Network Dynamics of the Dutch Business Elite

Eelke M. Heemskerk

AMSTERDAM UNIVERSITY PRESS

Decline of the Corporate Community

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Cover photo: © Laif / Hollandse Hoogte

Cover design: Maedium, Utrecht
Lay-out: PROgrafici, Goes

ISBN 978 90 5356 973 3
NUR 741 / 801

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Preface

With the turn of the century came an end to a period of perceived economic prosperity. Many believed that the rapid innovation in information and communication technology (ICT) meant that a 'new economy' had emerged. The belief in this new economy was the foundation of the ICT or 'dotcom' bubble of the late 1990s. However, by the turn of the century, it became crystal clear that stocks in 'new economy' companies were no different from the highly praised investment objects in earlier economic bubbles, such as the stocks of the South Sea Company in the early eighteenth-century Britain, or tulips during the seventeenth-century Tulip Mania in Holland. As always, the bubble did eventually burst. But this time, it was not only investors who suffered great losses. As it turned out, the corporate leadership of some of the most appreciated and highly valued corporations across the western industrialised world was found to be guilty of fraud and severe mismanagement. In their quest for ever-growing market value, these corporate directors used every means at their disposal to achieve high stock appreciation, including fraudulous accounting schemes. At the same time, the directors filled their pockets with corporate revenues through extremely large remuneration packages. During the glorious days of the investment bubble, directors of corporations such as Enron, Worldcom, Parmalat and Ahold were still considered by friends and foes as no less than beneficiaries of society. But when the economic tide turned, and their dark side became clear, they were outcast, fired, penalised, and in some cases sent to jail.

The scandals and incidences of corporate fraud underlined that good corporate governance is not merely a nice and noble goal, but a necessity. And it is up to those who occupy the control centres of the corporate economy to live up to the highest standards of corporate governance. As a group, it is up to the corporate elite to assure good corporate governance. But is the contemporary corporate elite able to do so? On the one hand, the 'old boys network' forms a social environment which can uphold those badly needed norms of good governance and proper behaviour. On the other hand, the concentration of corporate control in the hands of a relatively small, homogeneous and closed corporate elite has long been recognised as a democratic difficulty of capitalism.

My personal interest for social networks of the corporate elite was raised on a summer afternoon in 2001, when Meindert Fennema invited me to participate in a research group on globalisation and corporate power, taking place that year at the Netherlands Institute for Advanced Study in the Humanities and Social Sciences. I took up the task of investigating the network of corporate board interlocks in the Netherlands, and found myself privileged to be working with William Carroll, Malcolm Alexander, Meindert Fennema and, most closely, Robert Mokken. By the summer of 2002, we had found that long-standing practices of intense intertwined networks of corporations at the level of the boards were slowly but steadily removed. For us, these findings raised more questions than they answered. Most importantly, we were particularly interested in the interplay between the network of corporations on the one hand, and the network of corporate directors on the other. The inter-firm network of corporate board interlocks we investigated forms one side of the coin. The social interaction network of the corporate elite forms the other side. Looking at just one of these two 'projections' of the network of board interlocks renders an incomplete view. Rather, both the interpersonal and the inter-corporate network must be analysed in conjunction, if we want to understand fully the dynamics of network of interlocking directorates. This book aims to do so.

This book contains an analysis of the network of interlocking directorates of the largest 250 firms in the Netherlands at three points in time: 1976, 1996 and 2001. However, if we really want to understand the role these networks play for the corporate elite and corporate governance, we need to acquire more detailed, qualitative insights as well. Therefore, a number of interviews were organised with members of the corporate elite. I am extremely grateful for the time and effort these people invested in this research. Their willingness to share their smart and keen observations has been invaluable to this book. In alphabetical order, I would like to thank them: J. Aalberts, Ir. J.G. Andreae, Viscount E. Davignon, Drs. J.A.N. van Dijk, Prof. Mr. A.J.C.M. Geers, Prof. Drs. C.A.J. Herkströter, Mr. P.C. van den Hoek, Mr. E.M. d'Hondt, Drs. F.H.J. Koffrie, Drs. R.H.Ph.W. Kottman, A.H. Land, Ir. J.M. Leemhuis-Stout, Jhr. Mr. A.A. Loudon, Ing. M.I. Platschorre, Dr. A.H.G. Rinooy Kan, Prof. Dr. A.J.M. Roobeek, Mr. B. Staal, Ir. P.O. Vermeulen, Dr. J.A.J. Vink, Prof. Dr. A.H.C.M. Walravens, Drs. A. Wateler, Mr. N.J. Westdijk, Mr. A. Westerlaken and Dr. H.H.F. Wijffels.

In some ways, I am not so different from the corporate directors this book investigates. We both draw on our social networks for help, insights, comments, critiques, resources and friendship. There are many people who contributed to this book. I wrote this book when I was at the Amsterdam School for Social science Research (ASSR) at the University of Amsterdam, the ASSR financed and supported this research. The school offers a unique heteroge-

neous academic community of high standard, with a great group of talented and motivated young scholars. My time there has been a wonderful, extremely stimulating period. At the office, Hans Sonneveld and José Komen, together with Teun Bijvoet, Anneke Dammers and Miriam May form the cornerstones of the ASSR. During those years, I was lucky to be able to draw from good students. In particular, I would like to mention Mijke van Ballegooijen, who contributed much to this research while she was working on her MA thesis on corporate social responsibility. Michiel Bezemer assisted me with the collection of the data. Typical for the ASSR atmosphere, Brian Burgoon left his mark on this book as 'reverend' of our International Political Economy club. Our bi-weekly meetings have been an extremely fruitful place to discuss our work, and I owe much to all who participated in these meetings. I thank my colleagues for their friendship, as well as for their comments and critiques on many aspects of my work. In particular, Sjoukje, Mara, Josien, Marta and Gianluca, thanks for your support and friendships. Joost, your comradeship has become extremely precious to me. Furthermore, my friends in Ermelo, Amsterdam and abroad have been a much-needed social anchor for me in the sometimes turbulent waters of this research.

I benefited from scholarly support of many, including, Martin Höpner, Gerhard Schnyder, Gerald Davis, Andreas Nölke and Henk Overbeek. I would like to thank Bruce Kogut for getting me acquainted with a very stimulating international community of academics. Bert Schijf's knowledge on elite research has proved to be an important source of information for me. Nico Wilterdink provided comments on earlier drafts, and John Scott, Jaap Boonstra and Abe de Jong shared their comments and critique in the final stage. A special word of thanks goes to Robert Mokken, whose clear mind and ideas have been so stimulating to me. He provided me with the incentive to embark on the journey which led me to write this book. In the final stage, his comments were invaluable as well. Jelle Visser was with me throughout the entire project. He helped to shape this book by his smart and to-the-point comments. This book could have never been written without the relentless support and friendship of Meindert Fennema. It was he who put me on the trail of scientific research, and guided me all throughout the thorny path which culminated in this book. Thank you.

Froukje made it all possible. She helped me and supported me in all imaginable aspects one has to deal with when writing a book. She commented on my drafts, gave me confidence when I most needed it, and most importantly, she ensures that my life extends well beyond the confinements of academia. Thank you so much.

Finally, I pay gratitude to those who have been with me the longest. I am fortunate to have a family who has always supported me, even when my enthusiasm over quite incomprehensible topics surmounted time and

again. I thank Yuri, Mireille, and my parents, Carla and Gerard. Of course, notwithstanding the collaborative nature of writing a book, any mistakes, errors and omissions are solely my responsibility.

Eelke M. Heemskerk
Amsterdam, Winter 2006.

1

Corporate Communities, Governance and Control

Introduction

In the early years of the twenty-first century, it became evident that directors of a considerable number of large – and very much respected firms – were engaged in corporate fraud and severe mismanagement, leading to the (near) collapse of firms such as Enron, Worldcom, Parmalat, Ahold and many more. As a result of the fraud, value worth billions was destroyed and jobs and savings were lost. The primary driving factor behind the corporate scandals was the effort of top directors to uphold the appreciation of the shares of their firms on the stock market. These directors were deeply entangled in the struggle for ongoing growth of shareholder value. The growth targets of the fraudulent firms were at extraordinarily high levels, compared to the industries averages (Cools 2005). A study of 25 fraudulent international corporations compared with 25 comparable 'non-fraudulent' firms revealed some additional interesting findings on the nature of the failure of corporate governance. As it turned out, compliance with formal 'good corporate governance' rules and regulations proved to be insignificant for predicting governance failure. While these stipulations and best practices were especially designed over the past ten years to safeguard and increase the quality of corporate control, they prove quite ineffective. Other indications proved more useful in spotting potential governance failure.

First of all, chief executive officers (CEOs) of fraudulent firms enjoyed a very positive public reputation. They were not only mentioned more often, but also more positively in newspapers and magazines than their colleagues of the 'non-fraudulent' firms were. For example, in his glory days, former Ahold CEO Cees van der Hoeven was often referred to as 'Emperor Cees' (*Keizer Cees*), and frequently made his appearance in popular television programs and the columns of tabloids. As one smart investor said, 'When I increasingly saw the CEO of Ahold at this kind of meetings, I sold everything' (Cools 2005, p. 53, author's translation; De Jong et al. 2005a provide an overview of the Ahold case; while Smit 2004 sketches the entire drama in his book).

Second, CEOs of companies where fraud has been established had eight

times as many stock options and stocks than their 'non-fraud' colleagues (Cools 2005). This is somewhat ironic, as stock options and stocks are included in the remuneration schemes of top executives in order to align their personal interests with those of the firm and its shareholders. Granting the managers and directors pieces of (future) ownership is supposed to discipline them to act in the best interests of the shareholders. However, these mechanisms proved to serve as perverse incentives, stimulating directors to cheat and commit fraud. Looking at the past, those who are interested in predicting future corporate fraud should be watching for over-optimistic corporate results and 'sovereign behaviour' amongst corporate directors.

The repercussions of the failure of corporate governance reach beyond those who are directly affected, such as employees and their families, shareholders, and small and large investors. The question is whether the scandals are exceptional cases, or only the tip of an iceberg. They raise doubts about the efficacy of shareholder-oriented capitalism, which has received more and more appreciation over the past decades. Albert (1991) has made a distinction between two forms of capitalism:[1] Rhenish and Anglo-American. In the first form, there is a focus on long-term prospects, social welfare provisions and government involvement in business. Competition plays a role, but direct coordination (for instance in industrial relations) is quite common. In the Anglo-American form, the focus is much more on direct competition as a leading principle. Individual achievements and short-term profits determine individual and corporate behaviour. Albert's book provoked a great number of comparative studies on forms of capitalism. A multitude of terminology emerged that describes differences in advanced capitalism. Dore (2002) speaks of stock market capitalism and welfare capitalism; Nestor and Thompson (1999) of insider and outsider systems; Berglöv (1990) chooses the terms bank-oriented and market-oriented system; and Moerland explicitly speaks of network-oriented systems as opposed to market-oriented ones (Moerland 1995a; Moerland 1995b).[2] The common denominator in all these typologies is that they all deal with the extent to which the liberal market mechanism of competition is complemented by other means of (economic) coordination. Basically, all the ideal types can be characterised by Hirschman's distinction between strategies of *voice* and *exit* (Hirschman 1970), where exit is embodied by arm's-length coordination through liberal market behaviour, and voice based on coordination next to existing liberal market relations. The extent to which liberal market mechanisms can, or even should be supplemented by other forms of coordination is one of the most fundamental normative issues in contemporary political economy, as there is a very large difference across business systems in the appreciation for coordination beyond the liberal market mechanism.

Building on these prevailing notions of forms of capitalism, Hall and Soskice propose a dichotomy of market *models*. On the one hand, there is the

liberal market economy (LME), and on the other hand the *coordinated market economy* (CME). Where in a LME the equilibrium outcome of firm behaviour is the result of demand and supply conditions in a competitive market, in a CME this equilibrium is the result of strategic interaction among firms and other actors (Hall and Soskice 2001a, p. 8).[3] The LME and CME models are close to a shareholder-oriented and a stakeholder-oriented economy. Table 1.1 summarises a number of elements and characteristics that are commonly used to discern types of capitalism.

Table 1.1: Characteristics of Forms of Capitalism

	Coordinated Market Economy	**Liberal Market Economy**
Labels	Rhenish capitalism, stakeholder model, welfare state capitalism, network oriented economy, organised capitalism	Anglo-American capitalism, shareholder model, stock market capitalism, market oriented economy, disorganised capitalism
Conception of firm	Community of interests	Value-creating instrument for shareholder
Interest orientation	Stakeholders	Shareholders
Influencing strategy	Voice	Exit
Ownership	Concentrated	Dispersed
Board structure	Two-tier	One-tier
Stock market	Less developed	Highly developed
Takeover market	Rare	Common practice
Coordination	Between market and hierarchy	Market or hierarchy
Inter-firm relations	Durable	Arm's length

(soures: Fennema 1982; Freeman 1984; Friedman 1962/1982; Frooman 1999; Heemskerk, Mokken and Fennema 2003; Hirschman 1970; Nooteboom 1999; Weimar and Paape 1999).

In coordinated market economies the concept of the firm is one of a community of interest, where all that have a stake in the firm should be able to voice their concerns. Ownership of the corporation is typically concentrated in only a few hands. The stock market is relatively underdeveloped, as is the market for corporate control (the market for large pieces of corporate ownership which will render the owner effective control over the firm). A two-tier board structure with a separate executive and supervisory board is common in CMEs. On the contrary, in LMEs the firm is first and foremost a value-

creating instrument of the shareholders. Ownership is dispersed and fragmented, and exit strategies of influence are preferred over voice. Capital and takeover markets are relatively developed. A one-tier board structure is common in LMEs. The coordination mechanisms of an LME are hierarchy within the firm and competition between firms. On the contrary, in a CME coordination can also come about through networks positioned in between markets and hierarchies. In a LME, durable corporate networks are a liability, while in CMEs they are considered to be an asset.[4]

The stark differences in normative or political consensus on how the economy should be organised shows in the legal framework as well. Corporate law defines what a corporation is, its responsibilities, opportunities and possibilities. Law is frozen politics: an outcome of political struggles between stakeholders, and as such a codification of particular norms and values, convictions and political trade-offs. A general distinction can be made between the extent to which regulation is based upon rules and legislation, or upon principles. On the one hand, rule-based corporate governance (or *per se prohibition*) is firmly based on legislation; all corporate governance stipulations are codified in law. Rule-based corporate governance is strong in countries such as the USA. Principle-based governance (or *rule of reason*), on the other hand, is well appreciated in continental Western Europe. Trying to avoid the rigidity of rule-based governance, principle-based governance leaves room for self-regulation and self-organisation of business, on the basis of commonly accepted business principles. Thus, in the USA, building on a long tradition of rule-based intervention in corporate governance, the Enron debacle in 2001 led to the (hasty) construction of the Sarbanes-Oxley Act. Rules and legislation are used to confine and discipline corporations and the corporate elite. Many European countries, however, endorse a principle-based code of good governance, which leaves room for manoeuvring and flexibility. A crucial element in principle-based codes of good governance is the concept of 'comply or explain'. A corporation can divert from the guidelines and principles of a code, as long as they explain why they choose to do so.[5]

A key issue in comparative studies of business systems is whether national varieties of capitalism endure, or whether convergence between different forms of capitalism across the globe results in an ever similar, global form of capitalism. More specifically, the question boils down to whether Rhenish countries are becoming more and more Anglo-American. The failure of corporate governance as it was revealed through the cases of fraud and mismanagement at the beginning of the twenty-first century further provokes the issue of national forms of capitalism. This revealed that the dominant, shareholder-oriented form of capitalism was not flawless at all. In fact, methods carefully designed under the aegis of shareholder interests to increase the quality of corporate governance proved to be ineffective or even

counterproductive in disciplining corporate directors. The international scope in strategy, finance and operations of the firms that fell victim to corporate fraud underscores the potential importance of the internationalisation of business and finance in these matters. One consequence of such globalisation is that corporate directors are less embedded in national elite networks.

For a long time, social networks between the top decision-making bodies of the largest corporations contributed to the cohesion of business and the corporate elite. Throughout the twentieth century, big business in the Western industrialised world has been organised in national business communities. Foundational elements of these business communities are corporate board 'interlocks', where corporate directors sit on multiple boards. These interlocking directorates tie together a corporate elite network that spans the corporate control centres of the economy. But in recent times, the architecture of these ubiquitous networks of interlocking corporate directorates has changed. In countries as diverse as Norway (Grønmo and Løyning 2002), Germany (Beyer and Höpner 2003), Spain (Rodriguez 2002), Switzerland (Schnyder et al. 2005), Canada (Carroll 2002), New Zealand (Roy, Fox and Hamilton 1994), the United Kingdom (Windolf 2002), the USA (Davis, Yoo and Baker 2003) and the Netherlands (Heemskerk, Mokken and Fennema 2003; Stokman, Van der Knoop and Wasseur 1988), networks of corporate board interlocks show signs of decline.[6] At the level of corporate directors, it might very well be the case that the national business communities they were once embedded in are now gone. This 'disembedding' of corporate directors alters the social reality of the corporate elite. One of the arguments this chapter advances is that the business community can function as a touchstone for behaviour, providing for norms and values that guide conduct.

This study investigates the leading firms and the corporate elite of one West-European country: the Netherlands. The Netherlands is a small, internationally oriented country with a relatively large number of multinational corporations. It is widely considered to be a Rhenish country, and has relatively strong corporate networks. Although some early research already revealed patterns of interlocking directorates in the early twentieth century, it was not until the 1970s that an entire network of corporate board interlocks was exposed. The accumulation of many corporate board positions by the corporate elite has led to concerns about the concentration of too much (positional) power in the hands of a few. Concentration of (economic) power by means of board interlocks remained topical throughout the twentieth century (Davis 1996; Dooley 1969; Haunschild 1993; Levine 1972; Means 1939; Mintz and Schwartz 1981; Palmer 1983; Pennings 1980; Sonquist and Koenig 1975; Sweezy 1953; Useem 1984). Some early research already revealed patterns of interlocking directorates. These studies start with a few

of the largest firms or banks, and map the relations of its directors with other firms, with the goal of understanding the way in which corporate power and control coincide in a small group in society: the corporate elite. However insightful the findings might have been, it remained a highly limited approach in that it lacked a full understanding of the overall structure of the network in which the largest firms are embedded at the highest level of corporate control. It was not until the early 1970s that a *network* of corporate board interlocks in the Netherlands was revealed.

Corporate Power and the Corporate Elite

By the late 1960s, concentration of corporate power became topical in the Dutch public debate. Interlocking directorates in particular were targeted as signposts of the concentration of corporate power in the hands of a relatively small group of corporate director. In 1968, the Catholic trade union leader P.J.J. Mertens addressed the issue of corporate power in a speech, arguing that a group of roughly two hundred men controlled the Dutch economy. According to Mertens, this group of directors was well acquainted, not in the least place because of their shared board memberships. He described them as a group which is 'as skilled and financially strong as it is frightening'.[7] Since then, the 'Mertens 200' became the shorthand expression for excessive concentration of economic power in the Netherlands. While there is no indication that Mertens himself had strong empirical evidence to support his claim,[8] it was not the first time that the number 200 had come up. In France, bankers were attacked as early as 1869 for the many board positions they held. It was said that a group of 200 people were running French business through a network of their directorships and shareholdings (Zeldin 1973, p. 53-54, quoted in Schijf 1993). And, in 1934, the French radical socialist, Edouard Daladier, spoke of two hundred families who ran businesses as well as politics in France (Schijf 1993, p. 16).

Inspired by the public debate about the 'Mertens 200', new techniques and methods of computer-based network analysis were applied to map and analyse the network of interlocking directorates for the largest 86 corporations in the Netherlands (Helmers et al. 1975; Mokken 1971). The results of this study (entitled *Traces of Power*) were astonishing. Not only did the analysis show that all but two of the 86 largest Dutch firms were indeed connected in one network of interlocking directorates, they also corroborated Mertens' thesis. The 84 firms were connected through 873 interlocks, which were in turn carried by a group of 195 directors, only five people less than Mertens had predicted. The publication of the preliminary research report hit like a bomb, and stirred public debate even more than Mertens' initial speech had done three years earlier. The media was excited about finding a dense network of corporate directors spanning the control centres of the

economy, as might have be expected. However, the uncovering of the corporate elite network aroused particularly fierce reactions from within the circles of the corporate elite itself.

While the researchers stressed that, for them, power rests with institutions (i.e. the firms) rather with individuals, the media immediately used the analysis as an empirical basis of the Mertens 200. J.R. van den Brink, chairman of the AMRO bank, was portrayed as the most 'powerful' person in the Netherlands, since his firm was found to be the most central one in the network. Although Van den Brink did see merit in the personalistic perspective on corporate power, he expressed his deep concerns regarding the impact the study had. He felt he was being portrayed as no less than a monster. Moreover, he was deeply concerned because 'the trust in those in Dutch business who bear the responsibilities is lost' (De Bruijn 1972). A similar strong reaction came from De Pous, a former minister and chairman of the socio-economic council. For instance, where the scholars used shared occupational background as a basis for group cohesion, De Pous argues that 'these former members are unrelated individuals, who do not communicate with each other, and who do not propagate any policy whatsoever' (De Nieuwe Linie 1972, authors translation). (Interestingly, only one year earlier, the trade unions N.V.V. and N.K.V. demanded the departure of De Pous as chairman of the SER, precisely because of his many directorships (De Nieuwe Linie 1972).) What caused these spokespersons of the Dutch corporate elite to react so strongly to the accusation of corporate power?

Perhaps it was because in the Netherlands the concentration of power within the corporate elite had never been a big issue before. Only socialist and communist intellectuals outside academia were engaged in this kind of research. In 1913, F. Wibaut copied the research design of Otto Jeidels (1905) and mapped interlocking directorates between Dutch banks and industry. He found 300 firms interlocked with the nine largest banks (Wibaut 1913, p. 342). Similarly inspired by Marxist theory, F. Baruch published a two-volume study on the Netherlands entitled 'Big Power in a Small Country' (Baruch 1962). He mapped the interlocks between the four largest banks and a number of industrial firms. This study, however, did not circulate outside the sphere of influence of the communist party. Yet, not long after publication of Baruch's study, the capitalist system as it had developed came under attack in a much broader public debate. In the political climate of the early 1970s, 'power' had in general a very strong, negative connotation. To make things worse for the corporate elite, the accusation of concentration of power was further induced by a wave of mergers that swept Dutch business, and finance in particular, during the 1960s (see appendix I). Additionally, relationships between banks and industry were becoming increasingly intense. Firms were unable to finance new investments from retained earnings, as they were used to. They now had to rely on the banks for credit, and

the banks consequently tightened their relationships with industry. Within this setting of growing institutional power of financial institutions, the corporate elite fell victim to the accusation of possessing *too much* and *uncontrolled* power.

Besides the political perspective on the situation, there is also a structural aspect which might help us to understand the reaction of the corporate elite. The structural aspect is not restricted to a specific political period in time. The bottom line is that for those outsiders without power, the 'old boys network' of corporate directors appears as a cohesive and highly powerful and influential group. Those who are inside these elite circles however, typically have a different view altogether. They stress the limits of their influence, and the lack of cohesion in their community. So, when commenting upon the first findings of the Dutch network of board interlocks and the public debate it aroused, AMRO chairman Van den Brink argued that, 'For me, power is just one side of the coin. The flipside is responsibility. I feel that pressure very strongly' (De Bruijn 1972, author's translation). Likewise, the first president of the European Central Bank, W. Duisenberg, had a similar view. He explicitly denied that he should be considered as a powerful person (Tegenlicht 2003). Outsiders are inclined to stress the agency at the level of the group, where concerted action of the corporate elite leads to outcomes favourable to those who are in power. However, those within the corporate elite are eager to stress the limitations of their own individual agency. As a result, a banker might rightfully point at his limited ability to influence his surroundings, while outsiders can argue, with the same validity, that the bankers as a group have an enormous impact on the economy.

These two views on agency and (corporate) power also found their way into the academic debate on power and elites. In the second half of the twentieth century, the debate on elites was divided in two main camps: the pluralists and the elitists. The elitists would argue that a cohesive ruling or power elite dominates society. These scholars saw the group of connected business people as a relatively closed 'power elite' (Domhoff 1967; Domhoff 1970; Domhoff 1980; Mills 1956/2000). This power structure research was founded on the early work of C. Wright Mills (Mills 1956/2000) and Floyd Hunter (Hunter 1953). The main object of study is the ruling class, which brings together people from business, government and the military. Theorists of the 'power elite' were opposed by pluralists such as Robert Dahl (Dahl 1968; Dahl 1961/1989). Pluralists would point at the irreconcilable differences that exist between factions of the elite, and argued that that there was not enough overlap among various power structures to speak of a single ruling elite. It is this latter point of view which those who are inside the corporate elite would presumably adhere to most.

In the end, the power and influence of the group of corporate directors (i.e. the corporate elite) are difficult to assess precisely. It does not have our

prime interest either. Rather than using power (or influence, for that matter) as the primary lens through which to analyse the corporate elite, it might prove more fruitful to take the concept of *community* as lens for investigating the role and function of the corporate elite because it allows for a more sociological analysis of corporate governance. Together, corporate directors form a distinctive, more or less cohesive group in society. The social structure binding them together in and of itself creates opportunities for collective action and coordination. It is this ability to act which is the underlying basis for any power (or influence) they might possess as a group. As such, the corporate elite network is part and parcel of the Dutch form of capitalism.

Research Questions

Since the days of the Mertens 200 and the *Traces of Power* study, times have changed significantly. Internationalisation led to a transformation of business, and the advances in information and communication technologies altered and influenced society to a large extent. Some scholars do question the alleged impact (Doremus et al. 1998; Hirst and Thompson 1996) and uniformity (Therborn 2000) of globalisation. However, it is undeniable that business now operates in a world quite different from the early 1970s. Some scholars argue that we are now witnessing an emerging transnational corporate elite (Carroll and Fennema 2002; Kentor and Jang 2004), who meet in the global cities of the world (Sassen 1991) and share the same neo-liberal ideology (Sklair 2001). During the 1970s, a transnational network of board interlocks did indeed emerge (Fennema 1982). However, after a short period of construction, this expansion of the international network stagnated and was resilient to further change and expansion. Thus, by the mid-1990s, ongoing internationalisation of business and finance was – surprisingly – not accompanied by increasing international board interlocks (Carroll and Fennema 2002). In fact, ties amongst the world's largest corporations continued to respect national borders for the most part, leading Carroll and Fennema to conclude that corporate governance still takes place predominantly within national frameworks (ibid.). At least until the mid-1990s, internationalisation in and of itself did not trigger a reorientation of board interlocks from the national to the transnational level. Likewise, in their study of ownership ties between German firms, Kogut and Walker conclude that the global economy still consists of many national business systems, composed of country-specific institutions (Kogut and Walker 2001, p. 31). These observations trigger two sets of questions on the dynamics of the corporate elite networks over time, which will form the basis for this study.

First, there is a descriptive issue. How has the Dutch corporate elite network that ties together the main economic entities changed since the late

1960s? What are the impacts of globalisation on the appreciation of firms and directors for durable social ties amongst each other? And furthermore, what has been the impact of the ongoing and growing attention for shareholder interests which became more and more dominant since the early 1990s? Under the header of 'good corporate governance', checks and balances between different stakeholders of corporations receive growing attention from investors, media and directors alike. The driving force behind this attention is the growing power and prominence of shareholders. During the 1990s, a number of documents were drawn up that specify which corporate governance practices firms are expected to follow in order to ensure higher 'shareholder value'. Issues as diverse as accounting standards, remuneration, recruitment and the structure of the board are all taken into account in these codes of corporate governance (see for instance Cadbury 1992 for the U.K.; and Commissie Corporate Governance 1997; Commissie Corporate Governance 2003 for the Netherlands).[9] As these codes of conduct are by and large inspired by concerns for shareholder interests, they neatly follow the liberal market perspective. Hence, board interlocks are negatively evaluated. Former Unilever executive Tabaksblat, who chaired the committee on the Dutch corporate governance code, explicitly states that his code aims to reduce the concentration of economic power by imposing a restriction on the number of board seats directors should have (Bogaarts and Nods 2003). Mapping the network of interlocking directorates for a large group of firms at several points in time will render insights in the impact of these developments on the cohesion of the Dutch corporate elite, and as such on the durability of Dutch capitalism in the wake of globalisation.

The second set of questions is concerned with institutional change. Here we will examine the institutional change of business systems, and in particular the role of directors as individuals and as a group in these systems. What instigated the change in the configuration of board interlocks that have been present throughout the twentieth century? The point of departure in answering this question is that it is not sufficient to just point at the structural, macro forces of globalisation in order to understand institutional change. Institutional change in modern capitalist societies is not always fully captured by external, or exogenous, 'shocks', as Deeg shows by comparing change in German and Italian finance during the 1990s (Deeg 2005). Internal, or endogenous, elements play an important role in institutional change as well. The corporate elite is a highly influential group in society, with vested stakes in the way capitalism is organised. Facilitating and enabling change from within, the corporate elite might prove to be a crucial link in the interplay between macro and micro levels of institutional change.

What we expect is that the Dutch business system shows a shift towards a more liberal market oriented economic system. Stirred by 'a strengthening belief in the universal efficacy of competition', Dore argues that:

> Institutional arrangements involving economic actors are increasingly predicated on the assumptions: (i) that the individuals and the corporate groups involved are animated, if not solely at least predominantly, by considerations of self-interest maximalisation, and (ii) that, except for a few cases of market failure, market competition amongst those driven by self-interest can be relied on to maximise the total sum of welfare (Dore 2002, p. 116).

Decreasing corporate networks are signposts of this 'marketisation', as Dore terms it. Thus, we expect a thinning of the network of corporate board interlocks. According to Streeck and Thelen 'the current transformation of modern capitalism is making it more market-driven and market-accommodating, as it releases ever more economic transactions from public-political control and turns them over to private contracts' (Streeck and Thelen 2005, p. 4). This transformation has become one of the key issues in the literature on comparative business systems, leading to the question of whether the pressures of globalisation lead to the convergence of systems of capitalism, or if national variety in capitalism will endure. It would seem that across the globe, corporate governance practices are being redesigned to promote market mechanisms of competition as a disciplining force for corporate management, in particular with respect to financial and labour markets. We expect that the Netherlands will follow this trajectory.

The remainder of this chapter elaborates on these questions. The next section starts with introducing corporate governance, the contemporary framework for issues of corporate power, control and the struggle of interests between various corporate stakeholders. The section argues that we need to go beyond a narrow definition of corporate governance that only takes into account the problematic relationships between directors and suppliers of capital. Rather, a system approach is needed in order to fully encompass the spectrum between the individual, micro level of directors and the level of business systems. At the level of business systems, one of the most important issues is the appreciation of coordination over competition, as the subsequent section argues. In this, corporate networks have an institutional role in the economy, as the following section argues. Building on this relational perspective on governance, and the appreciation of social structures as institutions in the economy, an analytical framework is introduced for studying this social organisation of corporate governance. This section presents the building blocks for the research of the following chapters. The relational view developed in this chapter is used to further develop the issue of institutional change in business systems. The chapter concludes with an outline of the following chapters.

Corporate Governance and Corporate Control

The issue of corporate governance has received growing attention during the past two decades. When the incidences of corporate fraud took place, corporate governance had already been on the corporate agenda for several years. Due to growing attention for shareholder interests, corporate governance became an issue in the early 1990s. Although the concept itself remains ambiguous and multifaceted, one central element is that corporate governance always deals with the interests of the stakeholders of firms, and their relative influence over the firm. Narrowly defined, corporate governance is about the relationship between a company (the directors in particular) and its capital supplier (shareholders in particular) (Shleifer and Vishny 1997, p. 737). Here, the core issue of corporate governance is how suppliers of capital can secure their investments.

Adam Smith already identified the discrepancy between the interest of owners of a firm and the directors, when he discussed contemporary failure of corporate governance at the South Sea Company. Being a joint-stock company with separation of ownership and control, Smith saw irreconcilable and fundamental conflicts of interests as the main cause of the collapse of the firm. Smith writes: 'The directors of such companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company' (Smith 1776/1993, book V, chapter I, par V.1.107). Flagged by Adam Smith as a crucial problem of joint stock companies, the relationship of suppliers of capital and the management of the firm remained an issue ever since.

During the early 1930s, the issue gained growing interest when Berle and Means (1932) observed that ownership and control of the larger firms became increasingly separated. Initially, the founding entrepreneur and owner controlled many of the largest firms, and these people both owned and controlled the firm. When the firms grew larger, and the founding entrepreneurs got older, a new class of professional managers arose. Over time, they gained control of the firm without being the owners. At about the same time, ownership became dispersed and fragmented as well. This separation of ownership and control in corporations created a severe problem for shareholders, who could not control their investment anymore (a principal-agent problem). Unorganised groups of shareholders had difficulty controlling the new class of powerful managers (Burnham 1947). Building on the work of Berle and Means, a thriving literature on the diverging inter-

est of owners and managers emerged. This literature more or less assumed that the separation of ownership and control took place. Modern corporations were described as having dispersed and fragmented ownership, and consequently an enduring power struggle between managers and shareholders emerged (Jensen and Meckling 1976). This power struggle served as the basis for a burgeoning financial and legal literature, as well as the main topic of much of the corporate governance literature.

However, the extent to which separation of ownership and control actually took place is often overstated. The narrow view on corporate governance, which puts the alignment of shareholder and managerial interests at the centre of the stage, is only fully applicable to a relatively select group of firms, and more relevant to certain countries than to others (see for instance Barca and Becht 2001). The USA and the UK have relatively high levels of dispersed and fragmented ownership, but this is much less the case in continental Europe, and fairly absent in Asia. Furthermore, most studies that deal with the separation of ownership and control look at stock-listed firms only (see for instance La Porta, Lopez-de-Silanes and Shleifer 1999). These firms typically have relatively high levels of dispersed ownership. However, by restricting the scope of research to stock-listed firms only, large segments of the economy remain neglected. Thus, Vinke (1961) already warns not to overemphasize the extent to which separation of ownership and control took place, just because the largest firms in an economy show signs of such a separation. The 'astonishing consensus' on the impact of the 'alleged' separation of ownership and control, as Zeitlin (1974) puts it, underlines the ardent interest of many scholars.

Some scholars took issue with what they call the 'normative' stance of shareholder primacy (see Engelen 2002 for a discussion of the moral claims of 'shareholderism'). Blair and Stout (2002), for instance, argue that it is a misunderstanding to define a firm merely as a bundle of assets owned by shareholders. They do not consider the principle-agent problem between directors and owners to be the fundamental issue of corporate governance. Boards of directors were not created to protect shareholder interest, but to protect enterprise-specific investments of all members of the corporate 'team'. After all, the key assets of the firm, knowledge and experience, reside in the minds of employees (Blair and Stout 1999, p. 261). Therefore, 'the study of corporate governance must focus on more than just how to get management to maximize value for shareholders. It must also be about the human institutions that bind people together in cooperative relationships over long periods of time' (Blair 2002, p. 11). Thus, while the financial and legal tradition in corporate governance commonly promotes shareholder-oriented reforms, it does not fully encompass corporate reality. Following Blair, 'human institutions' should be taken into account.

While Blair makes an important step in recognising the importance of

cooperative relationships, her focus remains within the boundaries of the firm. However, corporate governance is not only a set of rules that applies between actors *within* a firm, such as management, workers and shareholders, and the control of shareholders over directors in particular. A broader definition is proposed, for instance, in the British Cadbury report on good corporate governance, a milestone document in the corporate governance discussion. Cadbury speaks of corporate governance as 'the system by which business corporations are directed and controlled' (Cadbury 1992; OECD 1999). Following this definition, corporate governance is not limited to the corporation as such, but includes a multitude of elements and actors that are involved in the control and governance of companies. Contrary to the narrow approach, a system approach leaves room for the inclusion of other stakeholder interests, such as those of employees, consumers, the state, and perhaps even society at large. As the system by which business corporations are managed and controlled, corporate governance has an external dimension as well. Corporations are part of a business system: an institutional setting consisting of formal and informal elements. These formal and informal institutions differ between the business systems across the globe, which inspires the term *corporate regime*. A corporate regime consists of customary and statutory practices and relations, enforced in public and private practice, which determine both the way in which corporations are ruled, and how they relate to other firms and institutions in a certain geographical area.

Coordination and Competition

The concept of corporate regimes is a relational view, with attention for structural connections and cultural norms, ideas, and rules of behaviour of firms and of the corporate elite. A corporate regime thus consists of both formal and informal institutions. According to Streeck and Thelen, '[Institutions] represent socially sanctioned, that is, collectively enforced expectations with respect to the behaviour of specific categories of actors or to the performance of certain activities' (Streeck and Thelen 2005, p. 9). Furthermore, institutions typically 'involve *mutually related rights and obligations* for actors, distinguishing between appropriate and inappropriate, "right" and "wrong", "possible" and "impossible" actions and thereby organizing behaviour into predictable and reliable patterns' (ibid., p. 9, italics original). As such, the corporate regime provides a moral foundation of business. Partly, these norms of appropriate behaviour and actions are codified in laws and regulations, but for an important part these norms reside in the social relations that tie directors and corporations together. Thus, the social network of the corporate elite is part and parcel of the institutional configuration of the corporate regime.

Few will deny that market economies need institutions in order to function. Even Adam Smith recognises that the liberal market is not, a priori, optimal. In his theory of moral sentiments, Smith (1759/2000) argues that not all unintended consequences of the liberal market are to be accepted as beneficial. Order can only be the result of markets when both the legal as well as the moral framework is operating well. So, for a liberal market system to work properly, it must be embedded in an institutional setting including moral and legal rules and rule-making, which function as social control (Samuels 1977).[10] Fligstein mentions institutions indispensable for any market economy including, among others, property rights, rules of exchange and governance structures. Governance structures are 'general rules in society that define relations of competition, coordination, and market-specific definitions of how firms should be organized' (Fligstein 1996, p. 658). The network of interlocking directorates forms an important structural part of this. Board interlocks are by themselves specific relations between firms which reflect the extent to which corporations are embedded in durable relations. At the same time, the corporate elite's social network that results from the board network forms an arena for the formation of consensus on, for instance, the extent to which coordination is appreciated over competition.

Coordination takes place in both direct and indirect ways. Direct coordination can take the form of clear-cut collusion, where producers come together in order to circumvent the disciplining forces of the market mechanism. Again, Adam Smith recognised the risks of such behaviour very well, which he believed was inherent of economic actors. In a much-quoted sentence he writes, 'people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.' Smith continues to note that 'it is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice' (Smith 1776/1993 book I, chapter 2). Smith celebrated the business system, not individual businessmen; he was an admirer of their work but suspicious of their motives (Samuels 1977). Ever since, social relations amongst the corporate elite are considered with a great deal of suspicion. This suspicion builds on the idea that all coordination except for the liberal market mechanism leads to the weakening of the market, and thus results in suboptimal outcomes.

While coordination might take place as clear-cut collusion (such as envisioned by Smith), it can also take a much more nuanced, indirect form. C. Wright Mills writes that 'there need not be explicit conspiracy, and certainly none that is provable. What is important is that each big producer makes his decisions on the basis of his impression of the reactions of the other big producers' (Mills 1956/2000, p. 120). It is this kind of indirect coordination

which leads outsiders to view the corporate elite as acting in concerted fashion, while the corporate director himself sees his power severely constrained by its environment. To a certain extent, indirect coordination takes the form of common social process that are not in any way specific for the corporate elite. Westphal and Khanna (2003) give a good example of how social dynamics affect corporate directors. They studied how social distancing (reducing the frequency and closeness of contact between people) is used amongst the corporate elite as a control mechanism for defiant members. Not only do board members become socialised into the normative expectations of the corporate elite (Palmer 1983), these normative expectations are actually enforced by social distancing. Westphal and Khanna find that directors who participate in elite-threatening actions are more likely than others to experience social distancing in the two years following their actions.[11] Directors who sponsored such actions were invited to 49 per cent fewer informal meetings, and their input on strategic issues was solicited on 53 per cent fewer occasions (Westphal and Khanna 2003, p. 385). The authors claim that the deterrent effects of social distancing outweigh the effect of economic incentives and external pressures (ibid. p. 393). Likewise, Peij (2005) finds that informal power outweighs formal power amongst the Dutch corporate elite. The significant role of informal social mechanisms of power and control imply that group dynamics play an important – and largely neglected – role in corporate governance. Corporate board interlocks are thus an opportunity structure for 'non-market' coordination between firms and the corporate elite.

(Social) networks are important for corporate governance because they supplement the market mechanisms of *competition* as an opportunity structure for *coordination*, either direct or indirect. They are part of a framework of formal and informal institutions that aim to coordinate the economy. A good illustration of how corporate regimes differ in their assessment of coordination over competition can be found when looking at business cartels. As Windolf (2002) points out, corporate cartels only recently received the label of illegitimacy in continental Western European countries. For a long time, cartels played a legitimate role in European industrial policies. Government, business and finance acted together in a form of *organised capitalism* (Lash and Urry 1987; Offe 1985; Scott 1997). As recently as 1971, the Dutch department of economic affairs kept a non-public register with 1,491 listed cartels (De Hen 1972, p. 41).[12] Countries such as the Netherlands (and also Germany) long considered cartels to be a useful coordination mechanism that could effectively assign resources and reduce risks of ruinous competition, thereby lowering production costs (Jonker 1989). Concentration of economic power was not prohibited, but closely monitored. Fierce competition was considered a danger to the social and economic order. Economic (market) power in and of itself was not necessarily condemned.

Rather, the *abuses* of power should be prevented, calling for the need to identify abuses of power without challenging non-abusive exercise of power (De Gaay Fortman 1966).

The practice of organised capitalism stands in sharp contrast with, for instance, the USA, where trusts and cartels have always been considered as traces of collusion that hamper the proper workings of the liberal-market system. Thus, in the best tradition of rule-based governance, the USA adopted early antitrust legislation with the Sherman Antitrust Act of 1890. Two decades later, the hearings of the Pujo Committee (Pujo 1913) on the concentration of corporate power led to the Clayton Antitrust Act of 1914 that prohibited particular interlocks between corporate boards. According to Chandler, 'the passage of the Sherman Antitrust Act in 1890 and its enforcement by the federal courts reflected a shared belief in the value of competition, in Germany the strong support given to cartels and other inter-firm agreements by the nation's courts reflected a shared belief in the benefits of industrial cooperation' (Chandler 1990, p. 395; quoted in Sluyterman 1999, p. 360). However, over the course of time legitimate, registered economic coordination such as cartels transformed to illegitimate limitations on the proper workings of the liberal market system.

Networks as Institutions

The value of coordination next to the liberal market mechanism of competition has been appreciated for many decades. After all, economic actors do not always prove to be *homines economici*: calculating, risk-avoiding and profit-maximizing agents.[13] Ongoing insights into the behaviour of the corporate elite teaches us that directors are not always as rational as some economists tend to believe (De Jong 2006). Bandwagon behaviour of the corporate elite has been noted before as an explanation for dynamics leading to waves of mergers and acquisitions (Schenk Forthcoming). Thus, notwithstanding its merits, an actor-centred, rational choice model of economic action has its limits (Abell 2003). In recognition of these limits, ample attempts have been made to adapt the rational choice model, so that it better fits the social reality.[14] Taking relationships and network embeddedness into account as alternative coordination mechanisms helps to better conceptualise rationality and understand economic behaviour. One influential stream of literature that aims to do so is transaction cost economics (TCE), originally developed by Oliver Williamson (1975; 1985; see also 1996). Williamson argued, following the earlier work of Nobel laureate Coase that, the liberal market mechanism is not necessarily the most optimal mechanism for coordinating economic activities. While, in theory, the ideal, rational *homo economicus* acts through arm's-length market relations, it is in many cases actually advantageous to organise economic action in a hierarchical manner. Using hierar-

chy for coordination reduces the costs that come with every single transaction. Coase (1937) used this logic to explain why firms exist in the first place. Firms exist because the corporate hierarchy does a better job in the economic coordination of its constituency than the liberal market mechanism would. TCE considers every market situation to be a relational setting, with buyers, sellers and middlemen who are related through their economic actions. Taking into account the costs of gathering and processing information that travels through market relations, TCE underlined how relationships can be used to reduce the costs of economic action.

Social relations do matter, and a relational view of economic action is helpful in understanding corporate behaviour. There is, however, a string attached to any relational view. In one of the founding articles of socio-economics, Mark Granovetter (1985) explicates the dangers of either an under-socialised or over-socialised view of economic action. According to Granovetter, social structures and economic actions are intrinsically connected:

> [A]ctors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social action (Granovetter 1985, p. 487).

Inspired by this insight of social *embeddedness* of economic action, a literature emerged that studied inter-firm networks. Most of these studies are interested in network forms of organisation, where chains of production connect many small firms in one big 'networked corporation'. In this way, inter-firm networks function as an alternative mode of production, next to the market and hierarchy forms of production (Powell 1990). But not all relationships between firms can be used to form a network of production. Out of a larger set of inter-firm relations (such as client / supplier relations, R&D relations etc.), interlocking directorates bear significance on corporate governance because they connect the top decision-making bodies of firms. The (social) embeddedness of corporate governance through board interlocks provides opportunities for the coordination of markets by 'non-market' means (i.e. with mechanisms other than liberal market competition). As such, this kind of inter-firm network is a mode of governance, rather than a mode of production. Inter-corporate governance networks are coordination mechanisms, located between market and hierarchy (Fennema 1982; Pennings 1980).

Traditionally, the analysis of corporate networks was inspired by the study of corporate control (see for instance Helmers et al. 1975; Hilferding 1910/1968; Lenin 1916/1986; Palmer 1983; Stokman and Wasseur 1985; Useem 1980). Board interlocks were seen as direct 'traces of power'. Inspired

by Hilferding's (1910/1968) notion of *Finanzkapital* ('Kapital in der Verfüging der Banken und in der Verwendung der Industriellen'), interlocks of banks with industry received particular attention. These interlocks were considered to be methods of control, and as such reflections of the power of bank capital. With financial institutions highly central, the architecture of the network of board interlocks was thought to be indicative for the corporate control structures of the economy. Consequently, relations between finance and industry, and the centrality of banks and bankers in particular, have always been one of the main elements of national networks of interlocking directorates (see for instance Fennema and Schijf 1978; Jeidels 1905).

