrinsic motivation is the key element for ACG.¹⁶⁷ The performance of the company, both social and economic, increases¹⁶⁸. A detailed study on the effects of HR practices on productivity of 36 steel finishing lines within 17 companies in the USA, confirms the increase in performance by using innovative work practices, such as extensive recruitment policies, employment security, skills training, flexible job assignments, communication, teamwork (Ichniowski et al. 311).

ASC’s discourse policy with its emphasis on open dialogue is the right instrument for holding on to people and improving their functioning. However, the boss should be a ‘secure’ basis. He must be reliable in his actions and reactions. He must show a high emotional intelligence in order to create bonds between participants. Dialogue bridges differences and solves problems in a constructive way. A leader who avoids the dialogue will never understand the ‘other’ (Kohlrieser 25). It is for this reason that the HR Department’s management development policies of play a crucial role in the creation and success of ASC’s discourse policy.

I now come back to the roles of the HR function as defined by David Ulrich (as mentioned in the beginning of section 6.5). I recognise his four roles but in my opinion, reality is diverse. All four aspects do play a role in a certain mix and to focus on just one role is unrealistic. In section 6.1, I described the

167 For the importance of intrinsic motivation, see the long-term research of Hans Achterhuis (Achterhuis 278). On this page he also refers to Naomi Ellemers’ recent research results (KNAW Merian Award 2009 and NOW Spinoza Award 2010).

168 ASC’s leadership profile corresponds with the profile as defined by representatives of NCSI, the Dutch social innovation platform (De Graaf, Heleen) and defined by Kees Blokland in the personal interview.

role of the HR Department in the ‘spinning ball’ of the corporate strategy process. As emphasised in this section, HR is involved in the change process of social innovation. A recent study of major transformations in ten European steel companies during the 1990s confirms the role of the HR Department as a strategic partner in the accomplishment of sustainable change (Den Hertog *et al.* 14). An important HR contribution was the creation of trustworthiness regarding the change process and the implementation of the change. This means that they also served the interests of the employees and that they were responsible for the administrative expertise. This example confirms the earlier mentioned vision of Raymond Caldwell that HR will always be at the centre of all social aspects and has to play the game ‘as it comes’.

The only change to be expected is the possibility of outsourcing certain HR services. Johan Lourens and Ivo Brughmans present a comparable but slightly different approach to the HR role. They recognise two functions: the HR Business Partner and the HR Service Provider. The HR Business Partner is comparable to Ulrich’s strategic partner and change agent, the HR Service Provider to Ulrich’s administrative expert. Companies are involved in formulation and implementation of outsourcing of the Service Provider role. Operational activities like recruitment, selection and administration fit into this role. The goal is to limit the operational role of the HR Department, and to increase the strategic role and change management functions within the Business Partner role.¹⁶⁹ The HR function grows qualitatively but decreases quantitatively (Lourens and Brughmans 48).

Recruitment is one of the key tasks of the HR Departments in the steel industry. ASC does not outsource this activity. HR recruitment employees work closely with colleagues from the regional education institutes. Their cooperation needs long-term planning and trust. Outsourcing of this activity is a typical example of creating unnecessary distance between the company and society.

Another key aspect of the HR function within ASC is education and training in the associative process of ACG. This is a second task, which cannot be outsourced. The associative philosophy should come straight out of the mouth of ASC’s HR employees themselves. This is the only way of keeping the credibility of the associative philosophy alive.

ASC’s contextualised approach and the autonomy of the member-companies results in a contextualised HR approach on outsourcing. The social and economical environment of some member-companies can allow outsourcing if reliable third parties can provide these services. Other member-companies have no choice. They have to take care of all aspects of HR themselves.

¹⁶⁹ See also the lecture of Prof. dr. Wout Buitelaar, of the University of Amsterdam, on this subject (10 November 2007).

6.5.3 *Summary of policies and actions*

The following HR policies can be summarised:

1. Management of demographics by increasing diversity and a balanced age structure;
2. Creation of a sustainable work-life balance;
3. Creation of realistic job security;
4. Long-term vision on training and education programs resulting in a ‘learning organisation’;
5. A high level of employee participation in the governance of the company combined with the decentralised organisational setting of ASC;
6. Change management by ‘social innovation’.

All policies are based on existing trends and possibilities within the steel industry, and show that ACG does not need revolutionary changes or utopian conditions. ACG asks for further extensions and serious attempts to broaden the scope of these policies. Examples as discussed in this subsection show that the steel industry is a suitable environment to take the next steps, given the long-term orientation, the already existing cooperation with stakeholders, and the composition of the workforce.

ASC should consider changing the name of ‘HR’ to a more people-oriented name. The name HR suggests that human beings should be managed like a production ‘resource’, top-down and following rational management principles. A more suitable name could be the P&E: Participation & Education’ as the basic elements of the activity. Participation & Education as practical translation of the ACG features of continuity, trust and loyalty.

The above-mentioned policies demand the following practical actions per policy:

Management of demographics

- First, by introduction and monitoring of ‘equal treatment’ attitude throughout the company on all levels;
- Second, by encouraging taking advantage of available and relevant training facilities and opportunities;
- Third, by respecting local customs and good practices in the different regions of the company;
- Fourth, by creating a stable and motivated work force via a long-term HR vision on job-security, continuous training and education programs, attractive career patterns and open communication;
- Fifth, by creating cooperation between ASC member-companies and universities and other regional education institutes by promoting joint research projects and traineeships.

Creation of a sustainable work-life balance

- First, by taking care of healthy working conditions and promoting attention for this aspect of life;
- Second, by taking care of the right balance between working hours, education hours and private hours.

Creation of a suitable job security

- First, by organising the right balance between the responsibilities of the employee and the employer. The employer has to take care of 'good maintenance' of the employee via training and education programs resulting in a 'learning organisation'. The employee has the obligation to become an active member of the 'learning organisation'. This results in the previously defined attractive career pattern and open communication on opportunities and threats;
- Second, by establishing of pre-determined job-change and redundancy rules defining the rights and obligations of stakeholders.

Creation of a 'learning organisation'

- First, by stimulating the two ACG methods Learning by Monitoring and Micro-Macro, in order to create an open mind and positive attitude toward the outcomes of the learning process;
- Second, by creating professional vocational and general training facilities on regional level;
- Third, by promoting craftsmanship.

High level of participation

- First, by educating employees and other stakeholders about and initiating them in the participate in the associative process at a regional and a company level. Emphasis is put on the 'rules and tools' of a decentralised and democratic management style;
- Second, by developing communication and deliberation skills of all participants;
- Third, by training participants in discourse ethics and rules;
- Fourth, by continuous monitoring of the functioning of the participation process and the discourse platforms. This results in a continuous improvement program of both associative elements, via Learning by Monitoring and Micro-Macro;
- Fifth, by taking a pro-active role in the introduction and guiding of new stakeholders.

Change management by social innovation

- First, by choosing 'social innovation' as the organisation's major approach to changes as a logical result of the high level of participation within the company; the management by trust instead

- of control; the learning organisation feature; and the integration of theory and practice via Learning by Monitoring and Micro-Macro;
- Second, a leadership profile based on 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;
- Third, by using the discourse platforms as starting points for development of change practices;
- Fourth, by continuous monitoring of willingness and usefulness of the introduction of new stakeholders.

In general, ASC should try: 1) to meet the best available practices within the WSA community; and 2) to play an active role within the WSA in trying to improve these best practices.

6.6. Marketing and Sales

The concentration of ASC's activities in just seven clusters makes each cluster an essential part of the functioning of the company. R&D and HR were already marked as 'of great importance' but Marketing & Sales (M&S) also play a crucial role in the developing of the associative character of ASC. ASC's feature that allows member-companies to join the company on a voluntary basis and allows them to assert the 'exit-option' puts a high additional emphasis on the protection of ASC's corporate image.

The standard task of the M&S Department:

- The marketing and sales of the products of the company; and
- Watching and following of consumer behaviour.

is extended to

- Marketing of the company as an attractive opportunity for local steelmakers to acquire ASC's membership, or, in other words, the 'branding' of ASC as a community and socially embedded company.

The M&S Department has to market ASC as an attractive and feasible possibility for steelmakers around the world to face the need for concentration and globalisation of the world steel industry without losing their identity.

M&S as a specific element of industrial development plays a limited role in the Varieties of Capitalism literature and discussions. I could only find a few remarks in Colin Crouch and Wolfgang Streeck's *Political Economy of Modern Capitalism* and Richard Whitley's *Divergent Capitalism*. Crouch and Streeck consider sufficient demand on the international market for high quality products as one of the basic conditions for the continental European

model (3).¹⁷⁰ Whitley compares companies based on their capability to react decisively to changes in the market (74).

In the corporate governance literature, M&S plays a prominent role. I do not elaborate on the various aspects of the standard tasks of M&S within a company, but limit myself to the following aspects:

- ACG's positive contribution to M&S's consumer-watcher role (M&S → consumer);
- ACG's positive contribution to the M&S policy of becoming 'the best supplier to the best client';
- M&S's specific task as 'image-protector': the 'branding' of ASC as a community and a socially embedded company and as an attractive and reliable association (consumer → M&S).

6.6.1 Consumer-watcher role

In the steel industry, new products for the automotive, construction and packaging markets are developed in close cooperation with customers. Steelmakers have no direct interaction with consumers but are faced with consumers' behaviour via their customers: the automotive industry, the construction companies and the packaging industry. In order to reduce fuel consumption, the automotive industry asks for lightweight, strong, easily deformable steel sheets with a smooth surface. Construction companies need strong, lightweight steel beams and durable steel cladding for buildings. The packaging industry needs lightweight, ultra thin steel sheet for convenient food packaging.

Specialists from both sides, customer and steelmaker, work together in joint project teams in developing new qualities in order to respond these requests from the market. The steel industry has to compete with materials like aluminium and plastics.

An important aspect nowadays is the environmental issue. The recycling possibility of steel has become a major plus. Steel is perfect for recycling, and today 50% of steel production throughout the world uses recycled steel.

ACG, with its well-developed and systematic stakeholder involvement throughout the whole company, forms an excellent platform for this process of product development via consumer watching. The key feature of this process is continuity and trust. Product development in the steel industry is a slow and ongoing process with no spectacular moments but the result of day-by-day hard work by specialists as explained in section 6.4. This fits very well into the associative character of ASC. The involvement of NGOs gives ASC a great

¹⁷⁰ Crouch and Streeck refer mainly to Germany. Germany remains one of the leading export countries in the world, although critics refer to the fact that export figures are more based on assembly of semi-finished products produced in low cost countries than on real own industrial production.

advantage compared with other steelmakers. M&S gets direct input and early-warnings of the societal developments.

The indirect connection with consumers makes the life of steelmakers less turbulent and less vulnerable than the life of companies like Shell or Unilever. Nevertheless, the steel industry has to face the penetrating global warming issue. This can become a rather threatening societal issue, as highlighted in chapter 1 and section 6.4. Regular dialogue between M&S and NGOs on local and central level is a necessary instrument to keep this issue manageable.

6.6.2 The ‘best supplier’ role

ACG and the continuous involvement of ASC clients as major stakeholders results in long-term relationships with clients based on trust and continuity.