However, next to the interpretation of (specific) board interlocks as traces of direct influence (and hence coordination), board interlocks also bear relevance and significance even if they do not signify power relations. According to Scott, all board interlocks at least involve a potential for communication and for the exercise of influence (Scott 1991, p. 182). Through board interlock networks, the largest corporations can communicate and disseminate information, best practices, and even collusion. Inspired by such ideas, some scholars rejected the bank-control thesis as main theory for the understanding of finance-industry relationships, and opted for a model of financial hegemony. According to this viewpoint, directors of financial firms determine the broad lines of corporate development for the entire economy. This power 'operates not through direct intervention in the discretionary decision-making of corporate boards, but through their ability to set the parameters of the corporate environment within which all large enterprises must act' (Scott 1991, p. 188). Thus, according to this perspective, the significance of board interlocks lies more in the indirect ability to set the parameters than in direct control.

These inter-firm relations that build governance networks deserve appropriate attention in light of the recent corporate governance debate, and not only as signs of 'bad corporate governance'. In particular, the dynamics of the network of interlocking directorates can reveal insights in both the way in which institutions change, as well as in what direction the Dutch corporate regime is changing.

The Social Organisation of Corporate Governance Networks

Probing the social organisation of corporate governance asks for a multifaceted research design. We want to gain insights at both the macro level of the inter-personal and inter-organizational structures, as well as insight at the micro level of the firms and directors. The research questions and relational approach developed above calls for an in-depth case study, rather than a comparative study across countries. Only unequivocal attention on one location leaves us with enough focus to reveal the role of social networks in the

corporate regime. A case study can provide enough depth and width to fully assess the social organisation of corporate governance. On the basis of the outcomes of this study, further comparative efforts can be made. Furthermore, a case study allows combining qualitative and quantitative research methods. First, we will map the changing network structures of the corporate elite with the aid of network analysis. However, this only renders partial knowledge of the changes that are taking place in the corporate business community. Only on the basis of inside knowledge can we fruitfully investigate the impact and consequences changing network structures have on the way corporations are governed and controlled, as well as understand why corporate networks changed as they did. The most optimal method would be participatory observation. However, as corporations are not keen to allow strangers in their midst, especially not at the highest levels of their hierarchy, such studies are extremely rare (Winkler 1974 is a notable exception; see also Winkler 1987). In this book, interviews with the corporate elite are used to fill in some of the blanks that remain after the networks have been mapped and analysed.

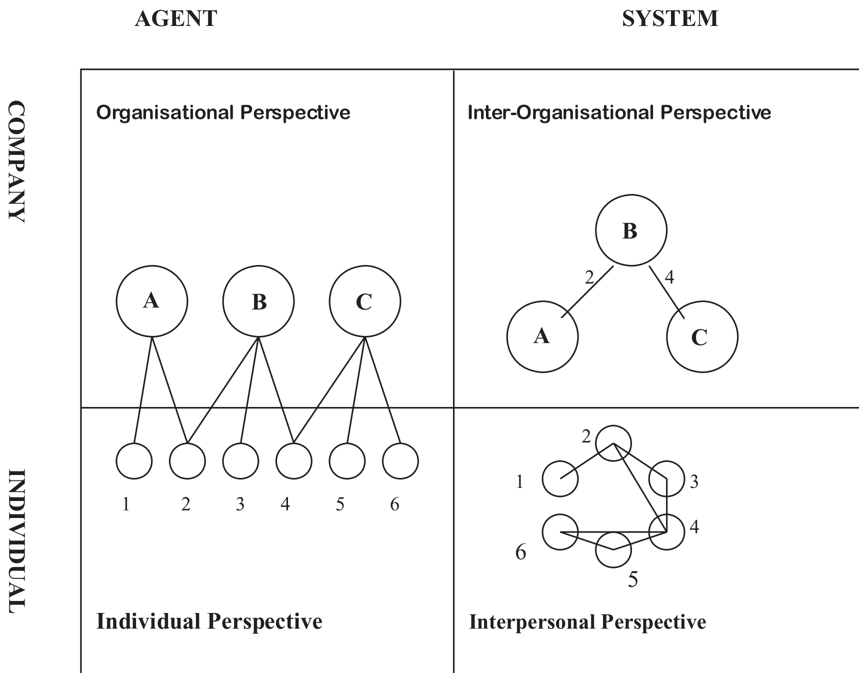
This section further develops the conceptual framework from which we can analyse the network of board overlap. In a relational approach, the obvious way to operationalise board overlap is with the aid of formal network theory. At the core of the network are the two main objects of this study: corporations and directors. The directors and corporations are tied together through the position the person has within the firm; it is an affiliation network (Wasserman and Faust 1994, p. 30). This affiliation is the foundation of the corporate network as studied here. The relational perspective on corporate governance requires an accurate balance between the actor and system level of analysis, because our interest lies both with actors and with structures. In fact, one cannot separate the system and actor level of analysis. 'One cannot study the interlocking directorates from the point of view of the single corporation or even the single financial group without taking into account the structure of the networks as a whole and vice versa' (Fennema 1982, p. 62). Next to the level of analysis there is a similar issue with the object of the study. There are two ways of looking at membership overlap networks, as Breiger (1974) brought to attention in his article on the duality of persons and groups.

The first perspective is to look at the network of the groups, connected by their common members. Here, the groups are the corporations, tied to each other by means of the board members they share. This is the network of interlocking directorates. The second perspective is to take the individual as the central object, and study how people are connected through shared membership. One can take directors as nodes in the network, connected through their shared membership of the corporate board. This is the interpersonal network. Hence, persons who are nodes in one perspective are with

equal legitimacy viewed as lines in the other perspective (Breiger 1974, p. 184). The interpersonal and the inter-firm network, although intrinsically connected at the affiliation level, have distinct properties. A proper understanding of the interconnections between these levels of analysis is vital when analysing the dynamics of these networks (Heemskerk 2001; Heemskerk, Mokken and Fennema 2002; Newman, Watts and Strogatz 2001), and figure 1.1 helps to demonstrate these interconnections.

As figure 1.1 shows, the company and the director are the two basic elements. Both can be studied at either the system or the agent level of analysis (see also Scott 1985, p. 3; Scott 1991). Network relations are depicted in this example by the three firms A, B and C; the corporate directors one to six, and the eight positions that relate the directors to the corporations. The four quadrants of the figure complement specific theoretical perspectives and empirical traditions. Sonquist and Koenig already noticed that 'we may not require one, but several explanatory models (...) There is no reason why one model should be asked to explain all of [the board interlocks]' (Sonquist and Koenig 1975). Here the emphasis will mainly lie with the *relational view* on firms and on the corporate elite; the right hand side of figure 1.1.

Figure 1.1: The Social Organisation of Corporate Governance Networks



In the upper left-hand corner, the organisational perspective, corporations are unconnected entities. In the organisational perspective, the decision-making process is usually approached from a strategic-rational point of view. For instance, corporations invite directors on their board who are prestigious, competent, conscientious and non-controversial (Mace 1971). Scholars are interested in employment and career advancement issues (Mizruchi 1996) and the performance of top management teams (Carpenter 2002; Hambrick and Mason 1984).

The upper right-hand corner shows the inter-organisational perspective. Here, corporations are placed in a contextualised and embedded environment. One can observe that company A and B share director two, and firms B and C have director number four in common. The upper right-hand corner of the figure shows the projection of these ties at the inter-firm level: A and B are related, and B and C are related as well. Most corporate interlock studies depart from this inter-organisational perspective. Board interlocks can be studied as a means for co-optation, as well as for monitoring (Burt 1983; Koenig, Gogel and Sonquist 1979; Mizruchi and Stearns 1988). As a means of co-optation, 'interlocks are assumed to pacify the resource provider's management' (Mizruchi 1996, p. 280), and as monitoring mechanisms, interlocks are assumed to provide the monitoring firm with information on the other firm's operations. Other interpretations include board interlocks as power relations and a means of collusion (Burt 1983; Mizruchi 1982; Pennings 1980; Scott 1997). Recent work interprets these inter-firm networks as corporate social capital. The objective here is to understand how network position is related to performance and innovation (Gabbay and Leenders 2001; Svendsen et al. 2001).[15]

In the lower left-hand corner of figure 1.1, members of the corporate boards are the prime research objects. This area includes studies on the social background and common characteristics of the corporate elite. What does it take to end up in the highest echelons of corporate business? Again, career advancement is often considered here, but now from the perspective of the director. Individuals look for directorships because of prestige, remuneration and contacts (Zajac 1988). Stokman et al. (1988) take the opposite perspective in a study on Dutch corporate interlocks and conclude that directors are sought after by corporations for their individual characteristics, rather than their corporate affiliations. Van den Broeke (1988) draws similar conclusions in a historical study of board interlocks of the Rotterdamsche Bank Vereniging. The many board interlocks maintained by this bank did not reflect a growing desire for attracting bank credit, but the desire for the specific competencies and skills of the bankers. According to De Hen, Dutch directors owe their position to their personal characteristics, and in particular their acceptance of the norms and values of the corporate elite (De Hen 1972, p. 68).

Finally, one can look at the social interaction network of corporate directors in the lower right-hand side of figure 1.1. Corporate elite networks can be seen as the structural component of the social capital of the corporate elite. Studies that were inspired by themes of power and influence often considered the interpersonal network of directors to be a sign of class cohesion. The interpersonal network of the corporate elite is an opportunity structure its members can use in order to, in the words of Bourdieu (1986), effectively mobilise resources. These resources can be information, money, trust and support. In this way, the set of relations turns into social capital. At the group level, the social network helps to overcome the problem of collective action. Mizruchi (1996, p. 280) points out that 'interlocks as reflections of social cohesion are often assumed to facilitate the political unity necessary for effective political action'. An interlock can create generalised trust between its members, which is a very valuable asset in a corporate environment as a lubricant for economic relations. Social embeddedness may result in learning and imitation (Barrera 2005), and consequently the interpersonal network (where people actually meet each other) may help to spread business practices from one company to the other (see for instance Davis 1991; Davis and Greve 1997; Haunschild 1993; Rao and Sivakumar 1999). The interpersonal network of board overlap adds to the cohesion of the corporate elite. However, members of the corporate elite relate to each other in a number of other ways as well, and these other social networks have also significance for the questions under investigation here. In particular, the social cohesion of the corporate elite is strengthened by a set of informal social networks. Chapter four will explore these additional social structures in more detail.

In corporate governance reforms, the four quadrants appear to be strongly interconnected. A good example of this interconnectedness is provided by Davis and Greeve (1997) in their study on corporate governance changes in the USA during the 1980s. They show that new corporate governance practices spread from one corporation to another through shared board members. However, the norms to which directors adhere are instrumental in determining which practice does or does not spread. Defence mechanisms do spread through board interlocks, but more malevolent practices (such as golden parachutes) did not find their way through these social networks. Thus, network structure alone cannot explain the pattern of diffusion; norms of appropriate behaviour play an important role as well. Board interlocks, 'determine the speed of adaptation and ultimate patterns of prevalence of governance practices by exposing a firm to particular role models and standards of appropriateness' (Davis and Greve 1997, p. 1). Both role models as well as standards of appropriate behaviour determine the change in governance practices. Hence, in order to understand why a company adopts a strategy (organisational perspective), one has to consider how the

firm is embedded in a corporate network (inter-organisational perspective). This combination cannot be made without considering the norms of the corporate elite.

The Transformation of the Business System

Corporate regimes are dynamic entities. For instance, Fennema (1982) observed that during the mid-1970s the corporate regime in the USA was institution oriented. The network in the USA was more purposive from a firm's perspective; interlocks were more often resulting from firms' strategic decisions. This was a very valid conclusion for that time (mid-1970s). But already by 1996 the network in the USA had become much less institution oriented.[16] The question then is how and why business systems change. Furthermore, do these changes signal a particular strategy as adopted by the corporate elite, or should we understand these dynamics merely as reactions to system-wide developments such as the internationalisation of capital? Streeck and Thelen (2005) rightly point out that much of the comparative capitalism literature, as well as the welfare state literature, overstates continuity over change. Instead, they argue that the transformation of business systems (i.e. liberalisation) proceeds gradually and continuously, apart from short-lived episodes of turmoil. Nevertheless, this incremental process of change causes gradual transformations that add up to major historical discontinuities. Because of the incremental nature of institutional change, it is easy to understate the magnitude and significance of these dynamics.

Furthermore, some scholars seem to have a preoccupation for formal institutions when looking at business systems. For instance, many scholars see the character and origin of legal systems as being crucial in explaining the success of business systems (e.g. La Porta et al. 1997).[17] However, changes in formal institutions (such as the legal framework) are usually not a sufficient condition for institutional change. In many cases, new or revised corporate law is merely an adaptation to an already changed reality, ensuring that law remains close to business practice. Thus, in the Netherlands, the widely debated corporate law of 1971 (the structure regime) was the fruit of an already changed power balance between labour and capital. Similarly, the main purpose of recent changes in Dutch corporate law is to rephrase the position of the shareholder to match the de facto increased power position of shareholders in corporations.

The limited role of law in changing practices, and the importance of informal institutions such as common norms and practices, can be well illustrated by the reluctance of the Dutch construction industry to give up their cartel practices. Building on the aforementioned positive conception of a cartel, the Dutch construction industry traditionally had elaborate coordination mechanisms to divide work amongst its participants. Most impor-

tantly, Dutch construction firms redistributed profits amongst each other, in order to compensate the expenses of the bidding process. Thus, the firm that received the order was assumed to compensate those firms that did not. European legislation prohibited this practice of price agreements during the early 1990s (Vos 2002), but changing the law proved insufficient for triggering actual change. In November 2001, a whistleblower revealed the secret accounts of his employer, a big construction company in the Netherlands. It showed that the cartel in the construction industry in the Netherlands was still working as before. It took ten years before the gap between practice and law was uncovered and it was only after a parliamentary inquiry that some serious steps towards change have been made. In part, the trigger was the European Commission's increased interest in cartels during that period, which shifted from an industry-friendly to a competition-only approach (Wigger 2006). During the hearings of the parliamentary committee, board members of Dutch construction firms declared that, for them, it seemed impossible to disregard secret price agreements. They would be out of business soon if they chose not to attend the collusive meetings. This showed how deeply the practice of coordination is rooted in some parts of the Dutch economy. The legal framework entails a common normative framework on how an economy should be organised, and reflects the power balance between stakeholders in a corporation. Notions of proper behaviour are deeply rooted in both formal institutions as well as in common practice. As a result, legal change in and of itself is not a sufficient condition for institutional change. Corporate law reforms are often necessary, but not sufficient by themselves, to instigate institutional change because, 'of the way in which *shared beliefs* can persist in the face of formal legal change' (Culpepper 2005, p. 176, italics added). [18]

Informal Institutions and Change

This brings us back to the inclusion of both formal and informal institutions in our understanding of corporate governance and institutional change. The legal framework is part of the formal institution, while the shared belief system is part of the informal side of market institutions. Structural conditions such as formal institutions can create, act as a catalyst for or secure institutional change. But in most cases they do not determine the outcomes. Enduring change will only occur if informal institutions change as well. In corporate governance change, the shared belief system is anchored in the unwritten rules (mores) of the corporate elite. Norms, values and ideas together form a shared belief system. An important ingredient of the shared belief system is the appreciation of coordination over competition, as discussed all throughout this chapter.

The foundation for the shared belief system of the corporate elite lies in

the social networks that bind them together. In the social interaction network, ideas, opinions and values are formulated and disseminated. These social structures help to build consensus and conformity throughout the corporate elite and give direction for economical and institutional change. The network is an opportunity structure for the reproduction of existing beliefs and ideas, as well as for the dissemination of new ones. The socio-relational foundation of the shared belief system has repercussions for its dynamics. Culpepper for instance argues that change in a shared belief system is triggered by a signal of a *central* actor who is deserting the 'status quo' (Culpepper 2005, p. 183). In the decision-making processes amongst the corporate elite group behaviour, peer pressure, status, prestige and trust, all play an important role (Pettigrew 1992).

The informal institutions of the corporate regime are typically inert and quite resilient to change, as the example of the Dutch construction industry illustrated. The interrelationships between firms and directors create interdependencies, which in turn restrict the impact of formal institutional changes. The unwritten rules and practices of the corporate elite are, as argued, intrinsically related to the social network in which they are embedded. When the architecture of the corporate elite's social network changes, this influences the shared belief system as it is negotiated and maintained through this network. The expected thinning of the network of board interlocks might pave the way for (the acceptance of) institutional change. More specifically, the pressures of ongoing internationalisation of business and finance and the concomitant call for shareholder-oriented markets will lead to durable institutional change only when the social network structures that support the shared belief of the corporate elite have changed accordingly. For instance, by increasing levels of foreign shareholders, corporations change their governance structures to meet international standards. From this perspective, the dynamics in the corporate regime are instigated by structural coercion, from 'without'. However, durable institutional change only occurs when the pressures from without are second to changes from within. Informal institutions such as the corporate elite's social network are part and parcel of a endogenous institutional change.

What we expect to find is that the changes in the architecture of the corporate elite's social network are a result of numerous small steps taken by both firms and directors. These actors act myopically, considering only the situation to be obtained immediately after the change (see Snijders 2005). However, at a certain point these small steps reach a threshold value, where the structure of the social network changes. The extent to which these internal triggers for institutional change are able to have an impact on the institutional landscape vis-à-vis external pressures for change will affect the endurance of national varieties of capitalism. When institutional change in the corporate regime is primarily induced by external elements, tendencies

of convergence between different corporate regimes can be expected. When change comes from within corporate regimes, differences and varieties in capitalism are likely to persist. Understanding how and why the Dutch governance network changed as it did leaves us with the possibility to examine the extent to which Dutch governance resembles a liberal market economy.

Outline

The four quadrants of figure 1.1 form the backbone of the conceptual scheme of this book. The network of board interlocks will be studied both from an inter-firm and an interpersonal perspective. Alternative networks, such as ownership ties between firms, and additional social networks of the corporate elite receive due attention as well. A combination of the inter-firm with the interpersonal perspective allows us to analyse both the relational and the socio-cultural elements of corporate governance. In order to meet the ambitions of this study, a combination of formal network analysis with interviews brings together a qualitative and quantitative analysis of the dynamics of the corporate elite. Chapters 2 and 3 predominantly use network analysis as the main method of investigation, while chapters 4 and 5 extensively use interviews as empirical foundation.

The first part of chapter 2 further introduces the characteristics and particularities of the Dutch corporate regime. The Netherlands is typically portrayed as a Rhenish country, but there are some important differences with neighbouring country Germany, which is the common example of a Rhenish, coordinated market economy. Furthermore, chapter 2 sketches the historical foundations of the Dutch network of interlocking directorates, with special attention to governance in the financial sector and the way in which corporate ownership differs from corporate control in the Netherlands. The second part of the chapter is devoted to an analysis of the inter-firm network of interlocking directorates. With the aid of formal network analysis, it is possible to map and measure the networks that connect corporate boards and the corporate elite. This is done for the top 250 firms in the Netherlands at three points in time: 1976, 1996 and 2001. Due to the difficulty of assembling reliable and complete data, the analysis is restricted to three points in time only. The first point in time serves as a benchmark for the latter ones. It provides historical depth to this study of corporate elite circles, making it possible to pinpoint particularities in the dynamics in either two periods of time. Unfortunately, the original datasets on the pioneering studies, which mapped the Dutch corporate interlock network in 1969, are no longer available (the original analysis can still be found in Helmers et al. 1975; Mokken and Stokman 1979a; Mokken and Stokman 1979b). Due to these limitations the study commences in 1976, the first year for which a large and reliable dataset is available.

Subsequently, chapter 3 looks at the interpersonal network of the corporate elite. It distinguishes between the old boys network as a socio-historical concept and the structural concept of inner circle. In an old boys network, cohesion amongst the corporate elite stems from much more than just interlocking directorates. The boundaries of an old boys network are demarcated by longstanding friendship, kinships ties and elite distinctiveness. The first part of the chapter investigates this element of the corporate elite, with special interest for the role aristocracy played in the governance of corporations. The second part of the chapter considers the interpersonal meeting network of directors that is created through interlocking directorates. Although the interpersonal network is just another view on the network of board overlap, the structure is different (Zijlstra 1982). Here, directors with more than one board position form the inner circle, which ties together the corporate elite in a more or less cohesive network. Using a small world model of networks, the interpersonal meeting network of the corporate elite is analysed for its social closure and cohesion, both at the level of the network as a whole as well as at the level of individual directors.

After that, chapter 4 widens the study by incorporating the social network of the corporate elite that lies outside the corporate boards. After all, cohesion amongst the corporate elite is brought about by many more relations than only shared board membership. Therefore, it is appropriate to consider the possibility that change in the formal networks of board overlap is countered by developments in the informal network of the corporate elite. The corporate elite meets at dinner clubs, societies, sport events and so on. Although it is impossible to fully map these informal structures, with the aid of interviews it is feasible to determine how the corporate elite uses these meetings. Therefore, chapter 4 looks into the informal networks of the corporate elite, and asks whether the function of such relationships has actually changed. After investigating the role of relatively formalised meeting places such as business associations and non-corporate boards, the lion's share of the chapter is devoted to the numerous informal meetings of the corporate elite, as well as the way in which the elite make use of their network. Building on the results of the study so far, the chapter ends with answering the question whether there is still a business community in the Netherlands.

Chapter 5 similarly builds on interviews with corporate directors in order to find out if and how changing network configurations affected the shared belief system of the corporate elite. It argues that corporate governance has become increasingly formal. This includes the atmosphere of the board meetings and the way in which directors relate to each other as well. This chapter further investigates the main driving forces for this formalisation, including the internationalisation of board composition, the decreasing tenure of executive directors and the increased levels of accountability

directors now bear as a result of the shareholder-oriented good corporate governance reforms. The chapter goes on to argue that the formalisation of corporate governance results in the codification of – previously informal – norms of behaviour. However, this reinstitutionalisation of norms and values appears to be more applicable to some areas than others. For instance, corporate social responsibility proves to be a fine example of the codification of the common norm system. In fact, central directors play an important role as promoters of this new policy. However, the corporate elite seems to be unable to form consensus on the issue of increasing remuneration packages for directors. Building on the relational perspective as developed above, the high remuneration of directors is interpreted as a means of social hedging against the potential loss of status.

By means of conclusion, chapter 6 brings together the findings of the four empirical chapters. Rejoining the results of the foregoing chapters, the chapter identifies the character and direction of the change in Dutch capitalism. After a short discussion on the nature of good corporate governance, the chapter goes on to discuss the causes of the institutional change of the Dutch corporate regime. Interpreting the corporate dynamics as incremental change, the chapter shows how endogenous and exogenous drivers for change go together with exhaustion and displacement of the corporate elite's network. In addition, the corporate elite's social network seems to be migrating towards non-corporate areas as well. The chapter ends with some recommendations for further research. The study of Dutch capitalism provided in this book is as such an addition to the study of institutional change, and a case study within the comparative literature on (forms of) capitalism.

2

Decline of the Corporate Network

Introduction

In the shareholder-oriented Anglo-American model, liberal market mechanisms play a much more predominant role than in the Rhenish model. Corporations in Rhenish countries are, overall, more strongly embedded in networks of interlocking directorates (Heemskerk 2004b; Stokman and Wasseur 1985; Windolf 2002). Together, these board interlocks form a social interaction network that connects the top decision-making bodies of important economic actors. It serves as an opportunity structure for coordination of economic activities, other than the liberal market mechanism of competition has to offer. According to Hall and Soskice, these dense networks of inter-corporate linkages facilitate coordination between economic actors (Hall and Soskice 2001a, p. 40). This chapter aims to shed light on the changes and the dynamics of the network of interlocking directorates in the Netherlands at three points in time: 1976, 1996 and 2001. As will be shown, the majority of the largest Dutch corporations are part of the corporate governance network of board interlocks. Two different periods in time are compared, 1976-1996 and 1996-2001.

The analysis of the network of interlocking directorates in the Netherlands will shed light on three aspects of the transformation of the Dutch governance regime. First, chapter 1 argued that the expected shift in the Dutch corporate regime would entail a growing importance of indirect coordinating mechanisms ('market') at the expense of direct ones ('network'). If there is a shift in corporate regime from a stakeholder-oriented towards a shareholder-oriented system, the shift is to be expected to have an effect on the institutional relations between companies as reflected by corporate board interlocks. Second, changing structures of the network of interlocking directorates alter the basis of the corporate business community. To what extent are firms and directors still connected in a cohesive business community? While this chapter only considers the inter-firm side of board overlap, the direction and pace of the changes are indicative of the concomitant changes in the business community. And third, the study of change in the network of interlocking directorates will yield buildings

blocks for understanding institutional change of corporate regimes. An examination of these issues necessarily goes beyond the boundaries of individual firms themselves. It is the way in which firms relate to each other that captures our interest. Do firms operate at arm's length, or do they engage in strong and durable relationships that provide the structure for cooperation?

The Dutch corporate regime seems to be moving from relational stakeholder oriented capitalism towards shareholder, stock market oriented capitalism. A relevant distinction in this process is that between *marketisation* on the one hand, and *financialisation* on the other. Marketisation embodies the strengthening belief in the universal efficacy of competition (Dore 2002). Chapter 1 discussed this in some depth. However, financialisation can be separated from this ongoing process of increased liberal market orientation. Dore defines financialisation as follows:

> Financialisation refers to the increasing dominance of the finance industry in the sum total of economic activity, of financial controllers in the management of corporations, of financial assets, of market securities, and particularly of equities, among financial assets, of the stock market as a market for corporate control in determining corporate strategies, and of fluctuations in the stock market as a determinant of business cycles' (Dore 2002, p. 116-117).

To put it differently, financialisation entails a movement from the coordination, domination and accommodation of, by, and to productive markets towards coordination, domination and accommodation of, by, and to the financial (capital) market. Due to this development, companies change from socially embedded objects to financial market objects.

Already by the mid-1990s it was increasingly difficult to distinguish financial companies from non-financial companies. In a narrow definition, we can easily see investment funds, banks and insurance companies as financials. Yet many corporate holding companies are effectively also financial corporations. Concentration due to take-overs and mergers led to large conglomerates, leaving the peak directors effectively managing a financial holding, whose business is to hold ownership in other firms. At the level of the holding, nothing is produced. It is at the level of subsidiaries that production takes place (be it goods or services). Hence it is not surprising to see increasing levels of financial expertise on the corporate boards in the Netherlands (Icke, Mokken and Schijf 1997). In a way, it seems that the holding company integrated many of the functions that banks used to have in a business group. Holdings, as mainly financial steering and allocation entities, dominate the industrial and commercial firms, which are embedded within them. Hence it might be expected that the holdings replace the cen-

tral positions of banks as prominent units in the classic version of Hilferdings Finanzkapital (Hilferding 1910/1968). This new form of finance capitalism presents us with some analytical problems: should we consider holding companies as financial firms? In what follows, the term 'financial' is reserved for firms that engage in financial activities at the level of production, both for reasons of comparison over time, and because it is not restrictive for understanding the role of financials and holding firms in any way.

With the aid of formal network analysis, it is possible to place these rather pertinent issues of the role of liberal market ideology and the growing importance of financial capital markets in an empirical setting. After all, if these changes are indeed taking place we would expect important changes in the network of board interlocks. Both the role and position of financials as the architecture of the overall network should show signs that will help us to test the validity of the points raised above. Next to the expected thinning of the network, there are more specific aspects at both the level of the network as a whole and at the level of individual firms that can pinpoint particular changes. Chapter 1 already introduced and discussed the different roles and functions of board interlocks. Most interlocks do not represent a hierarchical relationship (a relationship of control), although hierarchical relationships can be found in a fair amount of board interlocks. Board interlocks can be a sign of a partnership in research and development, of an upcoming merger, or perhaps they are a coincidence, with no underlying strategic behaviour of the firms whatsoever. It is a quasi-institutional structure that is best understood as an opportunity structure. Board interlocks are an important element of corporate governance because they can play a role in coordinating economic action between corporations. At the same time, they provide an infrastructure for the dissemination of information. They are communication channels through which information as well as practices spread from one corporate board to the other.

The long period of twenty years in between the first two networks we map (1976 & 1996) calls for caution. We should be wary of inferring linearity in the developments of the network properties. By comparing the two periods, and by comparing the results with existing research, this caveat is continuously taken into account. The first twenty-year period provides not only historical depth in general, it also enables us to see whether the growing importance of the shareholder model since the mid-1970s has had particular effects on the change in the corporate networks. Has the ongoing attention for the shareholder model of capitalism affected the embeddedness of corporate boards? Furthermore, since the discussion about 'good' corporate governance gained ground in the Netherlands as of the mid-1990s, the second period allows us to assess the impact of the corporate governance debate on the corporate regime.

The chapter is organised as follows. Before the network analysis of the

board interlocks commences, the first four sections provide some details about the Dutch corporate regime. First, the Dutch corporate regime is positioned vis-à-vis the well-studied German case. After that, the history and background of the Dutch corporate regime is discussed, with particular focus on its legal and social origins. This is followed by a similar section that deals specifically with governance of the financial sector. Finally, the peculiar relationship between ownership and control in the Netherlands is discussed, as it plays such an important role in the thinking on corporate governance. These four sections serve as background information for the analysis of the inter-firm network of board interlocks which the remainder of the chapter deals with. First the data are introduced, followed by an analysis of general characteristics, centrality and board composition. Subsequently, the chapter investigates particular interlocks: those where firms share multiple directors, and the interlocks that are created by executives and by supervisory directors. Finally, the role of financial institutions is considered. The conclusion summarises the findings.

Corporate Networks and Corporate Regimes

Dense governance networks are associated with coordinated market economies, while sparse networks are associated with liberal market economies. The analysis of a governance network as a proxy of shifts in the corporate regime, however, calls for precision and caution. Interlocking directorates occur in many corporate regimes, and board interlock networks are ubiquitous across varieties of capitalism. Coordinated market economies do sustain stronger and more durable governance networks, but even in economies that are considered to be close to the LME (such as the USA), board interlocks are present. It is therefore important to look at the dynamics of particular properties of corporate governance networks that can be theoretically related to the different models (such as bank centrality, executive interlocks, fragmented and dispersed ownership and so on).

The two examples for the prototypes that are commonly used are the USA for the LME or Anglo-American capitalism, and Germany for the CME or Rhenish capitalism. The corporate regime in the USA is liberal market oriented and puts shareholder interests first, whereas the German corporate regime builds on durable relations between corporations and institutions and is stakeholder-oriented. Since ideal types are not meant to fully capture reality, neither Germany nor the USA is a clear-cut case of the models they represent. Unfortunately, this mismatch between models and actual economies is easily disregarded when comparing capitalist systems. For instance, the USA and the UK are usually seen as very similar examples of the Anglo-American model, despite significant differences between the USA and UK with respect to corporate governance characteristics. Short and

Keasy (1999) point out that the institutional ownership in the USA is two-thirds the level of that in the UK, and the USA has the largest percentage of shareholders in the form of households. The ability of shareholders to coordinate corporate governance action effectively is severely restricted by legal and regulatory restrictions in the USA, while far fewer restrictions are placed on shareholders in the UK. Furthermore, the ability of boards in the USA to adopt takeover defence mechanisms means that corporate management is protected from external corporate control mechanisms to a far greater extent than their UK counterparts (Short and Keasy 1999). In a similar manner, while the Netherlands resembles the German corporate regime in many ways, important differences exist as well.

It is not difficult to draw parallels between the Netherlands and Germany, the exemplary case of a Coordinated Market Economy (see for instance Gelauff and den Broeder 1996). Not without reason, the Netherlands is sometimes dubbed as the most western of the German *Länder*. The Netherlands is commonly placed under the heading of Rhenish capitalism (Albert 1991) and CMEs (Hall and Soskice 2001a). The Netherlands fosters a consensual type of politics, where labour, employers and government jointly coordinate important elements of social and economic change. During the first part of the 1990s, the prosperous economic situation led some to claim a Dutch 'miracle' of employment and welfare (see Visser and Hemerijck 1997 for a probing study on this matter). The political culture is one of consensual politics, which stems from years of pillarisation (Lijphart 1968). The Dutch economy is highly internationalised, both in terms of trade and investment. And although the Netherlands is usually considered to be close to the CME model, it is a particularly interesting site for researching the dynamics of corporate governance networks precisely because it has strong ties to both the Rhenish and Anglo-American systems and combines elements of both systems (see for instance Scott 1997, p. 153). As such, the Netherlands differs from the well-studied German case on a number of accounts. The most obvious difference is the size of the country in terms of population, GNP and territory. Only a small group of dominant corporations account for the majority of Dutch GNP throughout the twentieth century (Bloemen et al. 1993; Smits 1999). This small interlocked group of companies could easily communicate their interests and act upon it towards government. Furthermore, key players in the Dutch corporate economy were oriented towards the UK and USA. At least two corporations dispute the Rhenish character of Dutch capitalism: the British-Dutch companies Royal Dutch/Shell and Unilever. One of the reasons Dutch corporations looked across their borders for corporate alliances was the reluctance of Dutch banks to participate in the long-term financing of industry (Jonker 1989; Van den Broeke 1988; Van Goor 2000). Again, this reluctance marks a striking difference with the German corporate regime, where banks heavily par-

ticipated in industry. Traditionally, Dutch banks focused on trade and commerce. In this line of business, short-term contracts and loans are common practice. In 1856, the Dutch Central Bank writes, 'to support industry by lending her money or participating in its business, is a vision, that will only be considered in times of a sick overstrained economy' (quoted in De Jong 1967).[1] When corporations expanded during the early twentieth century and the demand for more durable credit lines increased, the Dutch banking sector did not introduce new financial products. Dutch banks remained risk averse, financing corporations through short-term, callable margin loans. However, these loans were typically rolled over (prolonged system). Dutch banks thus remained at arm's length from industrial corporations, in sharp contrast to their German counterparts. It was only during the late 1960s that bankers became willing to extend these loans into more durable relations (Van der Lugt 1999, p. 395). There was an increased demand for longer-term loans, partly because the increase in wages during the 1960s caused the retained earnings of the corporations to plummet (De Hen 1972, p. 38). At the same time, the Dutch Central Bank tried to limit the inflation rate, with such measures as limiting short-term credit lines. As a result of these dynamics, bank-industry relations were at their height during the late 1960s and culminated in a relatively dense network of board interlocks between banks and industry in 1969, as demonstrated by the pioneering study of Mokken and Stokman (Helmers et al. 1975; Mokken 1971), as well as later in 1976, the year this study starts. The next two sections further elaborate on the characteristics and foundations of the Dutch corporate regime. The next section first deals with the nascence of the corporate network, the following section looks specifically at the governance in the financials sector.

The Dutch Corporate Regime

During the early nineteenth century, Dutch corporate law was a copy of Napoleon's 1804 *code civil*. The first genuine Dutch company law (*Wetboek van Koophandel)* was not put into practice until 1838.[2] Under this law, investors had the opportunity to create a limited liability company, the *Naamloze Vennootschap* (N.V.), which could only be done following approval from the Crown. Notwithstanding the critique of this act, it took legislators and politicians 90 years to come up with a new law. In 1928, approval for the formation of a limited liability company was transferred from the Crown to the Minister of Justice. More importantly, the new act stipulated that corporations were obliged to publicly disclose full accounts. Until then, it was common to distribute accounts only within a very small circle of people with direct stakes in the company. Limited liability firms were usually an insider's project.

During the late nineteenth and early twentieth century, insiders occu-

pied corporate boards: only people with close connections to the firm were found in the boardroom. In many cases, directors owned a significant part of the firm in order to be eligible for the directorship in the first place. The board consisted of a number of executives, capital suppliers and related businessmen. Ties with family, friends and business associates were of the utmost importance because these networks supplied most of the finance for industry. In general, private investors were wary of supplying capital without control. According to Frentrop, no sensible individual would invest money in an industrial corporation without family ties to the directors (Frentrop 2002, p. 168). Banks remained wary of engaging in durable (credit) relations with industry as well. Thus, in 1929, F.H. Fentener van Vlissingen – the most successful industrial of his time – urged for strong finance-industrial relations, in the wake of a growing population.[3] He called for the revision of corporate laws where necessary, as well as for more industrial skills and expertise within the rank and file of the banks (Fentener van Vlissingen 1929). His plea remained unanswered.

While in Germany, bankers were the largest group in the network of board interlocks, in the Netherlands merchants were dominant. Bankers did play a relatively big role in connecting the network, but they were on the board for their expertise and status, rather than suppliers of capital (Schijf 1993). Corporations had to rely on personal and business networks in order to gain capital. For larger projects of nation-wide importance, leading industrialists and bankers were expected to join forces. For instance, in 1917, the Dutch corporate elite sought to decrease their (industrial) dependency on Germany and decided to build a Dutch steel company (Koninklijke Hoogovens, now, after the merger with British Steel, part of Corus). All major entrepreneurs were expected to take part in financing this huge project. Anton Philips appeared uninterested and allegedly said that he would not want to spend more than 10 guilders on this new company. However, prestige, and 'the good cause' led him to sign on personally for 25,000 guilders, and he contributed another 25,000 on behalf of the Philips Corporation (Wennekes 1993). He also took a seat on the board of directors. This is but one example of how entrepreneurs used to invest their capital in close collaboration with other entrepreneurs. With an underdeveloped capital market, one had to rely on the close network of the corporate elite. As a result, the boards of the largest firms were filled with the same people such as Insinger, Luden, Westerwoudt, Hartogh and Royaards van Scherpenzeel. At the end of the nineteenth century, family names as Cramerus, Van Eeghen, De Marez Oyens, Luden, and De Monchy were very dominant on corporate boards. And in the early twentieth century, people such as Van Loon, Philips, Deterding, Fentener van Vlissingen, and Van Eeghen filled the boards (De Vries 1991; Schijf 1993; Wennekes 1993). In many cases, prestigious businessmen were invited to the board as well. These key players in the business com-

munity were not only invited for their knowledge and expertise, their presence on the board made the firm credible; the directors lend their prestige to the corporations they were affiliated with.

The establishment of corporate boards soon led to the emergence of cohesive interlock networks within the relatively small Dutch business community. Initially, these networks were not national, but regionally based. The main business networks were clustered around the cities of The Hague, Rotterdam, Amsterdam and the Twente district in the eastern part of the Netherlands (Schijf 1993; Van den Berge and Fennema 1985). Only after the Second World War did a national network of corporate board interlocks emerge. Following the adoptions in the legal framework in 1928, another long period of relative stability characterised Dutch corporate law. The loss of the colonies in Asia trigged a reorientation of Dutch firms active in that region, further increasing the cohesion of the Dutch corporate network (Nobel and Fennema 2004). With the new political agenda of a unified Europe, reorientation became an almost perpetual element of the corporate regime. European unification led to new changes in the legal corporate framework. As a result of the European First Directive on Company Law (1968), the Netherlands had to include a private limited liability company in its corporate law. The *Besloten Vennootschap* (B.V., closed corporation) was created as an alternative to the existing *Naamloze Vennnootschap* (N.V.). A considerable number of companies immediately shifted corporate form, mostly small ones. The private limited liability firm was a more interesting vehicle for many entrepreneurs because it restricted the obligations to publish accounts.

The post-war reconstruction agenda and the concomitant cooperation of labour, capital and government culminated in a corporatist landscape. The appreciation for coordination of economic activities as prevalent in post-Second World War Europe must be understood in relation to the strong influence of religious ideology. The doctrines of both the Catholics (i.e. Encyclical Rerum Novarum, 1891) and the Protestants/Calvinists (Sovereignty in our own circles, *souvereiniteit in eigen kring*) were quite sympathetic for corporatist coordination of the economy and society at large. In Germany, Italy and Spain, the fascist and nazi parties embraced corporatism and implemented a highly rigid corporatist order that served their purpose and added to their span of control over society. After the Second World War, this corporatist order remained in place in the Netherlands, although stripped from its autocratic and fascist elements. This resulted in a situation of social (and hence economic) coordination. In the Netherlands, this coordination of the economy found its institutional embedding in sector organisations (the *Publiekrechtelijke Bedrijfsorganisatie*). Although many of the corporatist elements of (in particular) the social coordination disappeared, some are still in place, such as the collective labour agreements (CAO), and the tri-

partite consensus-building machine of the Social-Economic Council (SER). The essence of the corporatist system was to elevate coordination over competition, in order to prevent ruinous competition. For corporate governance, this practice entailed a stakeholder orientation, in the sense that none of the parties involved in an enterprise (such as capital, labour and management), should have a definitive say in its workings. During the early 1970s these governance practices were formalised in corporate law, through the so-called 'structure regime' (*structuurregeling*).[4] New corporate law gave labour a voice within company decision-making structures. Contrary to Germany, this representation of labour was not channelled through labour representatives on the supervisory board. The structure regime envisioned a supervisory board as an independent council of grand old men, with the task of serving 'the interest of the corporation and its enterprise' (*de vennootschap en de daarmee verbonden onderneming*). Neither labour nor capital should be able to control the firm unilaterally. Dutch corporations are obliged to establish an *ondernemingsraad*, or works council, as an alternative way to guarantee that labour interests are well served in the company. In addition, the works council can nominate candidates for the supervisory board. However, all supervisory directors are supposed to serve the interest of the corporation, not of one of its constituencies.

The structure regime created an important and autonomous position for corporate directors. Directors elect new members themselves (co-optation). Furthermore, supervisory directors – not the shareholders – approve annual accounts. In recent times, the structure regime has received criticism. In particular, multinational corporations have difficulties with the influence of the works council because it puts Dutch employees in a much more favorable position than employees of foreign branches and subsidiaries. By the turn of the century, many corporations abandoned the structure regime.[5]

Governance in the Financial Sector

The relationships between industry and finance have always played a foundational role in inter-firm networks. As main suppliers of capital, banks positioned themselves in such a position that they were well able to control and monitor their investments. As part of this strategy, bankers typically hold board positions at non-financial firms, placing the banks central in the network of board interlocks. However, there are signs that the role of banks are changing. Firms are increasingly able to finance their investments through the capital market, thereby decreasing the role of banks as suppliers of capital. Davis and Mizruchi (1999) show how banks lost their central position in the corporate board network of the USA during the 1980s. They explain this decline by pointing at the changing role of commercial banks. A bank's competitive advantage used to stem, for a large part, from exten-

sive information about its clients. Strong and durable relations, reinforced through board interlocks, ensured information asymmetry and superior intelligence. But with the passing of time, technological changes made financial information widely available and accessible, hence reducing the comparative advantage of banks by the late 1980s. At the same time, bank lending faced fierce competition from the growing capital market. Alternative funding sources for corporate borrowers led banks' corporate lending business to stagnate, and with it, information asymmetry lost its functionality. The upturn in banking did not result from a return of corporate borrowers, but from shifting away from pursuing net interest income (traditional lending) and moving towards fee-based business such as securities underwriting, advisory work and money management. In such fee-based business, durable relationships can, in fact, hamper a bank's opportunities. This shift in corporate strategy led to a changing configuration of the network of interlocking directorates in the USA (ibid.). A similar strategic reorientation of financial corporations took place on the other side of the Atlantic as well (Van den Brink 2003). This reorientation indicates that the way corporations are governed, and the way in which firms relate to each other at the board level, is in flux at the end of the twentieth century.

The financial sector in the Netherlands saw some specific developments worth mentioning here. For a long time, the financial segment was one without any serious competition. Banks served their specific clientele (partly sustained by board interlocks), without significant joint ventures or cooperation between banking firms. Specific laws and regulations for cooperation between banks were deemed unnecessary. The Dutch Central Bank only strengthened its policy with regard to participations and mergers between financial firms in the early 1950s. A 1952 law (*Wet Toezicht Kredietwezen*) stipulated that the Central Bank had to explicitly approve any mergers between banks, as well as any durable participation in a financial firm. This approval gave the Central Bank some leeway to determine what they felt was a desired economical landscape in the Netherlands. The main concern of the Central Bank was to avoid large concentrations of (financial) power.

The Central Bank was not successful in steering clear of the (international) wave of mergers and acquisitions that took place during the second half of the 1960s. Appendix I gives an historical overview of mergers and acquisitions in the banking sector in the Netherlands. Conglomerates were thought to be an effective answer to the growing demand for capital. Both financial and non-financial corporations merged into new, large groups. In 1964, the Central Bank approved two big mergers in the financial sector. The Twentsche Bank and the Nederlandsche Handels-Maatschappij merged to form the Algemene Bank Nederland (ABN). At the same time, the integration of the Amsterdamsche Bank and Rotterdamsche bank into the AMRO Bank (already conceived before the Second World War) bridged the gap between

the Amsterdam and Rotterdam business communities (27 years later, the two companies merged into ABN AMRO, see appendix I). The Dutch Central Bank did approve these two mergers, but at the same time they tightened their policies with regard to cross shareholdings. The newly emerged banks had to ask for approval for all participation in corporations, both financial and non-financial.[6] The Central Bank notified the financial sector that, by their standards, participation of more than five per cent was an 'undesirable' situation. As a result, financial corporations never participated in industry as heavily as their German counterparts did.[7]

In 1978 these cross-shareholding policies were codified in the *Wet Toezicht Kredietwezen*. This law was the last moment in time when the policy was tightened. Ever since, liberalisation of banking and corporate law made the policies on participation less and less restrictive. During the early 1980s, insurance companies saw the restriction on participation lifted (as long as participation was purely an investment and not a strategic alliance). Six years later, the restriction was also lifted for banks. Finally, and as a result of the Second European Banking Directive, the restrictive policy on cross participation in the financial sector was repealed in 1990.[8] The European single market project triggered the formation of a number of 'bankassurer' corporations (which were now possible for the first time in the Netherlands). As a result, a number of banks and insurance companies merged into new, large financial conglomerates, such as ABN AMRO (1991), ING (1991) and FORTIS (1990).