Steelmakers in Germany, Scandinavia and Holland are well known as loyal partners in long-term commercial relationships with clients. In my interview with Jacques Van Exter, former Director of Sales at Hoogovens/Corus Group IJmuiden, he states:

‘In principle, the steel plant in IJmuiden tries to stay away from ‘revolving door’ clients. English and Italian steelmakers represent the opposite position. The steel plant in IJmuiden enters in annual contracts with approximately 50% of its clients and the rest of the business contracts are often on a quarterly basis. This long-term relationship policy, also necessary for the above mentioned product development approach, has recently been developed further as the company’s ‘best supplier to the best client’ policy. It is preferable to supply attractive specialities to attractive and successful clients. A newly developed steel quality will be most successful if supplied to successful clients. The percentage of default supply will be low.

In principle, the steel plant in IJmuiden refuses to do business with dubious clients or to accept dubious payment methods. Contracts are simple and straightforward, with no legal excess baggage but with useful detailed technical specifications’.

Important aspect of this trust and continuity orientation of the M&S Department was the reliability of the clients. According to Jacques Van Exter: ‘We never took our chance with unreliable clients and never accepted dubious payment arrangements. On the other hand, clients never asked us for ‘code-of-conduct’ declaration, with the exception of Renault. There were no chain responsibility requests as far as I know’.

The merger between Hoogovens and British Steel in 1999 was a real culture shock for both sides. The British were shocked when they learned about the limited and, in their eyes, irresponsible scope of the contracts. As good

representatives of the Anglo Saxon attitude, they preferred complicated contracts produced by lawyers far away from the real business. They also had this attitude because they just went for a market share in their M&S policy accepting every client at their doorsteps. This policy resulted in high annual amortisation costs because of unpaid bills and defaults. The example of the steel plant in IJmuiden shows that long-term relations with reliable partners based on trust, respect and continuity are possible in the steel industry. This aspect of ACG is a possible business attitude and no utopian picture. The business success of the steel plant in IJmuiden confirms the feasibility and the positive economic and financial performance of this policy.

6.6.3 The 'branding' role

The role of branding normally focuses on customers and markets. However, in the case of ASC it has a second and very important role: to attract potential new member-companies. This second role relates directly to the associative character of ASC. As mentioned before, the voluntary entrance of new member-companies and the exit option of existing member-companies demand from ASC an image as an attractive and reliable association. Steelmakers will be interested in the membership if they see ASC as a potential answer to their need for concentration and internationalisation of their steel business.

I interviewed Jozef Tettero on the role of branding, and how to organise this business aspect. In his opinion:

‘As part of the overall company strategy ASC should introduce strategic brand management as developed by Kevin Lane Keller, a leading authority in this field. This should result in a customer-based brand equity model, based on the specific company values and company character of ASC. Key aspects of this model are the strong awareness of the specific character of ASC and the loyalty of clients and member-companies to the company’.¹⁷¹

In this subsection, I refer to Kevin Keller's *Strategic Brand Management: Building, Measuring, and Managing Brand Equity* and the summary of his ideas as presented by Jozef Tettero during the interview. According to Keller, the role of branding is ‘to create and sustain lasting value in the customers mind. The brand name is the key. It triggers the release of a set of associations and emotions’. In the case of ASC, there are two different kind of ‘customers’: 1) regular clients in the automotive, construction, and packaging industries, and 2) steelmakers as potential new member-companies. The name Associative Steel Company is the key because it triggers ASC as a community and a socially embedded company.

¹⁷¹ Personal interview. Prof.dr. Jozef H.J.P. Tettero is professor at the Faculty of Economics and Business of the University of Amsterdam. He studied the role of branding in the performance of corporations.

In order to organise the branding activity ASC has to implement strategic brand management, involving the design and implementation of marketing programs and activities to build, to measure, and manage *brand equity* (44). Keller defines the benefits of brand equity as: 1) enjoy greater brand loyalty, usage, and affinity; 2) command larger price premiums; 3) receive greater trade cooperation and support; 4) increase marketing communication effectiveness; 5) yield licensing opportunities; and 6) support brand extensions (60).

ASC organises strategic brand management along the lines of the ‘spinning ball’ approach as developed in the Corporate Strategy section 6.1. Keller distinguishes four main steps in the *strategic brand management process*, with: 1) identifying and establishing brand positioning and values; 2) planning and implementing brand marketing programs; 3) measuring and interpreting brand performance; 4) growing and sustaining brand equity (44). The ‘spinning ball’ approach can be compared with Keller’s ‘reinforcement and revitalisation’ concept as part of his fourth step of growing and sustaining of brand equity. As guiding principle in the process, Keller introduces the *customer-based brand equity pyramid* (76,99).

In the case of ASC, this results in two, partly different, ‘brand equity pyramids’: the ‘customers oriented’ pyramid and the ‘member-company oriented’ pyramid.

The basis of these pyramids is ‘brand salience’ The next levels are ‘brand performance & brand imagery’, and ‘judgments & feelings’ respectively. The top level is ‘resonance’ (99). In other words, from ‘identity’ (‘who are you?’) to ‘meaning’ (‘what are you?’) to ‘response’ (‘what about me?’) to ‘relationship’ (‘what about you and me?’) (76). The M&S Department has to develop branding policies and actions to move from the basis to the top.

Brand salience (‘who are you?’), the basis of the brand equity pyramid, is about ‘deep, broad brand awareness’ (99). In order to create this strong brand awareness the M&S Department must present ASC’s company profile as an associative steel company, with its primary characteristics, features and values. M&S has to explain why and how ASC is different and to explain the added value of its corporate governance philosophy. For the member-oriented pyramid, it must focus on the advantages of joining the ASC organisation for potential new member-companies. For the customer-oriented pyramid, it must focus on quality, social embeddedness, sustainability and long-term orientation.

For the next level, *brand performance & brand imagery* (‘what are you?’), emphasis should be put on high performance via strong social embeddedness of the member-companies, on the availability of the strong products and advanced R&D programs, on the strong international network with its webs of dialogue and influence, on corporate governance based on trust and loyalty instead of control, and on the sustainable long-term target of

the company.

For the level of *judgments & feelings* ('what about me?') M&S must develop and monitor 'judgment' dimensions such as brand quality, credibility, relevance and superiority. It should work on the 'feelings' dimensions such as social approval, self-respect and security. Potential new member-companies must reach the point that they judge that ASC membership can be an interesting answer to the need for internationalisation and concentration. They should have 'good feelings' about this strategic move. Customers should have 'good feelings' about reliable long-term supply arrangements.

Finally, at the top level of *resonance* ('what about you and me?'), new potential member-companies seek information, visit ASC and express their intention to 'join the club'. In Keller's words, they feel that they are 'in sync' with the ASC brand. He distinguishes four categories of resonance: behavioural loyalty, attitudinal attachment, sense of community, and active engagement (92).

These categories fit perfectly well in the company values of ASC.

M&S is responsible for all these aspects of the strategic brand management process. It should result in 'best client to best supplier' arrangements and sufficient worldwide interest from steelmakers to start negotiations on Entrance Agreements.

M&S is also responsible for the process, both on an international level and on the regional level of the different member-companies of ASC. The associative character on a regional level needs protection and explanation on a continuous basis. The region must understand and support the associative policy of its ASC-member-company.

Given the central role of steel plants as nucleus of industrial regions and the fact that the steel complex makes its presence very much felt, most steelmakers introduce a special communication department for their communication with the local and regional authorities and organisations. Its task is limited to caretaking a good neighbourly relationship. On the national level, they assist management in presenting the company and protecting its interests on ministerial level.

However, the associative character of ASC demands a much more sophisticated approach. Authorities and organisations are not just 'neighbours' but stakeholders. As stakeholder, they will be involved in the policies and strategy of ASC along the lines of ACG.

Each member-company should have its own M&S department working together with the centralised M&S department in the head office of ASC. The centralised staff should concentrate itself on building and protecting of the company's international image in order to attract new member-companies. It has to develop policies and procedures on ASC level to be used on regional

level by its member-companies. The local M&S departments limit themselves in building and protecting the image of the steelmaker on a regional and national level. They translate and adjust the central procedures by taking into account specific local or regional conditions.

M&S should have a pro-active attitude to the outside world as described in chapter 4. ACG facilitates this attitude through its stakeholder's policy. Within ASC, there is the dialogue with NGOs and other outside partners on the latest developments on social, environmental and economic issues. The pro-active attitude results in image 'building' and not just image 'protecting'.

So far, all policies and actions refer to the 'nice' side of strategic brand management. However, strategic brand management of ASC also has a 'tough' side. If member-companies develop attitudes or activities that can damage the positive image of ASC, the central M&S staff has to warn the management of this member-company. Management should try to change its behaviour and should have the opportunity to correct its performance. A typical example should be environmental or social hostile behaviour. If a member-company fails to correct its behaviour, the Board could make the decision to use the 'exit-option' as a last but necessary attempt to correct its member-company and to protect its overall image. The exit option can protect ASC and its member-companies against defaults of one specific member-company within the group. Of course, the exit option can also work the other way around. It can protect a member-company against a performance default by ASC. Both ways should be handled very prudently with procedures for 'repair' opportunities and rights for appeal by external arbitration. In section 6.7, I elaborate on ASC's Entrance Agreement, including the exit option.

M&S should develop initiatives to improve and maintain the 'ASC brand' given its pro-active task. An important aspect should be the membership of internationally well-known organisations on sustainable entrepreneurship like the World Business Council for Sustainable Development (WBCSD), as already mentioned in section 6.1. WBCSD stands for many issues that are of great importance and value to ASC. It shows that ASC's products have a high eco- efficiency¹⁷², that labour conditions within ASC comply with high standards and that ASC in general wants to contribute to a sustainable future for humankind. M&S should join working committees and WBCSD special projects, in order to contribute and to learn from its programs. WBCSD underlines the importance of intangible values for a company, such as goodwill and know-how. Companies, that do not protect these values by sustainable policies, will lose their position on the market. ACG, with its institutionalised cooperation with NGOs, can play an important role in the overall functioning

¹⁷² WBCSD introduced the term 'eco-efficiency', which means creating 'more value with less impact'. See August 2000 publication: <http://www.wbcd.org/web/publications/eco_efficiency_creating_more_value.pdf>

of WBCSD.

WBCSD considers as the five top key drivers for sustainable development: globalisation, the growth of the economies of China and India, energy and climate, water, and land use. Other drivers are poverty allocation, demographics, urbanisation and media. Recently, WBCSD has added 'financial markets' to the top key drivers list. The steel industry has to face the influence of the key drivers of globalisation, China and India, and energy and climate on a daily basis.

According to WBCSD, the present institutions and processes are not designed for transformational change. New platforms for interactions between governments and businesses on global issues should be initiated. 'We are in this together', and 'Business cannot succeed in a society that fails' are the two major statements of WBCSD. ACG, with its associative character and overall stakeholder philosophy, forms a real new platform for interactions of business and society. Its social embeddedness shows that 'we are in this together' and that society and business can be successful together. Indeed, the design of the company and its relationship with society should be changed, as aimed for by ACG. To introduce CSR without changing the corporate design and governance will be an insufficient answer to the necessary transformational change.

At this moment, WBCSD has three steelmakers on its membership list: ArcelorMittal, Posco and Baosteel. This is quite interesting because all three are major Asian steelmakers. It would be worthwhile to find out why these three steelmakers decided to become a member of WBCSD, and why European steelmakers decide not to join this organisation.

It is obvious that ASC should also be pro-active within WSA, the world steel association.