Ownership and Control in the Netherlands

This section discusses the composition of ownership of Dutch firms, and the way in which control is separated from ownership. The dominant position of corporate directors in the governance of corporations is, for a large part, safeguarded by a number of rules and regulations that weaken shareholders' influence. Directors would point out that these devices serve the purpose of protecting the continuity of the firm and its stakeholder. In any case, in the Netherlands, ownership and control are something quite different. While many Dutch corporations issue shares of ownership on the market, the disciplining effects of liberal market dynamics often are circumvented by means of a wide array of defence mechanisms. These particular arrangements are part and parcel of the Dutch corporate regime (Voogd 1989).

The defence mechanisms and takeover defences can be either statutory or non-statutory. Statutory defences aim to reduce the influence of the shareholders. The two most important statutory devices are special kinds of shares: the priority share and the preference share. The priority share (*prioriteitsaandeel*) was first introduced in 1898 by Royal Dutch Petroleum Corporation to fend off a hostile takeover by John D. Rockefeller's American

Standard Oil Co. (De Hen 1972). Holders of priority shares have extra votes in matters such as nominating management and directors, dividend payout, the modification of statutes and so on. Because there is no relationship whatsoever between the voting power of the share and capital investment, a share of 20 euros can be enough to control certain major decisions within a firm (De Hen 1972). Priority shares were widely used by family firms that converted to a public limited liability corporation (Arnoldus 2002). Founders, family or friends kept extraordinary voting rights on key issues by means of the priority shares. Right after the Second World War, 29.4 per cent of all stock-listed firms used priority shares to reduce hostile influence, while by 1970, 52.9 of the stock-listed firms had issued priority shares (De Hen 1972).[9] By 1993, 43 per cent of the 143 largest non-financials had issued priority shares (De Jong and Röell 2005).

The preference share (*preferente aandeel*) was first issued in 1969. Its goal is to influence the composition of the general meeting of shareholders, rather than to restrict its powers. The basic idea is that management issues new shares in order to destabilise the (voting) power distribution of current shareholders. While regular shares can be used for this purpose, preference shares are especially designed for doing so. The board does not need the explicit consent of current shareholders to issue them, and preference shares can have a much higher ratio of voting power to paid-in capital than ordinary shares. Typically, a special-purpose trust office is set up with an option on the shares, which will only be issued in case of a take-over threat (the so-called poison pill construction). Preference shares are widely issued. Of the earlier mentioned group of 143 non-financials in 1993, 60.14 per cent had preference shares as an anti-take-over mechanism.[10]

The most important non-statutory defence is the use of *certificates* instead of shares. The company sets up an *administratiekantoor*, a special purpose trust office that owns most or all of the company's shares, and issues only non-voting certificates. These certificates carry all the share's economic rights, but not the voting power. The boards of such *administratiekantoren* are typically populated by (former) directors of the firm whose shares the trust office keeps, and other well-connected directors. Although not part of the network analysis in this study, the boards of these trust offices do add to the cohesion of the corporate elite. By 1994, 39 per cent of the 143 non-financials issued these certificates. In some cases, certificate holders could exchange their certificates for shares (sometimes given a certain threshold), yet in other cases, the shares were non-transferable (*niet royeerbaar*). However, non-transferable certificates have been prohibited since 1992.

An array of defence mechanisms protects the corporate elite from – in their eyes – excessive shareholder influence. Over the past 15 years, some changes have taken place. Under the influence of shareholder activists, more and more companies that issue certificates allow holders of certifi-

cates to cast the votes of the shares as well. However, since many persons and institutions typically do not show up, the administration office still holds a decisive say. The period under investigation (1976-2001) is still characterised by management control.

In many countries, the ownership structure of the corporations itself is used as a defence mechanism as well. Holding companies and complex ownership chains that mount up to pyramid ownership structures keep the control of (groups of) companies in a few hands. In the Netherlands however, these structures are exceptional. Lengthy statutory and non-statutory defence mechanisms make complex ownership structures unnecessary from a defensive point of view.[11] By the end of the twentieth century, Dutch corporate ownership structures still demonstrate a characteristic of Rhenish capitalism: ownership is concentrated (De Jong et al. 2001; Windolf 2002). Contrary to the UK and the USA for example, block holdings in the Netherlands often exceed 10 per cent of the shares of a corporation (Windolf 2002).

Regrettably, it is hard to make an accurate characterisation of ownership structures in the Dutch corporate regime. The most insightful studies on corporate ownership are probably in the field of corporate history, where some were able to gain insight into the ownership structure of particular Dutch firms (Bloemen et al. 1993; Van den Broeke 1988; Van den Broeke and Van Nederveen Meerkerk 2001). Except in the few cases where ownership information is available, the problem of data availability obscures almost the entire twentieth century. It was not until 1992 that the Dutch government issued a law that made it obligatory for shareholders to disclose participation that surpassed certain thresholds (starting at five per cent).[12] While this early information is still available, it is regarded by the institutions that monitor this information (*Autoriteit Financiele Markten*), as well as by academic scholars (De Jong et al. 2001), as unfit for systematic analysis. As a result, ample and reliable information is only available from 1997 onwards.

From the available data, the following picture emerges.[13] In 1997, 44 per cent of the top 50 non-financial firms (by turnover) had a majority shareholder.[14] Levels of ownership concentration actually increased between 1997 and 2001. By 2001, 56 per cent of the firms already had a majority shareholder.[15] This increase in ownership concentration is mainly due to a higher number of foreign-owned subsidiaries in the top 50. And foreign investment mostly comes in large blocks. While ownership concentration remains at high levels, there is one actor that actively pursues a policy of cutting down ownership blocks: the Dutch government. The Dutch government is gradually selling off the equity of (formerly) state-owned firms.[16]

The finding of increased ownership concentration seems to imply that, in terms of ownership, the Dutch corporate regime does not show signs of increasing congruence with a situation of dispersed and fragmented owner-

ship of a liberal market economy. If the corporate regime was indeed fully shifting towards a liberal market economy, one would expect to see a reduction in majority shareholdings and an increase in small shareholdings. Yet the opposite is the case. The relative share of majority shareholdings grew during the second half of the 1990s, while the share of smaller shareholdings declined. These conclusions also hold if a much larger set of shareholdings is considered.[17] These somewhat unexpected findings show that owners have consolidated and extended their existing block holdings. Joint ventures were dissolved, and owners acquired outstanding shares of firms of which they had significant ownership. A closer inspection shows that no effect of spin-off companies was found, which might have been expected.

In general, cross shareholdings amongst non-financial corporations are not very common in the Netherlands. However, financial corporations do have quite significant capital ties. The liberalisation of the Central Bank's policy, as discussed in the previous section, made it possible for financials to acquire significant ownership stakes in each other. Furthermore, Dutch fiscal policy stipulates that no income tax needs to be paid on the dividend or sale of shareholdings of at least five per cent of the firm's capital. Not only does this fiscal policy make the Netherlands an appealing haven for holding companies, it also stimulates Dutch firms to invest in large shareholdings. Thus, at the turn of the century, the Internationale Nederlanden Group (ING) had 17 per cent of the shares of ABN AMRO. At the same time, ABN AMRO had five per cent of the ING shares. These ties create a common interest, as well as mutual dependency. A bank is not very likely to engage in cutthroat competition when it has a number of important investments in other Dutch financial institutions. However, the network of capital ties is becoming less dense and less connected.

All in all, the picture that emerges is one of a corporate regime where firms (and directors) have high levels of autonomy, shielded by an array of statutory and non-statuary defences. Over the course of time, and notably since the mid-1990s, some attempts have been made to increase shareholder influence, but these attempts remained insignificant until 2001. Thus, the institutional setting is one of management control. This is strengthened by the enduring concentration of corporate ownership, although some fragmentation of ownership with the formerly state-owned firms is visible. This is a result of government policies, which are, as mentioned above, aimed at liberalising the corporate regime and stimulating liberal market mechanisms. But are Dutch firms increasingly actors within a marketplace, or are they still embedded in dense networks of interlocking directorates? For an answer to this question we now turn to the network of interlocking directorates. The next section first discusses the method and data.

Network Analysis of Interlocking Directorates

Social network analysis is a specific way of looking at social phenomena, such that the network of interrelations is the prime research object. It builds on insights and techniques from graph theory and matrix algebra (see Wasserman and Faust 1994). A network is basically a set of nodes and a set of edges. In the inter-firm network of interlocking directorates, corporate boards are the nodes in the network, connected through interlocks. We have one interlock between two companies when they share exactly one board member. Two companies can have more than one interlock, as they can share more than one board member. In the inter-firm network, a node represents each firm, and each interlock is represented by one line. Consequently, between each pair of nodes (firms) there are as many lines as there are directors they share on their boards. Consequently, we have an edge between two nodes/firms in the network when they share at least one director. The multiplicity of the edge is given by the number of interlocks (lines) between them, that is, the number of directors they share. Networks have numerous properties, such as size, density, clustering and average distance, that can be used to operationalise corporate relationships. Next to network-wide properties, node-specific properties such as network centrality, local clustering and tie strength can also be analysed. These concepts will be introduced and discussed during the analysis.

This chapter investigates the relationships between the top 250 firms in the Netherlands in 1976, 1996 and 2001. The subsequent chapter also investigates the network of board overlap, but looks at the interpersonal network instead of the inter-firm network (see figure 1.1). The data sample of corporations was constructed according to the conventions set by the study of Stokman, Ziegler and Scott (1985). The network was built from a stratified sample of the largest financial and industrial firms in the Netherlands with a target of the top 50 financial institutions ranked by assets and the top 200 non-financial or industrial corporations ranked by revenue. Thus, 'industrial' is equivalent to 'non-financial' here. For a small country such as the Netherlands, all main corporations were selected in the sample. In fact, for 1996 and 2001 corporations in the lower regions of the selection already become relatively trivial in terms of size.

The distribution of firms over sectors did not radically change during the 25-year scope of this research.[18] In the first period (1976-1996), a few more manufacturing companies are in the sample, mainly at the expense of the utilities sector. The decline in utility firms is explained by the privatisation and subsequent centralisation in the sector. By 2001, the manufacturers are back at 1976 levels, while the utility firms remain at the 1996 level. In the second period, more trade firms entered the selection, as well as quite a number of real estate firms. An analysis of the network of interlocking directorates at the aggregate level of sectors did not yield any significant insights

(the distinction between finance and non-finance does prove to be of importance, though). The only eye-catching development is that between 1976 and 1996 trade firms actually became better connected, even when the sheer number of trade firms dropped. They mainly build ties with manufacturing and with the murky category 'others'. Yet after 1996, when the number of trading firms in the selection grows, they do disengage from many of the board ties they had.

A fortunate position presented itself when it was possible to use the Dutch 1976 dataset on corporate interlocks that was created by Stokman and Wasseur as part of a comparative study on board interlocks in ten countries (Stokman and Wasseur 1985). The 1996 and 2001 datasets were compiled from numerous sources, but annual reports served as prime source material for the information on board composition in 1996 and 2001.[19] In addition the *Financieel Economisch Lexicon* (Delwel 1997), REACH (Bureau van Dijk 1996-2001), and multiple newspaper articles (particularly *Het Financieele Dagblad*) were used to identify the top 250 firms and an initial list of directors. Unfortunately, the quality of these sources does not meet the high standards of precision and accuracy needed for formal network analysis. The information in the available (electronic) resources on board composition has an unacceptably high level of omissions and errors. Therefore annual reports serve as the basis for the data.

In terms of eligibility, a company had to have its home base in the Netherlands. However, Dutch-based subsidiaries of foreign mother companies were also eligible if they met the size criteria. In this way, it is possible to include the effects of foreign investments. Subsidiaries of corporations that were already in the sample were excluded. In other words, for corporate groups, only the holding company is included in the sample. For example, ING Group N.V. is included, while its subsidiaries ING Verzekeringen and ING Bank are not. Intra-group interlocks (between firms that are part of the same holding group) regularly occur, and taking these into account would blur the picture we are interested in: governance networks between independent firms.[20] As a result, board interlocks cannot reflect full ownership. Furthermore, in the Dutch corporate governance regime, a two-tier system of governance is common. As a consequence, corporations have both an executive and a supervisory board. Both tiers are represented in the network, while non-voting and advisory members have been excluded.[21] For some advanced network analysis, the software package Ucinet (Borgatti, Everett and Freeman 2002) has been used. For the visualisation of the networks, Pajek (Batagelj and Mrvar 2004) and Netdraw (Borgatti 2002) have been used.

Disintegration of the Corporate Network

Figures 2.1, 2.2 and 2.3 show a visual representation of the networks of interlocking directorates in 1976, 1996 and 2001. Throughout this book, visual representations serve to illustrate the interconnectedness of corporations and the corporate elite. While visual graphics are not very helpful in rendering precise statistics on network dynamics, they do facilitate an understanding of key characteristics of the network portrayed (Krempel 2004).[22] Please note that graphical representations of the networks are optimised in order to make the pictures as comprehensible as possible (such as minimizing overlap of lines, strongly connected points together). As expected, board interlocks are indeed building blocks of a vast network that connect the boardrooms of main corporations in the Netherlands. By and large, the top 250 corporations are integrated in one component of interconnected corporate boards. Not all of the 250 firms in the sample share directors with other firms. Such firms are *isolates* in this network. When firms do share at least one board member, they form part of a *component* of the network. A component of a network is a maximal set of nodes, such that there are no other points of the network which are connected to one of its points. Typically, networks consist of a few small components and one single, large, *dominant component*. The emergence of a dominant component in networks can be

Figure 2.1: Main Component in 1976, 180 Firms

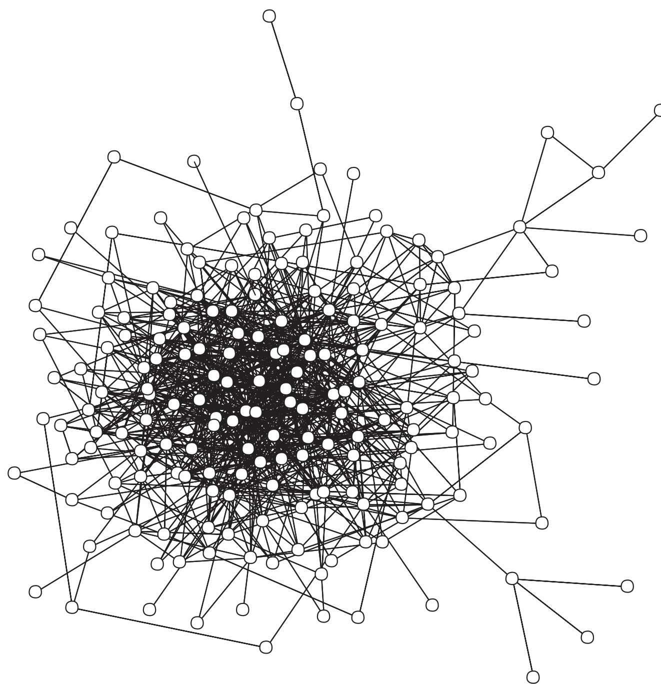


Figure 2.2: Main Component in 1996, 194 Firms

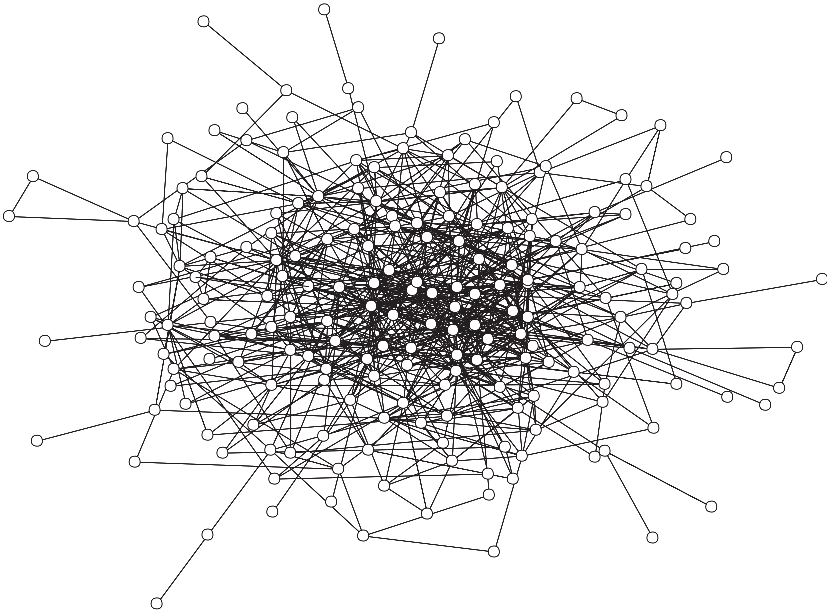
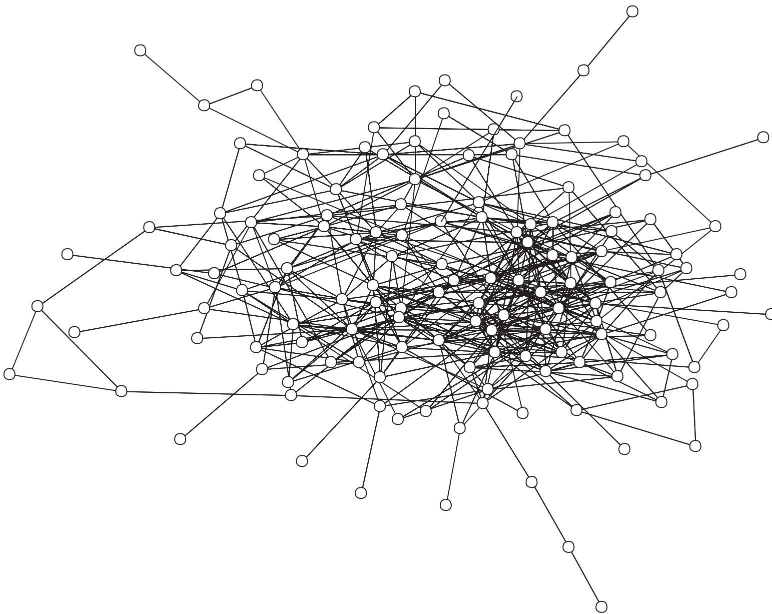


Figure 2.3: Main Component in 2001, 137 Firms



expected, given a number of edges and nodes (Mokken 2001; Newman, Watts and Strogatz 2001), and is a common finding in studies on large and complex networks.

In the network of corporate interlocks, the properties of the dominant component can tell us about the properties of the national business network. Figures 2.1, 2.2 and 2.3 show the dominant component in all three years. In 1976 and 1996, one very large dominant component existed, and only a few small components of a handful of corporations were found. A number of corporations remained isolated: they did not share directors with other firms in the top 250 (1976: 56, 1996: 54). A closer look at the isolates reveals that these are predominantly smaller firms or foreign subsidiaries. The visualisation suggests that the dissolution of the network took place only in the five years following 1996. The number of firms that are part of the dominant component declines rapidly after 1996. This decline implies that an increasing number of firms are disconnected from other firms at the level of the board. The *connectedness* of the network decreased.

Table 2.1: Characteristics of Interlocking Directorate Networks[23]

Number of:	1976	1996	2001	Δ% 76-96	Δ% 96-01
Firms with interlocks	194	196	137	1.0	-30.1
Interlocks	1112	825	514	-25.8	-37.7
Edges	952	775	481	-18.6	-37.9
Firms in dominant component	180	194	137	7.8	-29.4
Number of other components	7	1	0	-85.7	-100.0
Isolated companies	56	54	113	-3.6	109.3

With the help of network statistics (see table 2.1), a more precise image of the changes in the network of interlocking directorates reveals itself. The two periods (1976-1996 and 1996-2001) show quite different dynamics. Let us first look into the changes that took place during the twenty-year period between 1976 and 1996. In terms of connectedness, the network remains stable. In both 1976 and 1996, a similar number of companies are connected, even though 287 interlocks vanished.

As explained above, a board interlock is created when two boards share at least one director. When two firms share, for instance, three directors, three interlocks exist. In that case, the *edge* between the two firms has a multiplicity of three. The multiplicity thus indicates the intensity of the relationship between the two boards. Board interlocks decreased by almost 26 per cent over the course of twenty years after 1976; corporations gave up many of

their board interlocks. The third row of table 2.1 shows the decline in the number of edges. Between 1976 and 1996, 18.6 per cent of the edges disappeared. Still, the corporate network shows resilience against this decline, since it did not affect the connectedness of the network. By 1996, the corporations are still connected in the dominant component, but with fewer board interlocks.

The disappearance of a large part of the interlocks did influence the *cohesiveness* of the network, however. A network is cohesive if there are frequent lines, many points with a lot of connections, and relatively short and numerous paths between pairs of nodes. If a network is not cohesive, then it is vulnerable to the removal of a few nodes or lines (Wasserman and Faust 1994, p. 114). An intuitive measure for assessing the cohesion in a network is the average distance between any two firms in the network.[24] Two companies that share a director are connected at distance one. Likewise, corporations can be connected in an indirect way, mediated by another firm. This is the case when two firms, A and B, do not share a director, but are both connected to at least one third firm, C. In that case, both A and C are at distance one of firm B (directly connected), and at distance two from each other (indirectly). In 1976, the distance between any two firms was on average 2.7 steps (see table 2.2). In twenty years' time, this distance gradually increased by 8.8 per cent to an average of 3.02.

The network dynamics during the first period underscore that firms in the Netherlands disengage from board interlocks and that the network becomes sparser. However, by the mid-1990s, the network still shows relatively high levels of connectedness. Almost 200 firms are still connected at the highest level of the corporate hierarchy.

After 1996, the pace of decline increased significantly. The disembedding of firms from board networks, already present before 1996, really took off during the last years of the twentieth century. Between 1996 and 2001, the number of interlocks decreased by 38 per cent. In only five years' time, 294 edges vanished, 117 more than during the previous twenty years. Following the steady removal of board interlocks up to 1996, the continuing decline eventually led the network to fall apart. After 1996, the remaining board interlocks could not sustain the traditional levels of connectedness anymore. The continuing – and increased – decline in board interlocks meant that the network of interlocking directorates lost a large part of its members. While the size of the dominant component remained fairly stable over twenty years, it took only five years for 30 per cent of all corporations to disappear from this connected part of the network. At the same time, the number of isolates doubles. By 2001, the Dutch network of board interlocks connects only a bit more than half of the top 250 firms.

Table 2.2: Centrality and Cohesiveness

	1976	1996	2001
Average distance	2.77	3.02	3.08
Edge degree per firm (dominant component only)	10.5	7.98	7.02

Centrality of Firms

From the point of view of the corporation, direct connections with other boards are the most relevant aspect of the network of interlocking directorates. Sharing at least one board member creates a linchpin between firms. The more of these connections a corporation has, the higher the local centrality of that firm. Table 2.2 presents network information based on the *local centrality*, given by the average number of edges. In 1976, corporations shared, on average, board members with 10.5 other firms. Most of the highly central firms were financials. For financials, the average centrality lies at 16.7 edges. The two most central firms in 1976 were the Algemene Bank Nederland with 85 board interlocks, and the AMRO Bank with 74 board interlocks. The first non-financial firm on the list of most central firms was Akzo, with 40 interlocks.

These levels of local centrality proved unsustainable. The removal of board interlocks did not – at first – hamper the connectedness of the network, but local centrality did decrease. By 1996, local centrality in the network dropped to an average of eight edges. The two best-connected banks merged into the ABN AMRO, which by the mid-1990s was connected through 52 board interlocks. In 1996, Koninklijke Hoogovens (currently part of Corus) was the highest-ranking industrial firm with 33 board interlocks. Since 1996, local centrality continues to decline. By the turn of the century, Dutch corporations had board interlocks with an average of seven other firms. Still, inter-firm relations at the highest echelons remain in place. But in comparison to previous levels of interlocking, there is an undeniable decline in average local centrality. The ING Group, formed during the early 1990s, outpaces the ABN AMRO as the most central firm with 25 board interlocks by 2001 (ABN AMRO had 23). Compared to levels of the mid-1970s, firms, and in particular financials, are progressively less embedded in the network of interlocking directorates (appendix III ranks firms by their network centrality).

Comparing the findings over time, there is a clear difference in network dynamics before and after 1996. Until the mid-1990s, the gradual removal of corporate board interlocks had more effect on local embeddedness of firms

than it had on the connectedness of the network as a whole. Full-fledged fragmentation did not take place until the second half of the 1990s, however (vividly illustrated by the large group of isolates). By the turn of the century, the network of interlocking directorates had suffered heavy losses.

A first look at some foundational elements of the network of interlocking directorates uncovered the ongoing process of disembedding from corporate governance networks. The remainder of this chapter will continue to explore particularities of the network dynamics in order to substantiate the general thrust outlined above. The results of this query will subsequently help us to understand and interpret why these changes are happening, and what the driving mechanisms are. To begin with, we look at the changes in the composition of the boards. Any fundamental changes at this basic level are bound to influence the overall structure of the board interlocks network. After that, we continue the network analysis at the level of the interlocks. On the basis of certain properties different sorts of interlocks can be distinguished. For instance, if corporate boards share more than one director they create a multiple interlocks. The edge between the two firms is more intensive, as denoted by the multiplicity of the edge (i.e. the number of interlocks between the two firms). One can also distinguish between interlocks that are created by corporate executives, as opposed to interlocks created by outside directors only. Both multiple interlocks and executive interlocks are considerably more stable than other interlocks (Stokman, Van der Knoop and Wasseur 1988). Given the centrality of banks, the contribution of financial corporations to the network properties is specifically explored.

Corporate Boards

Corporate boards date back to the first joint stock corporation, which can be traced back to the Dutch East Indies Company (the *Vereenigde Oost-Indische Compagnye*, or VOC), established in 1602. As Frentrop (2002) compellingly shows, this early corporate form already witnessed many of the corporate governance issues so fiercely debated during the past fifteen years. Even in those days, investors tried to gain influence over the management of the enterprise. The VOC was notorious amongst shareholders for not paying dividends, while the executives (the *Heeren Seventien*, in particular) received high remunerations. Consequently, a group of shareholders stood up, and called themselves *dolerende participanten*, or 'suffering shareholders'. When their attempts to directly influence management failed, these suffering shareholders turned to the public, and on 22 July 1622, they distributed a pamphlet (*nootwendich discours*) which accused the executives of abuse of power. The document was immediately prohibited by the parliament, and the executives of the VOC were put under close security surveillance (*speciale*

sauveguarde ende protectie). The effects were limited, and even a second document did not help shareholders much. Only when the merchants needed additional capital for the foundation of the West Indies Company, shareholders were able to negotiate a dividend pay-out on their East Indies shares. Paul Frentrop's book on the history of Dutch corporate governance elaborates extensively on these (p. 88-105) and other historical parallels (Frentrop 2002). Much like present day experience, these attempts at influencing management hardly succeeded.

Why boards exist in the first place is difficult to answer, especially within the framework of rational economic actors. Indeed, as Gevurtz argues, 'the rationale for corporate boards most favored by modern scholars – that boards exist to monitor management on behalf of passive investors – is the rationale that finds the least support in the historical origins of the corporate board' (Gevurtz 2004, p. 169). Rather, corporate boards evolved out of a tradition of regulated companies, where members each conduct their own business. According to Hermalin and Weisbach, 'the directors mutual monitoring of directors was critical for inducing shareholders to trust the directors with their money' (Hermalin and Weisbach 2003, p. 10). However, a complete theory of why boards exist has not been conceived of yet, mostly because of the changing role of boards throughout history. Here, the aim is not to design such a theory. Corporate boards exist, and the way in which they bind the corporate elite together in a social network is what is under consideration here.

Stokman et al. (1988) show that, as a result of the mergers during the 1960s, the board size of the largest Dutch firms peaked in 1969 with almost 15 directors per firm on average, and gradually declined during the ten years after (appendix I holds an overview of concentration in the banking sector).[25] Thus, during the 1970s, Dutch corporate governance is still in the process of reorganisation as a result of the prior wave of mergers and acquisitions. The size of corporate boards dropped to somewhat more than 11 directors on average by 1976. Table 2.3 gives some insights into the composition of corporate boards. The supervisory board (*raad van commissarissen*) accounted for 67.7 per cent of all directors.

During the twenty years following 1976, corporate board composition changed radically. Most notably, the corporate elite (all the directors together) decreased with 20 per cent. Together, the top 250 firms had 2,223 directors during 1976, but twenty years later this number dropped to 1,773 directors.[26] By the mid-1990s, this process came to a stop. There was a decrease of only forty directors during the five years following 1996. The pace of the removal of corporate directors declined significantly, even corrected for the shorter period of time.

These findings lead us to conclude that the decrease in board interlocks during the first period (1976-1996) is mainly an effect of the decrease in the

number of board members. There simply were not as many people left to tie together the corporate boards. The 'interlockers' (directors with multiple positions) did not take up more positions in order to keep the board interlock network in place. The decrease in directors went hand in hand with a decrease in board positions. As the corporate elite became smaller, so did the average board size. The number of interlockers also dropped. During the mid-1970s, 317 board members still had more than one position. In 1996 this number had dropped to 252, and five years later only 183 interlockers were left.

Table 2.3: Sample and Board Composition

	1976	1996	2001
Number of directors	2223	1773	1733
Number of positions	2804	2228	2042
Executive	906	851	897
Supervisory	1898	1377	1145

As with the drop in directors, by the late 1990s the pace of decline in board positions was tempered. After years of leaner and meaner boards, table 2.3 shows that by 2001 there were actually more executives in the top 250 than five years before. Still, a great number of supervisory positions disappeared from boards in the last years of the twentieth century.[27] A closer look at the companies under study shows that this drop in positions is due to the growing number of foreign subsidiaries in the sample. The increase in foreign-owned firms accounts for the decline in the size of supervisory boards. In fact, if these foreign firms are not taken under consideration, supervisory boards had, on average, 7.8 per cent *more* positions in 2001 than they did five years before.

The picture that comes out of these observations is that the reorganisation of the Dutch corporate regime commenced well before the 1990s. Corporate boards became leaner prior to 1996, mostly at the expense of supervisory positions. Compared to twenty years earlier, the top 250 firms have over 500 supervisory positions less on their boards. Yet, by 1996, the decline of the corporate elite came to a stop. The ongoing reorganisation of the corporate board network continued, but the underlying mechanism changed. Before the 1990s, it was an effect of smaller boards. Since the mid-1990s, the dissolution of board interlocks seems to be the result of a shift in corporate strategy. The growing attention for (good) corporate governance

might be one of the reasons for the growing number of executives on the boards. Yet, these executives, as we will see, hardly build board interlocks with other firms anymore.

Multiple Board Interlocks

The more directors that two companies have in common, the more intense their relationship. If two boards share more than one director, multiple board interlocks exist. The number of board members the two companies share is indicated by the multiplicity of the edge between the two firms. Here the term multiple interlocks is used to denote an edge with multiplicity, i.e. the relationship between firms who share at least two directors. Relations between firms that are created through multiple interlocks are more durable because they will not vanish when one director disappears. In some cases, multiple board interlocks reflect a durable relationship of cooperation or control between two companies. For instance, in 1976, the Rijkspostspaarbank fell under the control of the state-owned PTT. This controlling relationship can be seen in the sharing of no less than eight directors.

During the mid-1970s, quite a large number of corporations had multiple interlocks with other corporations. Figure 2.4 illustrates this for 1976. The top network in figure 2.4 shows only those firms (nodes) who share multiple directors with at least one other firm. Thus, the relationships (edges) in the upper part of figure 2.4 consist of at least two interlocks. While quite a number of firms are isolates because they do not share multiple directors with any of the other top 250 firms, there are clearly quite a number of firms sharing multiple directors. The bottom network in figure 2.4 subsequently shows only the firms that share *at least three* directors with one of the firms in the top 250 in that year, as well as the edges that connect them. These two networks generate a number of interesting observations. First, the core of the network is obviously connected by means of multiple interlocks. And at the centre of this network core are the two major banks from that time: the ABN (Algemene Bank Nederland) and the AMRO (Amsterdam-Rotterdam Bank). Both banks resulted from the mergers of the late 1960s, and in later times would merge together to form the present-day ABN AMRO (see Appendix I). During the mid-1970s, they are the buoys of the network, and clearly serve two distinctive 'clienteles'.

In general, financials are well connected through multiple interlocks. In 19 of the 24 edges carried by three or more directors in 1976, a financial was involved. By 2001, less than half of all remaining multiple interlocks involved a financial firm. Figures 2.5 and 2.6 show how multiple interlocks connected Dutch corporations in 1996 and 2001. During the mid-1990s the interlocks centred on a few key corporations. These corporations include the

successor of the ABN and AMRO, but also non-financials such as Philips Electronics and Hoogovens. The financials had already lost many of their multiple interlocks by the mid-1990s. Still, almost all major Dutch corporations are part of this ‘core’ of the corporate network.

Only minor changes in the number of multiple interlocks took place by 2001. Nevertheless, there is one striking difference in the architecture. The ABN AMRO still had a key position in 1996, yet five years later it was gone. Instead, another major financial conglomerate, the Internationale Nederlanden Group (ING), emerged as the key financial in the network core. So, while the ABN AMRO shed their Dutch connections, the ING adopted a strategy of building these interlocks.

Table 2.4: Edge Multiplicity

Multiplicity	**1976**	**1996**	**2001**
> 3	7	0	0
3	17	3	0
2	97	44	33
1	831	728	448
Edges with multiplicity	121	47	33

Table 2.4 reports the numbers that accompany the network pictures of the multiple interlocks. In 1976, there were still seven edges with more than three directors. Twenty years later, no pair of corporations shares more than three directors. By 2001, companies only share up to two directors. During the first period (1976-1996), multiple interlocks diminish by more than 60 per cent, much more than the overall reduction in interlocks (see table 2.1). Indeed, much of the reduction in multiple interlocks in the Dutch corporate network took place before 1996. Thus, corporations disengaged from multiple, and hence more intensive, interlocks with other firms well before the discussion on (good) corporate governance reached the Netherlands during the mid-1990s, and indications so far are that financials, in particular, changed their relational positions in the governance network.

Executive and Supervisory Interlocks

Some interlocks bear more significance than others. A common way of attributing meaning to board interlocks is to distinguish between executive or non-executive directors in creating the board interlock between the firms. When a person is a non-executive (supervisory) director in two corpo-

Figure 2.4: Multiple Interlocks in 1976. Edges Larger Than One (Top) and Edges Larger Than Two (Bottom).

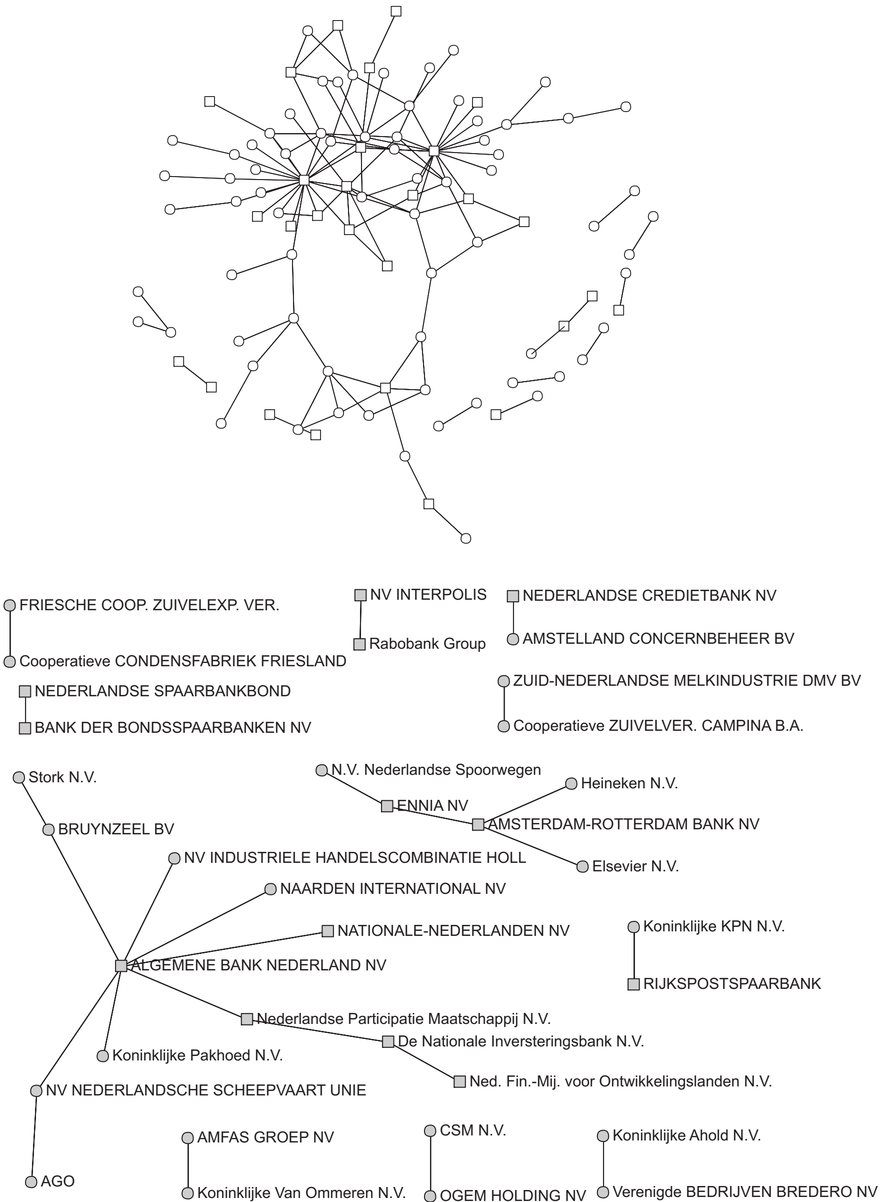


Figure 2.5: Multiple Interlocks in 1996

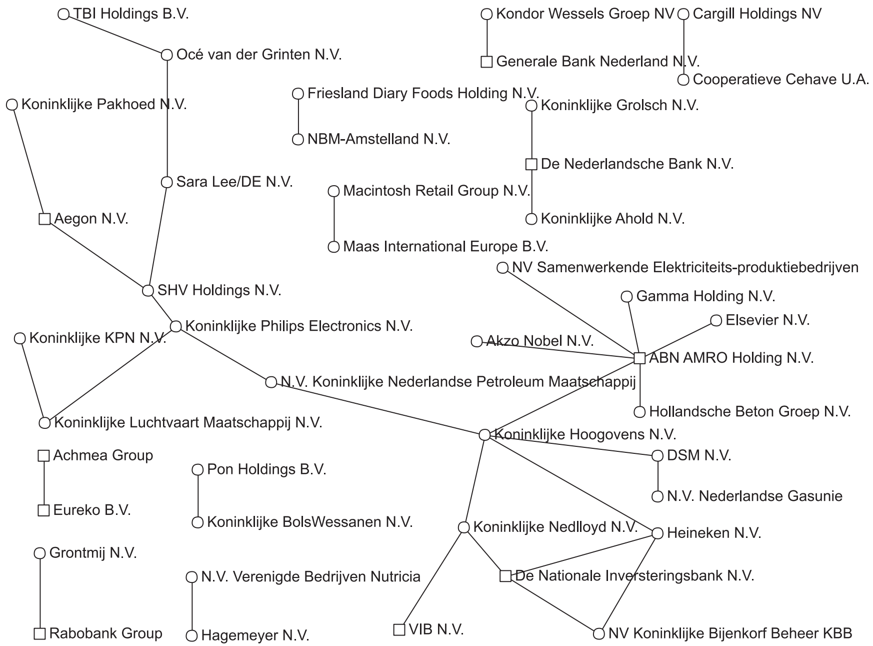
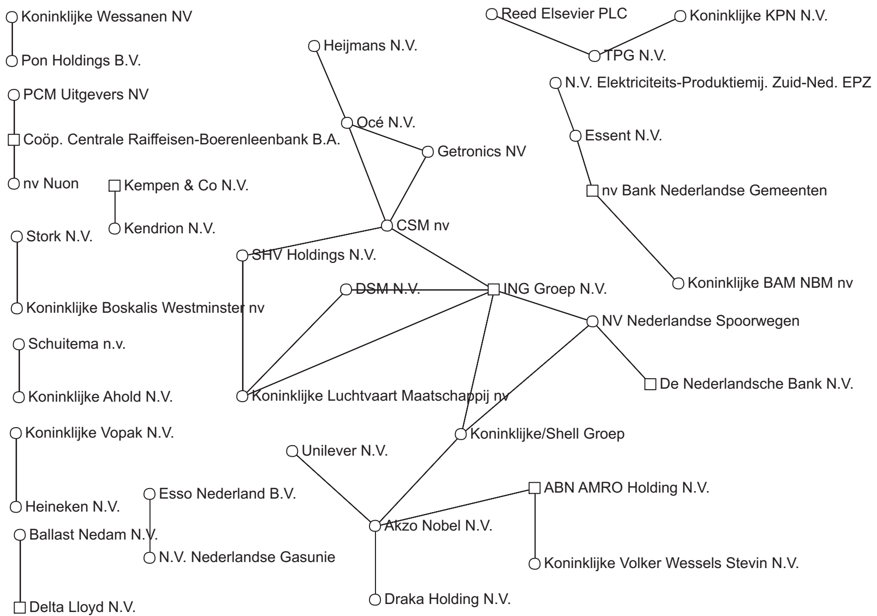


Figure 2.6: Multiple Interlocks in 2001



rations, he[28] creates an *outside interlock*. This type is the most common board interlock. If an executive holds a position as supervisory director in at least one other firm as well, this director creates an *executive* interlock. (Some studies refer to executive interlocks as primary interlocks or officer interlocks, and to outside interlocks as secondary interlocks.) Executive interlocks are widely considered to be a more important tie. As officers in the firm, executives might use the board interlock as a means of control or supervision of one firm over the other. For supervisory directors, on the other hand, it is much more difficult to pinpoint a primary affiliation (see for instance Fennema and Schijf 1978; Mizruchi 1996; Nollert 2005; Scott 1985; Stokman, Ziegler and Scott 1985; Windolf 2002).[29]

Table 2.5: Executive and Outside Interlocks

	1976	1996	2001
All interlocks	1112	825	514
Executive interlocks	272	205	77
Outside interlocks	840	620	437
Firms sending executive interlocks	75	73	42
Firms receiving executive interlocks	127	126	51

Table 2.5 shows the distribution of executive and outside interlocks. Please note that if firms share multiple directors, it is possible that the edge that connects them is created by both an outside interlock as well as by an executive interlock. Furthermore, only positions at the top 250 firms in the Netherlands are considered. Table 2.5 illustrates that during the first period, both executive and outside interlocks show a relative decrease of around 25 per cent. It was already noted that the reduction of the corporate elite came mostly at the expense of supervisory directors. Here again we find that, over the course of the twenty-five years, the total number of outside interlocks almost halved. In contrast to the findings so far, the decline in outside interlocks continued at an accelerated pace after 1996. In only five years' time, 183 outside interlocks vanished. Thus, the breakdown of outside interlocks was already set in motion before the mid-1990s, but it was far from over in 1996.

In contrast to the outside interlocks, the dynamics of the executive interlocks shows a different picture all together. During the first period, the reduction in executive interlocks follows the general trend of a reduction in board interlocks. Roughly a quarter of the executive interlocks disappear. After 1996, the tables turned. Executive interlocks decline at a fast rate. In

five years' time, 128 executive interlocks disappeared, leaving only 77 interlocks (28 per cent of the 1976 level). These findings show a remarkable change in the way corporations are interlocked at the board level since 1996. Remember that the number of executives grew during those last five years. Nevertheless, executives retreat from supervisory boards.

Executives involved in interlocks usually sit on more than one supervisory board. Therefore, in comparison with companies who 'send' an executive to a board, it can be expected that more companies 'receive' an executive on their board. The bottom two rows of table 2.5 show that this is indeed the case. During the twenty years following 1976, hardly any change took place in the number of companies involved in both sending and receiving executive interlocks. It was not until after 1996 that a considerable decline set in for companies sending an executive to another board, and an even stronger reduction for companies receiving such an executive interlock.

The findings suggest that companies changed their strategies with regard to sending their executives to the boards of other companies. In particular, while interlocking directorates saw an overall decline prior to 1996, it was only afterwards that executive interlocks were removed. It is plausible to argue that the increased attention to corporate governance, and the growing levels of accountability required from executives in particular, contributed to firms deciding to decrease their executive interlocks with other firms. The changing role of the executive directors in the network of interlocking directorates is in line with the expectations that arise from the financialisation thesis, as discussed earlier in this chapter. By the turn of the century, external controlling network relations (i.e. executive interlocks) have been eliminated; these have been exchanged for external, horizontal coordination relationships (outside interlocks). This development seems to signal a significant change in the European-Rhenish sphere, as characterised by the economic organisation of the Netherlands. These changes are partly due to the concentration of business, and in particular of finance. After all, with fewer big banks in the Dutch landscape, there are just not as many possibilities for executive interlocks anymore. Moreover, bankers were amongst the first to retreat from their supervisory positions at non-financial firms. To some extent, executive interlocks have been internalised within the holding structure of the financial groups (Heemskerk 2001). While bankers used to hold positions on the supervisory boards of industrial firms, they now monitor and supervise the subsidiaries of the holding they govern. This, however, immediately leads us to wonder about the centrality of financial institutions in the network of interlocking directorates.

The Loss of Bank Centrality

Financial institutions play an important role in the network of interlocking directorates. Typically banks are the most well-connected companies, and bankers play an important role in connecting different parts of the network. Many studies covering a wide range of countries found pivotal positions of banks in these networks (see for instance Davis, Yoo and Baker 2003; Davis and Mizruchi 1999; Fennema and Schijf 1978; Jeidels 1905; Mintz and Schwartz 1981; Mizruchi 1982; Stokman, Ziegler and Scott 1985). Although Dutch banks were never keen to engage in durable long-term financial relations with corporations, bankers were always important in spanning the network of interlocking directorates. One of the predecessors of ABN AMRO, the Rotterdamsche Bank, already had a total of 119 board interlocks in 1923; in 1958, the Rotterdamsche Bank was able to uphold 149 board interlocks (De Jong and Röell 2005; see also Van Beusichem 2004). By 1993, the ABN AMRO, whose predecessors accounted for well over 200 interlocks in 1958, had only 34 interlocks left. Board interlocks between finance and industry show a much higher probability of restoration than other interlocks (Helmers et al. 1975). The results in table 2.6 signal a reorientation of financials in the network.

Table 2.6: Sending and Receiving Interlocks with Financials

	1976		1996		2001	
	Finance	Industry	Finance	Industry	Finance	Industry
Percentage of financials that:						
Send executive interlocks to	30	26	18	26	14	10
Receive executive interlocks from	40	46	20	32	6	22
Have outside interlocks with	80	78	52	66	38	50
Percentage of industrial firms that:						
Send executive interlocks to	17	25	13	26	7	14
Receive executive interlocks from	28	35	19	44	5	15
Have outside interlocks with	52	65	50	72	37	50

Table 2.6 shows the share of firms that are involved in interlocks within and between finance and industry. The table reads as a matrix. Thus, in 1976, 30 per cent of the financials sent executive interlocks to other financial firms. At the same time, 40 per cent of the financials received executive interlocks from other financials. This implies that some financials are 'net senders'; their directors are on the board of a number of – in this case – financial

firms. Likewise, in 2001, 7 per cent of the industrials sent executives to the supervisory boards of financials, while 14 per cent of the industrials had an executive on the supervisory board of another industrial.

Between 1976 and 1996, only small changes took place. In both 1976 and 1996, approximately one-quarter of all financials in the selection sent an executive to the supervisory board of a non-financial company. Yet some change is visible at the receiving end of these bank executive interlocks. In 1996, a much smaller set of non-financial firms received executives from financials firms on their board than twenty years before (18.5 per cent in 1996 vs. 28 per cent in 1976). Thus, the reach of bank executive interlocks decreased.

The real change in executive interlocks took place during the period between 1996 and 2001. After a stable period of twenty years, in only five years the share of financials that sent executives to industrials decreased to just 10 per cent. Perhaps even more striking is that by 2001 less than five per cent of all non-financial companies had a financial executive on their board. This decline is a bit counterintuitive, given the growing importance of financial expertise within the corporate boards. These findings underline that, by the beginning of the twenty-first century, tapping into financial expertise through executive bank interlocks is no longer a common practice.

Table 2.7: Executive Interlocks with Financials

	1976	1996	2001
Executive interlocks from finance to industry	73	41	10
Executive interlocks from industry to finance	47	31	16
Outside interlocks between finance and industry	347	207	150
Total interlocks between finance and industry	467	279	176
Percentage of all interlocks in the network	42.0	33.8	34.3

The decline in executive interlocks between 1976 and 1996 follows general tendencies of disintegration. Executives did not actively begin retreating from supervisory boards until after 1996. During the first period 1976-1996, a total number of 67 executive interlocks had disappeared, while during the five years following 1996, 128 executive interlocks vanished (see table 2.5). With the information presented in table 2.7, we can now investigate the contribution of executive interlocks between finance and industry to this overall decrease of executive interlocks. Table 2.7 shows that during the first

period, 48 executive interlocks between finance and industry vanished. Thus, from the total of 67 executive interlocks that were removed during that period, over 70 per cent is due to the dismantlement of executive interlocks between finance and industry. In particular, the retreat of financial executives from industrial supervisory boards accounts for a large part of the drop in executive interlocks (-32). These findings show that the decrease in executive interlocks between 1976 and 1996 was mainly due to the disappearance of executive interlocks between financials and industry, and in particular due to financial executives who gave up supervisory positions at industrials.

Since 1996, the ongoing and heightened dissolution of executive interlocks almost entirely wiped away the executive interlocks between finance and industry. By 2001, only 26 executive interlocks between finance and industry remain, most of which are due to industrial executives serving on the supervisory board of a financial. The picture that emerges from this analysis is one in which the reorientation of banks foreshadows the network dynamics. After the mid-1990s, both financials and non-financials disengage from executive interlocks. By 2001, a century of banker's centrality had come to an end. Banks remain important and central meeting places of the corporate elite, but the role of financial executives themselves is greatly diminished.

Conclusion

This chapter started by asserting that a shift in the Dutch corporate regime would go together with changing structures of the network of interlocking directorates. The findings this chapter presented clearly show that this has indeed been the case. Although board interlocks are still in place, the way in which firms are embedded in this network of interlocking directorates changed significantly. Likewise, the architecture of the network as a whole signals a decline of the network of interlocking directorates. The first period (1976-1996) is one of slow but sure change, driven by a decrease in board members. The second period (1996-2001), on the contrary, shows signs of a swift and stark reorientation by corporations, towards a more liberal market conform corporate reality.

The decline of corporate interlocks was already set in motion by the mid-1970s. Boards had to be 'leaner and meaner'. With fewer directors on the boards, corporate interlocks disappeared. By 1996, the network of interlocking directorates lost its strength and cohesiveness due to the removal of multiple interlocks between firms. But it was not until after 1996 that this untying of corporate bonds really took off. At the end of the twentieth century, the share of firms that are still connected dropped significantly. Firms that engage in executive interlocks only actively stop doing so after 1996. In

part, executive interlocks have migrated from between firms to within holdings, where executives of the holding company now sit on the board of the subsidiaries (Heemskerk 2001). Financials most actively disengaged their board interlocks prior to 1996, which foreshadowed the overall decline in board interlocks during the late 1990s. Financials removed executive interlocks, links with other financials and multiple interlocks. After 1996 (when 'good corporate governance' became a well-debated issue) many others followed.

As potential means for coordination, interlocking directorates are part and parcel of the corporate regime, and of corporate governance. The ongoing disintegration of the network suggests that there is indeed a shift in the Dutch corporate regime, where direct forms of coordination (network) are expelled to the benefit of the indirect coordinating mechanisms of the (liberal) market. The direction of this shift seems to be towards a less embedded, less connected, and hence more liberal market-oriented economy. At the same time, the chapter made clear that this development is not univocal. In particular, the findings on increasing ownership concentration emphasise that different aspects of one corporate regime can indeed show different directions of change.

One of the most eye-catching changes in the network seems to be the role and position of financial firms, and banks in particular. Not only is the corporate regime more and more shaped and redesigned based upon notions of 'proper' (and hence liberal) market mechanisms and competition, production in general is increasingly coordinated, dominated, and accommodated by the financial (capital) market and its rationale. This particular development is likely to continue. During the five years following 2001, there have been ample situations where this dominance of finance became evident. As this lies outside the scope of this research, this observation is no more than a call for more research on the issue. In particular, the role of holdings in the corporate regime deserves more attention. To what extent are they functional equivalents to banks in the classical notion of Finanzkapital?

The signs of depletion shown by national board interlock networks might be an indication that the turn of the century marks a threshold in the development of the Dutch corporate regime. However, this chapter only partially addressed the inter-corporate network of the Dutch corporate regime. Alongside the inter-firm relations, the corporate elite is likewise entrenched in a network of interlocking directorates. This leaves the question open as to how the decline of the inter-firm network has impacted on the interpersonal network of the corporate elite. Although closely related, the two networks have a different architecture. The following chapter investigates whether the findings for the inter-firm network, as demonstrated above, also hold for the corporate elite.

3
The End of the Old Boys Network

Introduction

The previous chapter showed how firms in the Netherlands have been embedded in a network of interlocking directorates, and how this network has been thinned ever since the mid-1970s. Here we leave behind the inter-firm perspective and investigate the interpersonal component of the network of board overlap instead. Interest in the corporate elite has come from critical sociologists rather than from economists, but this chapter does not aim to test the hypothesis of the existence of a cohesive ruling class. We are merely interested in the cohesion of the corporate elite and how this has changed during the past decades as part of the transformation of the Dutch corporate regime. As argued in the first chapter, the social networks of the corporate elite may prove to be an important part of the informal institutional framework of the corporate regime.

The first studies which mapped entire parts of the Dutch network of interlocking directorates (Helmers et al. 1975; Mokken 1971) explicitly interpreted these networks in terms of strategic coalitions at the inter-firm level, rather than as a community structure for the corporate elite. Nevertheless, their research demonstrated that the governance of corporations was indeed in the hands of a small and well-connected group of people (see chapter 1). Network analysis of board meeting networks proved a powerful means of mapping these social structures. In addition, it revealed information about positions of power and influence that individual members of the network may not have wanted to be disclosed.

Interlocking directorates strengthen the cohesion of the corporate elite in structural terms, i.e. by creating a meeting network. However, there are other ways in which the cohesion of the corporate elite may be strengthened. When the members of the corporate elite, defined here as the directors of the largest corporations, share a common social background, and when interaction takes place exclusively within their own ranks, it is likely that members of the corporate elite share the same norms and values, and share a sense of elite solidarity as well. The more people interact, the more they will be like each other, and the status groups will be cohesive (Domhoff

1975a, p. 90). Early group dynamic research showed that members of cohesive groups are more open to the opinions of other members compared to non-members, and are more likely to share the views of those fellow members (Cartwright and Zender 1960; Lott and Lott 1965). Such cohesion amongst the corporate elite can be properly described by the term *old boys network*. It is important to realise that the old boys network as a socio-historical concept (a status group with common social background), is different from the *inner circle* as a structural concept (the interlockers among the corporate elite). While board interlocks contribute to the cohesion of the old boys network, interlocks do not presuppose an old boys network. The next section first looks at the corporate elite as an old boys network. Building on the findings of this section, the remainder of the chapter investigates how the inner circle knits together the corporate elite. First, the concept of an inner circle is further elaborated, as well as the role it plays in the Dutch business community throughout the twentieth century. Subsequently, the network analysis of the inner circle is operationalised with the aid of small world theory. Building on this framework, we investigate how the cohesion of the corporate elite network changed over time. Next, closure and brokerage amongst the inner circle is investigated, followed by a deeper look at the network of people who meet each other at multiple boards. Finally, the role of the biggest linkers and how they span the network is looked into. The conclusion brings together the findings, generating a set of question which will be addressed in the following chapters.

The Old Boys Network

In the so-called old boys network of the corporate elite, longstanding friendships, kinship ties and elite distinctiveness mark the boundaries of a highly resourceful set of social contacts for those who belong to these elite circles. Notorious for its 'incestuous' recruitment practices, the old boys network is difficult to reconcile with an ideal-type liberal market economy. Shared board memberships are the cornerstone for the old boys network of the corporate elite. Within the old boys network, lifelong friendships, shared educational backgrounds and family ties constitute sets of relationships that define membership of the elite. Even during the early 1950s, 44 per cent of corporations had at least two family members on the board. In total, 70 per cent of executive directors were related through kinship with another executive (Vinke 1961, p. 247). Titles of nobility and patrician family backgrounds mark the boundaries of this aristocratic elite, even though these boundaries are not completely fixed. The social distance between ennobled families and patrician families has always been small, in part because of the arbitrariness with which titles of nobility had been awarded (De Klerk 1998). Here the term aristocracy is used to mean the group of noble and patrician

families. There was a tendency to endogamy within the Dutch aristocracy, a strong feeling of we-ness, and an awareness of social and political responsibility (*noblesse oblige*) (Bruin 1987; Dronkers 2000; Dronkers and Schijf 2004; Van den Berge and Fennema 1985). This is not to say that the aristocracy always acts in the best interests of society as a whole, but many of them do feel an intrinsic responsibility towards society.

When, at the congress of Vienna in 1814-1815, the Dutch republic was united with the Austrian Netherlands to form a monarchy under the House of Orange, the newly installed monarch commenced with revitalising the nobility. Most of the wealthiest families of those days, including many entrepreneurial families, were awarded with titles of nobility, especially if they had rendered services to the king (Bruin 1987; Van Steenis 1980). As a result, nobility distinguished itself throughout the nineteenth century not only through its social standing and political prerogatives, but also through its wealth (Wilterdink 1984, p. 255). Wealthy families who did not adhere to the Dutch Reformed Church (like Mennonites, Catholics or Jews) were less likely to be ennobled. However, elite families that have been on the forefront of Dutch society for three generations or longer are considered to be part of the patriciate (officially registered since 1910).

As a result of the economic strategy of the new monarchy, aristocracy played a dominant role in banking, and in the governance of joint stock companies that were founded during the second half of the nineteenth century. In 1886, 66 per cent of the interlockers were registered as a member of the aristocracy (nobility or patrician families). Sixteen years later, their share in the inner circle had increased to 76 per cent (Hoogenboom 2003).[1] The aristocracy continued to form the majority of the inner circle until after the Second World War. This economic elite met regularly, outside of the corporate boards as well, often in elite clubs, such as the famous *Club Rotterdam* who denied access to such tycoons as shipbuilder Cornelis Verolme because – although wealthy and highly successful – he did not belong to the proper families (Dekker 2005). In Amsterdam, the gentlemen's club *Onder Ons* (Amongst Ourselves) was equally restrictive in its membership. During the 1920s, an Amsterdam mayor of rather humble descent, Dr. Willem de Vlugt, hinted that he would appreciate an invitation to the club. Two prominent members of the club and sons of 'the best' families in Amsterdam, Samuel Pieter van Eeghen (partner of the prestigious Van Eeghen en Co) and his brother-in-law Willem van Loon (the richest man of Amsterdam and important financier of the shipping industry) did not have to deliberate long before rejecting the request. 'If you want to make that sort of person mayor these days, then they'd better keep to themselves in their own neighbourhoods' (Middelburg 1996).[2]

Prior to the Second World War, family ties played an important role in these elite networks (De Klerk 1998). Even in 1962, fifty per cent of corporate

directors who sat on the board of more than three of the largest Dutch firms were members of the aristocracy. Since then, aristocracy has lost its grip on corporate governance. In 1969, only one-third of these big linkers belonged to the aristocracy, and by 1976, their share had been reduced to 25 per cent (Van den Berge and Fennema 1985). Wilterdink found that for the corporate elite as a whole, 22 per cent of all presidents, 15 per cent of all interlocking directors, and 11 per cent of all directors were member of the aristocracy in 1976 (Wilterdink 1984). By the mid-1990s, Dutch aristocracy provided only 10 per cent of the big linkers, and by 2001, only two patricians were left in the group of big linkers. The fading away of the aristocracy is also visible when we look at the network of all interlocking directors. By the mid-1990s, only 6.5 per cent of all interlockers were aristocrats, and five years later this number had already declined to 3.8 per cent.[3] Long-standing elite families who dominated corporate governance until the 1960s, such as Backer, Collot d'Escury, Van Karnebeek, Kretschmar van Veen, Van Lennep, Röell, Van Beuningen, Van Hoboken, Hudig, Mees, Reuchlin, and Dutilh, were ousted from the centre of the network.

The 'old boys' have been replaced by 'new boys' (there are still very few women on the boards of large corporations) who have embraced a meritocratic ideology, which preaches that success is due to one's individual human capital and personal qualities (Van Hezewijk 2003 provides a nice insight in the world of the new boys). The upcoming meritocratic class of nouveaux riches sees no merit in social embeddedness and societal responsibilities. They may have a sense of elite-ness, but it is an elite without traditional obligations towards the common people. 'Their snobbery lacks the acknowledgements of reciprocal obligations between the favoured few and the multitude' (Lasch 1995, p. 45).

Of course, the concentration of power through the collection of multiple board positions can occur both in an old boys network and in a new boys network. The difference is not in the network as such, but in the sociological profile of its members. The old boys network is formed by a social group that has intergenerational family linkages, whereas the new boys network is populated by a collection of successful individuals. Max Weber made the distinction between class and status groups. Class refers to a category of people with similar economic chances, and the term status group refers to social groups with common lifestyles and circles of people who treat each other as social equals, who belong to the same clubs, frequent the same intimate social events and have a high degree of endogamy. Thus, people in the same class share an economic position, and people in the same status group share a socio-cultural position. According to this distinction, the corporate elite has transformed from a status group to a class-like socio-economic elite. Michael Useem found a similar tendency in the USA. 'Classwide principles of organization in the business community are ascendant. Along with cor-

porate principles of organization, they now guide business political activity. (...) [U]pper-class principles, are largely descendent' (Useem 1984, p. 172). The meeting network of the corporate elite analysed below, therefore, has already lost much of its social standing and exclusiveness. The question is whether this demographic shift has coincided with a reorganisation of the meeting network. Has the corporate elite lost not only its standing and upper class background, but also its connectedness and cohesiveness?

The Inner Circle

This section will investigate to what extent the meeting network of corporate directors has suffered from similar tendencies of decline and dispersion as in the network of corporate interlocks (chapter 2). We will also look at how changes in the network structure may have influenced the coordinating potential of the corporate elite, defined as board members of the largest firms. Together they command and monitor the largest economic entities, and are therefore an important group in our society.

Not all members of the corporate elite are equally important within the meeting network. Most corporate directors have a relatively restricted network because they sit only on one board. Within each board, there is a fully connected group of directors, i.e. a clique within which everyone is connected to everyone else. But those who sit on more than one board form 'bridges' between boards. They can benefit from their brokerage position across different boards (Burt 1983; Burt 1992; Burt 2005). Following Useem, these interlocking board members are called the *inner circle*, which he describes as,

> a distinct politicized business segment, if a segment is defined as a subset of class members sharing a specific location with partially distinct interests. Though members of the inner circle share with other corporate members a common commitment to enhancing corporate profits, their heightened sensitivity to business interests more general than those that look solely to support individual company profits also sets them apart (Useem 1984, p. 61).

Although Useem initially draws the boundaries of the inner circle at serving on the boards of several large firms, he adds that this demarcation, 'offers neither a full description of the inner circle nor a precise definition of its boundaries or membership. [...] The multiple-directorship standard is serving only as a proxy for a far broader and more intricate set of informal social relationships' (ibid.). This chapter demarcates the boundaries of the corporate elite on the basis of holding multiple positions in the top 250. The following chapter, however, takes additional social circles of the corporate elite and inner circle members into consideration. To summarise, in this study

the *corporate elite* is represented by the set of *all* board members of these 250 largest firms, and the *inner circle* is represented by those members of the corporate elite that sit on the board of at least two of those 250 largest firms: the interlockers. The inner circle forms a group of people that create a degree of cohesion among the corporate elite. For each additional board membership, a director's importance for the cohesion of the meeting network increases dramatically. Members of the inner circle with more than three positions have been called big linkers (Fennema 1982). The accumulation of board positions shows that particular directors are much sought after, and as such, the number of board positions that a person holds is a sign of prestige within the business community. The big linkers owe their positions to the reputation they have amongst the corporate elite, and once they occupy these positions, this in and of itself contributes to their social standing. This phenomenon is known as preferential attachment and is shown to be a central element of a wide range of complex networks (Barabási 2001; Newman 2001).[4]

The identification of an inner circle within the corporate elite has been corroborated by a number of subsequent investigations. All throughout the twentieth century, a group between one and two hundred interlockers have formed an interconnected network across the boards of the largest corporations in the Netherlands. From the late nineteenth century until the 1970s, the share of members of the corporate elite that belonged to the inner circle has always been around 25 per cent. It did not decline until the 1970s, when it dropped to 15 per cent, and then it declined further after the mid-1990s: a clear sign of the loosening of the network of interlocking directorates.

Table 3.1 summarises the results of a number of studies on the composition of Dutch corporate boards, including new figures in 1976, 1996 and 2001 based on the datasets discussed in chapter 2. Interpretation of the figures in the table should be undertaken with caution, since the various studies exhibit some variation in the number of firms taken into account. Nevertheless, there is a remarkable agreement about the relative size of the group of interlockers who make up part of the entire corporate elite. One of the reasons is that the interlockers amongst the corporate elite do not tend to sit exclusively on the boards of larger firms. Table 3.1 gives the relative size of the inner circle for the top 250, the top 125 and the top 65 corporations for 1976 and 1996. For all three samples, the relative size of the inner circle is around 14 per cent.

The drop in the relative size of the inner circle during the early 1970s is to a large extent the result of a concentration in the financial sector. During the late 1960s, a number of large banks merged, bringing together those corporate boards with many interlocks. The banks that came out of these mergers initially had large boards incorporating many board members of the

Table 3.1: Corporate Elite and Inner Circle During the Twentieth Century[5]

Year	Firms in sample	Size of the corporate elite	Inner circle	Size of inner circle relative to corporate elite
1886	142	771	197	25.6 %
1902	104	599	134	22.4 %
1923	201	1302	292	22.4 %
1946	137	848	198	23.3 %
1950	141	914	222	24.3 %
1954	135	890	232	26.1 %
1958	131	847	216	25.5 %
1960	89	530	146	27.5 %
1960	67	–	151	–
1962	115	753	204	27.1 %
1964	86	596	160	26.8 %
1964	67	–	161	–
1969	70	608	161	26.5 %
1969	67	–	158	–
1969	86	–	195	–
1972	69	646	159	24.6 %
1976	250	2223	317	14.3 %
1976	125	1325	185	14.0 %
1976	65	836	113	13.5 %
1984	144	1188	203	17.1 %
1996	250	1771	252	14.2 %
1996	125	1095	147	13.4 %
1996	65	676	93	13.8 %
2001	250	1721	183	10.6 %

(Sources: Author's data and Helmers et al. 1975; Nobel and Fennema 2004; Schijf 1993; Stokman, Van der Knoop and Wasseur 1988; Van Beusichem 2004; Van der Knoop 1991)

original banks, but over time, board size was reduced. Therefore, it took some time after the wave of bank mergers during the 1960s, for the number of interlocks to decrease (see appendix I). The decrease of the number of interlockers, however, was not just caused by the merger movement, but also by a shift in corporate governance. From the early 1970s onward, ever-smaller boards are found, while at the same time firms grew larger and larger (see chapter 2). Table 3.1 shows that both the number of corporate directors, and the percentage of interlocking directors decreased after 1976. The

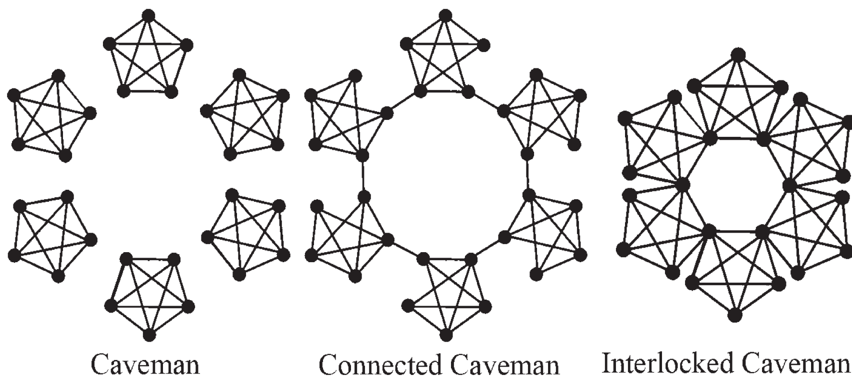
decrease of the absolute and relative size of the 'inner circle' of the corporate elite has been a structural element of the Dutch corporate landscape since 1972. The remainder of this chapter analyses how this decline has affected network structures of the corporate elite.

The Small World of the Corporate Elite

The boards of corporations serve as meeting places of the corporate elite. In the sample of 250 corporations, there are 250 meeting places that can be interconnected by the interlockers. The basic structure of the network is thus one of interconnected cliques (the corporate boards). In an effort to highlight the character of social networks, Watts (Watts 1999a; Watts 1999b) presents a model of a highly clustered social world, that nevertheless shows a high degree of connectedness and small average distance.[6] Due to the small average distance such a world is a small world, in analogy with the 'small world phenomenon': to meet a total stranger and find out that you have a friend in common. This small world network, first investigated by Milgram during the late 1960s (Milgram 1967), is in fact the basic structure of many social realities.

Watts starts his model with the so-called caveman network, a network of groups of people that are isolated from each other (see left drawing in figure 3.1). The next step he takes is to make the network connected by taking one tie out of every group, and rewiring these ties between the groups. The result, the connected caveman graph, is a fully connected, yet highly clustered network (see middle drawing in figure 3.1).

Figure 3.1: From Caveman Graph to Interlocked Caveman Graph



The largest contribution of Watts' model lies in his next step, when he starts to randomly rewire ties between clusters in the connected caveman graph (not shown in figure 3.1). He shows that only a few shortcuts between the clusters (caves) makes the average distance between any two clusters drop significantly. If, for example, the top and bottom clusters in the connected caveman graph (figure 3.1) would have a direct connection, the average distance between any of the points in the network would be significantly reduced. Yet since only one tie is being rewired, the clustering in the network remains fairly stable. Furthermore, in Watts' model, the number of connections to any point is also stable. Watts shows that a rewiring of just one per cent of the ties decreased the average distance by over 80 per cent. The outcome of this exercise is a network with a high degree of cohesion and clustering, and yet a short average distance.

In the model of the connected caveman graph, the notion of the strength of weak ties is central. Strong ties are relations within a cluster, whereas weak ties are those in between the clusters, connecting otherwise disconnected groups. Initially developed by Granovetter (1973), the strength of weak ties argument postulates that weak ties are what count the most. Weak ties are of great importance for the connectedness of the network, because these weak ties connect cohesive groups of strong ties. In the connected caveman graph, the ties that connect the clusters are weak ties.

The stylised small world model is very informative for the analysis of the meeting network of the corporate directors, but another adaptation needs to be made before it fits the properties of the network of interlocking directorates. In moving from the caveman graph to the connected caveman graph, Watts takes one line out of the fully connected sub-group (the 'caves') and rewires this relationship to connect to the next 'cave'. For the meeting network of corporate directors, this procedure makes no sense. Directors are always members of at least one fully connected group of persons: the board. The connections between the boards are not established by rewiring one tie, but by a director who is a member of multiple groups. The right-hand drawing in figure 3.1 shows the structure of such an interlocked cavemen graph. Note that the interlockers (members of the inner circle) have considerably more relationships than single directors. The interlockers are the gatekeepers in the corporate network. They create the connectedness of the corporate elite.

The importance of the small world theory for the investigation of the corporate elite lies in the insight that relatively small mean distances between corporate directors do not necessarily mean a highly integrated inner circle. Just a few shortcuts can result in a small average distance. Average distance does not, however, tell us much about the density of the network amongst the inner circle. The caveman graphs are fully connected, and therefore dense sub-groups. In the connected caveman graph, a few interlockers can

connect the corporate elite, without significantly diminishing the density of the clusters. As a result, although small world networks are *fully* connected, they are only *weakly* connected. The removal of a few brokers immediately results in a loss of connectedness within the corporate elite. The smaller the number of interlockers who connect the network, the stronger the broker position of the remaining interlockers. According to Burt (Burt 1992; Burt 2004), broker positions within a network create entrepreneurial opportunities for members of the inner circle.

Table 3.2 shows how the changes in corporate networks have affected the meeting network. The size of the corporate elite decreased from 2,222 to 1,771 persons between 1976 and 1996, which is a result of the declining size of the corporate boards during these twenty years. It caused a dramatic decline in the total number of meetings (the lines in the network) from 21,074 to 11,354, a decline of 46 per cent. Between 1996 and 2001, the size of the corporate elite decreased only slightly and hence there is only a slight decline in the number of meetings: from 11,354 to 9,810.

Table 3.2: Properties of Meeting Networks

	1976	**1996**	**2001**
Size of corporate elite	2,222	1,771	1,721
Total number of meetings	21,074	11,354	9,810
Number of directors in the dominant component	1,572	1,437	1,119
Percentage of corporate elite in the dominant component	71	81	65
Percentage of meetings in the dominant component	71	90	80

As was the case with the network of firms, most members of the corporate elite are connected with each other through their meetings at corporate boards in one dominant component (In figure 3.1, the caveman graph consists out of six components, while the connected caveman graph forms one component). The bottom row of table 3.2 shows that the lion's share of all the meetings amongst the corporate elite takes place within this dominant component. Although the total number of meetings declined drastically between 1976 and 1996, a higher percentage of these meetings took place within the dominant component in 1996. In 1996, a little over 10 per cent of the meetings took place in isolation from the dominant component, compared to almost 30 per cent twenty years earlier. The same goes for the number of directors that are part of this dominant communication network. By the mid-1990s, more than 80 per cent of the corporate elite was part of the

dominant component, compared to more than 70 per cent in the mid-1970s. Thus the corporate elite as a whole has become *more* connected by the mid-1990s, even though the number of meetings has declined by nearly 50 per cent. In 1996, the corporate elite is smaller and there are fewer meetings, but these changes do not affect the connectedness of the network. In a way, the interlockers have even been able to increase the communication efficiency of the corporate elite between 1976 and 1996. It seems as if the loss of social cohesion due to the disappearance of the aristocracy from the inner circle of the corporate elite has initially been compensated for by a higher *connectedness* of the corporate elite's meeting network.

Between 1996 and 2001, however, the percentage of interlockers declined further and the meeting network became more fragmented. Thus, even though the 11 per cent of the corporate elite that sits on more than one board (see table 3.1) could theoretically have maintained the connectedness of the network, in actual fact the connectedness of the network declined: by 2001, 35 per cent of the corporate elite was not connected in the dominant component. Over 20 per cent of all meetings took place outside the main component, in boards of isolated firms. The last years of the twentieth century seem crucial in the ongoing process of fragmentation of the corporate elite's meeting network. The network of interlocking directorates still binds the corporate elite together, but its integrating function is steadily disappearing. This loss of cohesion can also be seen in the average distance between any two directors in the dominant component. By 2001, the average distance between two directors in the dominant component was 3.9 as opposed to 3.6 in the mid-1970s.[7] The corporate elite is thus smaller in size, less connected, and also less cohesive.[8]

Closure and Brokerage

The old boys network has been criticized for being a closed status group, and in many ways, it was. Social closure exists when the persons to whom one is related are also related to each other, and it has a number of well-known disadvantages and problems. An abundance of strong ties in combination with a lack of ties to other groups can lead to problems of groupthink or tunnel vision. Decision making is based on stereotypical ideas, and an overall lack of criticism amongst members of the group who fall victim to groupthink is evident (Hart 1990; Janis 1972). Critics commonly point out the adverse effects of social closure as an argument against multiple directorships. 'You always see the same faces at the table,' says the designer of the Dutch Corporate Governance Code, M. Tabaksblat. 'So many cross bonds in such a small club is not a good thing.'[9] Tabaksblat therefore suggested a limit on the number of positions a director could take on. The reason for doing so, he explains, is first and foremost to encourage firms to search for new direc-

tors outside the old boys network (Commissie Corporate Governance 2003).

While there is no denying the risks and problems attached to social closure, there is also a positive side to a relatively closed network that is often overlooked. The positive potential of social closure manifests itself at the level of the group. James Coleman has argued that a dense social network, what he terms closure, is fundamental for the creation of norms of behaviour (Coleman 1988). Social closure makes relational properties exceed the level of specific relationships, thereby becoming a network property. A well-known example is trust. Trust can be the property of a relationship between two people, but it can only take the form of generalised trust in a situation of closure. Closure brings about generalised trust because the people with whom one is connected know each other and can combine to provide collective sanctions for deviant behaviour, or rewards in case of 'good' behaviour. In Coleman's own wording:

> Closure of the social structure is important not only for the existence of effective norms but also for another form of social capital: the trustworthiness of social structures that allows the proliferation of obligations and expectations. Yet, in a structure without closure, it can be effectively sanctioned, if at all, only by the person to whom the obligation is owed. Reputation cannot arise in an open structure, and collective sanctions that would ensure trustworthiness cannot be applied. Thus, we may say that closure creates trustworthiness in a social structure (Coleman 1988, p. 107-108).

Closure creates communities and transforms networks from mere communication structures to structures of social control. Generalised trust is a core ingredient for the proper working of democratic systems (Putnam 1993; Putnam 2000); trust and (living up to) obligations and expectations are crucial elements in business as well.

When norms of good corporate governance prevail in the corporate elite, it will be difficult for any individual member to defy these norms (see for instance Westphal and Khanna 2003). Such positive groupthink can contribute to socially responsible behaviour by the corporate elite members, and it can prevent undesired behaviour. In principle, the effects of social closure can work in any social network, but shared background and social likeness contribute strongly to its effect. The old boys network has indeed served as a fountainhead of trust in corporate governance. As Useem has concluded for the USA, 'self policing has become a particularly important form of social control within the large corporate communities' (Useem 1984, p. 141). If the network of interlocking directorates is no longer carried by a relatively fixed number of families and the meeting network falls apart as well, this may lead to insecurity about the social norms in corporate governance.

Network closure can be measured with the clustering coefficient. Clustering measures the extent to which the contacts of a director are connected to each other. The clustering coefficient reaches one if the director's contacts are interconnected (in which case, he is part of a clique). The average of all the individual clustering scores gives insight into social closure at the group level. A reduction of closure amongst interlockers in the network signals a shift from a network that sustains community influence (through closure), towards a network that sustains individual power and entrepreneurial opportunities (through brokerage).

As a whole, the meeting network of the corporate elite is highly clustered, as the interlocked caveman graph in figure 3.1 illustrates. Everybody is part of one or more fully connected groups (the boards). For most corporate directors, the clustering coefficient will be one. Indeed, throughout the 25-year period under research, the average clustering coefficient of directors in the dominant component hovers around 0.9, and shows a slight increase over the years.[10] Conyon and Muldoon (Forthcoming) give comparable figures for the USA, the UK and Germany in early 2003. They show that network clustering in Germany diverges from expected values the most (given a random distribution of lines in the network), while the clustering in the USA network matches a random distribution.[11] The German network does have the highest amount of clustering in its corporate network (0.926), lending support to the hypothesis that Germany's variety of capitalism is more based on inter-firm networks than that of the USA (0.871).[12]

Interlockers and their meetings can be singled out from the entire meeting network. Unlike the complete meeting network of the corporate elite, this sub-network is not a priori highly clustered. As brokers of the network, interlockers are about one handshake closer to each other than non-interlocking members of the corporate elite. Yet, the average distances are increasing. In the mid-1970s, any piece of information had to travel 2.6 handshakes on average to reach any other interlocker, and in 2001 this went up to 2.8. The clustering coefficient of the meeting network of the inner circle decreased from an average of 0.58 in the mid-1970s to 0.49 by 2001. But how are we to tell whether an average clustering of 0.49 in 2001 is high or low? One solution is to compare the findings with a benchmark of random distribution of the lines for the corporate elite. At all three points in time, the levels of social closure are much higher than expected. In 1976, the clustering of the inner circle is 9.3 times higher than expected on the basis of a random distribution of the meetings over the interlockers. Twenty years later, this number is 10.4 times, and in 2001, 8.6 times the expected value based on a random distribution. Between 1976 and 1996, the inner circle lost many of its meetings, but still remained connected. Therefore, the actual clustering in 1996 defers more from the expected value than it does in 1976. The decrease in connectedness means that the gap between expected values of

clustering and actual findings closes by 2001. With the benefit of hindsight, the network configuration in 1996 was exceptional in that it provided a remarkably high level of connectedness. But over time, the inner circle of the corporate elite has not only decreased in size; it began losing its social cohesion as well.

Conversely, the opposite of social closure is brokerage. In a network with high levels of closure, ones contacts are related with each other as well, leaving few possibilities to broker between contacts. When, on the contrary, someone is the only connection between people, he brokers the network (or, as Burt would say, she spans a structural hole. See Burt 1992). In the right-hand graph of figure 3.1, for instance, the interlockers broker between the boards. The loss of social closure within the network of interlockers means that interlockers increasingly become brokers.

To measure this tendency, the concept of 'betweenness centrality' will be used. The idea that underlies betweenness is that a director is central when he is part of the (shortest) connection between two other directors. An actor with high betweenness centrality is the 'actor in the middle', and such a bridging position increases the personal influence of the director (Wasserman and Faust 1994, p. 188-189). Table 3.3 shows the distribution of the (normalised) betweenness. [13]

Table 3.3: Distribution of Betweenness Centrality in the Dominant Component of the Inner Circle

	Betweenness	**1976**	**1996**	**2001**	**Δ76 - 96**	**Δ96 - 01**
Very Low	**<= 0.1**	89	53	27	−36	−26
	0.1 <...< 0.5	74	72	38	−2	−34
	0.5 <=...< 1.0	51	78	46	27	−32
	1.0 <=...< 1.5	28	16	31	−12	15
	1.5 <=...< 2.0	12	12	17	0	5
Very High	**>= 2.0**	19	20	24	1	4
	Totals	273	251	183		

In 1976, more than 32 per cent of the inner circle had a very low betweenness (smaller or equal to 0.1). By the mid-1990s, only 21 per cent had such a low betweenness, and this figure continued to drop to only 14.75 per cent by 2001. In 2001, over 22 per cent of the inner circle scored high on betweenness (larger than 1.5), compared to about 12 per cent in 1976 and 1996. The meeting network of the inner circle has steadily become the realm of brokers.

Multiple Meetings

Some parts of the meeting network of the inner circle are more important than others, and this section turns to this core of the inner circle. The core can be defined by looking at specific ties, as well as by looking at specific directors. This section considers the first approach by investigating the multiple meetings in the interpersonal meeting network as a special kind of relationship. Most of the corporate directors sit on one board only, and just meet their direct colleagues. The interlockers amongst the corporate elite, on the contrary, are members of multiple boards, and broker between different parts of the network. This meeting network of the interlockers has been analysed above. Most interlockers only meet once, in one specific board. In these cases, the relationship between the directors is only based on their shared membership of one corporate board. However, when a director comes to meet a fellow board member in several boards, that which defines their tie is no longer one particular firm. The underlying meaning of a tie between two people who meet at several boards is that they are both key members of the corporate elite. These 'multiple meetings' constitute a network much different from 'ordinary' board interlocks; they are foundational in creating a group-wide identity.

Figure 3.2: Multiple Meetings in the Inner Circle, Main Component in 1976

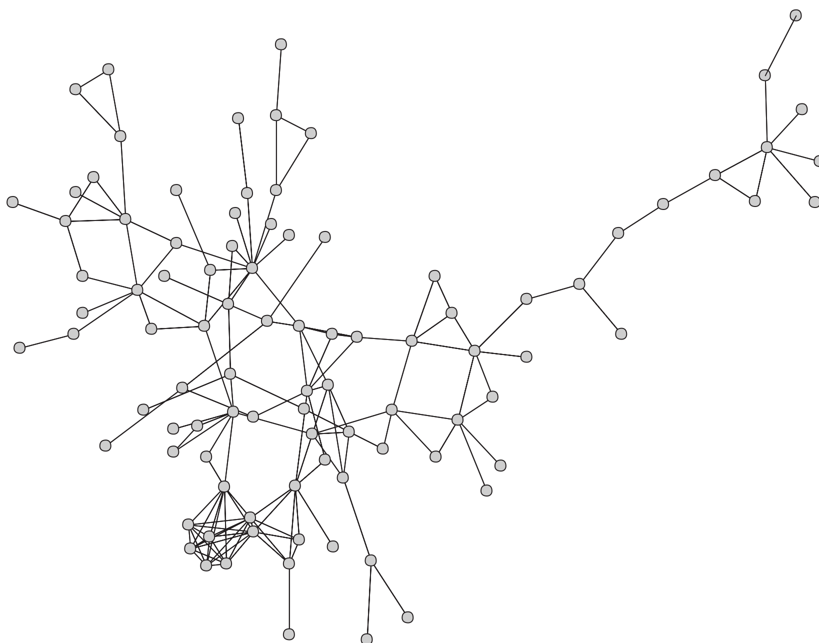


Figure 3.3: Multiple Meetings in the Inner Circle, Main Components in 1996

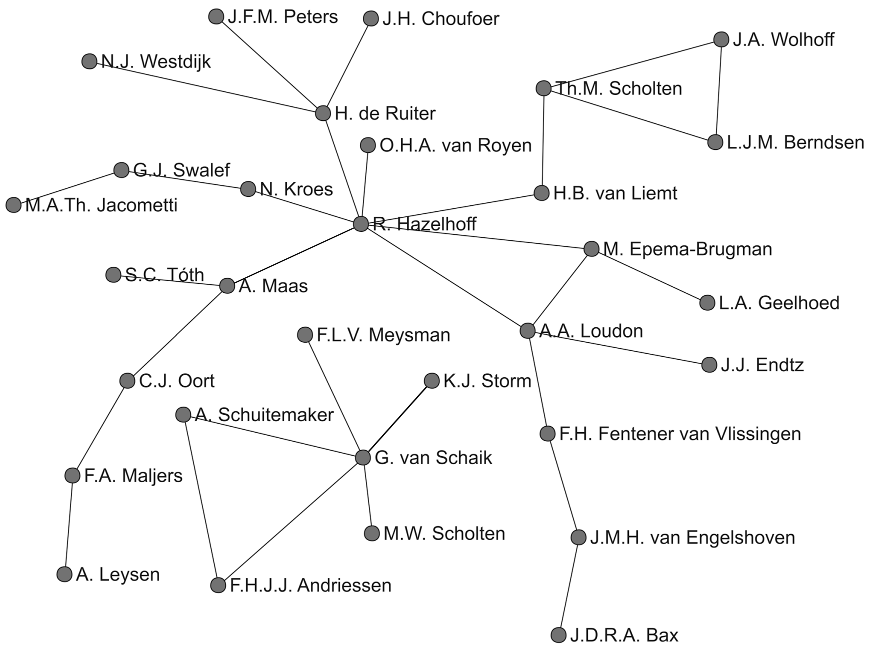
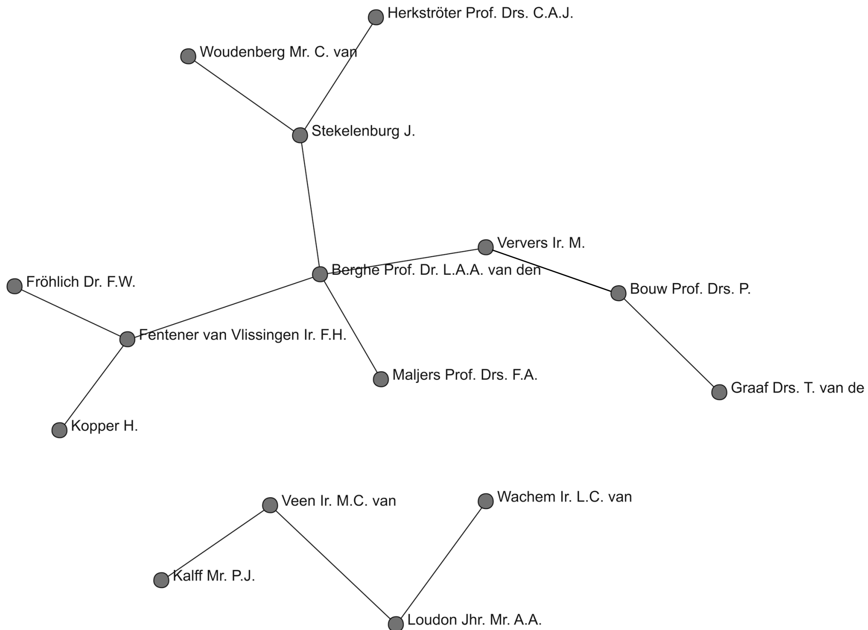


Figure 3.4: Multiple Meetings in the Inner Circle, Main Components in 2001



Figures 3.2 through 3.4 show a graphical representation of multiple meetings. During the mid-1970s, quite an extensive network of multiple contacts existed that served as the backbone of the corporate elite network. Figure 3.2 reveals a number of pockets and regions that are connected. A few people occupy broker positions with their star-configured network, and a number of directors in the centre of the network meet each other more than twice. Comparing the three networks, we see that the core of the corporate elite network, vividly present in the mid-1970s, has become much thinner by the last decades of the twentieth century. By the mid-1990s, there were still a number of multiple meetings, but only one person, R. Hazelhoff (former chief executive officer of ABN AMRO), connects the network. Likewise, there is hardly any closure in the network of multiple meetings. By 2001, social closure amongst sub-networks has vanished all together, and only a few people are left in the backbone of the corporate elite. Again, one person binds together a number of strings of connections, and without this central broker the network would be a collection of small strings. Interestingly enough, there is hardly any robustness in the configuration and composition of the core network over time. Indeed, the disintegration of the network had devastating effects on social cohesion. While the connectedness of the total meeting network remained stable until 1996, the network of multiple meetings did not. The cohesion of the core network had already suffered serious blows prior to 1996.

Big Linkers

Big linkers (those with more than three positions), are a special group of directors. They play a central role in connecting the corporate boards and the corporate elite. Big linkers often become spokesman of the corporate elite. Historical research has demonstrated that these big linkers are indeed decisive in promoting new ideas on political and economic issues, new answers to urgent problems, and ways out of economic problems which confront several, if not all corporations (Baudet and Fennema 1983; Nobel and Fennema 2004). So far, the findings show that the corporate elite lost much of its density and, eventually, much of its connectedness as well. The question now is whether the big linkers as a core group in the corporate elite also suffered from a loss of position and of cohesion. Table 3.4 shows that the big linkers maintain their position over time. Their contribution to the board overlap network only decreases slowly. By 1996, they still accounted for 59 per cent of all ties, and by 2001 this contribution dropped only slightly to 53.5 per cent. Yet while big linkers still account for more than half of all the ties, their numbers have been in decline since the mid-1990s. Appendix IV contains a list of all big linkers in 1976, 1996 and 2001.

Table 3.4: Big Linkers

	1976	1996	2001
Number of big linkers	68	47	32
Percentage of board interlocks	67.5	58.9	53.5
Number of positions	344	230	146
Number of executive positions	35	22	2

Most of the positions occupied by big linkers are on supervisory boards. Therefore, their contribution lies first and foremost in business communication rather than in direct control. Their position in many different firms provides them with a unique position to monitor and relay information from many different sources. And as 'grand old men', their prestige in the business world is such that they may well represent large parts of the business community (Fennema 1982, p. 95). Therefore, it is not surprising to see that the two efforts to construct guidelines on the issue of corporate governance were both under the leadership of big linkers. J.F.M. Peters, chairman of the Peters Committee, which published the first '40 recommendations' on corporate governance in 1997, held six positions in the 1996 network. Similarly, the chairman of the 2003 committee on corporate governance, M. Tabaksblat, sat on the boards of four of the largest corporations in the Netherlands.