As noted in section 6.1, during the annual WSA meeting in Washington DC on 7 October 2008, Björn Stigson, WBCSD President, presented a paper on 'climate change' and the possible role of the steel industry. The world steel industry is the second-largest industrial consumer of energy and produces 4-5% of the total world CO₂ emissions. Therefore, the steel industry has to accept its responsibility on this front.

6.6.4 Summary of policies and actions

I can summarise the M&S policy as follows:

- Introducing and developing of policies on the consumer-watcher role;
- Introducing of policies on 'the best supplier to the best client' strategy;
- Introducing and developing of strategic brand management policies in order to develop and protect a positive sustainable brand equity to the market and society in order to sell the unique position of the ASC organisation and its products.

This will result in the following actions:

- Initiating and developing discourse platforms with NGOs and other stakeholders on consumers' wishes and behaviour;
- Initiating and developing 'best supplier to the best client' contracts;
- Developing the brand equity pyramid on each level;
- Representing ASC as an active and reliable member of the WBCSD organisation via special projects and initiatives.

6.7. Operations: integration of activities

The majority of ASC's employees are involved in operations at one of the capital-intensive production facilities of its members.

The most fascinating aspect of operations is the integration of all activities, as highlighted in the previous sections, in the final production of excellent products and the creation of sufficient cash flow to feed the company. In the day-to-day practice on the work floor, ASC must show the viability of ACG by performing according to the expected extra efficiency due to the high social embeddedness of the company. The proof of the pudding is in the eating. The viability of ACG in real hands-on situations should be clear and credible in order to create and maintain support for the associative philosophy.

In this subsection, I discuss the role of the management of ASC's regional member-companies, given their direct responsibility for the main operations activities, and the integration of policies and actions as developed within the activities Corporate Strategy, Finance, Supplies, HR, R&D, and M&S. The Local Management Teams of ASC member-companies form the pivoting points of ASC's associative philosophy. On the one hand, they are responsible for implementation and maintaining the associative philosophy in its steel plant and region, on the other hand they have to support and accept the associative rules within ASC as their international framework in the steel industry.

The Central Management Team at the head office should provide Local Management Teams with sufficient autonomy to do their job and with sufficient support through the ACG policies: a high level of trust and loyalty, stakeholder involvement, networking competence, and the Learning by Monitoring and Micro-Macro methods. All these instruments are available for Local Management Teams. The balance between top-down and bottom-up governance as essential feature of ACG will have its practical application for each member-company of ASC.

I will describe the three situations in which Local Management Teams have to perform:

- The 'entrance', joining the international ASC organisation;
- The daily normal routine of managing the operations within ASC;
- The 'exit' option, leaving the ASC organisation.

6.7.1 The entrance option

Entrance of a steelmaker in ASC will result in many advantages for the company and its region. The associative philosophy can bring to the candidate member-company the answer to the concentration and internationalisation of the steel industry as described in chapters 2 and 3. It creates long-term survival opportunity for the steel plant as a motor for the region. It increases the availability of new technologies and expertise, new financial resources and new business opportunities. It introduces a higher level of standards and norms, both technical and social.

Introduction of ACG increases the social embeddedness of the company, which can and should result in substantial social and economic improvements in the region. The social embeddedness results in a two-way street: ASC interacts with the region and the region interacts with ASC.

It results in the involvement of local and regional authorities, education institutes, and local and regional NGOs, suppliers, customers, trade unions, local and regional banks as stakeholders of the company. This results in improvement in labour conditions, upgrading of education facilities or the creation of new facilities, and creation of new learning and career opportunities for young potentials within the international ASC educational network. Another area in which the introduction of ACG delivers a positive change is the regional environmental situation.

It all starts with the decision by a steelmaker to contact ASC and to show interest in membership. This results in entrance negotiations between the new potential member-company and ASC. As in each negotiation, both parties will have their own agenda. A new candidate has its reason to start negotiations with ASC, reasons founded in the possible advantages as mentioned above. ASC wants to increase its network in the steel industry.

A candidate member-company has to accept that ASC cannot change the overall market situation in the world steel industry. ASC uses ACG in running the company, different from its competitors, but it has to operate in the same market as its competitors. It is inevitable that a new member-company has to accept a critical analysis of its facilities and products by the central staff of ASC. This can result in new investments facilitated by ASC, but also in closing of existing facilities, reshuffling of its product range, and overall staff reductions.

The difference with an ordinary take-over by a competitor is that the possible entrance of a new member-company is a voluntary step. For that reason, a new member-company can accept a possible entrance burden. It becomes part of a new entity instead of being a victim of a hostile take-over with only a nice compensation for unknown shareholders and maybe the top management, and without loyalty to other stakeholders. Both sides support the entrance decision, and the autonomy of the new member-company within ASC is guaranteed as defined within ACG.

However, why should steelmakers burden themselves with ASC's rules on a voluntary basis? What could be the reason for their final decision to become a candidate new member-company and to enter the negotiations on the Entrance Agreement? Of course, as elaborated before, the need for concentration and internationalisation, together with the threat of a hostile take-over, is always there. However, the decision to consider ASC as a realistic and viable opportunity requires further considerations.

In order to answer these questions, I refer to the research of Elinor Ostrom on the governing of 'Common Pool Resources' (CPRs): *Governing the Commons, The Evolution of Institutions for Collective Action*. Most of her research concerns the governing of natural resources such as fishing grounds, groundwater basins, and mountain meadows. Nevertheless, her findings are of interest for defining rules and policies for the resources of ASC. Although, strictly speaking, the resources of ASC are not limited as Ostrom's CPRs, in practice financial and knowledge resources of steel companies and also of ASC, such as investment programs and R&D programs, are rather limited and will only increase step-by-step.

Ostrom asks the question: 'Why is it that some appropriators can supply themselves with new rules, gain quasi-voluntary compliance with those rules, and monitor each other's conformance to the rules, whereas other cannot?' (185). She considers appropriators as 'fallible, norm-adopting individuals who pursue contingent strategies in complex and uncertain environments' who can be expected to make contingent commitments to follow rules (185) that:

- Define a set of appropriators who are authorised to use a CPR (design principle 1);
- Relate to the specific attributes of the CPR and the community of appropriators using the CPR (design principle 2);
- Are designed, at least in part, by local appropriators (design principle 3);
- Are monitored by individuals accountable to local appropriators (design principle 4); and
- Are sanctioned using graduated punishments (design principle 5).

These principles can be 'translated' to ASC circumstances:

- Only member-companies should be authorised to use ASC resources;
- Investment- and R&D-programs per member-company should be well defined year-by-year;
- The rules on investments and R&D resources should be well defined in the Entrance Agreement or any other detail-attachment of the agreement;
- The monitoring of the supply and commitment of the resources should be transparent and accountable to each member-company;

- The Entrance Agreement should be clear on graduated punishments in case of not fulfilling of commitments.

These rules on credible commitment and mutual monitoring are a necessary condition for the above-mentioned ‘final step’ for steelmakers’ voluntary decision to start serious negotiations with the ASC organisation.

By signing the Entrance Agreement, member-companies accept and adapt the principles, rules and procedures of ACG as used by ASC. This refers to practical issues, for example investment- and R&D- resources, but especially to the main values of ACG as elaborated in section 4.3, and the HR policies as elaborated in section 6.5.

To mention one serious HR-aspect: if staff reductions or reshuffling should be part of the final negotiation result, they should be handled along the lines of ACG, as described in subsection 6.5.2. It is an excellent opportunity to show the sincerity and strength of the associative policy to insiders and outsiders of the region. It shapes new associative connections between ASC and regional authorities and educational institutes.

This possible aspect of the final negotiation result puts emphasis on the stakeholders’ labour. However, the entrance will influence the world of all stakeholders. The shareholders arrangements and the financial relationships with local banks will change. As described in section 6.2, regional blockholders and financial institutes have to adopt the long-term approach of ACG and the exchange in shares between the new member-company and ASC.

Local suppliers as stakeholder become involved in the process as described in section 6.3. Local and regional authorities and local and regional education centres all become participants in the associative approach of the steel plant, according to the ground rules of ACG.

The moment of entrance and the first years thereafter becomes an important event in the region, requiring special attention from the steel plant management, the authorities and all other stakeholders involved. ASC’s Central Management Team and the Local Management Team of the new member-company have to monitor progress and should be very alert to possible roadblocks or threats. If necessary, specialists and advisors from other members can be brought in to assist the participants. Delegations of stakeholders of the new member-company can visit other ASC regions to learn about failures and successes via the Learning by Monitoring and Micro-Macro methods.

Tension between the existing own identity, routine and capabilities of a previous autonomous firm and the new environment of ASC, are well described and studied by Peer Hull Kristensen and Jonathan Zeitlin. They raise the question whether a cooperative strategy can be established in such a way that the

development of a multinational can be advanced as a whole, or do mutual misunderstandings and the unintended consequences of strategic interaction among the players instead lead to endemic conflict and disintegration.

They studied the strategic constitution of an actually existing multinational within the North-West European environment with a dominant role for the headquarters in London and the connecting rules of the Anglo-Saxon economic model. Their description of the interactions between corporate headquarters and the financial markets in London City confirms my own experience in the Corus/Hoogovens case. Kristensen and Zeitlin summarise this world as follows (303):

‘MNCs are increasingly run by executives who have specialised in sending the right signals to the financial markets, thereby enabling fund managers employed by institutional investors to meet the tough short-term relative performances benchmarks required for their own survival’. ‘Ironically this game continually draws in new players’.¹⁷³

They also reinforce the critique of Paul Hirst and Grahame Thompson on the strong version of globalisation (the ‘myth’ of a fully globalised economy), and emphasise the continuing role of nation-states in supporting and governing economic activity.¹⁷⁴ Nation-states are still major actors in the webs of influence of steelmakers.

Still, they see possible improvements. They plead for the institutionalisation of open coordination and social dialogue within multinational companies by improvement of the reliability of corporate strategy plans and disciplining managerial opportunism through participatory goal setting and monitoring procedures (Kristensen and Zeitlin 309). Eventually, this could also help to civilise the ongoing London game as described before.¹⁷⁵

ACG does improve the reliability of the corporate strategy as described in section 6.1, does introduce Learning by Monitoring procedures, and does open the participation discourse.

Coming back to ASC’s new member-companies and the associative philosophy of the company, Kristensen and Zeitlin do underline the advantages of a new member-company joining a multinational company. The multinational company could also be viewed as potentially complementary to existing industrial districts or regional clusters of firms. As previously mentioned in

173 The financial crisis of 2008 has dramatically exposed this game. The acquisition of Corus by Tata Steel in 2008 was the last ultimate example of this game. During the acquisition of Hoogovens by British Steel in 1999 the Dutch management still had a say in the final stage. During the final stage of the Tata deal management had no say at all. Source: personal interview Rauke Henstra.

174 The recent financial crisis strongly confirms this role of national governments.

175 Today, as a result of the financial crisis 2008, there is an ongoing dialogue on the necessity to change the rules of the game for the financial markets. Is this crisis just an ‘industrial or financial accident’ or do we need new rules?

section 2.3, Kristensen and Zeitlin see five potential gains for a previously independent firm within an industrial district from seeking membership (they even use the ACG -term ‘membership’ instead of the common expression ‘subsidiary’): 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, cultivation of own distinctive comparative advantages without losing access to complementary assets and competencies, access to a multiplicity of cognitive perspectives and problem-solving approaches (2). These gains are comparable to the advantages already listed at the beginning of this subsection.

Summarising, there is a great potency for a new ASC member-company to grab these advantages as soon as it has joined ASC.

The overall result of the negotiations between the new member-company and ASC will be summarised in an ‘Entrance Agreement’ and an ‘Entrance Plan’. The Entrance Agreement is a formal, legal contract initiating financial arrangements, and detailed specific entrance conditions on labour, investments and R&D programs. It also confirms the acceptance of the new member-company of ACG as the leading corporate governance principle and the mutual rights and obligations of both parties. Finally, it describes guarantees and warranties, including arbitration rules. The Entrance Plan includes the main activities and schedules for the first three years. It shows performance indicators on production, staff, investments, and R&D, and also the implementation schedule of the main features of ACG such as discourse platforms, stakeholder involvement, and the introduction of company values. The Local Management Team has to report on progress to the Central Management Team and all stakeholders. Possible deviations should be discussed among the stakeholders and improvement programs should be developed.

An important issue on the agenda during the entrance negotiations is the organisation of the stakeholders’ dialogue in discourse platforms. This is different for each new member-company and region because of cultural, social and political differences. It will be quite complicated for ASC’s Central Management Team to judge if certain limitations on dialogues have a serious cultural, social or political background, or that they are just the result of the unwillingness of local management to accept the associative policy of ACG. The starting conditions for the dialogue should be a reasonable balance between ACG policies and the existing cultural, social and political habits. This balance will be determined as part of the entrance negotiations between ASC’s Central Management Team and the new member-company’s Local Management Team from the new member-company. ASC has to be straight and tough on this key-issue, but can accept a three- or five-year program of improvements and adaptations in order to reach the ultimate possibilities in these fields.

Finally, part of the ‘Entrance Plan’ is the introduction of the new member-company into the ASC organisation. Exchange programs on each activity, each level and each stakeholder are scheduled during these first years in order to create the trust and loyalty basis of ACG. These exchange programs are the windows of the stakeholders of the new member-company into the international steel industry.

6.7.2. The management of the operations

After signing of the entrance documents, the Local Management Team has to introduce ACG on all levels within the organisation and to mature its position within ASC. It goes beyond the scope of this thesis to discuss each aspect of this challenging job. Partly, it will be no different from operating within other multinational companies: the challenge to reach the safety, operational and financial targets as agreed upon in annual plans, the day-to-day communication with the head office, the use of instruments like ‘best practice’ and cost reductions.

The major difference is the obligation to introduce ACG as agreed upon in the Entrance Agreement. To run the company along the lines of ACG will be quite a challenge. The positive aspects of autonomy, one of the key features of associative philosophy, are counterbalanced by two obligations: 1) the obligation to organise in a pro-active way the associative process in the steel plant and the region along the lines of ACG; and 2) the obligation to be a pro-active participant of the associative process within the ASC organisation, in close cooperation with the Central Management Team and colleagues from other Local Management Teams.

The regional associative practice as described in Philips Cooke and Kevin Morgan (see section 4.1), should be a well-known handbook for all Local Management Team members and other stakeholders. It should be translated and adapted to local situations and conditions by the ACG philosophy of ASC.

In sections 6.1 through 6.6, I introduced specific policies and actions for shaping, step-by-step and as part of the daily routine, the ACG philosophy. The Local Management Team is responsible for facilitating and steering of the overall implementation of all policies and actions, as developed in these sections, in the operations processes in close cooperation with the relevant staff departments of Corporate Strategy, Finance, R&D, HR, M&S, and Supplies. Each policy and each action asks for relevant contribution by the Operations department. In order to specify this contribution, I have to limit myself to a few examples.

In close cooperation with the staff of the HR department, the Local Management Team has to present itself as the in-house ACG ambassador. As mentioned before, it has to facilitate the right *conditions* for: 1) a sustainable work-life balance (healthy working conditions, right balance of working

hours, education hours, and private hours); 2) a ‘learning organisation’ (promoting craftsmanship, stimulating Learning by Monitoring, stimulating professional training); 3) a high level of participation (educating and initiating employees and other stakeholders to participate in the associative process on a regional and company level, developing communication and deliberation skills of participants, training participants in discourse ethics and rules); 4) change management by social innovation (self-steering teams, leadership profile based on intrinsic motivation of employees and other stakeholders, self-development of employees, clear and straightforward communication of company values); and 5) creation of ‘work security’ (attractive career patterns, pre-determined job change and redundancy rules, good ‘maintenance’ via training and education programs).

In close cooperation with the staff of the R&D department, the Local Management Team has to encourage customer- and supplier-oriented associative cooperation on product and process development. It has to support a pro-active role in social and environmental issues. It has to facilitate ‘cutting edge’ research by allowing pilot tests on production facilities and to create a ‘knowledge coalition’ with R&D specialists.

In close cooperation with the staff of the M&S department, the Local Management Team has to present itself as the external ambassador. It has to initiate customer contacts and visits in order to shape the policies of ‘the best supplier to the best client’. It has to present ASC to the outside world via special projects and initiatives in order to develop strategic brand policies and to present the unique position of ASC in the international steel industry.

In close cooperation with the staff of the Supplies department, the Local Management Team has to develop a sustainable chain responsibility within ASC. For this, it has to cooperate very closely with Local Management Teams of other member-companies and the Central Management Team. The autonomy feature of ACG asks for a specific chain coordination policy.

I wish to highlight two aspects of the foregoing actions more in detail:

- The chain responsibility; and
- The organisation of the discourse platforms.

These aspects have an impact on various policies and actions, and deserve extra attention from the Local Management Teams and the Central Management Team.

Chain responsibility

In section 6.1 on Corporate Strategy, I referred to Michael Porter’s ‘value chain’. In section 6.3 on Supplies, I introduced ‘chain management’ and stated that ASC should become a frontrunner within the steel industry on ‘chain management’ and durable ‘chain responsibility’.

In section 5.1, I already referred to Manuel Castells ‘network society’ and ‘webs of influence’ as introduced by John Braithwaite and Peter Drahos,

as background to the ‘chain phenomenon’.

Jan Van Dalen describes the coming into existence of this phenomenon. He states that the growth of chains is based on the finding of practical solutions for the tackling of day-to-day problems in for example transportation, boundary-crossing production, and in building reliable supplier operations. However, he notices that since the last two decades, chains became subject of further study and review.

I will combine Van Dalen’s review on the growth of chains with the features of ACG in order to develop a feasible chain responsibility for the management of ASC. Van Dalen recognises five minimal characteristics for the organisational form of chains: 1) association of people; 2) differentiation; 3) integration; 4) goal orientation; and 5) durability (Van Dalen 6).

In describing the first characteristic, *association of people*, Van Dalen states that too often the association refers to organisations instead of people. He advises to put more emphasis on ‘people issues’ like chain-wise training and manpower mobility. This fits into the ‘learning organisation’ feature of ASC (6).

Differentiation, the second characteristic, is an important principle in chain organisation. Van Dalen refers, amongst others, to chains as a vehicle to enhance the internationalisation and globalisation of business activities. The differentiation within ASC indeed shows a rich differentiation on knowledge and skills, type of clients and places of activities. Entrance of new member-companies demands new arrangements in combined research, market activities and supplies (6).

Integration, the third characteristic, as a counter-principle of differentiation, must prevent a chain organisation from atomising into independent fragments. Van Dalen mentions a ‘continuum of measures’ to create integration: from ‘total supervision’ as the strongest form of coordination, via ‘resource sharing’ and ‘performance measuring and learning’, to ‘mutual adjustment’ as the weakest form of coordination (6). The high degree of autonomy of member-companies within ASC is not the right background for the strongest measure: total supervision. ASC has to focus on the other three measures, as fitting into ACG. This can be a handicap for the development of chain management and chain responsibility. However, this handicap should be compensated for by a strong focus on the fourth and fifth characteristic: *sharing of goal orientation* and *durability*. Van Dalen stresses the importance of cross boundary relationships between individual organisations participating in the chain (7). Intra-chain relationships and intra-chain politics will create possibilities ‘to navigate through the chain’. Van Dalen underlines the crucial role of organisational ‘trust’ as the solid basis for building durable chains(8).

Summarising the chain characteristics, I conclude that the possibilities to develop the right characteristics within ASC are present. ACG’s features form the right feeding ground for reliable and durable chain characteristics:

people orientation, rich differentiation, reasonable integration measures, goal orientation and trust. The Local Management Teams and the Central Management can fulfil their chain responsibility on these characteristics.

The organisation of the discourse platforms

The organisation of the discourse platforms will be the basis for the introduction of the ACG policies on direct and indirect participation and change management as described in section 6.5 on HR. They are the main tools for the creation and maintenance of the ‘trust’ and ‘loyalty’ culture as key elements of the associative philosophy.

The ‘zero’- status of the entrance documents describing the agreed long-term program of improvements and adaptations of the participation process, is the starting point. The Local Management Team is responsible for the start-up and functioning of the discourse platforms, the consistent supply of information to all participants and the monitoring and control of the progress. I refer to Elinor Ostrom’s rules on credible commitment and mutual monitoring, as elaborated in this section. Rules and procedures do not form a bureaucratic threat but represent the long-term approach of the company as necessary basis for the previously mentioned culture of loyalty and trust.

Participants should be hands- on and regularly active stakeholders, only part-time involved in discourse activities in order to guarantee the status of the platform as a practical and efficient communication instrument. In section 6.5, I described the important supporting role of the HR department. An important aspect is the training and education of stakeholders in discourse ethics and procedures in close cooperation with local and regional education institutes.

The centre of discourse activities is formed by the *Local Participation Platform*. This platform can use existing participation initiatives as a start-up nucleus. This nucleus differs per member and per plant. The nucleus can be well-organised independent Works Council with a well-developed agenda as in North-Western Europe; it can be a very limited workers committee just handling safety and local working conditions and controlled by the management. This fits in the associative philosophy of ACG: contextualised approach, minimum morality policy, autonomy, Learning by Monitoring and Micro-Macro - methods.

The Local Participation Platform is responsible for the organisation of specific local specialised participation platforms on key issues of the plant such as environmental policies, product development, safety, labour conditions and HR policies. These specialised platforms report to the Local Participation Platform.

Plant size can influence the organisation of the discourse. Participants must recognise the agenda points of the discourse as their own points of

concern. Larger sites can result in more than one Local Participation Platform. In that case, there must be a Central Platform for the site to coordinate agendas and outcomes, and to handle central issues like investment programs, R&D policies and centralised HR policies. It should coordinate contacts with local stakeholders outside the plant such as education institutes, local authorities, local trade unions and local NGOs.

The systematic development of stakeholder participation other than management and employees, the traditional stakeholders in traditional Works Councils, is part of the long-range participation plan. The kick-off will be the integration and upgrading of all already available contacts with stakeholders, resulting from already existing ‘good neighbour’ policies, cooperation agreements with local education institutes, and informal contacts with local NGOs. Local Participation Platforms should be more than just ‘upgraded’ Works Councils where new participants of other stakeholders would enter reluctantly. New participants should be welcomed in a fresh atmosphere with new rules and codes.