Furthermore, table 3.4 shows that during the mid-1970s and mid-1990s, about 50 per cent of the big linkers had an executive position. By 2001, only two of the big linkers still held an executive position. In 2001, these two were P. Elverding, CEO of DSM, and K. Storm, CEO of Aegon. This observation is in line with the findings of the previous chapters: companies refrain from executive interlocks with other firms. This strategy has important repercussions for the group of big linkers. Nearly all of them are exclusively outside directors. Many of these network specialists are now former CEOs of the largest Dutch firms. They may still have the business community's norms and values, but their position is clearly one of authority rather than one of power. They function as *éminence grise* in business, and with their large supply of prestige and authority they can – especially because they do not pledge allegiance to one specific firm – create consensus and cohesion within the business community. They create social capital within the business community, a sort of capital which business needs as much as it needs financial capital. The network drawings in figures 3.5 through 3.7 show the dismantlement of this network of social capitalists. A total of 16 directors were big linkers in both 1996 and 2001, which indicates some continuity in

Figure 3.5: Meetings of Big Linkers, 1976

Figure 3.6: Meetings of Big Linkers, 1996

Figure 3.7: Meetings of Big Linkers, 2001

the composition of this core of the inner circle (see appendix IV). However, social closure amongst the big linkers shows a drastic decline. During the mid-1970s, social closure (as measured by the clustering coefficient) was still 0.489 amongst the relatively large group of big linkers, but by 2001, closure decreased to only 0.288.[14] With the retreat of the executives from the centre of the inner circle, almost all big linkers are now network specialists. Their – still significant – contribution to the meeting network of the corporate elite must be seen from a corporate elite perspective, rather than a perspective of business alliances, because they are no longer officers in the firms. However, they are confronted with a social network that has lost closure, thereby creating ample opportunity for brokers to exploit their positions in the network.

Conclusion

The Dutch corporate elite changed drastically during the last three decades. The old boys network, as it once existed, is gone. Aristocrats hardly play a role anymore in the governance of corporations, and the corporate elite is no longer a homogeneous status group in society. At the same time, the meeting networks of interlocking directors (the inner circle) have become less connected and thinner. Over the course of time, the backbone of multiple meetings as well as the network of big linkers declined and left the net-

work without a strong core. At the beginning of the twenty-first century, there is still a meeting network through board overlap, but it has lost much of its function as a structure of social closure. Corporate board members have become individual power brokers rather than of members of the collective. The meeting network ceased to be a viable coordinating system of the corporate elite. During the mid-1970s, one could still speak of a business community. There was a cohesive and strongly connected social network of inner circle members of the corporate elite. By 2001, all that is left is a loose and fragmented meeting network that can only function as a communication device.

Social capital at the community level has made way for individual leverage through brokerage in sparse networks. By 2001, the network is not well-equipped to generate trust, and collective action becomes more and more difficult to organise. Perhaps it is no coincidence that these developments coincide with a crisis in the governance of a number of high profile corporations during the past years. And while the social network is disintegrating, individual directors are able to seize increasing portions of the corporate profits.

Over the years, the corporate elite has become smaller. Thus, fewer people govern the largest 250 corporations in the Netherlands. At the same time, the size of the corporation has increased tremendously, due to the concentration of business through mergers and acquisitions. As a result, those who still occupy executive board seats have control over larger corporations. The corporate elite has become smaller and is less cohesive, while at the same time the power base of individual directors has grown tremendously. All together, the corporate elite transformed from a closed and closely-knit status group, to a socio-economic class in society which maintains a professional meeting network. The inner circle seems to be less equipped to coordinate economic action, as well as to safeguard and defend their elite position in society.

These conclusions raise a number of subsequent questions. First and foremost, the question arises whether the corporate elite continue to meet, but in non-corporate domains rather than in the boardrooms. The next chapter addresses this issue. A second question concerns the normative effects of the disembeddedness of both the firms and the corporate elite as they have been portrayed so far. While the changes in structure closely fit the expectations of decreased embeddedness, one would also expect that the changing network structures had a substantial influence on the way in which companies are governed. This is the topic of chapter 5.

4

The Corporate Elite's Informal Networks

Introduction

The foregoing chapter investigated the interpersonal network of the directors as they are connected by their common board memberships. Following the inter-firm analysis of chapter 2, this interpersonal perspective showed how the changes in the configuration of the network of interlocking directorates severely hampered the cohesion of the corporate elite. The upper-class distinctiveness of the corporate elite had been waning ever since the 1960s, and now the meeting network in corporate boards is also in decline. However, the cohesion and interconnectedness of the corporate elite is not brought about by shared corporate board membership alone. The corporate elite meet in many other places, some more institutionalised and formal than others. The cohesiveness of the corporate elite is strengthened by a multitude of relationships such as family and friendship ties, informal interactions such as parties, social events, dinner clubs and the like, as well as membership in numerous non-corporate boards.

According to Domhoff, there is more to the elite than merely common interests and institutionalised forums (Domhoff 1975a; Domhoff 1975b). He claims that the informal social bonding that takes place in private settings, such as fraternities, business clubs, elite residential areas and holiday resorts, that makes the corporate elite cohesive. As Domhoff writes,

> it is not enough to say that members of the upper class are bankers, businessmen, and lawyers with a common interest in profit maximization and tax avoidance who meet together at the Council on Foreign Relations, the Committee for Economic Development, and other policy-planning organizations. We must add that they are Bohemians, Rancheros, and Roundup Riders [three elite holiday venues he investigated] (Domhoff 1975a, p. 96).

Thus, following Domhoff, we should not limit our focus to institutionalised organisations alone, even though these play an important role in the Dutch network. Beyond the formal (interest) organisations there are a myri-

ad of social relationships that constitute a largely unknown elite social network.

This chapter focuses on these informal meeting networks, and asks how the corporate elite uses these informal networks, and whether a business community remains within the informal realm. The dinners and the clubs, the cocktail parties and receptions, the skybox and tennis tournaments are a constituting part of the corporate elite and, therefore, an element of the corporate governance network. In order to reveal this somewhat concealed element of the workings of the Dutch business system, a series of interviews with corporate board members was conducted.[1] On the basis of this material, it is possible to analyse informal social networks of the corporate elite, and assess whether the disorganisation of the board interlock network has had repercussions for the informal networks. Chapter 1 argued that the legal framework is the outcome of a political compromise on how an economy should be organised. The legal framework guides and systematises economic activities. But so do the structural (institutional) ties between economic actors, as well as the specific socio-cultural character of the corporate elite. Social control and social exclusion (as punishment) play an important role amongst the corporate elite (Westphal and Khanna 2003). Moral standards and norms of appropriate behaviour are 'policed' within social groups. Social networks can play an important part in upholding high moral standards, contributing to the well being of the economic system.

At the same time, social networks that are too tight can produce adverse effects. Collusion does take place, and a low moral standard amongst the corporate elite will contribute to malevolent practices. Firms do negotiate cartels and anti-competition agreements (see discussion in chapter 1). But an emphasis on the negative implications of relationships obscures the fact that social relations are an indispensable ingredient for any market economy. Social relations and social capital can work as a lubricant for economic activities, advancing business to higher levels of trust, which, in turn, facilitate cooperation and investments. Furthermore, in the social interaction amongst the corporate elite, the moral framework is translated from abstract ideas and values to rules and norms of appropriate behaviour. Social relations are omnipresent in any marketplace, and part and parcel of the working of any economy. Yet, very little is known about the social relationships amongst the corporate elite.

This chapter is organised as follows. The next section starts with an introduction of the interviews that are used as main empirical material for this and the subsequent chapter. The following section contains an elaboration of the concept of community, and investigates in which way a community differs from a social network. After that, some common meeting places of the corporate elite are introduced. The chapter continues with an analysis of the role of informal social networks throughout the careers of the corpo-

rate directors, starting at the formative years at the universities. The subsequent section discusses the importance of having a good position in the Dutch corporate elite network when, eventually, some do indeed reach the board of the corporation. The corporate elite is very well aware of the importance of their social capital, and its fragile nature, which the next section elaborates upon. A number of informal dinner and debating clubs that cement together parts of the corporate elite are discussed, as well as some important larger scale meetings. Finally, before summarising and concluding this chapter, the question is raised whether one can still speak of a corporate community.

Interviewing the Corporate Elite

In general, social scientists seem to have more interest in the underprivileged than in the privileged, and there is an overall scarcity in sociological studies on elites (for the Netherlands, see Fennema and Schijf 1984; Fennema and Schijf 2004). Recent interview material that exists for the Netherlands deals with outside directors (*commissarissen*) only. In line with current popular ideas and conceptions on corporate governance, the authors' aim is to distil best practices and generate shortlists for success (see for instance Bakker 2002; Keegstra 2003; Van Maanen 1999). Other studies are of limited help in understanding the changes that took place during the late 1990s (such as Useem 1984; Useem 1996; and for the Netherlands, Van der Knoop 1991).[2] The lack of elite research is sometimes justified with an – a priori – assumption that it is very difficult to gain access to elite members. However, for the current research, this has proved not to be the case.[3]

With interviews, particularly with a group as well educated and communicative as the corporate elite, there is always the potential problem of obtaining 'desirable' answers. As one director frankly responded to a question: 'Just let me know if this is the right answer'. Fortunately, the interviewees were not well prepared for an interview about the role and importance of social relations in corporate governance, which reduced the amount of automatic and 'desirable' answers. The extracts of the interviewees are anonymous, in order to make the interviewees more open and lively. The interviews provide insight into the corporate elite members' perceptions of change. After all, their perceptions of what has happened are the building blocks of their own social reality. Semi-structured interviews are better suited for this purpose than a survey. First, the rejection rate of a survey among this research population is expected to be high (Beekenkamp 2002).[4] Furthermore, a questionnaire severely restricts the quality and quantity of information one can gather. An open-ended and semi-structured interview design made it possible to extract rich descriptions from the directors.

All interviewees were directors from the inner circle: they occupied mul-

tiple board positions in 2001, and a total of 24 executive and non-executive directors participated. The duration of the interviews varied from 45 to 90 minutes. With some exceptions, interviews were recorded, and the transcript of the interviews served as research material. In a few cases it was not possible to record the interview, so the notes of the interviews were used as research material. The extracts used in this and subsequent chapters are verbatim quotations. The quotes as they appear in the text are the author's translation.

A potential problem with interview-based research of the corporate elite is a bias in the selection because the researcher tends to speak with well-known, high-profile directors. The CEOs of the main corporations and the grand old men from Dutch business are usually the ones who are invited for interviews. However, the aim here was to come up with insights on the entire inner circle. Fortunately, with the list of the inner circle members readily available, it was possible to reduce selection bias by constructing a sample. The inner circle was divided into four groups, based on the set of positions board members had in 2001. This positional sampling means that the interviewees occupy different positions in the network. The four groups were 1) directors with two supervisory positions, 2) directors with more than two supervisory positions, 3) executives with one or two supervisory positions and 4) executives with multiple supervisory positions. Directors were randomly selected from these four groups, such that the final group of interviewees reflects the population in terms of number and type of positions. In this way, it is ensured that both highly central and embedded directors, and sparsely embedded directors participated in the interviews (see table 4.1).[5] As a result of the selection method, the group of interviewees is heterogeneous, in terms of network position, company profile and professional background.

Table 4.1: Stratified Sample of Corporate Directors

		Interviewees	**Rejections**
Outside interlocker	Two supervisory positions	9	5
Central outside interlocker	Three or more supervisory positions	3	5
Executive interlocker	Executive and one or two supervisory positions	9	0
Central executive interlocker	Executive and more than two supervisory positions	2	3
	Total	23[6]	13

With only two female interviewees in the sample, women are still overrepresented (8 per cent in sample vs. 4.4 per cent amongst all interlockers). Likewise, foreign directors are still a rarity amongst the interlockers. Both interviewees with a foreign nationality had a long career in Dutch corporations. The mean age of the interviewed directors was 61 years old. This is close to the average age of the entire group of board members with multiple directorships: 61.6 years. All interviews were conducted in Dutch, and took place during the second half of 2004. The directors were randomly selected for the interviews, yet it turned out that 15 of them meet at least one of the other interviewees at board meetings. Furthermore, 21 of the interviewees are indirectly connected: they both meet a third person in another board. Appendix V shows a graphical representation of the network ties between the interviewees.

If we look at the rejections (see table 4.1), two observations can be made. First of all, none of the executive directors with one or two supervisory positions (group 3) declined the request for an interview. Mostly, these directors were CEOs. Apparently, executive directors want to show that good corporate governance is important to them. In addition, people who are at the apex of corporate power can organise their own agenda relatively easily. As long as one does not demand an appointment tomorrow, it is quite easy for them to schedule some time in their agenda for an interview. On the other hand, the group most difficult to get in touch with are those with many supervisory positions. This group is slightly underrepresented in the final selection. As we saw in the previous chapter, these big linkers play an important role in the creation of the corporate network. Yet they are not eager to give an interview. The reluctance of big linkers to participate suggests that network specialists restrict their attention and energy to fellow elite members. They have no need to discuss these matters with outsiders. In fact, interviews might even hamper their low-profile position that enables them to broker communication in the corporate elite (see chapter 3). Together, the interviews are very helpful for this study on the corporate elite and corporate governance. They serve as prime research material for most of the remainder of this chapter, as well as for the subsequent chapter.

Corporate Elite and the Business Community

The paradox of the organisation of the corporate elite is that what is rational from the perspective of the individual firm, is often irrational from the perspective of the interests of business as a whole (Vogel, quoted in Useem 1984). It is difficult – if not impossible – for those amongst the corporate elite who have responsibilities over multiple firms to be guided by the interests of certain individual firms alone.[7] And, as we saw in the previous chapter, there is still a core of the corporate elite that sits on the boards of mul-

tiple firms. At the same time, the corporate elite, as a whole, is losing its group cohesiveness at the institutional level of board interlocks. Moreover, the Dutch corporate elite already lost most of its upper-class elements with the fading away of the old boys network. Useem (1984) finds a similar tendency in the USA, where the traditional upper class has also lost its grip on corporate governance. If the defining element of the corporate elite is no longer a social network of established wealthy families of equal social status, what then is the organising principle of the corporate elite in modern times?

When loyalties to the corporate elite are taken to be faint in comparison to one's drive to advance the interests of their own firm, the organising principle is corporate (Useem 1984). Such a corporate elite consists of ideal directors from a shareholder point of view, as they are only concerned with the well-being of their firm as expressed in the value of its shares. Status is not determined by aristocratic lineage, but by the director's position in the firm and the firm's position in the economy. However, even without upper-class distinctiveness, the current corporate elite might have a sense of we-ness. It can define its group borders by socio-economic status and position in the corporate hierarchy of its members. Such social embeddedness of the corporate elite makes them prone to promote group-wide and business interests that go beyond the interests of particular firms. This leads us to the following question: is the corporate elite still a national business community?

The term community is as appealing as it is confusing. Many have criticized the term for being all-encompassing and vague (see for instance Brint 2001; Stacey 1969), and the moral burden of the term community has been the fruitful foundation of fierce debates between communitarians and liberals. Nevertheless, the term community is appealing because its intuitive connotation and implication. It suggests a web of social relations, mutual concern and support, a sense of belonging, and the whole being more than the sum of its parts. But to avoid confusion, a clear conceptualisation is necessary. Community has two foundational elements: social ties and shared identity.

First, the building blocks of a community are social relations. These may be face-to-face meetings, communication via the internet, or joint membership of a group (affiliation networks). Social ties create the structure of the community. Strong ties connect somebody with people who are also mutually interconnected: friends, family and direct colleagues. Weak ties, however, are ones that connect to new parts of the social network, people one does not know very well. This is not to say that strong ties are friendships and weak ties are not. The definition of weak and strong ties tells us nothing about the emotional quality of the relationships. Strong ties might be with acquaintances, and weak ties with very good friends. Both strong and weak ties are crucial to the quality of one's network. Hence, even in the highest

echelons, outsiders might be surprised by the openness of some elite circles, but this is only because the corporate elite is always looking for 'interesting chaps', and weak ties with people from other areas of expertise such as academia, art, government and politics. Furthermore, relationships are not static. They can change over time. Relationships that were created with a specific purpose in mind might very well become close friendships, and weak ties can transform into strong ties.

The second element of a community is a shared identity, a feeling of weness and belonging. Shared norms and values need to be taken into account, as do rules of appropriate behaviour, as elements of a community. In general, people prefer to interact with similar people (Laumann 1966). 'Birds of a feather flock together', and the like-me principle (principle of *homophily*) means that people tend to be entrenched in thick networks of similar others (see McPherson, Smith-Lovin and Cook 2001). Similarity breeds connection, both for the rich and the poor, the powerful and the powerless alike, thus it may come as no surprise to learn that the corporate elite prefers to interact within elite ranks.[8]

The sociological foundation of community as a concept lies in the seminal works of Ferdinand Tönnies, and in particular his 1887 essay *Gemeinschaft und Gesellschaft* (Tönnies 1887). Both are a set of social relationships between people, but the *Gemeinschaft* resembles more traditional, small, localized communities (such as villages or tribes), while *Gesellschaft* is Tönnies ideal-type of 'modern' complex society. In a *Gemeinschaft* social bonds are personal and direct, there are strongly shared beliefs, values, and emotional bonds, while in *Gesellschaft* social relations are impersonal, instrumental and narrow. Brint (2001) summarises the contrasting associations of these concepts as follows:

> *Gemeinschaft* is associated with common beliefs, *Gesellschaft* with dissimilar beliefs; *Gemeinschaft* with concentrated ties and frequent interaction, *Gesellschaft* with dispersed ties and infrequent interaction; *Gemeinschaft* with small numbers of people, *Gesellschaft* with large numbers of people; *Gemeinschaft* with familiarity, *Gesellschaft* with rules to overcome distrust, *Gemeinschaft* with continuity, *Gesellschaft* with temporary arrangements; *Gemeinschaft* with emotional bonds, *Gesellschaft* with regulated competition (Brint 2001, p2-3).

Informal networks are particularly important as building blocks of a community. Familiarity, trust, similar beliefs and emotional bonds thrive well in informal settings.

The network of interlocking directorates is a relatively strong, institutionalised and formalised means of elite cohesion, much more than dinner and debating clubs for instance. However, in between the corporate boards and

the private meetings lays yet another category of meeting places. First, there are business and employers' associations, which also bear certain significance for building cohesion amongst the corporate elite. Second, non-corporate boards also serve as a meeting place for the corporate elite. Both will receive some attention in this chapter, but the focus remains on informal relationships. The social networks of the corporate elite do not all of a sudden emerge when certain people reach the top; they are created and maintained all throughout one's life. Therefore, this chapter explicitly looks at the role and importance of informal networks throughout the career trajectory of corporate directors.

Business Associations and Non-Corporate Boards

Alongside corporate boards, a number of institutionalised corporate elite meeting places exist. In particular, two sites deserve attention: business associations, and boards of cultural, charity and public sector organisations. In the Netherlands (given its corporatist tradition), business associations provide access to political decision-makers and political information. In business associations, politicians and state officials supply information about emerging political issues, and the corporate elite informs the political elite about the wishes and interests of business (Rehbein and Skippari 2006). Business organisations were designed to defend the interests of business and employers in the associational political system of the Netherlands. They are part of the institutionalised deliberation between government, labour and employers, and play an important role in the alignment of ideas, and in putting forward the interests of business (Streeck et al. 2006). And notwithstanding the pressures of internationalisation, Dutch business organisations such as the VNO-NCW and the LTO, 'still occupy the dominant place in the national network of lobbying and interest intermediation' (Visser and Wilts 2006, p. 42). These interest organisations are strongly oriented towards the national arena of politics, and did not weaken under the pressures of ongoing liberalisation (ibid.).

Next to the formal position such organisations have in the political field, they serve as meeting places for the corporate elite. With over 100 members in the general board, VNO-NCW provides a rare platform for getting acquainted with key players in all branches of industry, finance and services. As one director states:

> Through these interest organizations you have a great entry to ministers, to politics in general [...]. What you see is that the active people in the networks, yes, those are the best directors, they also get esteem.

Yet, business associations are just the tip of the iceberg of a vast social net-

work that extends well beyond these interest organisations. For instance, access to key politicians and civil servants is also secured through the membership of numerous advisory committees. For instance, in 1996, 149 corporate directors were identified as either a member of a governmental advisory board, or as a former member of government. One-third of this group sat on more than one registered advisory board (up to as much as five separate governmental advisory bodies). Seventeen of the interlockers were registered as member of such an advisory board.[9] Business and employers' associations play an important role in defending and formulating business interests in the political arena. But the relationships amongst the corporate elite extend well beyond these rather functional ties.

One step down the ladder of formality in the non-corporate meeting networks of the corporate elite we find the boards of non-profit organisations. Given their large experience with management and governance, corporate directors are well sought after to be members of non-profit boards as well. And with the decline of the network of interlocking directorates, these meeting places may well gain in importance. A chief financial officer of ING admits that with the increasing conflicts of interests it becomes very difficult for him to take outside directorships, and that as an alternative, he chooses to invest some time and meet in the boards of cultural organisations (Duursma and Weeda 2001).

Cultural institutions such as museums and concert halls, but also hospitals, research institutions and – increasingly so – universities have corporate directors on their board. Certain boards are highly prestigious, such as the Amsterdam Concertgebouw, the Rijksmuseum and the Rembrandt Foundation, while others are more traditional, such as the World Wildlife Fund and the Johanniter Order[10] (Van Hezewijk 1986). Membership brings directors into contact with prominent politicians, businessmen and bankers. Instead of membership on a governing council or board, one can sponsor the *Concertgebouw* instead, and gain access to exclusive, restricted clubs. 'Important contributors' (at least 50,000 euros) become members of the Johannes Brahms Circle, which includes members such V. Halberstadt, honorary secretary of the Bilderberg Conferences, A.A. Loudon, a former CEO of Akzo and former chairman of ABN AMRO, and bankers such as former ABN AMRO CEO P.J. Kalff and former ING executive and chairman of the Dutch socio-economic council A. Rinnooy Kan. The Gustav Mahler Circle is reserved for the select few who provide 'very generous contributions' (at least 100,000 Euros). Membership is restricted to certain trust funds that are able to donate these amounts, as well as to people such as Heineken heir C.L. de Carvalho-Heineken (who sponsored new chairs in 2002 for two million euros), and former Unilever CEO F.A. Maljers. The younger generation might be invited for the Van Gendt circle, where the minimum contribution is only 20,000 Euro (Dekker and Van Raaij 2006b). These distinguished circles

bring together key people in the corporate elite. However, cultural and non-profit boards only form a part of the corporate elite social meeting network. Most of the social network extends beyond the eyes of the public and beyond the institutionalised meetings discussed so far. Therefore we now turn to the informal meeting network, starting with the formative years.

The Formative Years

The formative years are crucial in laying the foundations for a network and concomitant social capital that lasts one's entire life (Bourdieu 1989; Scott 1982). For some amongst the elite, family relationships already constitute an important part of the informal networks. Contrary to many surrounding countries, the Netherlands does not have a well-defined elite educational trajectory. In Great Britain, the articulation of aristocratic social capital takes place in public schools and 'Oxbridge' colleges. These educational institutions are indispensable for the proliferation of characteristic lifestyles, condensed in the ideal of the gentleman, and the recruitment of new upper-class members (Hillige and Fennema 1992). In France, the *grandes écoles* stand at the basis of an elite that occupies most of the top positions in government and the corporate world, and the USA has its Ivy League universities. Although some Dutch universities do have the reputation of being elitist, there are no equivalents to the French, British or American elite trajectories. Dutch universities have always been on equal par in terms of quality and standing. Up until the 1960s, a university degree in and by itself was a ticket to the elite. In those days, only a relatively small number of young people, most of them from well-off families, entered universities. Because of the small scale and the high probability of elite positions, the university automatically functioned as a meeting place for future elite. After the 1960s, universities became more democratic, serving a much larger population.

By the early 1950s, two-thirds of the corporate elite stemmed from upper-class social circles (Vinke 1961, p. 239). Furthermore, not more than a quarter of all executive directors, and almost some 40 per cent of supervisory directors had an academic education (ibid., p. 242). Since then, a university degree has become increasingly important. Beekenkamp (2002) investigated the social background and career patterns of the chairmen of supervisory boards of the top 250 firms in 1976. He found that at over three-quarters of all chairmen had enjoyed higher education (university or *hoge school*). Most of them had a background in law or economics (ibid. p. 63). By 2001, all but a few interlockers and chief executive officers had an academic background (author's data).

Student fraternities have traditionally played an important role in the creation of the Dutch old boys network (Hillige and Fennema 1992).[11] Following the upsurge of Dutch nationalism that came with the separation

from Belgium in 1830, student societies organised themselves in *corpora*. Federal *corpora* were inspired the German student fraternities and had a militaristic slant. Fraternities occupied a central place in the lives of students and academia at large until the mid-1960s. Many professors were alumni of the fraternities, and in the lecture rooms of some law faculties, special front-row fraternity seats were available, where 'nihilists' (as non-members were called) were not allowed to sit. The initiation ceremonies and hazing of freshmen strengthened their internal solidarity and the exclusive image of fraternities. The – often violent – hazing served to imbue freshmen with the mores of the fraternity, the unwritten rules and norms of behaviour of the elite. Students were trained to deal with stress, critique and humiliation, and learned not to give up before they reach their goal: never take no for an answer. All these traits are very helpful for reaching top elite positions (Hillige and Fennema 1992).

The added value of these fraternities was in the lifelong relationships that were created. Furthermore, forging allegiance to unwritten norms of elite behaviour gave these youngsters an advantage in their corporate career. Hierarchy formed the basis of the *esprit de corps* and seniority was the most important organising element. This way, members learned to deal with the dialectics of brotherhood and hierarchy. They learned to bluff, to put others down, and to charm people. In addition, within sheltered student organisations, there was ample opportunity to take the first steps in organising and governance. In rather complex organisations, especially the yearly elected senators of the *corpora* were able to gain experience in managing a large organisation.

During their years at a fraternity, students developed a sense of eliteness and superiority. As an elite, they were bound by different rules than 'ordinary people' were. Their privileged place in society (*Quod licet Iovi, non licet bovi*)[12] went hand in hand with the idea of noblesse oblige. Lifestyle and behavioural rules were of the utmost importance, and a series of unwritten rules of speech and attire meant that members could almost instantaneously recognise each other as gentlemen of high standing. The shared lifestyle and mores meant that even members of different cohorts still shared a social bond (Hillige and Fennema 1992).

More quantitative-oriented research on the role of student fraternities and elite position attainment underwrites the important function of building lifelong social networks and learning the codes of the elite. One out of eight *corps* directors in the period 1920–1960 found their way to top positions in the corporate, political and administrative elite (Hillige and Fennema 1992). Amazingly enough, these figures are the same for the 1920s and 1960s cohort. From the 1960s onwards, non-traditional student organisations were established, but their leading members had fewer chances for success: only three per cent found their way to the elite. Conversely,

amongst the oldest and most traditional fraternities of Leiden and Utrecht, one out of five reached top positions (ibid.). However, this high score is mainly because the fraternities in Utrecht and Leiden enjoyed an overrepresentation of aristocracy amongst their ranks (Dronkers and Hillige 1995). Traditionally, Utrecht is the university of nobility, and Leiden is the backyard of the patriciate. Or as Utrecht *corps* members used to say: in Leiden they act decent, in Utrecht they are decent.

Membership in one of these specific student organisations is not a sufficient condition for reaching an elite position, nor is it a necessary one. In 1976, only 40 per cent of all chairmen who enjoyed higher education were alumni of a student organisation (Beekenkamp 2002, p. 67). From the mid-1960s onwards, traditional student fraternities had to deal with increasingly lower numbers of membership due to anti-authoritarian attitudes amongst students and increased competition from new student organisations.[13] The universities were no longer the playground of the privileged few, but aimed at educating larger parts of the population. However, the majority of the corporate elite at the turn of the century was raised either in times of enduring importance of the student organisations, or during the early days of growing unimportance. As most of the corporate elite were members of the student fraternities, they were acquainted with the norms and rules of behaviour of the elite during these formative years.[14]

Patterns of Recruitment

After their years at university, the potential corporate elite members start their business career. The social network created during these formative years is very helpful in getting a job. It is not so much the close friendships that are of big help when entering the corporate career, but rather the weak connections with people already in high positions in corporations.[15] Granovetter (1973) already showed that weak contacts are twice as effective as strong contacts in getting a job. In the Netherlands, the traditional career trajectory of corporate executives is one of long-term employment within one firm. Of all supervisory chairmen in 1976, only one-fifth made a career change (Beekenkamp 2002). In fact, 16.3 per cent of the chairmen of the top 250 firms had never worked outside the company they chaired (ibid., p. 75). As one director very clearly states:

> The risks of staffing the top with outsiders are very, very high.

Much of the added value of long-term employment stems from the social networks that are created during one's career. The executives-to-be gain, amongst other things, insight into authoritative structures and the business culture of the firm. Relations with co-workers are part and parcel of the spe-

cific knowledge they acquire. This large body of firm-specific knowledge is what gives candidates from within the firm an advantage over those from outside the firm when competing for executive positions (Becker 1962; Becker 1993). The career trajectory is well balanced between general and specific knowledge, since as an executive or director they need to have a good overview of the firm. There needs to be a balance between, on the one hand, involvement with the specific job, and on the other hand, exposure to a wide range of diverse departments, plants and international branches of the corporations. This balance renders the employee with enough job-specific skills and knowledge of the different parts of the firm, while at the same time creating general loyalty to the corporation as a whole, rather than to any one of the corporate departments or divisions in particular. It also leaves them with ample opportunities to create large social networks within the firm. There is a strong agreement that long-term employment is indeed the typical Dutch career pattern amongst the corporate elite.

> Most firms try to recruit people from their own rank and file for the top positions. I think it is quite rare for people to come from outside the firm. Firms have a habit of recruiting internally, unless, let's say, a disaster occurs; people burn out. If that were to happen without a suitable successor, then firms do tend to look outside their own organisation (CEO of large industrial firm).

Board members were positive about the internal career trajectory. There is a general feeling that it is 'just good' to have insiders at the top of the corporate hierarchy. After a longer career in the company, the intended board member knows the company well.

> It is good to have top people emerging from within the firm. And who are very well aware of the idiosyncrasies of the firm (supervisory director and chairman of several large firms).

A long career within one firm can be understood as a sign of allegiance to the corporation. At the same time, senior officers are able to judge whether this person is the right man for the right place.[16] The interviewees showed a great deal of agreement on this matter.

> I would prefer internal promotions, let's say moving up within the firm and eventually reaching the top. In such cases, the risks are much lower, because you know the people, and the people know him. He has proven his performance, otherwise he wouldn't have reached the top. He must enjoy the trust of the organisation, the trust of the customers, trust of banks, you name it (former CEO and chairman of two firms).

During his career trajectory the executive-to-be has the chance to prove himself, to show what he is worth. But, equally important, an executive needs to enjoy a high level of trust. Trust is a relational asset that resides in the social network of which one is part. And for an executive, it is crucial to enjoy trust from bankers and other stakeholders, as well as loyalty from within the ranks of the firm itself.

The importance attached to trustworthy durable relations seems to be at odds with the idea of a (international) market for corporate directors. In the 'War for Talent', firms are supposed to compete with each other for the best 'high potentials', and the best recruits are not necessarily those that already work within the director's own firm or country. When asked, the interviewees showed themselves to be familiar with the idea that there is a lack of talent for corporate leadership in the Netherlands, but they firmly disagree. The corporate elite not only favours insiders over outsiders, there is also confidence in the corporate leadership capacities of the younger generation of Dutch executives.

> Everybody complains that there are not enough successors for top positions. I honestly believe this is exaggerated. I believe this to be the arrogance of the ruling class (CEO of large industrial firm).

Only two of the interviewees agreed with the statement that there is a lack of talent. The corporate elite is aware that the call for a more transparent and liberal-market-driven recruitment process neglects the sunken investment that long-term employees have. Thus, an internal career trajectory is still conceived of as a very good means for selecting corporate directors. By and large, people from outside the firm are considered to be a potential problem, rather than an asset.

Putting the Network to Use

The Dutch corporate elite is a rather orderly group of people. As one supervisory director commented on his contacts in the board network:

> You see them often, the one a bit more than the other. But they are all people who are part of the network. [...] But these people all know each other, are more or less aware of how things are with this person and with that person. It is not really a very conscious process, but it is stored somewhere. It is part of that way of life.

At the same time, we should not overestimate the quality of the relationships. It would be an error to assume that all members of the corporate elite are friends. They do recognise that they are part of a shared network, but

many relationships are just ‘nodding acquaintances’ and people can – and do – make mistakes:

> A little while ago I met somebody [...] He thought that I was somebody else. He took me for the CEO of the Rabobank. So a somewhat difficult, painful conversation started to evolve, until at one moment you say: ‘Listen, I think you’re mistaking me for somebody else.’ It shows how superficial it sometimes is. When you hear yourself think: ‘Oh man, I know this guy but what is it that he does again?’ (CEO of large industrial firm).

The social network is an asset for the corporate elite. They can use the dyadic relationships they build with particular people for their own benefit, and at the same time they can earn the trust and loyalty of the business community. As in any social network, there is some limited knowledge of ‘friends of friends’ amongst the corporate elite. But even though people are only vaguely aware of networks beyond their own group of contacts, this does not preclude them from using their networks (Adamic and Adar 2005; Watts, Dodds and Newman 2002). For example, if a director wants to establish contact with a certain foreign banker, he can search his own network on the basis of properties of his contacts. This search might lead the director to a Dutch banker, to a director from a corporation doing business in Russia, or to somebody who sits on the board of a Russian firm.

In a passive manner, the network serves as a communication device, from which one discovers new information and learns about each other’s points of view. Information travels through the networks and is disseminated further by every meeting. In a more active manner, there are times when one needs to cash in on one’s social capital and use the contacts he has. One can effectively mobilise resources that reside within one’s network. The corporate elite does indeed contact friends and acquaintances for specific needs. Bankers are particularly popular, as they can supply finance and financial services. They are well-sought contacts, even in times when the capital market is of growing importance in financing corporate operations.

> In general I think that there are quite a number of benefits to having a large group of people who are to a greater or lesser extent affiliated with firms that are relevant for your work, and if you know the chiefs from a number of banks. When you have a problem financing something, and you need a quick solution, then it is convenient if you can just pick up the phone and call Mr A or Mr B and explain the situation directly. That speeds up the communication (CEO and supervisory director).

When it comes to issues such as finance, it is particularly helpful if the companies' executives are on a first-name basis with the banker(s) who needs to decide whether or not to extend the loan or provide a financial service. In some instances, a pre-established relationship can be used to the mutual benefit of both parties involved. As one director explains:

> Look, if there are conflicts, or when things are just not going very well between two firms, it is convenient for the two bosses to know each other. They can say: 'well, it doesn't seem wise to fling our attorneys at each other. Why don't we meet up and see if we can find a solution?' You see, in that sense it is useful (CEO and supervisory director).

In this way, social ties help to reduce conflict between corporations, or at least settle conflict much more easily. These ties help to reduce uncertainty and risks within the corporate regime. The social network has a function for the corporate elite, and for those who do reach the highest echelons of the corporate hierarchy, an extensive social network is indispensable. This need for networks is nicely illustrated by the case of a board member who was not endowed with the proper set of relations because he spent large parts of his life abroad. When he came back to the Netherlands to take up a position at a corporate board, the first thing he did was build a network. In the relatively small Dutch corporate elite, it did not take long to meet everybody who is somebody:

> I didn't know a soul. So I did the cocktail scene for two years, just to get to know people. After two years I knew the whole of the Netherlands. That is to say, I knew the people who press the buttons. Bankers and top people (former CEO and chairman of two firms).

As an outsider, he needed to know who's who in the corporate elite. And the informal 'cocktail-circuit' serves just that purpose. Here he had the possibility to meet all the people who were important to him. At first, cocktail parties served their purpose very well, because he could meet many new faces. After a while, he decided to invest more time in smaller-scale meetings in private settings. After two years time, when he was acquainted with the corporate elite, he changed his network strategy.

> After two years, when I knew them, I abruptly ended the cocktail party scene. And when we meet nowadays, we meet each other at dinner parties with a particular subject, with speakers who please me.

After establishing acquaintances with the corporate elite, he goes on to deepen certain relations. For this purpose, he uses dinners and events where

particular relevant topics are discussed. He takes a functional approach in both the cocktail network and the dinner clubs. Only a minority of all relationships go beyond the normal, formal business tie.

Tournaments, Conferences and Funerals

Large meetings create a particularly fruitful site for networking. At one event, people can maintain existing ties, meet new people, and forge new bonds. These larger meeting places are sites where different elites (cultural, political and economical) interact. The opera, concerts, and the like are all being used as a meeting place for the corporate elite. Financial advisors and consultants invite their clients to ballets and concerts. In this way they exploit their bridging function between corporate boardrooms, and as such, provide an extra service for their clients. Some corporations sponsor sports events, such as the ABN AMRO tennis tournament, where everybody who is anybody in the Dutch corporate elite is present, even if they do not like tennis.

> If you enjoy watching tennis, and you are invited by say ABN AMRO, well sure you accept. And if you don't like tennis at all, but you would just like to see some people, there is no disgrace in that. [...] And if it is good for the company, you shouldn't miss that opportunity (CEO and supervisory director).

A personal distaste of tennis does not prevent a member of the corporate elite from attending this tournament. It is an excuse to meet people, and board members are very aware that these events provide good opportunities for building and using their social capital. These public meetings are a splendid opportunity for bringing people together and are an optimal playground for the brokers in the network. Brokers can swiftly bring people together and make acquaintances.

Even more interesting sites for the corporate elite are large, yet private, meetings. These are rare, as they are very difficult to organise. The key asset of private meetings is that no one will report on what is said and done. The most successful of these meetings during the past 50 years have been the Bilderberg Conferences, originally set up to enhance transatlantic business relations. Named after the Dutch hotel that hosted the founding conference in May 1954, the Bilderberg Conference has strong roots in the Netherlands. One of the key organisers was Unilever executive P. Rijkens, and the secretariat has been a Dutch matter for a long time as well, with initially E. van der Beugel and later V. Halberstadt at this post. Furthermore, the late Prince Bernhard (spouse of the Dutch queen) served as chairman of the Bilderberg for many years. Given the large number of multinational corporations in the

Netherlands, a relatively large number of Dutch (corporate) elite members attend this conference (some 120 Dutch people have attended the conferences so far, many of whom more than once). At the yearly meetings, a large number of key persons from predominantly business, but also from government, labour and the media, convene for a weekend in a private and sheltered resort. The key ingredient of this meeting is that no one reports on what is said during these talks: it is a private meeting. Discussing key themes of the contemporary global political economy, the transnational elite find themselves able to search for a common denominator amongst its members, learning about the ideas and views of key persons. One long-time participant of the Bilderberg conference told me that these meetings are about:

> Current affairs of a general nature. What will be the influence of China? What are the effects of this or that problem? It is about learning how different people look at the same problems. So we get input: what they think is important, dangerous and so on. But this has no direct effect on the agenda of the board. You take notice of the general thrust, and maybe you are better informed to assess different possibilities [...] take into account previously unexplored issues that might influence policy.

Through deliberations and discussion, these meetings influence policies all over the globe, and add to the cohesion of the transnational elite. These meetings differ from, for instance, the World Economic Forum, organised annually in Davos. The explicit aim of the WEF is to influence and legitimise public policies, and it does so in a relatively transparent way (Graz 2003). In a study on the intertwinement of global-oriented elite policy groups and firms, Carroll and Carson (2003) find that a few dozen cosmopolitans, mainly based in Europe and North America, knit the corporate policy network together. Corporate policy interlocks contribute in an important way to global-elite integration (ibid.), although transnational corporate networks have not yet reached levels of intertwinement comparable with those of the national networks (Carroll and Fennema 2002).

At the national level in the Netherlands, large-scale private meetings are rare. The corporate elite is relatively small, and there are ample opportunities to talk and meet each other. In the USA, the corporate elite meet in holiday retreats such as the illustrious Bohemian Grove, the Rancheros Visitadores, and the Roundup Riders (Domhoff 1975a). In the Netherlands, however, few events such as these take place. Recently, the drawing of a new and relative intrusive corporate governance code by the Tabaksblat committee stimulated big linkers A.A. Loudon and H. Langman to initiate a meeting of the presidents of all large and medium-large listed firms. At these ‘Hilton

Sessions', the key players of the corporate elite came together to discuss the repercussions of the governance principles. Apparently, the members of the Dutch corporate elite can and do organise themselves in times of turbulence. However, local versions of the Bilderberg conference serve no purpose, as the elite already meet regularly in the boards and in the informal network.

Incidentally, there is one special kind of large meeting that brings together the entire elite in the Netherlands. It happens only rarely, but those who are invited are ensured direct access to the entire Dutch elite. The best places for networking in the Netherlands are the weddings and funerals of the Dutch royal family.

> Take the whole scene of concerts, performances, and events; that's where you meet. These meetings are vehemently used to talk about certain issues. In the church with [the wedding of] Maxima [spouse of the crown-prince of the Netherlands], there is not that much talking going on. But before and after, there is. Take the royal funerals for instance, that really is *the* meeting circuit. The fall of the first Balkenende government was one big church matter. You could see it happening. Likewise, with Prince Claus recently. You see that people arrive there very timely, three hours in advance. It gives you ample opportunity to talk with everybody (supervisory director).

The Fragility of Social Capital

At the group level, social capital refers to the capacity to obtain collective goals through collaboration; it is a way of overcoming the collective action dilemma (Fennema 2004). Social networks create social capital for the group, because social intertwinement advances the willingness to collaborate for collective goods. At the level of the group, social capital takes the form of (generalised) notions of trust and shared interest. High levels of trust at the group level result in norms of generalised reciprocity, which can be an asset to the group as a whole.[17] The strength of the network lies in this generalised reciprocity.

Corporate elite members showed themselves to be well aware of the fragile nature of this kind of social capital. When somebody draws too much on the common goods of the network, he risks losing his credentials (see Bourdieu 1986, p. 248-249). Thus, board members treat their social capital with care, and one does not simply return favours. 'I scratch your back, you scratch mine' is not the way corporate board members capitalise on their social contacts. Tit-for-tat strategies are widely considered to be out of the question.

> You can never just say, listen, if you do this for me, then I'll do that for you. That is not the way it works, not the way it works. [...] You should not ask for favours (CEO, and supervisory director of several firms).

The corporate elite does extend their financial, human, social and cultural resources to fellow elite members. But they do not do so because they expect direct reciprocation, but because they trust somebody else would convey the same favour upon them, should they need it. In the corporate elite, social capital is of a generalised nature and a property of the group rather than of the dyadic relationships. The network should be used exclusively to enhance and support what is in the shared interest of the group, or for business.

> Listen, people find it annoying when you approach them merely for your own interests, or for the particular interests of your firm. That, people find annoying. But what's wrong with just meeting up with each other?

I asked him whether he followed up with new contacts he made at informal dinners:

> Sure, you do that with everybody you meet there. But you need to be careful with that of course. In general, people don't appreciate it if you contact them for a favour that lies outside the professional sphere. People find it unpleasant. You shouldn't do that.

Prestige, esteem and contacts are scarce goods. Trust and reputation are relational assets that take time to develop and grow, but can be easily destroyed.

Once useful ties exist, these need to be maintained. To this purpose, there is an active telephone network amongst the corporate elite for example. When M. Tabaksblat was working on the Dutch Corporate Governance code, he steered clear of cocktail parties, tired of always the same questions. But he did receive numerous private phone calls from his fellow directors who wanted to influence the code (Dekker and Van Teeffelen 2003). Yet again, they use their contacts with great care:

> You draw on them with care. I never just call people saying 'let's do some catching up'. I usually have a very concrete reason, a cause, for calling somebody. There are a lot of telephone calls being made, but you should never do so without reason. Always reliable.

Trustworthiness is key when using social capital. The corporate elite uses their contacts with care and with caution, and only when they really need

it. It is not wise to be greedy and exploit the network. Board members clearly know how to carefully manage the social contacts they build up.

> And if there is something that I really need help with, I know how to call them. But you try to do that as little as possible. It doesn't look that good if you use it too much.

The corporate elite use their networks with care, but they certainly know how to use them. While directors have a good overview of their acquaintances, they play down the idea that these networks depict positions of power and influence.

> I appear on one of those lists of the 100 most powerful men, which is based on these kinds of things, and on the market value of the firms that I am affiliated with. And should this be so ...? I don't know. And then I think to myself, oh boy, what am I to actually do with all this? (Former CEO of large industrial firm, chairman of several firms).

This is typical for the way the corporate elite looks at their networks. As discussed in chapter 1, those who are part of an elite usually stress their lack of agency as an individual, rather than the influence they have as a group. They do meet a lot of people, and there certainly is a network. And surely they know how to use their network. But for an important part, the social network works on a macro level, which is not so tangible for any individual member. Furthermore:

> Social networks have both a personal and a professional character. And that makes you very conscious of the way you decide to deal with your relations. You do not violate the trust of the networks but you do use them.

Private small-scale meetings are essentially different from the 'cocktail circuit'. In a small circle of trusted others, members have the opportunity to have open talks and discussions about all possible themes and subjects, without the fear of being quoted in the newspapers the next day.

Dinner and Debating Clubs

Informal meetings are particularly important for creating a feeling of weness, a feeling of belonging to a certain group. Next to the sheer existence of a social network, a feeling of we-ness is an element of a community. Many social relationships amongst the corporate elite have a business character. The officer of one firm relates with the officer of another firm, both with

the interest of their respective corporations in the back of their minds. There are, however, certain meeting places that extend well beyond these instrumental, business-oriented relationships. A wide range of informal, out-of-sight dinner and debating clubs strengthens the mutual ties, and creates a feeling of we-ness. These secretive meetings are used to convene about issues that concern the corporate elite. By doing so, these meetings lead to 'informal companionships' between the captains of industry. Unlike receptions, people meet because they have shared interests and because they develop friendships and affinity with each other. Friendship creates a reason to meet, beyond the advancement of personal or corporate interests.

> For instance, I am a member of a study group on political economics, and the people in this group – they suit each other. I am also a member of an urban network, and these are also people who have more than the need to exchange and discuss information.

These informal meetings are highly useful, because:

> Often... issues frequently come up in which you think, as a CEO: 'Well, maybe I should, this time I don't want to talk with my own colleagues, but with somebody else from a different corporation.' You know: 'How would you solve this? What problems have you encountered?' This can include a wide variety of topics. Corporate governance, or one's relationships with one's supervisory directors.

The goal of business associations is to influence politics and policy directly. To some extent associations also serve as a place to discuss issues, but only at a later stage. They cannot fulfil the need for frank and open discussions with one's peers. The dinner and debating clubs are unique because of their closed and secretive nature. Members are reluctant to talk about these meetings, and will never reveal particularities about the discussions.

> One of these clubs I am a part of, is a group of chief executive officers from different areas. There are four meetings a year, and they are very informal. Twice a year we have a lunch meeting, and the other two times we have dinner. It is a bit more like a group of friends. On the one hand you meet these people professionally, and on the other hand you meet them there. This makes it much easier to have contact. There are many people who are a part of this network. Apparently this is not known, and that's how it should remain.

The dinner and debating clubs are designated as 'The Eight', 'The Ten', or the 'Club of Eleven' with references to the number of members, or 'Eighty'

and 'Sixty-Five', the year when the clubs were founded. Some have peculiar names such as *De Vogeltjesclub* (the Birdsclub), *De Pijp* (the Pipe), *De Schoorsteen* (the Chimney), *De Tafelronde* (the Table Round) and the *Heeren Seventien* (referring to the board of the Dutch East Indies Company).[18] The *Vogeltjesclub* has quite a number of prominent corporate elite members, such as R. Groenink (ABN AMRO), A. Scheepbouwer (KPN), J. van der Veer (Shell) and G. Kleisterlee (Philips) (See Bogaarts and Schwartz 2005). The *Vogeltjesclub* is a bit special, as it is organised by Minister of Economic Affairs. It is a place where the corporate elite has the opportunity to influence government policy, yet no notes or reports are made about the meeting. Likewise, the Minister of Agriculture invites the CEOs of firms in his sector three or four times a year to a so-called 'captains meeting'.

Although membership to *De Pijp* (about sixty members) is only open to CEOs of large Dutch firms, membership is for life. This 'Once a member, always a member' policy signals that these networks are not only instrumental for business, but also highly personal. These clubs consists of groups of individuals who happen to share the same occupation; they are not only a functional meeting place for officers from firms. Thus, while former Ahold CEO Van der Hoeven lost his prestige and popularity with both the general public and the corporate elite when mismanagement and fraud were uncovered at this firm (De Jong et al. 2005a; Smit 2004), he still received invitations to these meetings. *De Pijp* meets about three or four times a year, usually in castle De Wittenburg, the reception room of the corporate elite. These informal clubs do not have statutes or formal rules, but operate under unwritten rules. Positions such as chairman and secretary are not appointed or elected, people are asked informally. Balloting committees guard the exclusiveness of the clubs.

Dinner clubs are not always fully closed meetings. In a popular and often used form, the club is semi-open: the core members invite somebody from outside the realm of the corporate elite for each session. This way, the club serves both the purpose of maintaining strong ties, as well as creating weak ties. At every dinner a certain topic is under discussion, and each of the members brings one guest to the table who is knowledgeable on the subject. This concept is common in the corporate elite. However, foreign directors do not integrate into these strongholds of the Dutch corporate elite. In response to their failure to integrate, the Minister of Foreign Affairs now has a separate meeting with foreign CEOs of Dutch firms.

The importance of these dinner clubs and societies for corporate governance in the Netherlands lies in their function as consensus-making machines. The corporate elite uses these clubs to discuss changes in the Dutch corporate regime. By learning the views of one's peers, and discussing the issues at hand in an open and frank manner, a certain consensus steadily emerges. This is not to say that everybody agrees upon every issue.

However, through these meetings, a certain agreement on the benevolence or threat of certain changes and developments is eventually reached.

Informal business meetings are at stake with these foundational concepts of disclosure and accountability. Thus, informal meetings of the corporate elite thrive best under conditions of anonymity and secrecy. And the increased importance of transparency in the business world only means that these semi-private meetings have to be sheltered even more.

Yachts and the Skybox

Next to clubs, the corporate elite also bond through joint social activities. These activities are different from clubs as they are primarily used to strengthen relationships, rather than to talk about business. Through bonding and social activities, initial relationships of acquaintance are strengthened and transformed into friendships.

> Next to the 'professional relations' that are part of those networks, there is always – as with any network – a part that is informal. You have come to know people, you went out sailing, and so on.

Directors are very persistent in their claim that people try to avoid talking about business at these informal social events. They talk about all sorts of things, and together they enjoy the good things of life. At the same time, the people they mingle with are important contacts from a business perspective as well.

> We go sailing, and aboard the ship we talk a lot about all kinds of issues. We enjoy a nice bite to eat; it is a different way of relating to each other. I used to do this with civil servants…, yes, these are highly interesting things.

This director used the informal setting of his yacht to consolidate and strengthen ties with civil servants, a very important group for his corporation. The sailing boat provides shelter from nosy journalists, and it allows bonds of personal affinity to emerge. Afterwards, these bonds serve as a lubricant for business. A similar venue for consolidation of the network is the skybox at a football club, where a lot of networking takes place. On the one hand, the host consolidates the relationship he has with his contact, while at the same time his guests can get acquainted with one another and build weak ties. Again, these meetings are not usually used to talk directly about business but rather are used to consolidate existing relationships.

> Because, it is often exaggerated what is on the table there. Because, you

> see, you are there with a number of people. So you don't just sit there and talk about everything. You would be crazy if you did. So what it is, you have a laugh, you have a good time, you watch the game and have a chat about it afterwards. That's it, and everybody goes home. There are no secret alliances there, unfortunately not.

According to this director, people would rather talk about football at that moment instead of business. Nevertheless, the board member does not invite people to his skybox without reason. He wants to strengthen and maintain his relationships with these people. It is likely that the invited person will develop a positive predisposition towards the board member.

With an increased call for transparency by shareholder proponents, these informal meetings are increasingly problematic. One board member complains to me that his guests do not want to join him anymore in the corporate skybox:

> Well, so you invite people to watch a football match. Ajax–NAC, what is more innocent than that? Nowadays, directors, aldermen, they don't want to be seen with us in a skybox anymore. They think it might be interpreted as if we are discussing certain issues...

The suggestion of collusion and direct coordination alone is sufficient in and of itself to damage the image and trustworthiness of both organisations and directors. And not only business contacts fear the atmosphere of crony capitalism in the skybox:

> [...] there are people you know very well, privately, and they go on and say: 'well, I find it a bit difficult to sit with you in that box'. Well, fine. Leave it. I can see their point, but well... so be it.

The skybox is such an uncomfortable setting since it is a private meeting, set within a large public event. It is much easier to invite people to a yacht than it is to invite people to a VIP room at a well-known football club. In earlier times, the risk of 'exposure' was not so grave.[19] Traditional notions of societal hierarchy warranted a certain degree of manoeuvring for the elite towards the public. In modern days, however, journalists critically scrutinise the elite. Media have grown rapidly over the past thirty years, and, as a result, the political information available to the public is enhanced both in scope and in depth (Fennema 2003). Citizens will not accept high levels of inequality any more. The rules of the public debate have transformed into a contemporary, deliberative spectator-democracy, such that it includes reciprocity, public disclosure and accountability (Hajer 2000).

Is There Still a Corporate Community?

As this research has shown so far, the social interaction network of the corporate elite is in decline. At the same time, an informal network remains in place. So the question is whether directors see themselves as part of a community. The sense of we-ness, of belonging to the same group, is essential for the formation of a community. There are various ways in which a shared identity can be strengthened. Rituals, hazing, investment of resources, renunciation of pleasures and so on, increase the distinction between those inside and those outside the community. For many elite groups, a common background and ties of kinship strengthen the feeling of we-ness. Norms of attire and behaviour serve to distinguish 'our kind of people' from others. The old boys network was clearly such a community. Many of the directors corroborated the previous conclusions on the fading away of the network of interlocking directorates. The disappearance of big linkers and multiple meetings in particular (see chapter 3), has also changed the character of the network.

One board member explained to me why he does not consider his corporate network to be a community:

> It is related to the number of times that you meet somebody. And that's the case in such a network as well. As you can see, there are only a few people that I meet more than once.

The decline of the network, and in particular of multiple meetings, has repercussions for the shared identity amongst the corporate elite. In these days, the corporate elite is bound together by sharing the same position. The corporate elite believes that in the present days and times, their mutual relationships do not constitute a community anymore. Many directors responded to the question of whether or not there is a community in the negative:

> Not really, no. It is more that we share the same fate.

However, the closer the relation in terms of occupation and industry, the greater the sense of community. For instance, between the stock-listed companies, some directors do observe a form of community:

> Well, maybe between listed firms, perhaps. Oh well you do meet people regularly, of course. You run into each other everywhere, but a real community-like thing...well, in any case I am not part of that. And I don't feel part of it.

A shared identity stems almost exclusively from their joint occupation. Directors feel an affinity with people in the same position. The more similarity in positions, the greater the sense of we-ness becomes.

> Well I don't feel part of a club of some sort, with a social code or something like that. I do think that it is different for other people. I don't feel that. But you do notice that you are all facing the same problems, so you discuss these issues. This makes you feel you are in the same situation. But that is different from a social caste or something like that.

The loyalty of the corporate elite does not lie with the Dutch corporate community at large, but is divided over smaller groups of like-minded directors. As we saw, there are clusters of strong ties and friendships, reinforced by private informal meetings. In as much a sense of community is still present, it is

> not so tangible. It is made up of personal contacts, usually not formalised. [...] It is a community based on informal contacts.

The informal network remains important in moulding ties of affinity and shared identity. But all in all, the picture that emerges is one of a national corporate community that does not exist anymore.

> I believe it is more a network rather than a community. I don't believe people have a strong mutual sense of belonging in this regard. A real community of directors, no, it does not exist. There is a network, people who know each other well. But we should not overestimate the friendship between these people.

The social meeting network at large remains functional. Yet it is not so much a network of friends but a network of professional directors. The informal network still adds bonds of affinity to parts of the corporate elite network, but does not add up to a business community. Tönnies' late-nineteenth century essay predicted what happened to the Dutch corporate elite a century later. The corporate *Gemeinschaft* transformed into a *Gesellschaft*, with only a few strongholds of communal bonding left. There is still a meeting network and common occupation, but nothing more.

Conclusion

The findings of this chapter call for some nuance in the thrust of the argument so far. The formal network analysis of the inter-firm and inter-personal networks shows an ongoing, and even accelerated, decline of the corporate network and elite cohesion. Although not yet fully gone, the networks are disintegrating. The investigation of informal networks of the corporate elite this chapter presented is partly in congruence with these previous findings. The informal network of the corporate elite is fragmented, and rem-

nants of the old boys network can only be found in small private dinner and debating clubs. Informal meetings add to the connectedness of the corporate elite, but not to the extent that the corporate elite feels part of a community. Yet, at the same time, informal relationships prove to be an integrated part of the assets a corporate director draws on. Although fragmented, informal meeting networks remain important for the corporate elite. While the more institutionalised network of interlocking directorates is in decline, informal and private meetings remain in place. The elite can settle and prevent conflicts, accelerate communication, compare ideas and insights with peers, deepen existing relationships and fraternise in small clubs through the network.

Building and using social networks already starts at young age. Some corporate elite are born into elite families, and have a head start in terms of social and cultural capital. Future corporate directors from middle-class families begin integrating into elite networks during their university years. Young people learn to respect, obey and appreciate the unwritten rules of the elite through student associations and especially the fraternities in particular. The social capital they build up does not reside exclusively in their relationships with fellow students, but also in the norms, customs and habits with which they have become familiar. In order to reach the top of the corporate apex, extensive and high-quality social networks are important. At the top of a corporate career, a fine-grained set of social relations is indispensable.

At large meetings, such as receptions and tournaments, the corporate elite can effectively network with their weak ties. Alongside the rather functional and business related ties, the corporate elite also builds on pockets of strong, informal ties. Furthermore, corporate elite members meet each other in dinner and debating clubs. These clubs serve as consensus-making machines. These smaller clubs of like-minded people provide the opportunity to discuss common problems, new ideas and also evaluate people openly. These meetings create social cohesiveness, and the material presented above suggests an ongoing ubiquity and functionality of these meetings. The corporate elite fraternises at private social activities. Top directors uphold their friendships in small private circles. Together, the informal social network adds to a feeling of we-ness. This belonging, however, is not extended to the entire corporate elite, but rather to the small groups in which members of the corporate elite meet. As a result, there is no longer one large business community, but rather a large set of small circles, interconnected in the weak network of cocktail parties.

The previous chapters argued that the dismantlement of board interlocks is indicative of a shift towards a more liberal-market-oriented corporate regime. After all, corporations are less embedded in networks of (durable) relations, leaving less opportunity for coordination other than through the

liberal market mechanism of competition. The persistence of the informal network suggests that there is still enough room amongst the corporate elite to convene, communicate and coordinate economic activities. In this, the Dutch corporate regime still deviates from the model of a liberal market economy. However, it is highly unlikely that any actual economy will ever fully resemble a LME. Rather, we are interested in the extent to which corporate regimes resemble a LME vis-à-vis each other. And informal networks, as portrayed in this chapter, are likely to be found in any economy. Instead of being a distinctive property of particular corporate regimes, informal networks are, in all probability, part and parcel of every corporate regime. Appreciating the role of these informal networks in the governance of corporations will help us to understand the pace and direction of (institutional) change.

The shift in the Dutch corporate regime as it is taking place does, however, have repercussions for the informal network. The legitimacy of these associations and clubs is waning. Notions of transparency and accountability are difficult to reconcile with the use of social networks that transcend the eye of the public and media. While it is now quite unacceptable that a bank executive sits on the supervisory board of one of his clients, there is no indignation whatsoever over an out-of-sight meeting between chief executive officers of the largest firms. As already mentioned, informal networks of the corporate elite have long been considered with a great deal of suspicion. But wishing these meetings would go away will not work, since the corporate elite shows a great deal of appreciation for their informal networks. Given the non-corporate nature of many of these meetings, there is not as strong an incentive to retrench from these interconnections as there is, for instance, with executive board interlocks. And as long as the visibility of informal networks remains low, the corporate elite keeps using them for the advancement of business and group interests.

5
Formalisation of Governance

Introduction

So far, the focus of this book has been on the (re)configuration of networks as a proxy for the social embeddedness of corporations and the corporate elite and as an opportunity structure for coordination. This approach rests on the assumption that (changes in) the structures of corporate board overlap and elite interaction bear significance on the way in which corporations are governed. This chapter provides insight as to how the shifts in governance networks impacted the way the corporate elite govern and supervise the corporations. The question this chapter tries to answer brings us back to the issue of shifting corporate regimes. The basic question is whether and how the Dutch corporate regime is losing its characteristic Rhenish form. Insights from the previous chapters suggest that the Dutch corporate regime is shifting from relational capitalism towards a more liberal market-oriented capitalism. The disentanglement of corporations from their interlocking directorates and the retreat of executives from this network in particular are indications that Dutch business is organising itself along Anglo-American principles. The old boys network, long a bastion of elite integration, is falling apart. In the current, more liberal-market-oriented economy, brokerage has replaced social closure as the dominant characteristic of the interpersonal network configuration. Corporate directors have become enterprising individuals rather than members of an elite group. At the same time, the existence of informal elite networks showed that social networks remain part and parcel of the everyday life of the corporate elite. Yet inner circle members maintain that the Dutch corporate community has disappeared.

Corporate governance was introduced in chapter 1 as a concept with legal, relational and socio-cultural components, and it was argued that the embeddedness of firms and directors within social networks might be an elementary piece of the puzzle of institutional change. Following Culpepper (2005), it was argued that while structural conditions create the possibility for change, they do not trigger change, nor determine the outcome. Rather, as network structures change, the unwritten rules of the corporate elite

might change. A *shared belief shift* takes place when the corporate elite redefines their shared perceptions and common norms, allowing institutional change to take place. This chapter aims to uncover these shared perceptions of the corporate elite by using the interviews introduced in the foregoing chapter.

Any marketplace needs a set of rules and regulations in order to function properly and effectively (see chapter 1). Aside from the law, which draws a bottom line in many cases, norms of appropriate behaviour are important to the functioning of any market economy as well. They mark boundaries of what is deemed to be desirable by the corporate elite. However, the corporate elite is increasingly losing its autonomy vis-à-vis investors and society. Unwritten rules of behaviour are no longer considered to be a valid disciplining mechanism. Rather, a system of common norms needs to be explicated in documents and codes of conduct. Long-standing notions of what should and should not be done in business have to be renegotiated and spelled out in formal codes.

This formalisation of norms is a novel development in Dutch corporate governance, since directors traditionally had a fair amount of leeway in conducting their business. During the mid-1980s, a document became available that lists recommended behaviour for outside directors ('The supervisory director: recommended rules of behaviour', Glasz 1986). Yet, the author made it explicit that this publication was an attempt to formulate a framework for new supervisory directors, such that they familiarise themselves with common norms of behaviour and practices. By no means did these recommended rules of behaviour serve to formulate a set of binding rules. By the 1990s, however, the tables turned. The call for transparency forced the corporate elite to formalise norms of proper governance in codes of conduct. Thus, in 1997, a list of forty recommendations for good corporate governance was drawn up by a committee of experts, chaired by former Aegon CEO and collector of outside positions J.F.M. Peters (Commissie Corporate Governance 1997). Five years later, an evaluation (NCGS 2002) made it crystal clear that these 'recommendations' had not resulted in any significant change (see also De Jong et al. 2005b). Consequently, a more stringent – but still principle-based – code of corporate governance came into being: the Tabaksblat code (Commissie Corporate Governance 2003). By means of such codes of conduct, proper forms of corporate behaviour are spelled out. All around the globe, corporate governance codes were drawn up (the website of the *European Corporate Governance Institute* provides a list of all codes: *http://www.ecgi.org/codes/all_codes.php*).

In the next section, the perceptions and experience of the corporate elite themselves are used to gain insight as to the way in which corporate boards' functioning has altered. Three potential triggers for this change towards formalisation are subsequently discussed. First, the internationalisation of cor-

porate boards changed the character of governance and of the corporate elite. Second, the tenure of executives is further investigated as a trigger for change in the way in which directors relate to their firms and colleague. And third, the increased accountability and risks are taken into account as a driver for the formalisation of governance. The formalisation of governance leads to codification of formerly informal common norms. This is investigated by looking at corporate social responsibility. In particular, the section investigates how the relational configuration of the corporate elite plays a role in this reinstitutionalisation of corporate norms. Finally, before ending the chapter with a conclusion, the increasing remuneration packages of the corporate elite are discussed. Building on the foregoing sections, it is argued that remuneration has become a form of status attainment for the corporate elite.

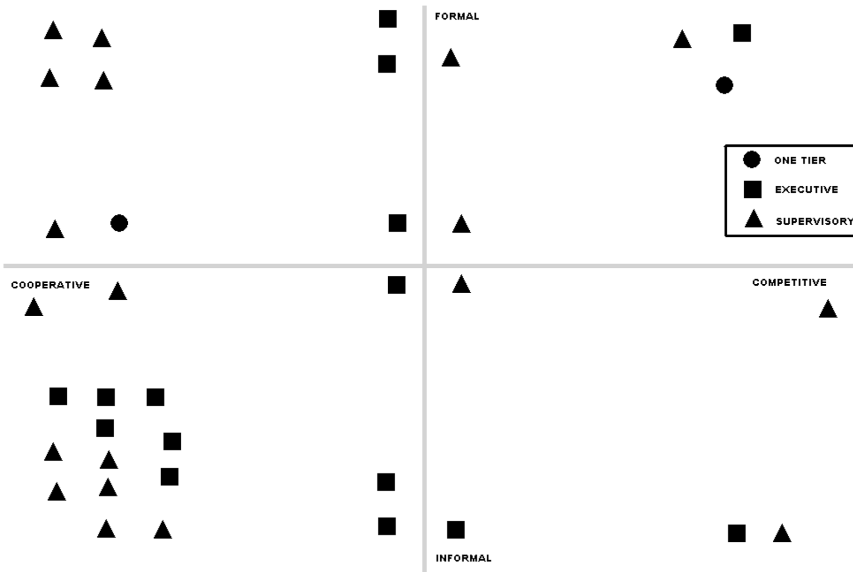
Formalisation and Competition

The growing attention for formal codes of corporate conduct signal a more general trend of formalisation, perhaps even in the way corporate directors relate to each other. In order to gain insight into the atmosphere of Dutch corporate boards, all interviewees were provided with a handout that resembled figure 5.1. The figure contains a space with two dimensions. The first dimension spans the range between a cooperative atmosphere on the one hand, and a competitive one on the other. The second dimension runs the gamut from a formal meeting to an informal meeting. The interviewees were asked to indicate how, in their view, the board meetings they attended could be positioned on the intersection between the two dimensions. A univocal result in favour of one of the possible atmospheres would indicate consensus amongst the corporate elite.

Figure 5.1 shows the results of this enquiry. Bear in mind that the answers are an ordinal scale; the directors had only three possible scores per dimension. Therefore, there are only nine possible combinations. The squares refer to executive board meetings (*Raad van Bestuur*), and the triangles to the meetings of the supervisory board (*Raad van Commissarissen*). The two circles refer to one-tier boards. The circles close to the axis are neutral on that respective dimension. Since all board members interviewed had served on at least two boards, there can be multiple observations per person.

All nine combinations within this scheme were mentioned more than once, except for the option 'neutral-competitive', which was only mentioned by one respondent. Clearly, big differences exist between the different boards. Yet notwithstanding the variety in observations, one-third of the interviewees felt that the board they are a part of is best described as cooperative and informal.

Figure 5.1: Styles of Board Governance



To some extent, these observations should be interpreted as a socially preferable answer. One supervisory director of a number of firms anticipates a normative judgment when he explains his position:

> What strikes me is that in all the boards I sit on [...] [the atmosphere] is not competitive. No, it is not formal at any of them. [...] And I really mean that. I'm not just saying this because I like doing it. It is not a normative position, it is actual fact.

A dominant proportion of the corporate elite still has a preference for the co-operative, informal style of board meetings. According to the interviewees, only one out of six corporate boards have a competitive atmosphere. Many of the directors emphasised that competition amongst members is the worst thing that could happen. It is up to the chairmen to reduce competition amongst board members.

> Yes, there is always one who tries to be competitive. But you have to keep them on a short lead: they are bad news. You always have these people who want to be mentioned in the minutes of the meeting. The best thing to do in such cases is to draw up the minutes in such a way that they no longer include names (former CEO and president of a few large firms).

And another executive director adds:

> Staying away from polarisation, that is typically Dutch. We tend not to polarise. [...] So you have to be firm, and you have to be critical, but you don't do so as if you were the constable of the corporation. You do it with respect for the executives. [...] Professional collegiality with respect for each other's position. That is typically Dutch: not very hierarchical.

The interviews suggest that there is still a general preference for rather informal and cooperative settings.

The findings presented in figure 5.1 are, of course, a static representation. And without a comparison over time, sound judgements cannot be made about whether or not change has taken place. However, the interviews do give additional insights as to the developments and changes taking place within board atmospheres. While no consensus exists on the level of competition, the interviewees agree that board meetings are becoming more and more formal. The predilection for an informal meeting notwithstanding, many directors feel that the atmosphere in the boardroom is more formal than before.

Formalisation is an over-arching element of the shift in corporate governance sweeping through the Dutch corporate elite at the turn of the century. But what caused this formalisation? It seems too easy to state that the dismantlement of corporate elite social networks resulted in more formal corporate governance. Rather, the disembedding of firms and directors made the changes, as they took place, possible. Next to the dismantlement of the networks, there are three distinct, yet related, developments that triggered the formalisation.

First, the dismantlement of corporate social networks went hand in hand with an increasing and ongoing internationalisation. Foreign directors increasingly flock to the boards of Dutch corporations. This heterogeneity in national backgrounds has an impact on the feeling of we-ness amongst the corporate elite, as the next section will argue. Second, the tenure of corporate directors, in particular executives, has decreased over the past years. Directors are increasingly held responsible for the (relatively short-term) performances of corporations, which contributes to the formalisation of corporate governance. Third, and related to the second point, the widely shared observation of an increased formalisation of board practices is in and of itself the result of more stringent rules and norms of accountability as formulated in codes of conduct.

The next sections investigate these three developments and their influence on the formalisation of corporate governance. After dealing with the causes, we turn to the consequences of the formalisation of governance, and

in particular to the formalisation of a common norm system. On the one hand, writing down rules of appropriate behaviour might prove to be the first step in making firms and directors to act responsibly. Therefore, 'corporate social responsibility' (CSR) will be examined as a case of the formalisation of norms of appropriate behaviour. However, a side effect of formalisation is that it implies a shift from principle-based governance towards rule-based governance. The importance of principles (or norms) in corporate governance becomes strongly related to the extent to which these principles are formalised. A case in point is the remuneration of the corporate elite, which resists formalisation. Fierce criticism from society notwithstanding, the income of corporate directors has increased spectacularly in recent years. This increase can be directly related to the disintegration of a common norm system among the corporate elite.

Internationalisation of Boards

Traditionally, Dutch firms have relatively large numbers of foreign corporate directors. Binational firms such as Unilever (Anglo-Dutch), and multinational firms such as Philips, accounted for a fair share of foreign representation on Dutch boards. Consequently, during the 1970s, Dutch firms were relatively central within the international network of board interlocks (Carroll and Fennema 2002; Fennema 1982). As such, the Netherlands is comparable to 'small industrial systems' such as Switzerland and Sweden (Ruigrok and Van Tulder 1995). Due to the small home market, the narrow supply base in the country of origin, and the weak bargaining position of corporations vis-à-vis labour, firms in these industrial systems are encouraged to expand internationally. By the turn of the century, 79 per cent of sales for the largest listed firms in the Netherlands took place across the borders, a percentage which is much higher than the European average of 61 per cent. Similarly, 64 per cent of shares were in foreign hands, compared to a European average of 31 per cent (Heidrick and Struggles 2003). However, by the mid-1990s, global corporate players were strongly connected to their home market. By and large, the boards of international-oriented and operating firms in Japan, the USA, France, Italy and Germany were filled with natives. 'The international composition of the management board in many cases still seems to be in an "infant stage"' (Ruigrok and Van Tulder 1995, p. 157).

The inflow of foreign board members in the Netherlands mainly took place during the 1990s. Still in 1987, only four per cent of Dutch board members had a foreign nationality (mainly at the binational firms). Ten years later, this number had increased to 12 per cent (Van Hezewijk 2001). In 1996, one out of four board members of the 25 largest listed firms in the Netherlands were foreign, and by 2002, half of all executives and 40 per cent of all supervisory directors were non-natives.[1] By 2002, all but one of the 25

largest listed firms had at least two foreign directors. Overall, larger firms attract more foreign directors. But still, trends of internationalisation can be found as well among the top 45 listed firms, excluding the bi-national firms Shell, Unilever and Fortis. In 1990, only 4.6 per cent of these firms had foreign directors, while by 1999, 11 per cent had foreign directors among the highest ranks (Heijltjes, Olie and Glunk 2002). Foreigners have replaced Dutch directors in both executive and supervisory positions. Interestingly, this inflow of foreign directors over the last years of the twentieth century is the result of increased levels of merger and acquisitions, rather than an emerging international market for corporate directors. Only a few foreign board members were recruited from outside the firm (Heemskerk 2004a).

Contrary to their Dutch colleagues, foreign board members typically do not hold multiple positions. The substitution of foreign directors for Dutch directors therefore adds to the decline of the national network of interlocking directorates. At the same time, the inflow of foreign directors makes corporate boards more heterogeneous. In the process of internationalisation, most of the corporate elite's common background and upbringing are lost. The disappearance of the old boys network swept away much of the social similarity and cohesion of the corporate elite, and the inflow of foreign directors finishes this process. The pace of this process is a bit hampered because foreign directors are usually not the extreme opposite of a typical Dutch director. A supervisory director reflects on this, stating that,

> You see, the Americans I know, they are not at all like the Americans you would picture if you think about entrepreneurs. They are just friendly, nice people who are not solely concerned with the profitability of the corporations, but who also think in terms of continuity, who take employees into account. [..] You see, the German supervisory directors that I deal with are completely different from Belgian supervisory directors. And in Belgium there is a difference between directors from Wallonia and Flanders. I must say, it isn't as much fun as it used to be.

Due to the heterogeneity in board composition, board meetings are not as pleasant and cosy as they were before for the remaining Dutch board members. With English as the official language, and more and more non-Dutch members, boards lose their national distinctiveness. With one or two foreigners on a board, their impact remains small, but when the balance shifts further, significant changes in the boardroom atmosphere take place. A truly internationalised board needs several foreign directors:

> If you have one foreigner on your board, it becomes much more difficult. Because, the Dutch, they have this way in which they conduct their affairs. And you simply can't go against that. But with five for-

> eigners the situation is different. So you are mistaken if you think that you have an international board if two out of twelve directors are foreigners. It really has to be... it doesn't have to be more than half, but it should be a significantly large faction (director at multiple multinationals).

Dutch corporations are increasingly governed by people who do not have a special interest in the Netherlands. The ongoing process of internationalisation could therefore be the final blow to the already waning Dutch business community. The inflow of foreign directors onto the boards of the largest firms drives away the remaining pieces of corporate elite-wide cohesiveness, reminiscent of the old boys network. As a result, relationships amongst the directors become more formal. And because most foreign members of Dutch boards have an Anglo-American background (Heemskerk 2004a), they add to the installation of Anglo-American practices and ideas in Dutch corporate governance.

The Jostle for Board Seats

A second development that adds to the formalisation of corporate governance is the decreasing tenure of executives. While corporate directors used to hold their seats for years on end, executive board members are increasingly the subjects of the 'exit culture' of shareholder capitalism from the 1990s onward. Executives whose firm did not live up to investor expectations were sent away. This decrease in tenure is a global development. In the period between 1995 and 2000, the worldwide rate of CEO turnover increased by 300 per cent, and remained at that level for the next three years (Lucier, Schuyt and Handa 2004). In 2003, the median tenure of Dutch corporate board members was only three years long (VEB 2003). As a result, the high turnover rate jeopardises the internal, and long-term, executive career trajectory (see chapter 4). As one chief executive officer explained:

> Over the past few years there have been quite a lot of firms that consumed top managers at a high rate. To some extent, an Anglo-Saxon settlement culture has emerged. I do think, when I look around me in the Netherlands, that there is enough management potential. But in saying so, it should be noted that in a number of ways ... you see, if you really get such a burn-out culture, when you use up too many [executive directors], the question is whether it will regenerate as quickly.

High turnover causes high demand for new directors. Typically, within a firm, only a certain number of people are considered suitable and available. Furthermore, prospective board members could take on a job at another company, reinforcing the need for outsiders.

Within the setting of shareholder capitalism, getting 'fresh blood' on the board is widely considered as a positive move. Outsiders (i.e. executives without significant previous employment with the firm) are believed to be more dynamic, charismatic and equipped with vision. According to Khurana (2002), corporate leaders (especially CEOs), are increasingly expected to be charismatic leaders. He argues that behind the growing numbers of outsiders in corporate executive boards, there is an irrational quest for charismatic chief executives. Dutch board members confirm that in the Netherlands, outsiders are becoming more popular as well:

> Yes, I do feel that this is happening more often. That people are brought in from outside, to bring about so-called big changes; a shift in culture (former CEO and chairman of several firms).

The call for more open recruitment patterns, and the appraisal of investors for outsiders created an awkward position for sitting board members. On the one hand, they need to comply with the demands made by investors and financial institutions. At the same time, they feel very uncomfortable with the situation, and fear the increased risk associated with the new recruitment practices. Many corporate directors struggle with the traditional career trajectory:

> [...] sometimes you have to face the fact that your intended successor drops out, because he is recognised elsewhere as somebody with capabilities and talents, and he is able to get a top position there sooner. At the same time, you can't give him any guarantees that he will get the top position here. This brings you in a situation where you have to take in somebody from outside to fill the position. [...] which is usually considered a positive move by the market. 'Outside blood', they say. And now and then this might be useful indeed, but *certainly* not always. And, well you know, with outside people. The grass is always greener on the other side of the fence, and people from outside always look more attractive (former CEO, chairman and supervisory director).

In his perception, 'the market' reacts positively when a company hires an outsider. Because of this appraisal, young professionals and runner-up executives have opportunities outside the company where they received their training. Although outsiders can be very helpful in times of turmoil, they are not able to sustain their position for a longer period of time. For long-term performance, executives need firm-based cultural knowledge and social capital. Figures on European CEO turnover show that 44 per cent of the CEOs that left their company in 2003 were 'outsiders'. 70 per cent of this group were, in fact, forced to resign; a high rate compared to 'inside' directors (Lucier, Schuyt and Handa 2004, p. 14).[2]

The career trajectory of the corporate elite is becoming unstable. While a preference for in-house recruitment and training remains, boards are increasingly forced to recruit from outside their own ranks. Applauded by shareholders, outsiders are supposed to be of great value to a firm. And in many cases, they surely are. But the increased possibility of shifting from firm to firm has its impact on the loyalty of executives towards their firm. Where Berle and Means (1932) pointed out the consequences of a shift from management by owners to management by hired professionals, we now see that large parts of the managerial cadre is even more detached from the corporations they control. Job opportunities and job insecurity go hand in hand, stimulating corporate elite members to focus on their individual interest, rather than group-wide or corporate interests.

Accountability and Risks

The third contribution to the formalisation of governance lies in the increase in accountability and liability of the corporate elite. Executives, as well as supervisory directors – whose positions and accountability have been undefined territories for long – are increasingly held accountable and liable for the actions of their firm. Scandals of fraud and mismanagement (Worldcom, Enron, Ahold, Parmalat, etc.) that plagued the corporate elite around the turn of the century made many directors aware of the risks of informality and the need for accountability as well. As one CEO of an industrial firm explains:

> We have all become more formal, and everybody is much more aware of their own role and responsibilities.

The board members all agree that change was indeed necessary. Many underline problems, particularly in regard to supervisory boards. The supervisory board used to have the role of advisor. An invitation to join a supervisory board was a sign of prestige within the corporate elite. One director reminisces that twenty years ago, it was not normal to ask critical questions at all.

> I still remember the time when supervisory directors were reading the documents during the meeting. Fourteen or fifteen supervisory directors, half of whom did not bother to show up at all during the meeting. Well, that's just not possible anymore. As a supervisory director, you have to participate in all kinds of committees, and there you better make sure that you have read your documents damn well. And the amount of information you receive is simply too much to work your way through whilst enjoying a drink. And if you don't read everything,

> you will be found out immediately and everybody will know that you failed to read them. Everybody remains polite, but they won't take you serious anymore. No, you'd rather have a supervisory director who asks annoyingly critical questions (executive at a multinational corporation).

Nowadays, the ideal supervisory director is a stern friend, who is able to give critical comments. And in reaction to the failures in corporate governance, directors want to show that they are involved in the business of the corporation; that they are not to blame. Formalisation of governance practices is one answer to the growing demand for accountability. A former CEO and chairman of multiple boards comments:

> The changes in liability, and the recent changes in corporate governance are such that you are forced to do things more formally.

As one way of defining responsibilities, the installation of board committees helps – if not forces – directors to focus and pay attention.

> [...] everybody is much more aware of their own role and responsibilities, I reckon. [...] A supervisory board has its own responsibility and its own supervisory role. And this is being formalised; there is an audit committee, a remuneration committee, etc. (CEO and supervisory director).

Board members make clear that the recent attention to corporate governance has had real implications for their daily lives as executives and supervisors. Board members are caught inside a glass cage these days.[3] Board members feel that they are in the spotlight, and this position is a rather dramatic change from how things were before:

> I believe that where we are now, everything is becoming more formal and more businesslike. More critical questions are raised, more often the finger is put where it hurts most. [...] I think that everyone is more sharply aware of one's role. Consequently, the degrees of freedom of a supervisory board, and equally so for an executive board, are limited (executive and supervisory director).

The degree of freedom for board members has diminished. In other words: the corporate elite cannot easily get away with problems, mistakes and shareholder- unfriendly behaviour in general anymore.

As a result of increased personal accountability, board members become more averse to risk. This leads to the awkward situation that supervisory

directors temper the entrepreneurial spirit of the executives. Since risk is a crucial element in managing a company, increased accountability can lead to problems for a firm. One chief executive officer describes the situation as follows:

> Well, the change [...], that everything becomes more formal. I think it is because all these things that have happened, right, over the last few years. Supervisory directors will now – not that they didn't pay attention before – pay even more attention. Also to make sure that they can't be blamed themselves of course.

Directors try to hedge increased risks and responsibilities. In the corporate governance regime that is unfolding, directors can no longer hide behind the collective of the board. It is no longer a group who acts together, but directors who act as individuals on a board. Every person who sits on a board must be able to defend themselves, because at any given time, shareholders or the media can knock on his door and ask him to account for his company's policy. The same CEO thinks that

> a hint of fear has sneaked in. That people are reluctant to take risks. On the one hand this is a good thing: I am a better supervisor. But it also has negative aspects. If the result is that companies are less likely to engage in enterprise, then it is a bad thing.

In response, he was asked whether he thinks that the balance has been lost.

> I do think that over the past two years the balance has tipped a bit too much in favour of risk-avoiding behaviour. That will gradually come back, probably. But what I hear and experience is that there is a large difference with a few years back with regard to the extent to which supervisory directors dare to accept risks. And taking risks is, of course, part of doing business.

Taking risks is an elementary part of doing business. But outside directors are more eager to hedge their personal risks than to assure a fruitful company policy. Supervisors are in the defensive mode. In these days of increased media scrutiny, it is no longer sufficient to do the correct thing or act in the right way; one has to be seen as doing so. Appearance and visibility become more important than prudent behaviour. In reaction to these developments, board members continue to stress that they are not omnipotent, and that there is a limit as to what can be expected from them. As supervisors, they just cannot avoid allowing mistakes to slip through:

> The ideas that circulate that a supervisory director is some kind of super inspector who, when provided with enough power, can steer the company clear of every obstacle, is just naive. Whether you operate within the American system or within the European system [a supervisory director] can only allocate a small part of his time to the corporation. And he will always be less informed than the executives; this is unavoidable. [...] To give him more and more power, hoping things will change for the better, I just don't buy it. I don't buy it (CEO and supervisory director).

The corporate elite express concern about the developments in Dutch corporate governance. They recognise the importance of increased responsibility, but they do not necessarily see the benefits. Leaving behind the informal setting of the board meetings has its downside, and the corporate elite is keen on pointing this out. The formalisation of corporate governance,

> doesn't mean that the decisions are better. As a consequence, they might even be formulated too strict, so that people don't really know how to deal with them. On the contrary, in an informal discussion, all the nuances and related issues will be discussed briefly as well. 'Did you think about this, did you consider that?' And only then will the formal decision be made (former CEO and chairman of several firms).

Much against the liking of the corporate elite, corporate governance has become more formal. The inflow of foreign directors, the decrease in tenure and the call for accountability has caused a formalisation process within corporate governance.

The formalisation of corporate governance effectively implies an incremental shift from a principle-based system towards a rule-based system. In a number of areas, the common norm system of the corporate elite is formalised in codes of conduct and reported in the annual report. One of these areas is corporate social responsibility, the topic of the following section. In other cases, however, the common norm system becomes blurred and principles are lost. For instance, this is the case in the field of remuneration, addressed in the subsequent section.

Corporate Social Responsibility[4]

Codes and lists of best practices serve to re-institutionalise expected behaviour now that the means for social control have largely vanished and the call for external accountability increased. In a number of areas, informal behavioural norms amongst the corporate elite are replaced by formal codes of conduct. An exemplary case for this process is the rise of 'corporate social

responsibility' (CSR). Basically, CSR conveys the message that there is more to corporate governance than a focus on profits. Yet it does so without attacking the basic premise of shareholder supremacy. In short, the argument is that investing in stakeholder relations and acting socially responsibly will, in the long run, add to the profitability of firms. CSR acknowledges that companies should deliver a positive contribution to economic, social and environmental development (OECD 1999; Van Ballegooijen 2005). Companies should integrate social and environmental concerns into their business operations and in their interactions with their stakeholders on a voluntary basis (SER 2001, p15).

CSR is effectively an attempt to reconcile social justice and legitimacy with a shareholder orientation of a liberal-market economy. A publisher summarises it well in an advertisement for the book *Corporate Social Opportunity* (Grayson and Hodges 2004). 'Don't be misled by the word *social* in the title', it reads. 'This is a book about how to improve corporate performance and gain competitive advantage'. In a somewhat surprising and dialectic way, the rise of shareholder interests led to the renaissance of stakeholder orientation. In the Rhenish form of capitalism, the diverse interests of labour, capital and management form the basis for corporate policies and strategies, both at the firm level and at the level of the Dutch corporate regime (see chapter 1). In a shareholder-oriented system, however, the interests of the suppliers of capital triumph over other interests. Labour and management are supposed to serve the interest of the shareholders, which is, proponents argue, a benefit to all. In a way, CSR emerged as a reaction to the one-sided focus on shareholder interests.

There have been ample attempts to uncover any relationship between financial performance and corporate social responsibility from the 1960s onward. The results, however, are mixed at best. A number of studies find no positive or negative relationship whatsoever (Arlow and Gannon 1982; Aupperle, Carroll and Hatfield 1985). Other studies argue a positive relationship does exist, but the empirical results they offer are weak and without consistency (Balabanis, Phillips and Lyall 1998; Cochran and Wood 1984), or find that *prior* performance is more closely related to CSR than *subsequent* performance (McGuire, Sundgren and Schneeweis 1988). Some findings show that investing in firms that act socially responsibly leads to superior portfolio performance (Derwall et al. 2004), yet other scholars argue that positive findings are due to misspecifications in the modelling of the relationship (McWilliams and Siegel 2000). There is no telling whether firms perform well because they are implementing CSR practices, or that well-performing firms are the ones that implement CSR practices. The impact of CSR policies on corporate performance is thus highly debateable and questionable at least. This observation stirs the question why corporate directors would implement such a policy: since no clear economic rationale is pres-

ent, it seems to make no sense to spend resources on drawing up and implementing CSR policies. Yet, corporations are increasingly involved in CSR (KPMG 2005).

In a way, corporate social responsibility is similar to hygiene. It is a minimum standard, or bottom line, that everyone should adhere to (Meijer and Schuyt 2005). If this bottom line is met, nobody will talk about it, but if it is not, the firm will receive bad publicity and, potentially, problems will arise.[5] Thus, firms are slowly becoming receptive to critique from committees and activists.[6]

To some extent the popularity of CSR can be understood if one takes possible harm into account. The conflict between Royal Dutch/Shell and Greenpeace about the disposal of the oil storage and tanker-loading buoy 'Brent Spar' in 1995 is a case in point. On the basis of expert opinions, Shell decided to sink the platform in a deep trench in the Atlantic Ocean. Greenpeace fiercely objected, and instigated a consumer boycott against Shell in Germany. With the pressure on Shell reaching extraordinarily high levels, Shell decided to give in and dismantle the platform in Norway. This incident has been a warning to the corporate elite ever since. The strength of public opinion is not to be underestimated, and the debate cannot be won on technical grounds alone.

The mixed results of attempts to uncover a relationship between CSR and financial profitability, together with the examples such as that of the Brent Spar debacle, leaves the Dutch corporate elite divided on the issue. No agreement exists about the importance and relevance of CSR. There are *promoters* and *sceptics* of CSR among the corporate elite. On the one hand, there are those who do not take CSR too seriously. These sceptics do not see the added value CSR can bring to the success of a company and generally think about it in terms of a hindrance. According to them, companies promoting CSR are only paying lip service.

> All firms must act socially responsible. Yes, there is a lot of lip service. Socially, what does that mean? What would you have done differently; is there any other way you might have done it? No, corporate social responsibility is not an issue (director at a predominant business-to-business firm).

Sceptics feel that CSR is a hype, and that the concept is merely used as a marketing tool. As one supervisory director bluntly stated:

> This bullshit about CSR, it is mere fashionable twaddle. It is a notion of an ephemeral nature.

They clearly state that profit and continuity are the most important objectives.

> Again, a corporation is about profit and continuity; you can debate it for hours on end but that will accomplish nothing. All that fuss about social issues and corporate governance is exaggerated (supervisory director).

For sceptics, decent behaviour is no more than abiding the law. They stick to a ruled-based concept of governance, where everything that is not prohibited, is an opportunity. In as far as sceptics are receptive to the phrase social responsibility, they relate this to their employees and the human resource strategy of their firm.

The second, and larger group, are promoters, who state that CSR contributes to total welfare and that all companies should practice it.

> In my opinion a firm is a social organism, and a firm must provide an optimum contribution to the workings of society. This is accomplished by making products and providing services which are of actual use to people, and doing so in a manner that is considerate of other people and your surroundings. That's the position you should take in life (supervisory director, without experience as corporate executive).

Promoters believe that CSR contributes to the value of the company. They make the distinction between complying with legislation and CSR.

> If something is formalised in legislation, then I don't consider it part of CSR (former CEO and supervisory director).

These directors point out that their companies aim to comply with legislation, but at the same time, set higher, self-regulating standards in the form of codes of conduct.

> First, we have a number of core values. Secondly, we have a code of conduct. From the higher echelons, we point to a number of issues of which we say, this is what we should adhere to. Issues such as corruption and the environment. It is about stating that you should at least comply with laws and regulations everywhere, but that in fact you should do a bit better than that (CEO and supervisory director).