Although there is a long way to go, there are numerous examples of already successful operating discourse platforms in many steel plants under different circumstances as described in section 6.1. These micro initiatives can be developed further along the lines of the Micro-Macro method. Exchange of experiences and Learning by Monitoring through the whole ASC organisation is part of this process. Where micro initiatives are available, they will form a healthy nucleus for further developments. Where there are no micro initiatives, it will be a challenge to start from scratch and to develop a new generation of employees and other stakeholders, educated in the ACG discourse ethics. It is even more challenging to push reluctant management on this subject and to keep them on the agreed long-range program on participation as part of the Entrance Plan.

The realisation-focused perspective of the discourse as described in subsection 6.1.2 is of decisive importance for success of the discourse platforms. Endless and fruitless discussions will be deathblow to real dialogue between the stakeholders. The company has to move on and has to survive in a volatile market. The Local Management Team has to take its responsibility and has to make decisions on important subjects in due time.

In order to balance the pressure between ‘time for dialogue’ and the need for action, five aspects are of importance¹⁷⁶:

- In the first place, the previously mentioned condition that discourse participants should be hands-on and regularly active employees, only part-time involved in discourse activities. The coming into existence of a ‘discourse circuit’ with ‘discourse animals’, whose only interest is to keep the discourse ongoing in order to ‘fill their time’ or ‘to be important’, must be prevented. Membership of Local

¹⁷⁶ I refer to own experience in working with Works Councils for more than 15 years.

- Participation Platforms and specialised platforms should be limited to three years;
- Transparent rules on membership for the various discourse platforms: who can join which platform and how to prevent duplicates;
 - The discourse ethics as described in section 6.5 should be respected, including decision-making conditions and the agreed scope of the discourse;
 - Local Management Team- members should be consistent in their decisions and reliable on agreed actions, in order to keep their credibility and legitimacy as decision-maker and to create and protect a ‘trust ‘and ‘loyalty’ culture. Management’s authority and legitimacy should be based on the correct attitude to the associative philosophy;
 - The monitoring of the quantitative and qualitative progress.

As an overall safety measure, it will be necessary to install a right of appeal for participants of discourse platforms. I support Paul Hirst’s idea to introduce an ‘*International Corporate Senate*’ (ICS). This senate should be ‘an advisory body composed of persons of unimpeachable integrity’ to whom discourse platforms could appeal ‘to air and investigate their grievances’ (Hirst, *Associative Democracy* 148). It should function on two levels: within ASC to handle appeals of discourse platforms on ASC’s central level, and appeals on a regional level of ASC member-companies. Members accept the role of ICS as part of the ‘Entrance Agreement’. The creation and functioning of this senate needs more research beyond the scope of this thesis.

I want to give one example of a possible appeal on the wisdom of ICS: the CO₂-issue. Somehow, somewhere, ASC’s member-companies have to decide how to reduce CO₂ emissions. This issue could become an example of potential ‘rough sailing’ for the associative philosophy. A starting point in the discussion could be the decision to produce the ‘carbon footprint’ of each member-company of ASC, and to look for practical and realistic improvements in this field (Russon 24)¹⁷⁷. Nevertheless, it could be possible that at the end of the day there will be no agreements at hand in the discourse circuit. That the CO₂ issue can become a real tough issue for all stakeholders to handle along the lines of ACG, shows the demonstration against intended reductions of CO₂ by the EU authorities by employees of European steel plants in Brussels, in

¹⁷⁷ Within Tata, the plant of Tata Colors at Shotton will have its carbon footprint by 2012 and eventually become carbon neutral. Management discovered opportunities in energy savings schemes, good housekeeping and renewable energy generation (Russon 24)

December 2008.¹⁷⁸

In the next subsection 6.7.3, I handle the exit option. I hope that this option will seldom be negotiated within ASC, although the possibility of this option is crucial for the associative philosophy of the company.

6.7.3 The exit option

Pièce de résistance of the associative philosophy is the option for member-companies to leave the association. I am talking about a real option not about a formal option unreachable by limited freedom or limited alternatives. That means that ASC's member-companies have the freedom to leave the company if they do not want to prolong their membership. However, as I already elaborated in section 6.6, the exit option can also be used by ASC when a member-company does not fulfil its obligations as agreed upon in the Entrance Agreement or in general, if member-companies damage the image and the future of ASC.

In order to prevent uncontrolled, irrational and damaging behaviour, ASC must develop exit rules and procedures. Parties should agree on them beforehand, and the rules will be an integral part of the Entrance Agreement. This subject needs a realistic and prudent approach from all parties, and will be quite complicated to handle.

To mention just one aspect: how to handle investments financed by corporate finance? It will be quite obvious that the exit rules and procedures have a financial subsection how to transfer these investments within a reasonable timeframe. The same accounts for tangible assets like good will and expertise.

Prudence also requires repair procedures. Both parties must have the opportunity to improve their performance after they learned about the complaints against them and the reason why the 'exit' option has been raised on the agenda. It is possible that, at the end of the day, the ICS can find the right solutions.

Nevertheless, the Entrance Agreement should include the procedure for an external international arbitration authority such as the International

¹⁷⁸ The demonstration that took place on 2 December 2008 was organised by the European Metalworkers' Federation (EMF). They called all affiliated unions to demonstrate and protest against the CO₂ emission reductions as proposed by the EU authorities. The EMF is concerned about the competitive position of European steelmakers compared to their non-European colleagues. They asked the EU Commission to limit the proposed CO₂ emission reduction. Along the lines of ACG, this issue should be discussed within the ASC organisation between all stakeholders involved. Unions from all different regions and environmental NGOs should be part of a dialogue in which the balance between jobs and environmental needs should be determined. There is no possibility to walk away from this issue, a solution must be found. By putting in on the agenda within ASC, the organisation will become a frontrunner instead of walking away from the inevitable decisions to be taken by the steel industry.

Chamber of Commerce in Paris, should the exit option become unavoidable. Like the Entrance Agreement and the creation and functioning of ICS, the exit rules and procedures need more research beyond the scope of this thesis.

This all seems rather complicated. However, procedures on ‘classic’ mergers and acquisitions and on disentangling of multinational companies because of non-functioning are at least as complicated as is the case with ASC. It must be possible to create realistic documents on these subjects.

6.7.4 Summary of policies and actions

In this subsection, I focused on the functioning of the Local Management Teams as ‘pivoting points of the associative philosophy’. They have to implement ACG after signing of the ‘Entrance Agreement’. This results in the following policies:

- Introduction of ACG within the steel plant;
- Introduction of the associative philosophy in the region in which the steel plant is located;
- The introduction of the company as a new member-company within the ASC organisation.

These policies result in the following actions:

- Start-up of discourse platforms using existing communication channels as kick-off;
- Educating staff and potential stakeholders in the discourse ethics of ASC;
- Monitoring and pro-active increasing of the scope of the associative process during the years using Learning by Monitoring and Micro-Macro within the ASC organisation.

By highlighting the role of the Local Management Team, I introduced the following actions for the Central Management Team:

- The preparing of a standard ‘Entrance Agreement’ for new member-companies;
- The creation of the International Corporate Senate;
- The preparing of standard exit rules and procedures.

Summarising Part 3:

The reader has finished the ‘long march’ through the activities as introduced at the start of Part 3. In order not to lose track I presented the results upfront. For good measure, I will repeat these results of the three-step approach, from activity to policies to actions:

| Activities | Number of policies | Number of actions | Keywords |
|--------------------|--------------------|-------------------|--|
| Corporate strategy | 4 | 8 | Introduction ACG (voluntarism, autonomy); Discourse platforms; Realistic company values; Long term orientation; Sustainable growth CSR; Break through strategy; Spinning ball; Social innovation; Democratic representation of stakeholders. |
| Finance | 4 | 8 | Blockholding; Long-term relationships; GRI Guidelines; Protection measures; Sustainable investors. |
| Supplies | 1 | 5 | Long-term relationships; Chain responsibility; GRD. |
| R&D | 6 | 12 | R&D network /platforms (professional knowledge); Cutting edge research; Associations (customers, suppliers); Entrepreneurial initiatives; Climate change. |
| HR | 6 | 21 | Management demographics; Work-life balance; Learning organisation (tacit knowledge, craftsmanship); Participation: trust and loyalty; Social innovation. |
| M&S | 3 | 4 | Strategic brand management; Resonance; Consumer-watcher role; Best supplier to the best client |
| Operations | 3 | 6 | Entrance agreement; Integration ACG policies and actions; Regional social embeddedness; High social and economic performance. |
| Total | 27 | 64 | |

27 policies result in 64 actions dedicated to 7 main activities. Each policy and each action contributes to the fulfilling of one or more of the ACG features as developed in Part 2.

As explained in section 6.7, all seven activities come together in the operations of the company. Policies and actions in each activity meet in the operational performance. For example, HR policies and actions reflect the quality and quantity of the workforce; R&D policies and actions reflect the innovative character of the operations. The seven activities are not isolated areas within the company. Operations tie them together and create an integrated process.

I have presented the natural and ever-present tension between theory (Part2) and practice (Part 3), and tried to build a 'bridge' between the two.

Part 3 shows that the introduction of ACG can be organised company-wide in each activity of ASC via numerous realistic policies and actions. It is obvious that in case a real company should take the decision to introduce ACG, the stakeholders of that company will, of course, to organise their own specific discourse practices. They have to decide which policies and actions to choose in which priority and in which timeframe.

Part 4: Evaluation and conclusion

In Part 4, I evaluate the results of Part 3, especially against the background of the problems in the steel industry as highlighted in Part 1 and the objections as summarised in Part 2.

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 CO₂ 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 CO₂ 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 Lammeren).

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 policy¹⁸⁰.

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

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 importance of 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.

Box 6: Summary of advantages of ACG

- 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 .
- 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.
- 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.
- 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.
- A high degree of autonomy within the company for the peripheries. This is a necessary condition for social innovation policies.
- 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.
- 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.
- The solid social embeddedness of the company. This will be the basis for a high social and economic performance as described before.

After summarising objections and advantages, I will now conclude in the next and final chapter.

8. Conclusion

In my introduction, I expressed my concern about the way the world steel industry will handle the existing need for concentration and internationalisation. As the background for this concern, I referred to the general negative consequences for societies of the neoliberal merger and acquisition process as a threat to the social and economic future of many industrial steel regions in the world.

This was my first concern, the threatening of the future of millions of people living in these regions. However, I also mentioned a second concern: the political consequences of the neoliberal model in relation to the functioning of democracies. The ever-growing impact of the outcome of the mergers and acquisitions process has a major impact on the public domain and the future of many citizens. National politicians lose control of the economic process given the, from a democratic point of view, ‘black box’ character of the model. The financial crisis of 2008 was a clear confirmation of this trend. Politicians become ‘unreliable’ agents in the eyes of many citizens and lose respect accompanied by all the well-known political consequences for the functioning of democracies. These two concerns caused me to investigate the possibility of developing a new corporate governance concept for multinational companies: Associative Corporate Governance (ACG). It is a concept that faces these concerns and that results in an improved social and economic performance of corporations and leads to an increased democratic content of governance. The need for reforms can be best summarised by two important ‘voices of The South’, Walden Bello and Umberto Unger, as introduced in section 2.3 and 2.4 of this thesis.

Walden Bello refers to Thomas Kuhn’s *A Structure of Scientific Revolutions*:

‘When a paradigm is in crisis, there are two responses. One response is to make more and more complicated adjustments; the other is to break away completely from the old paradigm’ (cited in Bello 107). Bello proposes a strategy of deconstruction- construction: ‘deglobalisation of the national economy combined with the creation of a pluralist system of global economic governance’ (Bello 112).

‘Democratic experimentalism needs the tools of the institutional imagination. Democratic experimentalism is a plea for a systematic change of institutions, no revolution. Still, it will be a ‘radical reform’ based on transformative politics, not a matter of ‘humanizing the inevitable’ attitude of ‘conservative, disappointed social democrats’ (Unger 20).

In Part 1 of this thesis, I highlighted the steel industry and its need for concentration and globalisation. I described 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 described 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 described history and trends of corporate governance in the steel industry.

In Part 2, I introduced a more democratic corporate governance approach based on associative democratic principles. By integrating two recent corporate governance theories, Corporate Social Responsibility and stakeholder theory, with the principles of associative democracy, I developed the Associative Corporate Governance model (ACG). I described history and trends in democratic experiments and institutional settings in the industry, and defined ACG 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 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 developed the main features and conditions of ACG and its moral and ethical basis. ACG 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 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 for ACG; on the other hand, I developed a feasible and practical framework for the introduction of ACG 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, I introduced the steel company ASC (*Associative Steel Company*) as the steel company that introduces ACG as its corporate governance principle. The ‘systematic change of institutions’ as defined by Roberto Unger will be implemented by a step-by-step approach. I showed that implementation of ACG can be done via reasonable and feasible actions without asking for revolutionary changes in the management. Most actions are based on examples and experiences in existing steel plants. The associative corporate governance philosophy as presented in this thesis, does not ask for a new revolution, be it economic or societal. It can be a supplement and a process-like transformation to existing institutions and procedures.

I presented 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 WSA, it can start the Micro-Macro process within this industrial sector. 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 WSA.

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 major 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;
- 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. It balances and respects the interests of all stakeholders in the industrial process.

As a final consideration, and to judge the position of my search for effective democratic corporate governance, I conclude by once more asking the two basic questions:

- Why introduce and initiate a new step in participatory democracy?
- Is it a realistic target?

In facing and answering these questions, I refer to John Dewey, David Estlund and Amartya Sen as introduced in Part 2.

John Dewey (1859-1952), was greatly concerned about expanding democratic values, which he saw as central to allowing people to work on solving their own and society's problems. His role as intellectual is well described by Richard Rorty in *Achieving Our Country*. Rorty states that Dewey, together with Walt Whitman, shaped the rhetoric for the American Left during the first six decades of the twentieth century. Rorty personified the reformist, participatory Left with experimental pragmatism, an anti-authoritarian attitude, a forward-looking attitude, and the hope for the realisation of the American Dream. He describes how after the Vietnam War reformist Left changed into 'tired old Left' and was eclipsed by spectatorial New Left, with no hope for progress within the system, locked up in academic environments, no social actions, no cooperation between intellectuals and unions like during the New Deal, and reading Friedrich Nietzsche, Martin Heidegger, Michel Foucault and Jacques Derrida. Rorty sees the rise of the cultural Left during the last decades of the twentieth century, with a non-economical focus on 'otherness', cultural and gender studies. He notices an increase in economic inequality and growing populism, strengthened by the effects of globalisation and internationalisation. Rorty pleads for a second reformist progressive era at the start of the twenty-first century along the lines of Dewey but believes that the cultural Left will have a hard time transforming itself into a political Left. He criticizes the ideals of the cultural Left such as participatory democracy, the 'angelic' power called 'the people' and the end of capitalism. He even distrusts the introduction of the stakeholder's - concept in economic decisions. His main argument is that nobody is yet able to imagine how these ideals should be actualised. He wants to know how participatory democracy is supposed to work. The public, sensibly, have no interest in getting rid of capitalism until they are offered details about

the alternative. Rorty, a big admirer of Dewey, opposes the latter's defence of participatory democracy. Rorty believes that the Left should go back into the business of piecemeal step-by-step reform within the framework of a market economy since 'that was the business the American Left was in during the first two-thirds of the twentieth century' (Rorty, *Achieving* 105). Although written in 1997, Rorty ends with the call to the intellectual Left to contribute to the making of America as the country of Whitman and Dewey's hope and dreams: an ideal decent and civilised country¹⁸².

Although this is all very 'American', I subscribe to his call for a new reformist Left. I consider this thesis as a contribution to this call¹⁸³. It fits in his call for expanding democratic values and direct participation. It puts emphasis on learning through experience and the importance of social context. It fits in his focus on 'praxis', concrete actions here and now.

Dewey was alarmed by the growth of the corporate mentality and its threat for democracy, as already mentioned in the introduction of this thesis (Cochran 297). ACG can be considered a serious attempt to change the 'mental and moral corporateness' as experienced by Dewey. It will contribute to Dewey's plea for participatory democracy in corporate organisations and is a new pragmatic approach with orientation both on theory and work floor practice, on Dewey's focus of learning and experimentalism.

Dewey's focus on threats and opportunities of democracy brings me to David Estlund. ACG can be considered to be an aspirational normative theory on corporate governance. It tries to get away from the complacent realism of existing corporate governance theories without ending up in utopianism. John Rawls has described this position as 'realistic utopian'. David Estlund prefers the term 'non-complacent non-utopianism' (Estlund 259).

As an aspirational normative theory, ACG posits sound standards that are not generally met, though they can be met. It departs from realism but posits certain aspirations for improvements in the future in order to meet the standards. Estlund describes this approach as 'non-harsh' (265). Non-harsh means that it does not put unreasonable moral constraints on human beings like utilitarianism, requiring that we sacrifice our own pursuits and wealth almost endlessly.

ACG is normative because it counsels actions of some kind. ACG is aspirational because these actions can lead to improvements in ASC's performance in the future. ASC's stakeholders have to act one way or another. Their actions will change the environment and the institutions. Acting as if

182 I met with Frank Cunningham, Professor of Philosophy and of Political Science of the University of Toronto, and Dewey-expert, on 19 March 19 2009. Frank stated that Barack Obama's speeches ('hope' and 'change') definitely define Obama as a 'Dewey-man'.

183 I think Rorty is too harsh and negative on the cultural Left, and he should trust Dewey's positive opinion on participatory democracy. ACG's step-by-step nature and the Learning by Monitoring approach accommodate Rorty's preference for reform methods.

people or institutions will behave in some better way than there is actually reason to expect might sometimes be a way of improving them.

Estlund insists on the difficulty/ probability distinction: ‘If something is not difficult, then it is not impossible, but it might yet be very unlikely or even certain not to occur. I assume that ought implies can– that if it’s impossible then it’s not morally required. I do not accept the very different and perverse principle that if it is unlikely, however possible or easy, then it is not required. It is not the case that ought implies reasonably likely. This distinction matters a lot for political philosophy. We might not want to set standards that are impossible or unreasonably difficult. However, these are not yet reasons for wanting to avoid standards that will certainly or very likely not be met’ (Estlund 265)

He describes the role of a normative theory as to help create breathing space: ‘The first role is that there is intrinsic value in philosophical inquiry if it is done well, and in seeking the philosophically most defensible account of what political arrangements should be like. If the best accounts turn out to be hopeless, because people are simply unlikely to do what they could and should do, the theory should be undaunted. Call this the theory’s philosophical role’. ‘A related but distinct role for normative theory is a causal one. Reflection on how people and institutions should be can direct our intention and energy to determining how far realism can reach. We sometimes expect too little precisely because we have no normative standards that forces the question of whether more can realistically be expected’ (Estlund 269)

I want to apply the considerations mentioned above, to the key issue of ACG: ACG as the next step in ‘Industrial Democracy’ by participation of all stakeholders and by means of discourse platforms. The ‘learning organisation’ concept as key-aspect of ACG includes the ‘learning of democracy and discourse ethics’. Stakeholders can be considered by many different measures to have limited or no knowledge of the day-to-day and future governance of the company in which they have a stake. There are many complaints by the management of companies that the stakeholders’ knowledge is imperfect and that they behave primarily selfishly and often irrationally. How should these charges bear on normative political theory of participation? How to face this poor performance of stakeholders, and how damning is this? I want to compare these charges with charges against democracy as a political theory. Voters are also very often accused of imperfect knowledge, selfish and irrational behaviour. Still, this does not mean that the quality of democratic decisions is below acceptable standards. The performance of democracies is rather good. Tacit knowledge of voters about the surrounding society partly compensates their so-called ‘ignorance’, just as tacit knowledge plays an important role in the social innovation of corporations as explained in subsection 6.5.2. In both cases, in the governance of a company and the governance of society,

there is little doubt that there are experts who know more and might be just as virtuously motivated. The trick is to know, and publicly to justify, which experts to rely on for which issues. It is difficult, in a way acceptable to the broad range of qualified points of view, to select a set of experts who could be expected to perform better than the best democratic arrangement. There is too much room for reasonable disagreement about who the experts would be. They epistocracy of the educated as introduced by Plato in *The Republic* will not be acceptable for modern society. The major objection to epistocracy is the ‘demographic objection’. ‘The educated portion of the populace may disproportionately have epistemically damaging features that countervail the admitted epistemic benefits of education’. ‘Even if we grant, for the sake of argument that everyone acts with good will rather than with neglect for the interests of others people are inevitably biased by their race, class and gender’ (Estlund 215). This will lead to increased collective errors.

This demographic objection also applies to the governance of corporations. The diversity of race, class, and gender amongst managers is very limited. The education of managers is almost standardised on a global scale. Education schemes of business schools are almost ‘one dimensional’. This bias will lead to increased collective errors like mergers for the sake of merger, financial mismanagement, and neglecting of necessary technological and social innovation. In my opinion, the governance of corporations should embark on a much broader diversity of management, staff and workforce. ACG with its broad participation of all stakeholders, as described in this thesis, is a deciding step in this direction.

The objections against the democratic governance of companies, as mentioned before, are of the same category as the objections against the democratic organisation of our society. Still, the latter is considered as a reasonable and responsible answer to governance issues, while the majority of owners and managers of corporations consider the former as an impossible and unrealistic approach of corporate governance. It would lead to insufficient decisiveness, to endless debates between selfish and irrational stakeholders, and to a fast decrease of competitiveness. In my opinion, instead of classifying a more democratic governance of corporations as utopian, I consider the attitude amongst owners, management and their biased education institutions as, what David Estlund calls, a “*utopophobia*” (275). It would be irresponsible to set small and narrow goals without good reason to think that improved things really cannot or will not be achieved.

It will be very difficult for a more democratic governed multinational to exceed the financial, social and environmental damage of failed mergers, plant closings and other irresponsible decisions of ‘well run companies’.

I consider the plea for democratic corporate governance as the philosophical role of ACG and its participation policies. Reflections on how to organise

this participation, as can be found in this thesis, can direct our intention and energy to determining how far realism can reach. This is the causal role of ACG. Moreover, it can lead to unexpected improvement of performance of companies. I refer to John Dewey and David Estlund at the end of my thesis because the results of Part 3 show that their ways of thinking and expectations can be met by ACG.

I end with Amartya Sen and his practical guide for a systematic guidance to reasoned decisions as highlighted I section 4.3. His realisation-focused perspective, the importance of prevention of manifest injustice rather than seeking the perfectly just, links the practical part of my thesis with the philosophical basis of ACG. Justice depends on the combination of institutional features and actual behaviour characteristics. ACG tries to work on both aspects. It combines the institutional features of ASC with a broader understanding of democracy via participation, dialogue and public interaction.