The openness and formalisation of principles of proper behaviour makes it possible to implement a corporate-wide strategy based on these norms. At the same time, documents and reports are used to show outsiders that CSR is taken seriously. The implementation of CSR policies and strategies is a struggle of the firm in a 'multi-stakeholder dialogue'. Promoters recognise that implementing CSR goes well beyond 'box ticking'.

You can't comprehend business principles of sustainable development in texts and rules. You must try to translate it into the culture of your organisation. If they are merely rules, you run the risk of form over substance (former CEO, chairman and supervisory director).

The Dutch corporate elite is divided on the issue of CSR, but can we discern particular characteristics between promoters and sceptics? Chapter 3 argued that those directors who are central in the network of board interlocks have a certain role in the distribution of new ideas and norms. In particular, big linkers play an important role as 'ambassadors of business'. Business-wide interests, as opposed to the interests of particular firms, particularly inspire these members of the corporate elite. The daunting task they face is to change the belief system of the corporate elite – the common norms – and to persuade the corporate elite that CSR is in the interest of business at large. In order to get this message across, central actors need to commit themselves to this new agenda. This shift is already on its way, as one supervisory director observes:

What I observe is that previously, topics such as the environment were regarded with sneers and snickers. That's gone now. [...] One is not taken seriously if they don't know anything about the environment, or working conditions. [...] You don't get any esteem in your network if you don't have an opinion about that, if you don't act on it.

Peer pressure and social embeddedness appears to be of importance for the way in which the corporate elite positions itself towards topical issues such as the environment. This observation raises the question whether the *position* of a director in the corporate elite network has influence on the susceptibility to, in this case, corporate social responsibility?

In order to investigate the relation between network position and attitude towards CSR, the centrality of the directors is coupled to their position on CSR. Degree centrality is a measure for the number of one's connections. Directors with a high degree of centrality are more embedded in the social network. Table 5.1 shows the distribution of network centrality for sceptics and promoters of CSR policies.[7] Sceptics do not meet many other directors. All interviewees with more than average levels of centrality are supporters of CSR. Sceptics are marginally embedded in the Dutch business community, while promoters are relatively more embedded in the Dutch business community. These findings are in line with the expectation that central interlockers push the agenda of CSR. A closer look into the group of promoters reveals another interesting aspect. Promoters can be found amongst all ranks of centrality. This observation indicates that CSR is steadily endorsed across the corporate elite.

Table 5.1: Network Centrality and CSR

Centrality (degree)		Sceptics	Promoters	Total
Marginally embedded	(0-29)	2	4	6
Embedded	(30-45)	4	2	6
Well embedded	(46-79)	0	6	6
Highly embedded	(80-105)	0	5	5

The differences among the corporate elite on the issue of CSR, together with the previous findings of declining social networks, makes us wonder about the shareholder orientation of interlockers. How prone are the interviewees to support shareholder orientation over stakeholder orientation, and subsequently, how does this relate to network position and support for CSR? A set of questions during the interviews were asked to reveal whether interviewees were exclusively oriented towards shareholders, or whether they considered the interests of a wider set of stakeholders. A thorough investigation of the answers of the interlockers made it possible to divide the interviewees into two groups: stakeholder-oriented directors and directors that focused primarily on shareholders. As it turned out, both groups were of equal size. The corporate elite is indeed divided, and should not be considered to be a homogeneous group. Whereas one group adheres to a stakeholder orientation, a similar group feels that corporate strategy should be exclusively aimed at serving shareholder interests.

As a next step, we can create a cross tabulation of relationships between directors' perceptions of CSR and their management orientation (table 5.2). It comes as no surprise that all but one of the directors who state that they adhere a stakeholder orientation also promote CSR. Similarly, all but one of the CSR sceptics holds a shareholder orientation. There is, however, a divide amongst the promoters of CSR. While the majority of the promoters has a stakeholder orientation, a large minority has a shareholder orientation.

Table 5.2: Management Orientation and CSR Preference

Management orientation	Sceptics	Promoters	Total
Shareholder	5	6	11
Stakeholder	1	11	12

We know that sceptics are not highly embedded in the board overlap network, but promoters can be found across all levels of centrality. This observation warrants a closer look at the promoters. Table 5.3 looks exclusively at the promoters of CSR, their centrality and management orientation. It reveals a striking finding. Almost all of the promoters are stakeholder-oriented; only one group stands out. These are the highly embedded promoters, who meet over 80 people in the network of board overlap. While most promoters are stakeholder-oriented, promoters with highly central positions in the network are in fact shareholder-oriented. Apparently, the most central interlockers combine a support for CSR with a shareholder orientation. They do not question shareholder supremacy; yet do see the need to complement a univocal focus on shareholder return with CSR.

Table 5.3: Promoters of CSR: Network Position and Stakeholder Orientation

	Stakeholder	**Shareholder**
Marginally embedded	4	–
Embedded	1	1
Well embedded	6	–
Highly embedded	1	4

Corporate social responsibility is now widely considered to be a wise cause of action by many members of the corporate elite. Central interlockers promote CSR, in conjunction with a shareholder orientation. At the same time, the findings also suggest that directors with fewer connections in the corporate elite are also less susceptible to these new norms of appropriateness. The popularity of CSR must be understood as an attempt to reconcile a shareholder orientation with social responsibilities. The support of many central actors within the corporate elite ensures that CSR is now part and parcel of the norms of appropriateness of large parts of the corporate elite. Codification and formalisation of these notions of proper behaviour are considered necessary and are seen as an opportunity. This sense of urgency, however, has not been the case in fields where norms and principles play an important role. The following section investigates the – in many ways opposite – case of increased remuneration of the corporate elite.

Remuneration as Status Attainment

Contrary to CSR, the (increase in the) income of the corporate elite defies regulation. In the period between 1996 and 2003, conservative estimations speak of a 60 per cent increase in remuneration, while less conservative

reports speak of a 110 per cent increase (Fennema and Heemskerk 2005). The median total cash income of the directors of the largest firm in 2001, as reported by the employers' association, was between 820 thousand and one million euros (Hay/Towers Perrin 2001). In 1983, the median total cash income of board members of the largest Dutch firms was 232 thousand guilders (NCD-HAY 1983); 166 thousand euros at the present day value.[8] To put this in perspective, if the corporate elite followed the general increase of wages under collective agreements, the median total cash income of an executive would have been approximately 239 thousand euros by the turn of the century. The actual income is about three and a half times larger. The spectacular growth in income is difficult to understand if one sees wages as an outcome of a liberal market mechanism where price is determined by the interplay of supply and demand. Could supply of managerial skills lag so far behind demand?

During the 1980s and particularly during the 1990s, remuneration became an instrument to provide directors with incentives. A well-balanced mix of short-, mid- and long-term incentives is intended to guide and discipline top executives to act in the best interest of the shareholders. This innovation caused the increase in remuneration. A positive relationship between these innovative remuneration packages and firm performance is usually presupposed. However, recent research puts serious doubts on this claim. Bebchuk and Gribstein (2005) investigated the increase in remuneration of top executives of 1,500 firms in the USA during the period 1993 to 2003, and showed that the average CEO income increased by 166 per cent. Only 40 per cent of this increase can be explained by firm growth and increased firm results, and a similar gap between pay increase and performance of 20 per cent exists for the group of top five executives. Therefore, Bebchuk and Gribstein conclude that the increase in pay must have reasons beyond accelerated firm performance.

It might be worth pointing out that the amount of capital appropriated by the corporate elite amounts to a very significant level, at the expense of investments in the firm, employees and shareholders. At the level of individual firms, the remuneration of top executives has no significant impact on the dividend per share, which removes the incentive of shareholders to act against these high levels of income. However, for the economy as a whole, this is not the case. During the period 1993-2003, a total of six per cent of the net income of the firms in the USA was remitted to the top five executives of these firms (Bebchuk and Fried 2005). Furthermore, if payment failed to fully discipline the corporate elite as it is supposed to do, increased remuneration might be conceived of as a sign of the power position of corporate directors. A strange situation emerges: one in which shareholders believe that corporate governance practices with respect to remuneration serve their interest, yet it is actually a reflection of the increased power position of managers vis-à-vis shareholders.

The openness and transparency about executive pay, forcefully put forward by shareholder activists, drive the increase in income. According to best practices in corporate governance, transparency is crucial, and remuneration is no exception. Thus, listed firms are obliged to report the remuneration of their top executives. But as an unintended consequence, increased transparency strengthens the upward trend of remunerations. One director, a chairman at several firms, elaborates on how different the situation today compared to earlier times:

> We never mentioned income. But then we couldn't compare them. We didn't know what they earned at DSM or somewhere else. Sure, at the Royal/Shell a bit more than we did, likewise with Philips. But so what. They were larger. But now the media makes it incredibly easy. They simply list them in the papers. And there you have your ranking. Who gets most, who is second, and third and fourth. It was inevitable, because the public demanded it. But the results have been disastrous; it created a rat race (former CEO, supervisory director and chairman).

An increase in executive payment for company A leads the directors of firm B to demand a pay raise as well. After all, they do not want to earn less than their peers (and by definition, 50 per cent of al directors are paid below the median). When it comes to top executives, everyone seems to perform better than the average, legitimising the continuous increase of income.

The mechanism of *mimetic desire* leads to a rat race. The corporate elite are not so much occupied with the total amount of their remuneration, but are rather occupied by the relative amount they earn in comparison to colleagues and competitors. One officer at a remuneration consultancy company describes the issue well:

> When a director feels he is doing his job well, he figures that his market value has increased. And he wants to see this translated into money, although he doesn't need it of course. A million euros salary has nothing to do with additional purchasing power. It is all about esteem, status and the pecking order.[9]

Due to the increased (external) democratisation and the formalisation (or professionalisation) of the corporate elite, members have but one way of relating to each other, and that is in monetary terms. Social background and cultural capital are less important for a corporate career than they were a few decades back. The current corporate elite is no longer recruited from Dutch aristocracy or elite circles anymore. The composition of the corporate elite is much more heterogeneous, and this democratisation stimulates the fear for a loss of status. Seen from this perspective, the increased remunera-

tion directors receive is a form of 'social hedging' against the (perceived) increase in risk.

The remuneration is a form of social hedging, in the sense that the corporate elite tries to safeguard itself from a drop in status by adopting stock options, golden parachutes and large pension schemes. In this manner, social standing is replaced by income, family name by pay slip. The corporate elite no longer see their revenues as a compensation for their labour, but as an expression of their status position amongst the corporate elite. Income is not the result of supply and demand on a labour market, but of the result of an ability to appropriate corporate profits.

It is already known that wages are not solely the outcome of demand and supply. Even Adam Smith argued that, 'wages of labour vary according to the small or great trust which must be reposed in the workmen' (Smith 1776/1993, I.10). High trust jobs such as that of physician, lawyer or attorney, and surely also that of CEO of a very large firm, come with high levels of confidence. Therefore, Smith argues, 'some trades, e.g., that of a banker, may be necessarily confined to persons of more than average trustworthiness' (ibid., footnote b16). 'Such confidence could not safely be reposed in people of a very mean or low condition', Smith argues. 'Their reward must be such, therefore, as may give them that rank in the society which so important a trust requires' (Smith 1776/1993, I.10.22). The current problem, however, is that a one-to-one relationship between payment and 'rank in society' no longer exist. While corporate executives are increasingly smart in extracting wealth from 'their' firms, the social standing of their occupation is dwindling.

Consequently, the meritocratisation and disembeddedness of the corporate elite has unexpected side effects of mimetic greed. The transparency about the income of top executives did result in the shaming and naming of corporate directors. But the corporate elite does not seem affected by this. They do not feel that the critique is justified. After all, so many foreign directors receive even more income. And external pressure on the corporate elite from the media and shareholders has shown to be ineffective. Effective social control of the corporate elite has to come from within circles of the corporate elite, because directors are, first and foremost, oriented towards their peers.

Large parts of the corporate elite have now come to accept extremely high remunerations as legitimate action. Legitimacy is 'a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, beliefs and definitions' (Suchman 1995, p. 574). What is considered to be legitimate, and hence appropriate, is always formulated within social circles. In corporate governance, appropriate and legitimate actions are labelled best practices. The search for common ground through best practices leads to very homo-

geneous practices of, among others, corporate governance. Firms often regulate and design their internal affairs such that it resembles other relevant corporations (Bender 2004). This *isomorphic behaviour*, due to best practices, adds to the legitimacy of a performance-based remuneration program, and means that the corporate elite can easily ignore the discrepancy between pay raise and performance. Meanwhile, the discrepancy between the income of the top executives and the rest of the firms' employees continues to grow, as does income inequality in society at large.

Remuneration has become a means of social hedging, as well as an index of social prestige. With the business norm system undermined, it is up to supervisory boards to prevent a crisis of legitimacy. They, however, are not well equipped to police executives. Some supervisory directors explicitly oppose the current developments:

> We should get rid of a lot of these remuneration structures we introduced. [...] These huge variable parts of the income work counterproductive. [...] We are now pushed to the Anglo-Saxon side, and I am not happy with the current remuneration structure, nor with the way it is composed, nor with the absolute amounts.

But when asked what would happen if supervisory directors step in and lower the remuneration, this director, a chairman of several large firms and a member of remuneration committees himself, responded:

> Well, then you'll have a big fight on your hands with the executives you are trying to cut back.

The corporate elite is not able to control the strong increase in remuneration anymore. The main reason for this is that corporate directors follow individual strategies, rather than group strategies. If the corporate elite is to play a role in limiting the division between the corporate elite and society, a change in the belief system is needed. The corporate elite needs to recognise that there must be a legitimate relationship between the income of the top executives and the income of employees within their firms (and hence society).

Conclusion

As this chapter shows, the corporate elite has changed its behaviour and way of doing as a result of the ongoing changes in corporate governance. The formalisation of the corporate norm system into codes of conduct and best practices has affected the governance of corporations. The most important change in the boardroom atmosphere is an increased formality of meetings.

With the inflow of foreign members, and the disappearance of multiple meetings amongst members of the corporate elite, boards are not that 'cosy' anymore. Board members are becoming enterprising individuals, rather than members of a cohesive elite group in society. Increased levels of accountability, as well as higher levels of turnover amongst corporate executives add to the feeling of risk. Board members are keen to stress the potential harmful impact of these developments on corporate strategy. Changes in governance do not take place because of the impact they have on the profitability of individual firms, but due to isomorphic strategies of firms, and a corporate elite that adapts to changing norms of appropriate behaviour.

Corporate Social Responsibility can be seen as example of the codification of the norms system. So far, the Dutch corporate elite remain divided on the issue of CSR, yet those who occupy central positions in board overlap networks are mostly supportive. For the most central directors, their support of CSR goes hand in hand with a shareholder orientation. These findings leave us to conclude that, even in times of a diminished social network structure, there is still a role for big linkers and central interlockers. These central actors, however, do not appear to influence the ongoing increase in remuneration amongst top executives. Mimetic greed steers the growing income of directors, and the corporate elite as a group is unable to stop this development.

The disintegration of governance networks (see chapters 2 and 3) led to the weakening of the corporate norm system and of the possibilities for social control. Informal networks remain in place, but are fragmented (chapter 4). The result is a reduced 'self-cleaning capacity' of the corporate elite, which made the call for codified codes of conduct more pressing. Furthermore, the decline of network structures reduced the possibilities for coordination and concerted action. The Dutch corporate elite is less able to control the changes in corporate governance as they are taking place. The formalisation of governance does not take place because the corporate elite choose to formalise it, neither is it because they believe formalisation is in their best interest. Board members are confronted with a changing environment, and feel that they are forced to 'go with the flow'. Seen from this perspective, the Dutch corporate elite is 'out of control'.

6

Conclusions

Decline of the Corporate Community

The network of interlocking directorates, mainstay of the national business community, is now disintegrating. After decades of stability, the turn of the twentieth century marks a watershed in the configuration of the corporate elite's social network. Throughout the century, national business communities shaped and sustained corporate governance traditions and practices in industrial capitalist economies. For long, the corporate elite enjoyed a large degree of autonomy. Strong and durable relations between directors and the suppliers of capital ensured an influence of capital through 'voice', as opposed to an influence through the market mechanisms of 'exit'. With relatively clearly defined goals and purposes (continuity and employment), stable relations between finance and industry, and between business and politics as well, the corporate elite was in a luxurious and influential position. But by the turn of the century, the national business community in the Netherlands had largely disappeared.

The break down of corporate interlocks was already set in motion during the mid-1970s. Smaller boards led to a smaller corporate elite, which was not able to sustain the relatively dense network of interlocks that was present during the mid-1970s. Slowly but steadily, corporate board interlocks disappeared. Initially, this disappearance did not affect the connectedness of the network. What did happen, however, was that multiple interlocks (carried by more than one director) decreased in the period up to 1996, rendering the network less cohesive. The decline of corporate board interlocks did not result in a less connected national network until after 1996. In 1976 and 1996, 80 per cent of the top 250 corporations was part of the network of interlocking directorates, but by 2001 this number had dropped to only 55 per cent. The number of interlocks created by executives dropped in even greater number after 1996. Thus, the two periods under study show remarkable different dynamics. The first period (1976-1996) is one of gradual change, driven by the decrease in board members. The second period (1996-2001) shows signs of stark reorientation by the corporations, towards a more liberal market-like corporate reality.

The old boys network as it once existed, is gone. The corporate elite is no longer a status group with common social background. Dutch aristocrats have lost their central position in the corporate elite network, big linkers (those with more than three positions) lost terrain, and directors meet each other less and less in more than one board. The largest corporations in the Netherlands are no longer ruled by a closed group of elite persons, with a shared social background and strong ties of kinship. The corporate elite is no longer a status group, but increasingly a meritocratic economic elite in society. They are related to each other not because of heritage, family background, and shared social circles, but because of a common occupation. In that respect, the old boys network has disintegrated.

Apart from this, one can also analyse the corporate elite with the use of the structural concept of inner circle. The inner circle is the group of directors with multiple positions on the boards of the top 250 firms. Quite different from the socio-historical concept of an old boys network, the inner circle does not presuppose any ties or social cohesion expect for the fact that this group of directors have in common that they all sit on multiple boards. Building on the same foundation of board overlap, the interpersonal network of corporate directors showed signs of decline similar to the inter-firm network. During the mid-1970s the inner circle still integrated the corporate elite through a cohesive and well-connected social network. But at the beginning of the twenty-first century, the network has lost much of its previous social closure, and only a loose network of professionals remained. The social networks are not as closed and inclusive as before, and interlockers increasingly act as brokers between clusters of directors. All in all, the network of interlocking directorates has lost much of its potential for coordination. Corporate board members increasingly act as individuals, instead of members of the corporate elite.

The decrease in board interlocks did not coincide with the dismantlement of informal meetings. Social relationships and networks remain lubricants for economic action, and corporate directors consider them to be indispensable. The social capital of the corporate elite does not lie exclusively in the contacts and relations they have, but for an important part in the norms, customs and habits they have become familiar with. Throughout their careers, social relationships play an important role, and having reached the corporate top, a fine-grained set of social relations is indispensable. The elite still settles and prevents conflicts, disseminates information and 'best practices', and tries to form consensus on topical issues through the informal network. But contrary to the times of a vivid and well-connected inter-firm board network, the corporate elite now has to do so in concealment and secrecy. The informal network of the corporate elite like a sea of functional and business-related ties, with islands of strong pockets of like-minded directors. By the turn of the century, there is no longer one, large

Dutch business community. There is a set of small yet tightly integrated elite circles, interconnected through a network of cocktail parties and dinner clubs.

Corporate governance is affected by the changing network configuration. Most importantly, governance became much more formal. Both interpersonal relationships between board members and the boardroom atmosphere became more formal (quite often against the will of corporate elite members). This formalisation is partly the result of an increased call for transparency and accountability that came with the shareholder activists' movement, as part and parcel of 'good' corporate governance. Along with higher standards of accountability came higher levels of risk, a development which is negatively assessed by the corporate elite. Increased risks, together with the loss of a durable social standing in society, created the need for social hedging against the loss of status.

The ongoing individualisation of corporate directors and the dismantlement of the corporate elite social network undermined the corporate norm system, which used to be based on unwritten rules (mores). Part as a remedy, part as a reaction to the quest for formalisation and transparency, the norms and values that (should) guide corporate governance are now formalised in codes of conduct and best practices. In effect, the informal common norm system is re-institutionalised and formalised. Corporate social responsibility proved to be a good example of the attempt to formalise proper norms of corporate conduct. At the same time, it underlined the enduring importance of the socio-relational foundation of institutional change. Still by the turn of the century, the codification of CSR (and hence the reinstitutionalisation of the common norm system) is promoted by the most central directors in the – by now rather sparse – network of board interlocks. Central directors remain ambassadors of the Dutch corporate elite, actively engaged in drawing up codes of good corporate governance. But the 'self-cleaning capacity' of the corporate elite remains severely hampered by the decline of the corporate community. Central directors are, for instance, not able to restrict the ongoing increase in remuneration amongst top executives. Mimetic greed steers the growing income of directors, and the corporate elite as a group is unable to stop this development. All in all, the collective institution of a cohesive corporate elite has been disorganised by a self-interested subversion of both firms and corporate directors. Thus, while a part of the corporate elite is still organised in an informal social and non-corporate network, the network of board interlocks is no longer a foundation for the national business community. Firms are no longer as embedded in social relations as they used to be, and the Dutch business community as a *Gemeinschaft* is gone.

This final chapter rejoins the findings and insights of the foregoing chapters in order to understand the characteristics of the institutional change

that swept through the Dutch corporate regime in the last decades of the previous century. The chapter is organised as follows. The next section asks how the Dutch corporate regime actually has been affected by these developments as depicted above. After that, the chapter moves to the question why the network changed. In particular, we are interested in endogenously (from within) and exogenously generated change, and how the two mechanisms interact. Following this, change in the Dutch corporate regime will be analysed as a form of incremental institutional change, providing insights into the nature and causes of the changing network structures. The last section concludes with suggestions for further research.

The Dutch Corporate Regime

Previously a Rhenish corporate regime, the Netherlands is moving now towards a liberal-market-oriented type of capitalism. In the period between 1976 and 2001, corporate boards and the corporate elite became increasingly disembedded from the social networks they were entrenched in. The decrease of connectedness, centrality and closure in the network reduced the possibilities for coordination between firms and between directors. Furthermore, the formalisation of corporate governance practices strengthens the decrease of coordination. With the discussion on 'good' corporate governance gaining ground, and with an ongoing call for shareholder influence from the 1990s onward, board interlocks are increasingly seen as a hazardous liability. Executives retreat from the supervisory boards, and big linkers become rarities. The dynamics of the corporate governance network as analysed in this book point to a move away from organised capitalism, towards a more liberal-market-oriented economic system.

At the same time, there is continuity and resilience to change as well. The interlockers interviewed for this study were not very keen to change their behaviour or their practices. Pragmatic as they are, board members want to please institutional investors and other shareholders, but the largest part of the corporate elite does so with doubts as to where this is all going to end. The informal meeting network of the corporate elite also proved to be resilient to change. While the institutionalised network of board interlocks declines, alternative meeting circles remain well appreciated. The corporate elite continues to meet at non-corporate boards, but even more so in the private and informal meeting network. Albeit fragmented, the informal networks still brings together key decision-makers of the Dutch economy.

As a case study, the current research is not designed to answer the comparative question whether convergence or divergence is taking place between different corporate regimes. And as mentioned before, while the ideal-type models of a coordinated and a liberal market economy are two well-defined and static modes, the empirical reality certainly does not pro-

vide such rigor. With these caveats in mind, the material presented in the foregoing chapters does suggests that, to a certain extent, convergence is taking place. In many respects the inter-firm network of board interlocks in the Netherlands shows developments similar to those of the corporate network in the USA, particularly with regard to the reorientation of banks and the retreat of executives from interlocks (Davis and Mizruchi 1999; Heemskerk 2004b). This suggests that different corporate regimes across the globe do adapt along similar lines when they are faced with the pressures of internationalisation. Corporate regimes that fit a liberal market economy more closely (such as the USA and the UK), were at the forefront of pressures to reform their corporate governance. First, in the more liberal-market-oriented economies the capital markets played a more dominant and disciplining role. In countries where capital markets traditionally played a smaller role, pressures to engage in shareholder-friendly reforms remain low. This was the case in the Netherlands, where firms and the corporate elite were well shielded from the influences of capital markets by means of the many defence mechanisms that were at their disposal. Firms slowly and reluctantly began to dismantle their defence mechanisms and granted shareholders a bit more influence, only after the upsurge of the debate on corporate governance. Second, in more liberal market oriented corporate regimes, the corporate elite presented less of a counterweight to the institutional changes. In the Rhenish countries, the dense networks of the corporate elite sustained a shared belief system which counterbalanced exogenous triggers for change. Next to the case of the Netherlands as displayed in this study, the German situation illustrates this well. For a long time, the German corporate elite withstood attempts to reform the institutional framework of their corporate regime. But in the early years of the twenty-first century, the shared belief system is crumbling away as the foundational elements of strong capital ties and corporate board interlocks are in decline.

The resilience of the informal corporate elite network in the Netherlands does not necessarily hamper the trend of convergence, as these webs of relationships are present in corporate regimes across the globe. Convergence might come about because the configuration of the corporate networks is increasingly similar across corporate regimes. Expanding transnational networks of board interlocks and other corporate elite interaction networks will add to this process of convergence. However, it remains a question whether corporate board interlocks remain a legitimate way of creating durable relationships between firms. The strong negative assessment attached to board interlocks in the shareholder-oriented perspective on business systems will put severe restraints on the emergence of international interlocking directorates.

What does the decline of the corporate community mean for the discussion on corporate power? With the disappearance of the old boys network,

and the dismantlement of large parts of the board interlocks, the configuration of the concentration of corporate power changed dramatically. In these days, concentration of corporate power stems not from the collection of board positions by a select group of corporate directors. Rather, the concentration of corporate power lies in the ongoing process of mergers and acquisitions. While corporate directors are more and more engaged with one firm only, the firms they control have grown tremendously over the past decades. Hence, the positional power they derive from being at the apex of the corporate hierarchy has similarly increased. As a result, the corporate elite is now much more a group of individuals, who all for themselves have much more power than their predecessors had thirty years ago. Increasingly disembedded from social networks, the main issue now is how to make sure these powerful individuals act in the best interests of all corporate stakeholders.

Good Corporate Governance and the Corporate Elite

The importance of good corporate governance became evident when, by the turn of the century, a series of corporate fraud cases were revealed. Inspired by the shareholder-oriented, narrow view on corporate governance, corporate directors were increasingly held accountable for their (mis)conduct. However, corporate fraud and corporate mismanagement are not without precedent. For instance, in 1879, the African Trading Company (*Afrikaansche Handelsvereeniging*) collapsed under circumstances not much different from the current cases of Enron and Ahold. The 'CEO', Lodewijk Pincoffs, successfully concealed the deplorable financial state of his corporation in the company accounts. When the fraud was eventually discovered, Pincoffs left the firm suffering a debt of 9,501,006.82 guilders (Lichtenauer 2003). This approximates to 86 billion euros of present value,[1] making this debacle four times greater than that of Enron and almost six times greater than that of Parmelat. Clearly, corporate fraud and accounting scandals are not restricted to our day and age, and we will see more of them in the future. The question is which checks and balances are best suited to limit the damage that directors can afflict on corporate stakeholders without destroying entrepreneurship, employment and wealth.

In his *Theory of Moral Sentiments*, Adam Smith reflects on this issue. Smith points out that 'the man who sometimes misleads from mistake, is widely different from him who is capable of wilfully deceiving. The former may safely be trusted upon many occasion; the latter very seldom upon any' (Smith 1759/2000, p. 497). How are we to distinguish a director who makes a simple mistake from those directors who 'from inadvertency, from precipitancy and rashness' deceive (ibid.)? A crucial element of good corporate governance is a mechanism which distinguished between those who simply

make mistakes, and those who deceive. For a part, frankness and openness can help to establish trust, to create leeway for manoeuvring and even room for some mistakes. This does ask a particular attitude from the director, an attitude much different from a mere self-interested one. 'We trust the man who seems willing to trust us', Smith writes. 'We see clearly, we think, the road by which he means to conduct us, and we abandon ourselves with pleasure to his guidance and direction. Reserve and concealment, on the contrary, call forth diffidence' (ibid.). Thus, transparency in practices and preferences is key to good corporate governance. Already, transparency is broadly considered to be an important, if not essential element of good governance. From a shareholder oriented perspective, openness and transparency ensure the disclosure of information, which enables investors to make informed decisions. At the same time, directors are now held personally accountable for the way in which they fulfil their tasks in governing and supervising corporations. But the question remains what to do about those directors who are so caught up in the goal of generating ever-growing shareholder value that their actions and decisions lead the corporation astray?

One of the main arguments developed in this book is that the corporate elite network can have a role in disciplining the directors. The corporate elite network can be the foundation for a shared belief system which guides proper conduct, and which is enforced through peer pressure. As such, the decline of the corporate community, as demonstrated in the previous chapters, strengthens the problems faced by all corporate stakeholders in disciplining the corporate elite. The recent incidences of corporate fraud and mismanagement were instigated by the pursuit of high, short-term growth rates and shareholder value, and further fuelled by 'perverse incentives' of extremely high remuneration packages. Such a corporate elite at the mercy of untamed market forces and ruinous competition does not serve anyone's interest.

What good corporate governance is really about is a healthy mix of conservatism and entrepreneurship, safeguarded by checks and balances, and the common sense of the corporate elite. With the decline of the corporate community, the corporate elite seems to have lost most of its common sense. The national business community is no longer a touchstone for proper behaviour. In a way, globalisation has been a blessing for the less conscientious among the corporate elite. They compare themselves, and their companies, with their international peers, judging their behaviour not by the standards of the society they live and work in, but by comparing the outcomes of their behaviour with that of random others whose situations are more appealing. The corporate elite is adrift, as a large part of the directors are guided by self-interest alone.

Why Did the Network Fall Apart?

The case of the Dutch corporate regime corroborates Streeck and Thelen's argument that 'liberalization proceeds without political mobilization, simply by encouraging or tolerating self-interested subversion of collective institutions from below, or by unleashing individual interests and the subversive intelligence of self-interested actors bent on maximizing their utilities' (Streeck and Thelen 2005, p. 33). Since the changes in the corporate regime go hand in hand with extrinsic (such as high remuneration) and intrinsic (such as larger firms to control) benefits for the board members, the new arrangement surely served the interests of corporate directors well. In part, this answers the question what triggered the dismantlement of the interfirm and corporate elite network. Many micro steps at the level of the actor add up to changes at the macro level, resulting in incremental, non-linear change. In the case of the Dutch corporate regime as studied here, both firms and directors are actors. Hence, some steps at the micro level are made by firms, and others by people. The logic of both corporate strategies and personal strategies and choices play a role, which makes the modelling of these network dynamics extremely difficult.

The decline of the corporate network was not initially the result of a deliberate strategy of the corporate elite to realign the Dutch corporate regime with international 'best practices'. The reduction of multiple positions amongst the corporate elite did not became an explicit goal in the reform of the Dutch corporate regime until 2003, when the Tabaksblat committee presented its code for good corporate governance. Only recently, corporate board interlocks are widely considered to be a sign of 'bad' corporate governance. This is fully in line with the observations made in the first chapter: formal institutional change (such as codified rules and regulations) usually adapts to already changed patterns of behaviour, practices and informal institutions.

At the same time, there is no indication that the Dutch corporate elite hangs on to an ideal, typically 'Dutch' institutional setting, either. To the contrary, foreign directors flood Dutch boards, English has become the common language, takeover defences are pulled down, and firms previously associated with some national pride have been sold to the highest foreign bidders (such as KLM to Air France, Hoogovens to British Steel (Corus), Fokker to Daimler). The corporate elite *could have* delayed this flow of foreign influences. Given the position occupied by the corporate elite within the Dutch corporate regime, they could have withstood reforms, and shielded the Dutch corporate regime from change. It is difficult to assess how successful such a strategy would have been in the long run, but the point is that the Dutch corporate elite did not block the shift in the corporate regime. To the contrary, they have been willing executioners. For the corporate elite, change in the Dutch corporate regime seemed perhaps questionable, yet

undeniable. Because of the incremental nature of the change, there was not one decisive moment that demarcates the shift in the corporate regime. The small changes in and of themselves might not be recognised as very significant, yet together these small steps result in a shift in the corporate regime. And important moments can only be recognised with the benefit of hindsight.

Perhaps the most important pressure that triggered the increasing appreciation for shareholder interest, and consequently for formalising the notions of what good corporate governance entails is internationalisation of business and finance. Already in the first chapter 'globalisation' was flagged as a prime exogenous driver for change. Internationalisation of business reached high levels by the last decades of the twentieth century. With increased international competition among firms comes a similar process of competition among corporate regimes, where more efficient forms thrive over less efficient ones. Corporate regimes compete with each other for production, headquarters of firms, and for international investors.

Of course, corporate regimes are not acting entities in and of themselves, but corporate strategies and national policies are often formulated with reference to the corporate regime. For instance, throughout the 1990s, the Dutch government lowered corporate taxes in order to stimulate firms to relocate to the Netherlands (the policy targeted large holding firms in particular). Likewise, corporate regimes with a two-tier governance model such as the Netherlands and Germany are considered to receive a 'discount' from investors, who would rather invest in companies with a one-tier model. Thus, when in 2004 Royal Dutch/Shell was heavily criticised for the way they reported their oil reserves, the Dutch-Anglo firm decided to please their shareholders and international investors by giving up their long-standing and rather complicated bi-national corporate structure and converging to one firm under British corporate law, applying 'best practices' such as a one-tier board (with headquarters remaining in The Hague). In this sense, the liberal market mechanism in finance does work as a disciplining mechanism, and mature and growing financial markets are an important exogenous driver for change in corporate regimes.

However, it was only when these growing exogenous pressures were met by a more and more receptive group of directors that real change occurred. First, the corporate elite network slowly but steadily lost its elite distinctiveness and much of its social inclusiveness. Board members became a group of people with similar occupations; powerful individuals, rather than a powerful group in society. Second, this individualisation of the corporate elite continued with the increasing rate of network corrosion during the 1990s. The loss of social closure and inter-firm relations reduced the number of opportunities for collective action on behalf of Dutch Big Business. This rendered the corporate elite less able to steer and control the changes in the

corporate regime. The corporate elite became unable to resist the exogenous pressures on the corporate regime any longer. The loss of elite cohesiveness and the changing power balance amongst corporate stakeholders culminates in a new shared-belief system of the corporate elite. Already, the shared-belief system supports ongoing internationalisation, and more and more it will appreciate competition over other forms of coordination. As such, the individualisation of the corporate elite is in and by itself a part of the change towards a more liberal-market-oriented system where (durable) social relations have no role to play.

Exhaustion and Displacement

The shift in the Dutch corporate regime can be understood as an exemplary case of incremental institutional change, where liberalisation proceeds gradually and continuously, apart from short-lived episodes of turmoil (Streeck and Thelen 2005). The incremental nature of institutional change makes it easy to understate the magnitude and significance of these dynamics. Streeck and Thelen identify five manifestations of incremental institutional change: displacement, layering, drift, conversion and exhaustion (Streeck and Thelen 2005). Where institutional displacement occurs, new institutional arrangements are introduced or recovered. Layering is the process by which new elements are attached to existing institutions, gradually changing its status and structure. Institutional drift occurs when institutions remain unchanged in the face of evolving external conditions. Conversion is the redeployment of old institutions to new purposes. Finally, the fifth type of change is exhaustion: the withering away of institutions over time. In the case of the Dutch corporate regime, there seems to be congruence between exogenous and endogenous change on the one hand, and specific forms of incremental institutional change on the other hand. In particular, exogenous change portrays displacement, while endogenous change portrays exhaustion.

Corporate governance reform is an international affair, and the pressures on Dutch firms to co-align their practices and corporate behaviour with international best practices serve as an important exogenous driver for change. This specific type of change works through the mechanism of *displacement*. Invasion and assimilation of foreign practices is part of displacement. Invasion of foreign practices takes place through the increasing number of foreign directors on Dutch boards, as well as through the growing number of foreign subsidiaries, and increasing numbers of foreign shareholders. At the same time, assimilation of foreign practices takes place as well, most importantly in the form of compliance with international best practices. Streeck and Thelen add that displacement 'requires active cultivation by agents whose interests are better served by new arrangements'

(Streeck and Thelen 2005, p. 22). In other words, the direction of change needs to be cultivated in the shared belief system of the corporate elite. This underscores our earlier observation that exogenous and endogenous changes work in tandem.

All together, the Dutch network of interlocking directorates suffers from *exhaustion*. The disintegration of the inner circle, and the disappearance of the old boys network shows that the institutional arrangements that remained in place for a long time are now exhausted. Board interlocks transformed from harmless, potentially useful inter-firm relations to a risk factor and sources of uncertainty. As such, interlocks now receive a discount in a cost-benefit analysis. Where interlocks could previously benefit a firm, without any recognisable costs, the tables have now turned. Board interlocks, as well as big linkers, are not in line with 'best practices', and as such have become a liability. Surely board interlocks are still useful as a communication device, and even as a means of control. However, the legitimacy of using board interlocks for such purposes is gone, given the predominant shareholder orientation. The network of corporate board interlocks had been in decline for some time already, before it became 'exhausted' by the turn of the century.

Migrating Corporate Networks

Next to exhaustion and displacement, one can argue that to a certain extent, the material presented in the previous chapters reveals some *conversion* as well. With the corporate board interlock network exhausted, the elite meetings partly *migrate* from the corporate boards to non-corporate boards, as chapter 3 argued. In the wake of increasing shareholder influence, the formal institutionalised interpersonal board meeting network lost its legitimacy. In reaction, corporate directors accept board positions at cultural, philanthropic, health and non-corporate boards. This non-corporate meeting network is redeployed as an alternative for corporate board interlocks.

The social network of the corporate elite has for long been a combination of formal and informal meetings. The network of board overlap played an important role as a formalised means of creating cohesion among the corporate elite. Renowned corporate directors were able to seize central positions in the board overlap network, further strengthening their positions of ambassadors for business. Still during the mid-1970s, this mixed formal-informal corporate elite social structure was dominant. The formal institutionalised part of the corporate elite network has been in decline ever since. In a somewhat contradictory manner, board interlocks, although *formally institutionalised*, used to be mostly *informal* means of contact. The corporate elite related to each other in an informal manner (see chapter 5). However, the nature of board interlocks (as well as the nature of corporate governance

in general) became increasingly formal, as board interlocks and multiple positions of directors received more attention from the 1990s onward. As a consequence of the formalisation of corporate boards, and the disintegration of the network of interlocking directorates, the corporate elite network now manifests itself almost exclusively in the private and non-corporate arena.

This migration from the corporate networks to non-corporate and informal meeting places creates a problematic situation from the perspective of good governance and the perspective of democratic accountability. Before – when interest was limited – inter-firm relations were visible and transparent (for those who bothered to look). While board interlocks were not always reported, they were always possible to uncover. Nowadays – when inter-firm ties are under heavy scrutiny – the corporate elite network is predominantly an informal network, shrouded in secrecy and concealment. This development raises doubts for the future of corporate board interlocks. As long as these links are regarded with suspicion, board interlocks will be in decline. When, however, a change of ideological scenery, together with a shift in the power balance between shareholder, stakeholder, employers and clients occurs, board interlocks might return. After all, the underlying informal corporate elite network will not vanish.

Economic action is profoundly embedded in social structures in both coordinated and liberal market economies, in Rhenish and Anglo-American capitalism. Here, corporate governance was studied from this relational approach, to uncover how elite social networks have changed as a part of the shift in the corporate regime. The changing network configuration was not only a token of changing economic relations, it also enabled institutional change from within. Now that the visible and institutionalised social networks are no longer acceptable economic relations, chances are that corporate boards will indeed be less related and embedded, and that consequently, firms will act increasingly on arms-length distance (independently). Such a conclusion, however, obscures the importance of social networks at all levels in the economy, not in the least at the levels of firm governance. Therefore, a relational approach in studying governance, firmly rooted in vast empirical material, remains of the utmost importance if we want to understand the workings of our economies and societies.

Suggestions for Future Research

The relational research approach of this book made it possible to touch upon elements of the Dutch corporate regime in the search for shifts in corporate governance. A number of issues, however, remain unexplored. This final section holds some recommendations for further research, building upon the findings and conclusions above. Four additional areas of research

are discussed which could not be sufficiently dealt with in this book. On the one hand, some issues that were already briefly looked into deserve more in-depth study. On the other hand, the restrictions of the current research design leave a number of issues open that might provide interesting paths to pursue.

To start with, the most daunting, yet most rewarding, path of research would be to engage in a more expanded qualitative study on the corporate elite. Especially interesting would be to investigate the clubs and private meetings of the corporate elite, as they are of enduring importance in corporate governance. This, however, might not be feasible given the strong emphasis on anonymity and secrecy that makes these meetings interesting for the corporate elite. However, the same questions one might ask for the informal meetings are equally interesting for board meetings. Questions remain as to how directors relate to each other, what the effects of a heterogeneous composition of a board actually are on the collaboration, and how decision making takes place. In the light of the current study, a qualitative study might focus on the uneasy relationship that was found to exist between the changes in corporate governance as they occur, and the preferences of the corporate elite. Only participatory observations can really open up the black box that corporate boards still are today. And the changes in governance that corporations and their directors currently face might make them more receptive to open the doors of their offices and the boardroom to social scientists. Such a research trajectory, daunting nevertheless, would greatly enhance our understanding of how corporations are controlled.

Second, more concrete and probably more feasible research projects might be inspired by recognising the restricted attention to the role of government in this book. One of the valuable lessons from the varieties of capitalism literature is the importance of institutional complementarities that may exist between institutional fields such as labour relations, capital markets, education and government (Hall and Soskice 2001b). Given the interdependence of institutional sectors, the role of government in the corporate regime should not be underestimated, certainly not in a country with corporatist political traditions such as the Netherlands. The Dutch 'polder model' is strongly based on consensus. Strong ties between business and government have always existed, and remain intact even today. Chapter 4 already discussed the institutional linkages between business and government through advisory committees to government and parliament. Nevertheless, the extent to which relations between business and government change needs further investigation. Looking at inter-firm relations only, the Dutch corporate regime is moving towards a more liberal-market-based style of capitalism. This would imply that the relationships between business and government are shifting as well, moving towards more arm's-length relationships. However, over the past few years there has been politi-

cal debate about the concentration of political power due to the collection of positions at governmental and parliamentary advisory committees (see for instance Duyvendak 2004). The question would be how the role of business in this network of advisory committees has evolved from the 1970s onward.

A third line of research, already touched upon above, lies in the burgeoning networks of the corporate elite that exist due to meetings in non-corporate boards. The observation that these non-corporate boards gain in importance as meeting places of the corporate elite should be corroborated by a network analysis of these boards. Furthermore, it is to be expected that these non-corporate boards are populated by different elites in society. As such, these particular networks might contribute to the cohesion of a national elite. While corporate elite networks are losing their national distinctiveness, national elite networks may remain in these alternative circles.

Finally, the current study was deliberately limited to one country only. Although the study was designed so that increasing foreign influences would not be disregarded, the main focus was on a national corporate elite network. A logical next step is to investigate the emerging European corporate elite network. We might see developments not unlike the emergence of national corporate networks. For instance, in the early twentieth century the Dutch regional networks of Rotterdam, Amsterdam and Twente gradually merged together in the national business network (Schijf 1993; Van den Berge and Fennema 1985). Similarly, a European network might be emerging from the national networks. In the EU, an emerging network of corporate interlocks and other elite meeting places would coincide with a coherent legal framework, making it an interesting object of study. Up until now, the differences between the wide variety in European corporate regimes made it impossible to construct one European corporate law, but the relentless effort of the European committee will undoubtedly once result in uniform legislation. The strengthening and growth of a cohesive European corporate elite might be an important factor in this process.

The objective of this book was to investigate change in the Dutch corporate regime from a relational perspective, and to understand why institutional change takes place. However, this is but one part of a larger question, which asks why institutions *exist*, why they *change*, and why some of them *survive* over time and other whither away. Perhaps this book inspires some to consider corporate elite networks as a worthwhile research object. For now, it remains a question of whether board interlocks will survive the wave of globalisation that swept corporate regimes over the past decades as legitimate and effective means of coordination. At the same time, this study points to an enduring importance of social embeddedness in corporate governance. The corporate elite will remain a crucial stakeholder in the governance of corporations. As such, the broad perspective of corporate gover-

nance as endorsed in this study might be of help in understanding the relation between corporations, the corporate elite, and their role in the society in which we all live.