Democracy is no western discovery but is a recurrent theme in the history of many countries in the non-western world (Sen 330). The contextualised approach of ACG takes up this theme.

‘Philosophy can – and does – produce extraordinarily interesting and important work on a variety of subjects that have nothing to do with the deprivations and inequities and unfreedoms of human lives’ (Sen 413). ACG wants to produce work on the subject of Industrial Democracy.

List of personal interviews

during the period 2006-2010

- Dieter Ameling, Chairman of the Verein Deutscher Eisenhütteleute and President of the German steel Federation
- Rod Beddows, Director of Hatch International London and Senior Advisor steel industry
- Bim Bendsdorp, former Director Strategy of Hoogovens/ Corus group
- Debashish Bhattacharjee, Group Director Research, Development & Technology Tata Steel
- Huub Bisscheroux, former Chairman of The Works Council of DSM Nederland BV
- Kees Blokland, Director P & O NS Group (Dutch Railways) and former Director P & O Corus Group
- Rob Boom, Director R&D Strategy & Competence Tata Steel Research, Development & Technology
- Mark Bovens, Professor of Public Administration and Research Director at the Utrecht School of Governance, Utrecht University
- Frank Brouwers, former Director Finance Hoogovens/ Corus Group (two interviews)
- Evert Castelein, Director Supplies Mainland Europe Tata Steel Europe Strip Products
- Jean-Claude Charbonnier, Secretary General of the ESTEP
- Christmas, General Director World Steel Association
- Ton Doeleman, Tata Corus, Director Finance and Strategic Development Officer (three interviews)
- Hans Fischer, CEO of the German steel company Salzgitter AG
- Enrico Gibellieri, Co-Chairman of the EMF in the Consultive Commission on Industrial Change of the European Economic and Social Committee
- Rienk Goodijk, Professor of internal Labour- relations and Corporate Governance at the University of Groningen
- Rauke Henstra, Chief Operating Officer of Tata Steel Europe
- Wilfried Hinsch, Professor of Practical Philosophy at RWTH Aachen
- Fred Huijgen, former professor in Business Administration at the Nijmegen Business School of the University of Nijmegen
- Peter Jongenburger, Chief Technology Officer of Corus Group
- Frank Kaptein, Manager Danieli Corus Brazil
- Alfred Kleinknecht, Professor of Economics at the Delft University of Technology
- Ton Korver, former Director OSA (Organisation for Strategic Research Labour), University of Tilburg
- Zbigniew Malinowski, Dean of the Faculty of Metals at the University

- of Science and Technology Cracow
- Rudolf Carl Meiler, HR Director Personnel and Social Policy ThyssenKrupp Stahl
 - François Mudry, Director Research of ArcelorMittal Liège, Belgium
 - Doc Mukherjee, Non-Executive Member of the Board of Directors of Tata Steel
 - Jos Paques, Managing Director Paques BV, Balk The Netherlands
 - Frans Pistorius, former Director DSM Nederland BV
 - Hans Schenk, Professor of Economics at the Utrecht University School of Economics
 - Adam Schwedler, Institut Metalurgii Żelaza, Gliwice Polen
 - Dieter Senk, Professor of Metallurgy Iron and Steel Technological RWTH Aachen
 - Sjaak Slingerland, HR Manager Facilities Tata Steel Europe IJmuiden
 - Jozef Tettero, Professor at the Faculty of Economics and Business of the University of Amsterdam
 - Aad Van Der Velden, former CEO of Hoogovens/ Corus Group Steel Division
 - Jacques Van Exter, former Director Sales Hoogovens/ Corus Group IJmuiden
 - Ruud Van Neure, HR Manager Tata Steel Europe IJmuiden
 - Frits Van Wieringen, Chairman of the EWC of Tata Steel Europe
 - Arjen Verhoeff, Senior Advisor Strategy and Development *AWVN* The Hague
 - Andrzej Wypych, HR Director of Mittal Steel Poland

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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.

Samenvatting

In deze thesis wordt ingegaan op de corporate governance van multinationale ondernemingen en de wijze waarop besluitvorming binnen deze ondernemingen plaats vindt. De steeds groeiende invloed van deze besluiten heeft een groot effect op het functioneren van de publieke sector en daarmee op de toekomst van vele burgers. De financiële crisis van 2008 en de gevolgen daarvan heeft dit nog eens extra duidelijk gemaakt.

Vele ondernemingen zijn zich bewust van deze invloed en de gevolgen, en kiezen voor een actieve benadering van dit aspect van bedrijfsvoering. Zij zijn er zich van bewust dat ze een ‘license to produce’ dienen te verkrijgen van de maatschappij waarbinnen zij opereren. Het hedendaagse corporate governance concept voor het realiseren hiervan wordt aangeduid met de term ‘corporate social responsibility’ of ook wel ‘sustainable entrepreneurship’.

Echter, bij deze concepten wordt geen verandering in de besluitvormingsprocedures aangebracht. Vanuit democratisch gezichtspunt blijft een multinationale onderneming een ‘black box’ binnen de publieke ruimte waarin ze opereert. Een als te hoog ervaren druk van de arbeidsmarkt of te strenge milieueisen kunnen al snel leiden tot het verplaatsen van business naar andere landen, zonder inspraak van betrokken partijen.

Ik pleit voor een radicale verandering van de wijze waarop de ondernemingen hun besluiten voorbereiden zowel op strategisch niveau als ook op operationeel niveau. In deze thesis ontwikkel ik daartoe een nieuwe vorm van corporate governance van multinationale ondernemingen gebaseerd op de principes van associatieve democratie. Naar mijn mening is dit nieuwe perspectief een voorwaarde voor het ontwikkelen van een werkelijk duurzaam ondernemingsbeleid. Het zal resulteren in een goede sociale inbedding van de onderneming in de omringende maatschappij.

Ik heb de staal industrie gekozen als voedingsbodem voor het nieuwe perspectief. Als oud-directeur van de Hoogovens/Corus Groep kan ik terug zien op 36 jaar ervaring in deze industriële sector. Ik maak gebruik van deze expertise voor het ontwikkelen van het nieuwe perspectief binnen de specifieke omstandigheden van deze sector. Ik combineer haar met mijn recente studie Politieke en Sociale Filosofie aan de Universiteit van Amsterdam. De combinatie van deze filosofische oriëntatie en mijn oorspronkelijke technische achtergrond als Delfts ingenieur resulteert in een thesis die gekenmerkt wordt door een specifieke “ingenieur-filosoof “ benadering: een filosofische benadering omgezet in een praktisch voorstel. Door op deze wijze naar een onderneming te kijken, hoop ik nieuwe inzichten en ideeën te creëren, daarbij Isaiah Berlin’s stellingname volgend dat de taak van de filosofie is ‘to subvert, break through, destroy, deliberate, let air in from outside’(Berlin 67). Filosofie

dient een ononderbroken zoektocht te zijn naar nieuwe antwoorden op nieuwe situaties.

De staalindustrie staat aan de vooravond van een omvangrijke stap naar concentratie en internationalisatie. Ik ben bezorgd over de wijze waarop deze stap genomen zal worden. Mijn zorg betreft in de eerste plaats de specifieke bedreiging die hiervan uitgaat voor de sociale en economische toekomst van de vele industriële staalregio's in de wereld. De staalindustrie is een arbeidsintensieve industrie met relatief hoge investeringen en lange termijn oriëntatie. Staalbedrijven vormen de kern van regionale industriële activiteiten. De toekomst van deze staalbedrijven is van doorslaggevende invloed op de regionale economische ontwikkeling en daarmee op de bestaanszekerheid van talloze burgers. Gedurende mijn werkzame jaren in de staalindustrie was ik verantwoordelijk voor vele projecten voor vele staalbedrijven in diverse landen. Ik heb daarbij kennis opgedaan van de voornaamste staalregio's in de wereld.

Concentratie en internationalisatie van de staalindustrie zal ernstige negatieve gevolgen hebben voor deze regio's en haar burgers. De eerste stappen gedurende het eerste decennium van deze eeuw laten zien dat Boards of Directors en topmanagers in de staalindustrie de welbekende financieel gestuurde wijze van overnemen en fuseren zullen volgen zoals gedicteerd door het neoliberale marktmodel. Historische voorbeelden van deze benadering kunnen terug gevonden worden in andere industriële sectoren zoals olie, chemie, textiel, auto en ICT. De staalindustrie is een laatkomer gegeven de marginale financiële resultaten in deze sector gedurende de voorgaande eeuw. De financiële wereld heeft pas recent haar aandacht gevestigd op de staalindustrie gezien de onverwacht goede financiële resultaten gedurende het afgelopen decennium. De financiële crisis van 2008 heeft deze interesse slechts tijdelijk vertraagd. De financiële resultaten daalden en de staalindustrie ondervond opnieuw grote problemen. Echter, de noodzaak voor internationalisatie en globalisering is onverminderd aanwezig. De staalprijsen zijn gedeeltelijk weer aangetrokken, en de schaarste aan grondstoffen, een belangrijk onderwerp in de staalindustrie, is een onveranderd gegeven.

Met het noemen van de negatieve consequenties van het neoliberale model, verwijs ik niet slechts naar de sociale en economische consequenties. De meerderheid van deze fusies en overnames mislukt en creëert geen economische meerwaarde (Schenk, *Economie* 107). Kosten worden overgeheveld naar derden zoals employees, leveranciers en omringende maatschappij. Alleen aandeelhouders van de overgenomen onderneming en de financiële promotors en experts die de leiding hebben over de acquisitie, winnen bij de overeenkomst.

Hoe indringend dit ook mag zijn, ik refereer in deze thesis toch ook in het bijzonder naar de eerder politieke consequenties van deze werkwijze.

Nationale politici verliezen hun controle op het economische proces gegeven het ‘black box’ karakter van het model vanuit democratisch oogpunt. De financiële crisis van 2008 was een typisch voorbeeld van deze trend. Politici verliezen het vertrouwen van de burger en daarmee het respect, met alle gevolgen voor het goed functioneren van de democratie. De Amerikaanse filosoof John Dewey gaf reeds in 1930 een eerste waarschuwing. Hij was gealarmeerd door de opkomst van de ‘corporate mentality’ in zijn land. Wat hij tachtig jaar geleden constateerde lijkt heden ten dage actueler dan ooit: ‘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).

In deze thesis tracht ik mijn zorg om te zetten in de ontwikkeling van een nieuw institutioneel perspectief voor internationale samenwerking tussen staalbedrijven als alternatief voor het neoliberale financieel aangestuurde model van fusies en overnames. Dit zal, als een onvermijdelijke consequentie van verandering van model, gepaard moeten gaan met een verandering in bestaand ‘corporate behaviour’ en bestaande vormen van ‘corporate governance’ van bedrijven die bij de concentratie en internationalisatie betrokken zijn. Daarom wordt in deze thesis een nieuw corporate governance model ontwikkeld voor multinationale ondernemingen: ‘associative corporate governance’ (ACG). ACG staat voor een associatieve wijze van besturen van ondernemingen gecombineerd met een associatieve wijze van samenwerking tussen een onderneming en haar sociale en economische omgeving. Samenwerking tussen alle betrokkenen in en rond het bedrijf is gebaseerd op loyaliteit en vertrouwen, vrijwilligheid, lange termijn oriëntatie, transparantie en een grote mate van autonomie. Ervaring en praktijk spelen een belangrijke rol in het ontwikkelen van de associatieve filosofie van dit model. ACG verhoogt het democratische gehalte van het ondernemingsbestuur. Het zal een nieuwe stap zijn op de weg naar ‘industrial democracy’ zoals geïnitieerd in de 19^e eeuw en verder ontwikkeld in de 20^e eeuw.

ACG zal resulteren in een verbeterde sociale en economische prestatie van ondernemingen. Het zal leiden tot verbeterde werk- en leefomstandigheden van alle betrokkenen (‘stakeholders’) in het industriële proces van de onderneming. Ik zal aantonen dat implementatie van ACG geen revolutionaire stappen vraagt in de dagelijkse gang van zaken binnen de onderneming. Het kan stap-voor-stap geïmplementeerd worden gebruikmakend van bestaande initiatieven en praktijken, teneinde een goede balans te houden tussen verandering en continuïteit binnen de organisatie.

De thesis bestaat uit vier delen:

In *Part 1, The Steel Industry*, komt de staalindustrie aan de orde en de noodzaak tot concentratie en internationalisatie. Ik beschrijf de lange termijn oriëntatie met het bijbehorende kapitaal- en arbeidsintensieve karakter, als geschikte achtergrond voor de ontwikkeling en introductie van ACG. De staalindustrie is een unieke industriële sector met een grote opdracht voor de 21^e eeuw. Het zal moeten voorzien in de sterk groeiende behoefte aan staalproducten, zowel qua volume maar vooral ook qua nieuw te ontwikkelen producten voor de auto- en verpakkingindustrie en de bouw. Het zal ernstige milieuproblemen het hoofd moeten bieden als gevolg van het gebruik van de grote hoeveelheden grondstoffen en energie die inherent zijn aan het staalproces.

Ik beschrijf de algemene en specifieke aspecten van globalisatie, de rol van multinationale ondernemingen daarin, en de verschillende vormen van kapitalisme in de wereld ('varieties of capitalism'). Ik besteed speciale aandacht aan de opkomst van China, India en Brazilië, gegeven de grote invloed van de staalindustrieën in deze landen.

Geschiedenis en trends in corporate governance binnen de staalindustrie zullen worden behandeld tegen de achtergrond van de belangrijkste corporate governance onderwerpen gedurende de laatste vijftig jaar.

In *Part 2, Associative Corporate Governance*, introduceer ik ACG als een nieuw perspectief in corporate governance. Ik integreer daartoe twee recente corporate governance theorieën, 'corporate social responsibility' en 'stakeholder theory' met de principes van associatieve democratie. De term 'associative' is verbonden met 'associationalism', een politieke theorie met de centrale norm dat individuele vrijheid en het welzijn van de mens het best gediend zijn met een situatie waarin zo veel mogelijk maatschappelijke activiteiten georganiseerd worden door vrijwillige en democratische bestuurde associaties. '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' als politiek idee stamt uit de 19^e eeuw als alternatief voor zowel liberaal individualisme als ook socialistisch collectivisme, en als kritiek op staatscentralisatie en de groei van bureaucratie. Geschiedenis en toekomst van 'associationalism' en haar meest recente verschijningsvorm, associatieve democratie, vormen een aparte sectie in de thesis.

De institutionele veranderingen die in een associatieve democratische hervorming van bestaande vormen van representatieve democratie en gecentraliseerde bureaucratische staatsorganen voorgesteld worden, kunnen worden samengevat in drie principes van politieke organisatie (Hirst, *Associative Democracy* 20): 1) vrijwillige democratische associaties zijn de voornaamste dragers van het democratische bestuur van sociale en economische processen; 2) associatieve democratie vraagt om een verandering van de verdeling van de

macht. Macht moet zo veel mogelijk gedecentraliseerd worden naar de laagst mogelijke regionen; 3) democratisch bestuur bestaat niet alleen uit het houden van verkiezingen of meerderheidsbesluiten, maar uit een continue stroom van informatie tussen bestuurders en bestuurden, waarbij bestuurders goedkeuring en coöperatie van bestuurden zoeken.

In deze thesis concentreer ik mij op de mogelijke rol van de associatieve principes in het beperken van centralisatie en groei van bureaucratie in het bestuur van private ondernemingen. Participatie van alle betrokkenen speelt hierbij een belangrijke rol. De drie genoemde principes van een associatieve organisatie leiden tot drie kenmerken van ACG:

- 1) ACG leidt tot delegatie van bevoegdheden, tot het creëren van een betrouwbare hiërarchie of ‘heterarchy’, een term geïntroduceerd door Gunnar Hedlund (Kristensen en Zeitlin 14), en het delegeren van beslissingsbevoegdheden, resulterend in sterk gemotiveerde en presterende employees;
- 2) ACG is een nieuw model voor organisatorische doelmatigheid, resulterend in een sterke sociale inbedding van de onderneming;
- 3) ACG leidt tot een substantiële verhoging van de democratische instelling bij de interne sturing van de onderneming gebaseerd op informatie en coöperatie, resulterend in loyaliteit en vertrouwen als fundament voor een duurzame bedrijfsvoering.

Gangbare corporate governance theorieën beschouwen democratie en corporate governance als twee onverenigbare grootheden. Democratische besluitvorming binnen ondernemingen zou ondoelmatig zijn en onrealistisch. Het maximum aan ‘industrial democracy’ kan gevonden worden in de medezeggenschapspraktijk binnen het Continentaal Europees model met haar ondernemingsraden op lokaal, nationaal en Europees niveau. En zelfs deze praktijk staat onder druk gezien de neoliberale koers van de afgelopen decennia binnen de Europese Unie. Desalniettemin, naar mijn mening is een meer democratisch bestuur van ondernemingen mogelijk en raadzaam. Het stoppen van democratische spelregels bij de hoofdingang van ondernemingen is bedreigend voor een democratische samenleving, zeker gezien de toenemende macht van multinationale ondernemingen. Waarom wel te vertrouwen op het oordeel en participatie van burgers voor een rijk scala aan belangrijke politieke onderwerpen bij het bestuur van de samenleving als geheel, en tegelijkertijd participatie van dezelfde personen in de dagelijkse werkomgeving waarin ze een groot deel van hun tijd doorbrengen, te ontkennen.

Deze thesis tracht een bijdrage te leveren in de verdere ontwikkeling van ‘industrial democracy’ en associatieve democratie binnen de bestaande ‘varieties of capitalism’. Ik zal trachten ‘industrial democracy’ verder uit te bouwen tot voorbij de Europese participatie praktijk, en associatieve

democratie tot voorbij regionale toepassingen. Tot op heden is associatieve democratie slechts met succes toegepast op regionaal niveau binnen West-Europa (Cooke en Morgan 218), en heeft het nog steeds een kleinschalig imago.

Ik beschrijf de geschiedenis van en trends in democratische experimenten in de industrie, en beschouw ACG als een logische nieuwe stap hierin. Het tracht de ongewenste afstand tussen onderneming en haar sociale omgeving te overbruggen.

Ik ontwikkel de belangrijkste kenmerken en de morele en ethische basis van ACG. Als morele basis is gekozen voor Veit Bader's 'minimum morality with contextualised approach' en Henry Shue's 'basic rights' filosofie als 'minimum morality'. Voor de dialoog en discours praktijk tussen stakeholders is gekozen voor Amartya Sen's 'realisation-focused perspective' gecombineerd met Charles Sabel's 'learning by monitoring' principe. Hierbij ligt de nadruk op het beperken van bestaande vormen van onrechtvaardigheid in plaats van het streven naar een totaal rechtvaardigheidsraamwerk, terwijl tevens het discours proces zelf als even belangrijk wordt gezien als de uiteindelijke uitkomst van het proces.

Naast het ontwikkelen van het filosofische concept van ACG heb ik tevens een praktisch raamwerk ontwikkeld voor de daadwerkelijke introductie van ACG teneinde de haalbaarheid te tonen van het concept. Het is gevaarlijk om beide, theorie en praktijk, in één thesis te verzamelen. Filosofen zullen kritiek hebben op de in hun ogen beperkte filosofische beschouwing, niet-filosofen zullen twijfelen aan het nut van de filosofische onderbouwing. Maar naar mijn mening is het samenvoegen van beide echter een noodzaak. Een uitsluitend praktische beschouwing geeft geen antwoord op de vraag 'waarom meer democratie?' of 'waarom ethische en morele waarden in te voeren?' Filosofische beschouwingen zonder een check op de haalbaarheid zijn vruchteloze exercities. Als ingenieur-filosoof wens ik beide te combineren en te opereren op het grensvlak van beide aspecten.

In *Part3, The Road to a New Perspective*, introduceer ik het staalbedrijf Associative Steel Company (ASC) als de onderneming die ACG introduceert als haar corporate governance model. Ik laat zien dat implementatie van ACG door middel van een scala aan haalbare en redelijke acties mogelijk is. Ik presenteer 27 concrete beleidsmaatregelen en 64 concrete acties die het mogelijk maken dat alle stakeholders op vele fronten een daadwerkelijke bijdrage kunnen leveren.

Beleidsmaatregelen en acties zijn gebaseerd op bestaande praktijken en ervaringen in bestaande staalbedrijven en bestaande corporate governance praktijken. ACG is 'een stap voorwaarts'. In de woorden van Paul Hirst: '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).

Met de randvoorwaarden duidelijk geregeld, kan ASC een redelijke start maken met het succesvol implementeren van ACG. Het doel van ASC is om binnen de staalindustrie een voorhoede positie te creëren voor een duurzaam en sociaal beleid, en dat ACG een positief en haalbaar antwoord is op de noodzaak van concentratie en internationalisatie.

In *Part 4, Evaluation and Conclusion*, evalueer ik de mate waarin ACG een antwoord geeft op de algemene en specifieke aspecten van internationalisering en globalisering zoals genoemd in Part 1. Tevens evalueer ik in hoeverre ACG antwoord geeft op een aantal kritische vragen en kanttekeningen zoals in Part 1 gesteld.

Ik kom tot de conclusie dat de introductie van ACG een haalbaar en realistisch doel is. Het kan een antwoord zijn op de twee eerder genoemde sociale en politieke zorgen die me inspireerden om deze thesis te schrijven: de bedreiging van de sociale en economische toekomst van miljoenen burgers in de diverse staalregio's in de wereld, en de politieke consequenties van het neoliberale model voor het functioneren van democratieën.

ACG draagt bij aan een duurzame toekomst van de staalindustrie en de staalregio's van deze wereld.

ACG is een volgende stap in 'industrial democracy'. Het voorkomt de hegemonie van één stakeholder. Voorbeelden hebben aangetoond dat de hegemonie van één stakeholder niet tot juiste resultaten leidt. Ik verwijs naar het vroegere Joegoslavische model van arbeiderszelfbestuur en het recente neoliberale najagen van 'shareholders value'. ACG levert de balans tussen de belangen van alle stakeholders in het industriële proces.

De poging om het functioneren van multinationale ondernemingen te veranderen door verhoogde politieke en financiële controle van buitenaf, zoals thans wordt voorgesteld door politici, is de problematiek benaderen vanuit een traditionele en onveranderde hoek. Onveranderd omdat het het principe van de 'black box' ongemoeid laat. ACG heeft betrekking op het 'openen' van de onderneming naar de haar omringende maatschappij en voldoet zo aan Isaiah Berlin's eerder genoemde stellingname 'to let air in from outside'.