Appendix I

Mergers and Acquisitions in Banking

1859: Eibergen Neede eo, Spaar- Inleg en Depositobank
1722-1886: Loopthuys Bank | 1914: Loopthuys Bank | 1939: Acquisition by NHM
1824 - 1964 : Nederlandsche Handel-Maatschappij | 1
1877 - 1922: Lotichius | 1919: Lotichius & Co's Bank | 1922: acquisition NHM
1866 - 1936: Geldersche Credietvereeniging | 1936: acquisition by NHM
1916 - 1950: Van Ranzow & Co's Bank | 2
1901 - 1930: Groninger Bankvereeniging Schortinghuis & Stikker | 1930: Acquisition by Twentsche Bank
1861 - 1964: Twentsche Bankvereeniging B.W. Blijdenstein & Co1916: De Twentsche Bank | 3
1884: Van Mierlo & Zoon | 4
1914 - 1933: Hollandsche Bank voor Zuid Amerika | 1933 merger into Hollandsche Bank Unie (HBU)
1919 - 1933: Hollandsche Bank voor de Middelandse Zee | 5
1919 - 1935: Hollandsche Bank voor West-Indië | 1935: acquisition by HBU
1720: R. Mees & Zn. (orig. Cordelois & De Vrijer) | 6
Beels & Co | 7
1762: Hope & Co | 8
1946: Mesdag & Zoonen's Bank | 9
1948: Groeneveld's Bank | 10
1903 - 1952: Haagsche Commissie Bank | 11
1888 - 1925: Nederlandsche Bank (-en Credietvereeniging) voor Zuid-Afrika | 1925 - 1954: merger into Nederlandsche Bank voor Zuid-Afrika
1898 - 1925: Transvaalsche Handelsbank
1888-1940: Amsterdamsche Liquidatiekas | 1940: Amsterdamse Goederenbank | 13
1928-1969: Kennemer Bankvereniging | 14
1869: Gebroeders Kingma | 1919: Kingma's Bank | 15
1875 - 1942: Boissevain & Co./Pierson & Co. | 1942: Merger into Pierson, Heldring & Pierson.
1879 - 1942: Heldring & Pierson | (official merger 1958) | 16
1692: Simon Vlaer | 1748: Vlaer & Kol | 17
1899 - 1981: Hondius, C.J. | 1920: Hondius & Zoon NV | 18
1853: Credietvereeniging 1853 | 1918: Bank-Associatie | 19
1834 - 1937: Wertheim & Gompertz | 1937 1948: Collaboration incasso bank with
1891 - 1948: De Incasso Bank | Amsterdamse, 1956 full acquisition
1917-1934: Friesche Bank | 1934 acquisition
1902 - 1930: Helmondse Bank | 1930: acquisition Amsterdamse
1871-1964: Amsterdamsche Bank
1863 - 1964: Rotterdamsche Bank | 20
1900-1911: Deposito- en Administratiebank | Merger, (1911-1947 as Rotterdamsche Bank Vereniging)
1916: Nationale Bankvereniging | 1920, merger | Merger
1913: Zuid-Nederlandsche Handelsbank
1863 - 1967: Nederlandsch-Indische Handelsbank | 21
1918: Nederlandsche Landbouwbank | 1947:Nederlandse Credietbank (NCB) | 22
1921: Slavenburg & Co. Since 1924 Slavenburg's Bank
1850: S.H. van Groningen | 1897: merger into Sallandsche Bank | 24
1879: Verwey & Ankersmit
25
1883: Levensverzekering Maatschappij Utrecht | 1920 Algemeene Maatschappij tot Exploitatie van Verzekeringsmaatschappijen
27
1922: Crediet- en Effectenbank | 28
1914-1927: Algemeene Centrale Bankvereeniging voor den Middenstand. Since 1927 Nederlandsche Middenstandsbank
1917-1978: Girokantoor der Gemeente Amsterdam
1863 - 1963: De Nationale Levensverzekering Bank | 1918 - 1986: Postcheque- en Girodienst | 31
1881- 1986: Rijkspostspaarbank | 32
1845 - 1963: De Nederlanden van 1945 | 33
1945: het bankbedrijf van Grenswisselkantoren
898-1972: Coöperatieve Vereeniging van Raiffeisenbanken en Landbouwvereenigingen. From 1903 Coöperatieve Centrale Raiffeisen-Bank
1898-1972: Coöperatieve Centrale Boerenleenbank | 35
1909-1975: Boeren-Hypotheekbank | 36
1919 - : Handelmaatschappij H. Albert de Bary & Co. NV | 37
1913: Cöopertatieve Zuivelbank | 38
1814- :De Nederlandsche Bank NV | 39
1914 - :Bank voor Nederlandsche Gemeenten | 40

BRON: NEHA: BedrijfsArchieven Register Nederland

1916: Staal & Co | 41

1969 Acquisition by ABN

1991: Merger ABN and AMRO

1964: Merger NHM and Twentsche Bank
into Algemene Bank Nederland (ABN)

1

2 1950: Acquisition By Twentsche

3

4 1952: acquired by Twentsche Bank

1968: Acquisition by ABN

5

6 — 1966: merger into Mees & Hope — 1969: merger into Bank Mees & Hope — 1975 Bank Mees & Hope Independent part of ABN — 1993:Merger in MeesPierson Subsidiary of ABN AMRO yet Independent

7 1955-1960 Acquisition

8

9 1955: Merged into Mesdag & Groeneveld's Bank

10

1997: Mees Pierson
Sold to Fortis

11 1952: acquisition by Nederlandsche Bank voor Zuid-Afrika
1954 Merger in Nederlandse Overzee Bank (1954-1969)

13

14 — 1981: Part of ABN

15 — 1971 Acquisition Bank Mees & Hope

1975 Acquisition AMRO
but independent

16

17 — 1967 with P, H & P.

18 — 1973: Bank Hondius & Zoon NV — 1983: Acquisition AMRO

19

1964: Merger Amsterdamse and Rotterdamse
into Amro Bank

20

1991: Merger ABN and AMRO

21 1960 Acquisition by Rotterdamse

22 — 1987 acquired by CLB Nederland — 1999 part of Fortis

Since 1983 Credit Lyonnais Bank Nederland

24 — 1975: acquisition Slavenburg — From 1995 Generale Bank Nederland

25 — 1967: Oyens & Van Eeghen — 1974: acquisition

1990: AMEV / VSB

27 — 1981: Centrumbank — 1983: Verenigde Spaarbank

70 local Saving Banks(spaarbanken) — 1990: Fortis (due to merger with belgian AG Group)

28 — Acquisition by NMB 1966, yet independent — 1989 - 1991: NMB Postbank Groep

Since 1991: Internationale Nederlanden Groep (ING)

1978 Merger PCGD — 1986: merged into Postbank

31

32

33 1963 - 1991: Nationale Nederlanden (insurance) — 1991: Merger with Nationale Nederlanden

1950: GWK Bank

1972: Rabobank

35

36 — 1975: Rabohypotheekbank N.V

Many local saving banks — 1987: Samenwerkende Nederlandse Spaarbanken — 1997 SNS Reaal Groep

37 — Since 1964 Deutsche Bank de Bary NV

1967: Bankgiro Centrale — Since 1996 part of Interpay

38 — from 1969 Friesland Bank

39

40

1954- : Nederlandse Waterschapsbank NV

41 — 1994: acquisition by AVCB / Achmea Groep

Appendix II: Glossary

Aristocracy People who are listed as members of the nobility or patriciate.

Betweenness Betweenness measures the frequency with which a node (for instance a director) is positioned on the shortest path between pairs of other nodes in the network. Nodes that occur on many shortest paths between other nodes have higher betweenness than those that do not. Betweenness is a measure of centrality.

Big Linkers Directors with more than three positions on the board of the largest 250 firms.

Centrality The extent to which a node is central in a network. There are several measures for centrality, such as betweenness (see above) and degree. Degree centrality, or local centrality, measures the number of connections of a point. In the network of interlocking directorates, there are two ways of measuring degree centrality. The first is by counting the number of board interlocks per firm (including multiple interlocks), the second is by counting only the number of other companies with which a firm shares directors (i.e. counting the edges).

Class Following Weber, a class is a category of men who have in common: (1) a specific causal component of their life chances, in so far as (2) this component is represented exclusively by economic interests in the possession of goods and opportunities for income, and (3) it is represented under the conditions of the commodity or labour market.

Closure The extent to which one's contacts are contacts of each other. A network with full closure is a clique, where everybody is connected with everyone else. In

this book, closure is measured by the clustering coefficient.

Clustering Coefficient The clustering coefficient of an actor is the density of its open neighbourhood.

Cohesion A network is cohesive if there are frequent lines, many points with a lot of connections, and relatively short and numerous paths between pairs of nodes. If a network is not cohesive, then it is vulnerable to the removal of a few nodes or lines (Wasserman and Faust 1994, p. 114). Cohesion can be measured with several network properties, such as average distance, centrality and number of components.

Component A component of a network is a maximal set of nodes, such that there are no other points of the network which are connected to one of its points. Typically, networks consist of a few small components and one single, large, *dominant component*.

Connectedness The extent to which nodes in a network are connected with each other, particularly in a dominant component. It measures the inclusiveness of a network.

Corporate Elite In this study, the corporate elite is defined as all members of the corporate boards of the largest 250 firms.

Corporate Regime The term corporate regime is used to denote the customary and statutory practices, enforced in public and private practice, which determine both the way in which corporations are ruled, and how they relate to other firms and institutions in a certain area.

Degree The number of nodes that are adjacent to a node, i.e. the number of nodes a particular node is connected to. See also centrality.

Distance The distance between two nodes is the length of the shortest path connecting the nodes. See also handshakes.

Dominant Component The largest component in a network. Usually a network consists of one very large dominant component, and a few very small components. See component.

Edge An edge is a connection between two points in a network. In the network of interlocking directorates, an edge between two firms is created if they share at least one board member. In the interpersonal meeting network, an edge is created if two directors are both members of at least one particular board.

Embeddedness	The degree to which actors are involved in a cohesive group.
Executive Directors	Directors who are employed by the firm. Also called inside directors. In the Netherlands, members of the *Raad van Bestuur* are executive directors.
Executive Interlocks/ Ties	Board interlocks which are created when an executive director has a position on a board of another firm.
Graph	A graph is a set of nodes, joined by lines, and is as such a model for a social network. Graph theory is a branch of mathematics that allows to one to analyse networks as graphs.
Handshakes	A 'handshake' is another way of denoting a tie in an interpersonal network. The number of 'handshakes' is the distance between two nodes in a network. A direct connection is one handshake, an indirect connection (a friend of a friend) two handshakes, and so on. See also distance.
Inner Circle	The inner circle consists of all corporate directors that sit on more than one board: the interlockers. Together, interlockers knit the corporate control centres of the economy together and form, as such, the inner circle of the corporate elite.
Inside Directors	Directors who are employed by the firm. Also executive directors. In the Netherlands: members of the *Raad van Bestuur*.
Interlockers	Directors with more than one board position. These directors create interlocking directorates.
Interlocks	When two firms share a director, their boards are interlocked. In the network of interlocking directorates, the tie between two firms is an interlock.
Interlocking Directorates	Corporate boards (directorates) that share board members.
Isolates	Nodes in a network without connections to any of the other nodes, for instance, firms that do not share board members with any of the other top 250 firms.
Multiple Interlock / Multiplicity	When two firms share more than one director, they are connected through multiple interlocks. The number of interlocks between two boards is called the multiplicity of the edge.
Network	A set of nodes and lines.
New Boys Network	The term new boys network is used to denote a net-

work of board interlocks where the directors do not stem from the higher strata of society, and no longer form a status group, and yet a fair degree of network closure still exists.

Old Boys Network An old boys network is a particular corporate elite, where board interlocks coincide with a common social and educational background, family ties and lifelong friendships.

One-Tier Board A board that includes both supervisory and executive directors. Common in Anglo-American countries. A one-tier board differs from a two-tier board, where executive directors meet separately from supervisory directors. This is the common model in the Netherlands, with a separate *Raad van Bestuur* and *Raad van Commissarissen*.

Outside Directors Members of the supervisory board or *Raad van Commissarissen.* Non-executive directors or supervisory directors.

Small Worlds The 'small world phenomenon' is the common experience when one meets a stranger, and learns that they both have a friend in common. A small world is a (social) network with high levels of clustering (compared to a random network), yet with a small average distance (comparable to a random network).

Status Group According to Weber, a status group is a plurality of persons who effectively claim a special social esteem for themselves, and deny access to others. The old boys network is a status group (in particular, a hereditary, charismatic descent group).

Supervisory Directors Members of the supervisory board or *Raad van Commissarissen.* Non-executive directors or outside directors.

Supervisory Interlocks Board interlocks created when a director who is not an executive sits on two boards.

Two-Tier In a two-tier board, the executive directors meet separately from the supervisory directors. This is the common model in the Netherlands, with a *Raad van Bestuur* and a *Raad van Commissarissen*. The two-tier board differs from a one-tier board, common in Anglo-American countries.

Appendix III

List of Top 250 Firms in the Netherlands

1976

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
1	NV Koninklijke Nederlandse Petroleum Maatschappij	Manufacturing	8			
2	Unilever NV	Manufacturing	21	2	2.223	0.000
3	Koninklijke Philips Electronics NV	Manufacturing	22	23	157.995	0.296
4	Koninklijke Ahold NV	Other	15	24	562.748	0.221
5	Shv Holdings NV	Trade	15	34	278.031	0.323
6	Koninklijke Kpn NV	Utilities	34	14	65.119	0.333
7	NV Koninklijke KNP BT	Manufacturing	12	24	481.659	0.300
8	Heineken NV	Manufacturing	13	29	181.599	0.304
9	Koninklijke Luchtvaart Maatschappij NV	Other	14	23	174.266	0.337
10	Dsm NV	Manufacturing	16	26	391.665	0.212
11	Hagemeyer NV	Trade	10	9	11.436	0.679
12	Randstad Holding NV	Other	1			
13	Hollandsche Beton Groep NV	Manufacturing	11	4	3.833	0.000
14	Cebeco-Handelsraad B.A.	Trade	29	2	178.000	0.000
15	Stork NV	Manufacturing	16	28	274.948	0.269
16	NV Nederlandse Spoorwegen	Utilities	21	38	825.711	0.240
17	NV Koninklijke Bijenkorf Beheer Kbb	Trade	10	14	108.206	0.318
18	Unigro	Trade	7	1	0.000	
19	Océ Van Der Grinten NV	Manufacturing	12	13	323.357	0.269
20	Ballast Nedam NV	Manufacturing	11	13	212.843	0.282
21	Pon Holdings BV	Trade	4	5	2.272	0.700
22	Koninklijke Pakhoed NV	Trade	9	22	239.282	0.240

1976

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
23	Vnu NV	Other	10	20	308.213	0.307
24	Internatio-Muller NV	Manufacturing	10	19	138.370	0.368
25	Csm NV	Resources	8	23	131.733	0.357
26	NV Verenigde Bedrijven Nutricia	Manufacturing	11	2	2.793	0.000
27	Daf Trucks NV	Manufacturing	9	15	70.398	0.418
28	Bp Nederland Holdings NV.	Resources	8	10	12.386	0.611
29	Merck Sharp & Dohme BV	Other	18	5	0.000	1.000
30	Ibm Nederland NV	Utilities	11	3	3.539	0.333
31	Siemens Nederland NV	Manufacturing	9	5	0.000	1.000
32	Hunter Douglas NV	Manufacturing	15	7	74.171	0.524
33	Koninklijke Gist-Brocades NV	Manufacturing	9	14	137.871	0.462
34	Cooperatieve Cehave U.A.	Manufacturing	6	1	0.000	
35	Koninklijke Bam Groep NV	Manufacturing	6	19	92.315	0.379
36	Heijmans NV	Manufacturing	6	4	16.833	0.500
37	Basf Nederland BV	Manufacturing	6	5	3.987	0.700
38	Fina Nederland BV	Trade	5	5	0.000	1.000
39	Meneba NV	Manufacturing	15	8	7.698	0.714
40	Wilma BV	Trade	6	7	293.919	0.714
41	Gamma Holding NV	Manufacturing	9	22	102.436	0.374
42	Ford Nederland BV	Trade	13	9	40.494	0.778
43	NV Holdingsmaatschapij De Telegraaf	Other	10			
44	Van Leeuwen Buizen Groep BV	Manufacturing	6	5	22.319	0.600
45	Acf Holding	Manufacturing	8	4	2.393	0.333
46	Koninklijke Boskalis Westminister NV	Manufacturing	12	20	306.463	0.307
47	Heijdemij NV	Real Estate	8	7	221.367	0.133
48	Koninklijke Van Ommeren NV	Utilities	10	27	121.113	0.357
49	Grontmij NV	Manufacturing	10	16	148.566	0.318
50	Vredestein NV	Manufacturing	6	6	27.775	0.400
51	Nagron Nationaal Grondbezit NV	Investment companies	10	5	52.055	0.600
52	Elsevier NV	Other	13	21	195.378	0.310
53	Hal Holding NV	Utilities	12	29	332.234	0.240
54	NV Bank Nederlandse Gemeenten	Financials	18	10	811.004	0.139

1976

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
55	De Nederlandsche Bank NV	Financials	18	30	732.317	0.265
56	Delta Lloyd Verzekeringsgroep NV	Financials	17	24	245.234	0.286
57	Nederlandse Waterschapsbank NV	Financials	9	4	14.747	0.333
58	De Nationale INVersteringsbank NV	Financials	23	40	1 179.741	0.182
59	Banque Paribas Nederland NV	Financials	12	7	68.810	0.381
60	Friesland Bank NV	Financials	6	1	0.000	
61	Kas-Associatie NV	Financials	11	15	156.455	0.286
62	NV De Indonesische Overzeese Bank	Financials	11			
63	Dai-Ichi Kangyo Bank Nederland NV	Financials	5			
64	Bank Of Tokyo-Mitsubishi (Holland) NV	Financials	7			
65	NV Nederlandse Gasunie	Resources	16	15	491.361	0.359
66	Rabobank Group	Financials	23	7	720.603	0.100
67	Gemeente-Energiebedrijf Rotterdam	Utilities	11			
68	Papierfabrieken Van Gelder Zonen NV	Manufacturing	12	13	30.712	0.439
69	Electriciteitsbedr Groningen En Drent	Utilities	9	1	0.000	
70	Verenigde Dura Bedrijven BV	Manufacturing	6			
71	Eerste Ned. Cement Ind. NV	Manufacturing	16	3	50.021	0.333
72	Gemeentelijk Energiebedrijf Dordrecht	Utilities	12	1	0.000	
73	Gemeentelijk Energiebedr. ’S-Gravenhage	Utilities	10	1	0.000	
74	Gemeente-Energiebedrijf Amsterdam	Utilities	3			
75	General Motors Acceptance Corp Ned NV	Trade	2			

1976

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
76	Cooperatieve Ncb B.A.	Resources	14			
77	Holland Aluminium BV	Manufacturing	7	2	3.602	0.000
78	De Grenswissel-kantoren NV	Financials	6	3	1.872	0.333
79	Friesch-Groningse Hypotheekbank	Financials	9	28	266.621	0.324
80	Centrale Cooperatie-vegrooth Ver Enkabe U.A.	Trade	12	1	0.000	
81	Gulf Oil Nederland BV	Trade	4			
82	Ennia NV	Financials	19	37	640.737	0.220
83	Esso Nederland BV	Resources	7	2	0.000	
84	Estel NV	Manufacturing	32	24	458.870	0.219
85	Friesche Coop. Zuivelexp. Ver.	Manufacturing	9	6	354.000	0.500
86	Europartners Bank Nederland NV	Financials	8			
87	Forbo Krommenie BV	Manufacturing	5			
88	NV Electriciteitsbedrijf Zuid-Holland	Utilities	13	4	531.000	0.000
89	Cooperatieve Ap Vereniging Onderl Pharm Grooth Ua	Trade	11			
90	Furness NV	Utilities	9	13	157.373	0.348
91	Amsterdam-Rotterdam Bank NV	Financials	28	74	1681.683	0.164
92	Brug Centrale	Trade	4			
93	Brown Boveri Nederland BV	Manufacturing	6	6	0.000	1.000
94	Verenigde Bedrijven Bredero NV	Manufacturing	10	12	65.750	0.400
95	NV Bouwfonds Nederlandse Gemeenten	Real Estate	15	6	56.468	0.300
96	NV Borsumij Wehry	Trade	7	6	144.040	0.333
97	NV Kon Erven Lucas Bols	Manufacturing	9	7	4.732	0.762
98	Mij Van Berkel S Patent NV	Manufacturing	8	5	3.931	0.333
99	Cooperatieve Ver Centraal Beheer U.A.	Financials	15	6	41.371	0.300
100	Bank Der Bonds-spaarbanken NV	Financials	16	6	4.619	0.000
101	Bayer Nederland	Manufacturing	8			

1976

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
102	Cooperatieve Ver Coveco G.A.	Manufacturing	14	2	42.049	0.000
103	Cooperatieve Vereniging Avebe G.A.	Resources	25	1	0.000	
104	Koninklijke Bunge BV	Trade	3			
105	Amstelland Concernbeheer BV	Real Estate	7	10	9.887	0.762
106	Amfas Groep NV	Real Estate	19	21	338.892	0.275
107	NV Amev	Financials	12	13	155.219	0.167
108	Alusuisse Beheer BV	Resources	5			
109	Alcan Europe NV	Manufacturing	5	2	1.546	0.000
110	Akzo NV	Manufacturing	25	40	560.069	0.242
111	Ago	Other	22	41	1.003.537	0.215
112	BV Centrale A En O Ned	Other	10			
113	NV Elec Mij Aeg	Utilities	9	3	102.039	0.000
114	Algemeen Burgerlijk Pensioenfonds	Financials	25	6	7.731	0.500
115	H. Albert De Bary En Co. NV	Financials	11	10	60.764	0.689
116	Cooperatieve Melkcentrale G.A.	Manufacturing	9			
117	Zuid-Nederlandse Melk-industrie Dmv BV	Manufacturing	20	6	178.000	0.333
118	Dikema En Chabot S Handelsmij BV	Trade	6			
119	Koninklijke Douwe Egberts BV	Manufacturing	9	7	6.273	0.600
120	NV Deli-Maatschappij	Trade	8	12	28.145	0.424
121	Daiwa Europe NV	Financials	8	2	0.000	1.000
122	Cooperatieve Ver Noordholland G.A.	Other	10	1	0.000	
123	Hendrix Fabrieken NV	Manufacturing	9	10	17.253	0.667
124	Cooperatieve Inkoopver Utrecht En Omstr. U.A.	Trade	10	1	0.000	
125	Cook International	Financials	3			
126	Concordia Levensverzekering NV	Financials	12			
127	Bruynzeel BV	Manufacturing	7	16	23.339	0.436

1976

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
128	Ver Cooperatieve Melkindustrie Coberco G.A.	Manufacturing	51	1	0.000	
129	Buhrmann-Tetterode NV	Manufacturing	13	25	114.045	0.322
130	Citroen Nederland BV	Trade	4			
131	Cinema International Corporation BV	Other	3			
132	Cindu-Key En Kramer NV	Trade	11	4	18.374	0.167
133	Chrysler Nederland NV	Trade	3			
134	Chevron Petroleum Mij Nederland BV	Trade	7	1	0.000	
135	De Centrale Levensverz. Bank NV	Financials	8	5	180.147	0.300
136	Cemsto BV	Other	7	3	0.000	1.000
137	C.C.V. Landbouwbelang G.A.	Resources	5	2	0.000	
138	Cooperatieve Condens-fabriek Friesland	Manufacturing	12	6	132.641	0.500
139	Cooperatieve Zuivelver. Campina B.A.	Manufacturing	7	5	0.000	1.000
140	Cooperatieve Melkproduc-tenbedr. Domo-Bedum G.	Manufacturing	24	1	0.000	
141	Comprimo BV	Utilities	6	8	14.197	0.393
142	Rijn-Schelde-Verolme NV	Manufacturing	20	28	282.152	0.246
143	Assurantieconc. Stad R Dam 1720 NV	Financials	6	2	1.124	0.000
144	Cooperatieve Ver Ned Melkhandel Srv U.A.	Manufacturing	19	1	0.000	
145	BV Sperwer Nationaal	Manufacturing	10			
146	Centraal Buro Spar Nederland	Trade	4	1	0.000	
147	Nederlandse Spaarbankbond	Financials	12	7	48.660	0.000
148	NV Slavenburg S Bank	Financials	17	11	159.785	0.167
149	Skol Brouwerijen NV	Manufacturing	9	2	2.203	0.000
150	NV Gebr.D.Schuitema	Trade	10	1	0.000	
151	N.G.J. Schouten BV	Utilities	11			
152	Scheepshypotheekbank Ned NV	Financials	10	10	124.393	0.311
153	NV Prov Gelderse Elektriciteits-Mij	Utilities	16	1	0.000	

1976

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
154	Rank Xerox	Manufacturing	5			
155	Cooperatieve Ver Suiker Unie U.A.	Manufacturing	13	2	0.000	1.000
156	Rijkspostspaarbank	Financials	9	10	10.106	0.600
157	Rotterdamsch Beleggings-consortium NV	Investment companies	15	24	353.988	0.277
158	Riva NV	Other	6	1	0.000	
159	Renault Nederland NV	Trade	3			
160	Nederlandse Reassurantie Groep NV	Financials	13	12	63.340	0.378
161	NV Prov Zeeuwse Energie-Mij	Utilities	19			
162	Proost En Brandt NV	Manufacturing	7	7	8.151	0.571
163	Koninklijke Houthandel William Pont NV	Manufacturing	8	5	7.817	0.400
164	Polyzathe	Manufacturing	8	4	9.487	0.333
165	NV Prov Noordbrabantsche El.Mij	Utilities	13	3	48.239	0.000
166	Inkoopcombinatie Nederland NV	Trade	16			
167	BV Inkoopcombinatie Samen Sterk	Trade	9			
168	D. Ven BV	Trade	4	1	0.000	
169	Holl Aannemersbedr Zanen Verstoep NV	Manufacturing	7	3	17.403	0.667
170	Cacaofabriek De Zaan BV	Manufacturing	8			
171	Wyers Beheer NV	Manufacturing	9	14	96.602	0.374
172	Westland-Utrecht Hypotheekbank NV	Financials	13	17	61.586	0.408
173	Koninklijke Wessanen NV	Manufacturing	10	18	218.404	0.301
174	Wehkamp BV	Trade	9	2	0.000	1.000
175	Wastora BV	Trade	4			
176	NV Gem Bezit Vrg	Manufacturing	10	1	0.000	
177	Volvo Car BV	Trade	11	7	0.000	1.000
178	De Vleeschmeesters BV	Manufacturing	5			
179	Vihamij-Buttinger NV	Trade	8	17	74.244	0.429
180	Stevin Groep NV	Manufacturing	16	15	76.380	0.341
181	Zentralgesellschaft Vfw-Fokker Mbh	Manufacturing	18	12	18.250	0.467

1976

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
182	Stedelijke Fabr. Gas En Electriciteit	Utilities	13	1	0.000	
183	Ve-Ge	Manufacturing	7	1	0.000	
184	Vroom En Dreesman BV	Trade	4			
185	Transol Exploitatiemij BV	Trade	2			
186	Handelsvereniging Tradax BV	Trade	4			
187	Total Nederland NV	Trade	7			
188	Topkring-Ceniko NV	Trade	10			
189	Thyssen-Bornemisza NV	Manufacturing	15	7	37.346	0.400
190	Thomassen En Drijver-Verblifa NV	Manufacturing	9	11	11.780	0.545
191	Cooperatieve Zuivel-industrie De Takomst	Manufacturing	64	1	0.000	
192	Cooperatieve Inkoopver Superunie B.A.	Manufacturing	8			
193	Prov Elec Bedrijf Van Noord-Holland	Utilities	25			
194	NV Vereenigde Glasfabrieken	Manufacturing	9	7	19.967	0.400
195	NV Elec-Mij Ijsselcentrale-Zwolle	Utilities	18	1	0.000	
196	Koninklijke Van Leer BV	Manufacturing	5	3	4.081	0.333
197	Leonard Lang BV	Other	5			
198	Koninklijke Scholten-Honig NV	Manufacturing	11	7	14.595	0.600
199	Knsm Group NV	Utilities	10	11	110.872	0.236
200	Kluwer NV	Other	11	16	74.849	0.341
201	Keurslagercentrale BV	Trade	7			
202	Koninklijke Adriaan Volker Groep	Manufacturing	8	4	0.000	1.000
203	Hermans Groep BV	Trade	8			
204	NV Levensverz.Mij. Nederlanden 1870	Financials	11	8	50.166	0.286
205	NV Interpolis	Financials	15	9	725.333	0.067
206	NV Prov Limburgse Elec-Mij	Utilities	14	5	7.609	0.000
207	Incotrans BV	Utilities	11	7	6.853	0.571
208	BV Ned Importmij Automob. S Gravenhag	Trade	4			

1976

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
209	NV Industriele Handelscombinatie Holl	Trade	11	16	49.327	0.385
210	Industr. Disconto Mij NV	Financials	6	7	13.208	0.600
211	Ici Holland BV	Manufacturing	5			
212	Verenigde Hva Mijen NV	Utilities	11	3	2.399	0.333
213	T Hooge Huys Levensverz. 1891 NV	Financials	7	9	15.322	0.714
214	Homburg BV	Manufacturing	6	6	0.000	1.000
215	Holec NV	Manufacturing	10	21	186.627	0.320
216	Hoechst Holland NV	Manufacturing	10			
217	Hobo-Faam BV	Trade	17			
218	Hudig-Langeveldt Groep BV	Financials	9	6	12.510	0.467
219	Van Heugten BV	Other	7	2	0.000	1.000
220	Algemene Bank Nederland NV	Financials	47	85	1 627.498	0.168
221	De Erven De Wed. J.Van Nelle NV	Manufacturing	13	22	189.280	0.348
222	Peja Holding NV	Trade	6	9	11.495	0.556
223	NV Prov En Gem Utrechts Stroomlev.Bed	Utilities	12	8	31.049	0.381
224	Pechiney Nederland NV	Manufacturing	5			
225	Prov Elec Bedrijf In Friesland	Utilities	4	1	0.000	
226	Oving-Diepeveen-Struycken NV	Manufacturing	8	11	77.964	0.455
227	Ogem Holding NV	Utilities	10	25	219.784	0.303
228	NV Nederlandsche Scheepvaart Unie	Utilities	14	33	396.761	0.258
229	Nederlandse Participatie Maatschappij NV	Financials	22	44	1 072.568	0.188
230	Nomura Europe NV	Financials	10			
231	Nederlandsche Middenstandsbank NV	Financials	25	18	213.281	0.294
232	Koninklijke Textielfabr. Nijverdal-Ten Cate NV	Manufacturing	11	26	226.003	0.324
233	Limagas NV	Utilities	7	3	28.549	0.000
234	Nidera Handels-compagnie BV	Trade	2			
235	Lips United BV	Manufacturing	9	6	44.503	0.133

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nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
236	Gebr. Nefkens NV	Other	8			
237	Nederl Installatiebedr Nedib-Weck Cv	Other	4	2	0.000	1.000
238	Nederlandse Dagbladunie NV	Other	10	9	30.064	0.321
239	Nat Cooperatievezuivel-verkoopcentrale G.A.	Manufacturing	10	1	0.000	
240	Nederlandse Credietbank NV	Financials	20	28	727.359	0.202
241	NV Ver Nbm-Bedrijven	Financials	11	10	46.252	0.289
242	Nationale-Nederlanden NV	Financials	19	39	728.534	0.240
243	Naarden International NV	Manufacturing	9	15	145.667	0.348
244	Bank Morgan Labouchere NV	Financials	10	12	242.227	0.327
245	Bank Mendes Gans NV	Financials	7	2	0.000	1.000
246	Hercules BV	Manufacturing	6			
247	Niemeijer	Manufacturing	8	1	0.000	
248	Ned. Fin.-Mij. Voor Ontwikkelingslanden NV	Financials	8	15	14.931	0.476
249	Polygram NV	Manufacturing	8	6	3.204	0.733
250	Ceteco NV	Trade	9	9	199.034	0.333

1996

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
1	NV Koninklijke Nederlandse Petroleum Maatschappij	Resources	12	24	375.552	0.281
2	Unilever NV	Manufacturing	20	9	34.103	0.556
3	Koninklijke Philips Electronics NV	Manufacturing	15	18	294.170	0.181
4	Koninklijke Ahold NV	Trade	12	21	619.560	0.242
5	Shv Holdings NV	Trade	14	25	567.280	0.267
6	Akzo Nobel NV	Manufacturing	15	15	241.201	0.341
7	Koninklijke Kpn NV	Utilities	13	20	757.775	0.240
8	NV Koninklijke Knp Bt	Manufacturing	12	19	729.820	0.211

1996

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
9	Heineken NV	Manufacturing	11	26	511.064	0.344
10	Vendex NV	Trade	8	13	236.093	0.308
11	Iveco NV	Other	12			
12	Koninklijke Luchtvaart Maatschappij NV	Utilities	16	18	184.094	0.319
13	Dsm NV	Manufacturing	13	15	356.037	0.179
14	Gec Alsthom NV	Utilities	16			
15	Sara Lee/De NV	Manufacturing	14	22	398.126	0.235
16	Hagemeyer NV	Trade	13	12	188.705	0.345
17	Koninklijke Hoogovens NV	Manufacturing	14	33	617.057	0.245
18	Cargill Holdings NV	Trade	14	6	18.391	0.600
19	Koninklijke Nedlloyd NV	Utilities	9	23	453.671	0.274
20	NV Samenwerkende Elektriciteits-Produktie-bedrijven	Utilities	16	22	890.014	0.210
21	Zuivelcooperatie Campina Melkunie U.A.	Manufacturing	18	5	215.005	0.100
22	Randstad Holding NV	Other	12	15	558.308	0.190
23	Hollandsche Beton Groep NV	Manufacturing	10	11	107.256	0.378
24	Pirelli Tyre Holding NV	Manufacturing	12	1	0.000	
25	Dow Benelux NV.	Manufacturing	5	1	0.000	
26	Cebeco-Handelsraad B.A.	Trade	22	6	129.709	0.133
27	Stork NV	Manufacturing	11	23	1 247.586	0.221
28	NV Nederlandse Spoorwegen	Utilities	12	15	395.228	0.220
29	Koninklijke Bolswessanen NV	Trade	11	25	825.166	0.190
30	Nutreco Holding NV	Manufacturing	7			
31	NV Koninklijke Bijenkorf Beheer Kbb	Trade	9	19	147.963	0.458
32	Friesland Diary Foods Holding NV	Manufacturing	15	8	34.996	0.619
33	Wolters Kluwer NV	Other	11	19	425.173	0.268
34	Unigro	Trade	5	9	92.774	0.500
35	Koninklijke Emballage Industrie Van Leer NV	Manufacturing	13	10	338.223	0.244
36	Océ Van Der Grinten NV	Manufacturing	10	19	220.999	0.267

1996

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
37	Otra NV	Trade	8	7	42.917	0.714
38	Ballast Nedam NV	Manufacturing	11	9	297.354	0.250
39	Nbm-Amstelland NV	Manufacturing	9	12	214.647	0.309
40	Pon Holdings BV	Other	9	10	12.623	0.643
41	Texaco Nederland BV	Utilities	9			
42	Dumeco NV	Manufacturing	4			
43	Zuivelcooperatie Coberco U.A.	Manufacturing	22	3	7.831	0.333
44	Koninklijke Pakhoed NV	Utilities	9	24	671.201	0.242
45	Netherlands Car BV	Other	13	4	11.693	0.500
46	Vnu NV	Other	9	17	501.295	0.242
47	Internatio-Muller NV	Manufacturing	8	11	183.348	0.400
48	Csm NV	Manufacturing	11	16	415.769	0.225
49	Koninklijke Volker Stevin NV	Manufacturing	9	6	23.018	0.267
50	NV Verenigde Bedrijven Nutricia	Manufacturing	9	10	209.070	0.250
51	Daf Trucks NV	Manufacturing	8	8	140.187	0.393
52	Bp Nederland Holdings NV.	Manufacturing	4			
53	Apothekers Cooperatie Opg U.A.	Trade	13	3	4.961	0.333
54	Unisource NV	Utilities	7	2	0.000	1.000
55	Merck Sharp & Dohme BV	Other	7	1	0.000	
56	Ibm Nederland NV	Utilities	10	4	37.078	0.167
57	Siemens Nederland NV	Trade	9	7	13.472	0.714
58	Tbi Holdings BV	Manufacturing	8	13	124.284	0.273
59	Hunter Douglas NV	Manufacturing	8	4	36.588	0.333
60	Getronics NV	Other	6	15	455.175	0.248
61	De Boer Winkelbedrijven	Trade	8	7	21.736	0.476
62	Evc International NV	Manufacturing	9	2	0.000	1.000
63	Cooperatie Cosun U.A.	Manufacturing	26	2	192.000	0.000
64	Koninklijke Gist-Brocades NV	Manufacturing	9	10	93.027	0.444
65	Cooperatieve Cehave U.A.	Manufacturing	18	10	59.601	0.333
66	Hoogwegt Groep BV	Manufacturing	5			
67	Intergamma BV	Other	10	4	42.600	0.500
68	Kuwait Petroleum (Nederland) BV	Trade	4			

1996

nr	Name	Sector	Board Size	Interlocks	Betweenness	Closure
69	Du Pont De Nemours (Nederland) BV	Manufacturing	9			
70	Provimi Holding BV	Manufacturing	5			
71	Koninklijke Bam Groep NV	Manufacturing	9	12	273.814	0.182
72	Elsag Bailey Process Automation NV	Trade	1			
73	Memorex Telex Nederland BV	Manufacturing	5			
74	Wavin BV	Manufacturing	13	1	0.000	
75	Heijmans NV	Manufacturing	6	7	71.351	0.286
76	Samas-Groep NV	Other	7	13	355.843	0.295
77	Gti NV	Manufacturing	11	9	119.818	0.278
78	Daimler-Benz Holding Nederland BV	Other	5			
79	Gucci Group NV	Trade	7	1	0.000	
80	Ihc Caland NV	Manufacturing	7	17	294.857	0.325
81	Petroplus International NV	Trade	5	7	173.937	0.524
82	Wegener Arcade NV	Other	12	5	420.607	0.100
83	NV Energieproduktie-bedrijf Una	Utilities	10	2	4.604	0.000
84	Basf Nederland BV	Manufacturing	7	1	0.000	
85	Fina Nederland BV	Manufacturing	4			
86	Maas International Europe BV	Manufacturing	5	6	42.462	0.500
87	Meneba NV	Manufacturing	7	8	420.550	0.214
88	Rothmans Nederland Holdings BV	Manufacturing	2			
89	Koninklijke Ten Cate NV	Manufacturing	8	15	693.496	0.190
90	Wilma BV	Manufacturing	10	7	132.862	0.190
91	Nestle Nederland BV	Manufacturing	2			
92	Gamma Holding NV	Manufacturing	8	18	315.802	0.346
93	Cooperatieve Verkoop-En Productievereniging Van Aardappelmeel En Derivaten 'Avebe" B.A.	Manufacturing	14	1	0.000	
94	Nkf Kabel BV	Manufacturing	7	6	27.840	0.400
95	Asm Litography Holding NV	Manufacturing	8	3	3.892	0.333

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nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
96	Ford Nederland BV	Other	5	1	0.000	
97	NV Holdingsmaatschapij De Telegraaf	Other	10	4	0.000	1.000
98	Draka Holding NV	Manufacturing	6	8	128.213	0.571
99	Pcm Uitgevers NV	Other	13	9	182.772	0.194
100	Van Leeuwen Buizen Groep BV	Manufacturing	8	4	19.890	0.167
101	Mars BV	Manufacturing	10			
102	Koninklijke Frans Maas Groep NV	Utilities	7	5	30.186	0.167
103	Mandam BV	Trade	3			
104	Solvay Duphar BV	Manufacturing	7	9	233.451	0.444
105	Polaroid (Europa) BV	Manufacturing	5			
106	Acf Holding	Manufacturing	5	3	7.776	0.333
107	Prisma Food Holding BV	Resources	3			
108	Koop Holding Europe BV	Manufacturing	4			
109	Tengelmann Holding BV	Trade	2			
110	Koninklijke Boskalis Westminister NV	Manufacturing	9	14	744.654	0.231
111	Roto Smeets De Boer NV	Manufacturing	9	7	214.167	0.333
112	Heijdemij NV	Manufacturing	10	9	212.051	0.250
113	Macintosh Retail Group NV	Trade	8	12	337.137	0.255
114	Geveke NV	Trade	6	3	0.000	1.000
115	Beers NV	Trade	6	8	35.336	0.750
116	Atag Holding NV	Manufacturing	9	4	32.032	0.500
117	Cap Gemini NV	Other	9	8	45.164	0.393
118	Kondor Wessels Groep NV	Manufacturing	7	13	568.892	0.303
119	Madge Networks NV	Utilities	3			
120	Schuttersveld NV	Manufacturing	8	4	51.306	0.333
121	Sligro Beheer NV	Trade	6	3	104.237	0.333
122	Fugro NV	Other	13	7	75.825	0.381
123	Van Melle NV	Manufacturing	7	2	0.000	1.000
124	NV Sphinx Gustavsberg	Manufacturing	9	7	101.021	0.333
125	Athlon Groep NV	Other	6	7	99.249	0.333
126	NV Twentsche Kabel Holding	Utilities	8	8	0.000	1.000
127	Koninklijke Van Ommeren NV	Utilities	8	7	211.563	0.190

1996

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
128	Koninklijke Ahrend NV	Trade	8	7	126.302	0.143
129	Nederlandse Organisatie Voor Toegepast-Natuur-wetenschappelijk Onderzoek	Other	13	10	254.540	0.178
130	Ansaldo Signal NV	Trade	9			
131	Baan Company NV	Other	8			
132	Koninklijke Grolsch NV	Manufacturing	7	11	59.869	0.400
133	Asm International NV	Manufacturing	6	7	115.505	0.238
134	Endemol Entertainment Holding NV	Other	9	6	67.520	0.267
135	Him Furness NV	Utilities	5	6	101.438	0.467
136	Polynorm NV	Manufacturing	8	10	272.894	0.178
137	Toolex Alpha NV	Manufacturing	11	4	0.000	1.000
138	NV W.A. Hoek'S Machine-En Zuurstoffabriek	Manufacturing	7	4	11.919	0.500
139	Grontmij NV	Manufacturing	8	6	28.777	0.300
140	Tulip Computers NV	Manufacturing	6	10	88.415	0.467
141	Koninklijke Econosto NV	Trade	6	3	383.000	0.000
142	Vredestein NV	Manufacturing	5			
143	Cindu International NV	Manufacturing	8	1	0.000	
144	Be Semiconductor Industries NV	Manufacturing	6			
145	Delft Instruments NV	Manufacturing	9	8	147.609	0.214
146	Smit Internationale NV	Utilities	8	10	52.192	0.528
147	Aalberts Industries NV	Manufacturing	7	3	26.192	0.333
148	Eriks Holding NV	Trade	5	1	0.000	
149	Rubber Cultuur Maat-schappij Amsterdam NV	Manufacturing	4	1	0.000	
150	Content Beheer NV	Other	7	11	71.934	0.422
151	Roba Holding BV	Trade	7			
152	Koninklijke Vanderhave Group BV	Resources	3			
153	Norit NV	Manufacturing	5	3	202.852	0.000
154	Triple P NV	Trade	8	1	0.000	
155	Van Oord Groep NV	Manufacturing	6	3	34.804	0.333
156	Nagron Nationaal Grondbezit NV	Real Estate	5	5	33.633	0.400

1996

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
157	Koninklijke Nedschroef Holding NV	Manufacturing	8			
158	Peek & Cloppenburg BV	Trade	8	6	33.318	0.533
159	Free Record Shop Holding NV	Trade	7			
160	Simac Techniek NV	Manufacturing	7			
161	Indigo NV	Manufacturing	11			
162	Alanheri NV	Trade	7	2	192.000	0.000
163	NV Gemeenschappelijk Bezit Crown Van Gelder	Manufacturing	6	4	58.336	0.333
164	Brunel International NV	Other	4	5	21.640	0.400
165	Reesink NV	Trade	5	2	2.263	0.000
166	Van Dorp Groep NV	Trade	3	1	0.000	
167	Neways Electronics International NV	Manufacturing	6	2	0.000	1.000
168	Lci Computer Group NV	Other	3			
169	Core Laboratories NV	Manufacturing	8			
170	Batenburg Beheer NV	Trade	5	1	0.000	
171	Ordina Beheer NV	Other	8	3	10.272	0.333
172	Van Der Giessen-De Noord NV	Manufacturing	4	2	13.968	0.000
173	Flexofit International NV	Manufacturing	8	6	28.120	0.400
174	NV Nederlandsche Apparatenfabriek 'Nedap'	Manufacturing	6	2	50.907	0.000
175	A.I.R. Holdings NV	Trade	3	2	0.000	1.000
176	Koninklijke Ubbink NV	Manufacturing	6	6	55.539	0.267
177	H.E.S. Beheer NV	Trade	5	4	18.746	0.333
178	Koninklijke Landre & Glinderman NV Sinds 1863	Trade	4	5	0.000	1.000
179	Beter Bed Holding NV	Trade	9	2	0.000	1.000
180	Vilenzo International NV	Trade	4			
181	Unique International BV.	Other	8	2	0.000	1.000
182	Gouda Vuurvast Holding NV	Manufacturing	5	4	201.702	0.167
183	Docdata BV	Manufacturing	5	3	12.913	0.000
184	Nedcon Groep NV	Manufacturing	6	3	0.000	1.000
185	Blydenstein-Willink NV	Manufacturing	5	1	0.000	
186	Rood Testhouse International NV.	Trade	6	2	0.000	1.000

1996

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
187	Smit Transformatoren NV	Manufacturing	6	2	0.000	1.000
188	Welna NV	Manufacturing	5			
189	NV Dico International	Manufacturing	5	4	0.000	1.000
190	Elsevier NV	Other	15	13	395.767	0.273
191	Hal Holding NV	Trade	8	10	116.364	0.378
192	Abn Amro Holding NV	Financials	22	52	3 003.271	0.135
193	NV Bank Nederlandse Gemeenten	Financials	14	8	83.585	0.393
194	De Nederlandsche Bank NV	Financials	17	19	279.599	0.233
195	Delta Lloyd Verzekeringsgroep NV	Financials	11	14	279.481	0.330
196	Nederlandse Waterschapsbank NV	Financials	13	6	506.503	0.133
197	NV. Bouwfonds Nederlandse Gemeenten	Real Estate	15	6	284.420	0.333
198	Generale Bank Nederland NV	Financials	13	11	132.353	0.467
199	De Nationale INVersteringsbank NV	Financials	12	29	953.283	0.254
200	F. Van Lanschot Bankiers NV	Financials	12	20	941.617	0.163
201	De Zwitserse Maat-schappij Van Levensver-zekering En Lijfrente	Financials	3			
202	Deutsche Bank De Bary NV	Financials	12	7	87.289	0.143
203	Banque Paribas Nederland NV	Financials	10			
204	Friesland Bank NV	Financials	14	2	0.000	1.000
205	Kas-Associatie NV	Financials	10	5	213.288	0.200
206	NV De Indonesische Overzeese Bank	Financials	6			
207	Dai-Ichi Kangyo Bank Nederland NV	Financials	5			
208	Axa Leven NV	Financials	11	3	0.000	1.000
209	Eureko BV	Financials	14	4	0.000	1.000
210	Zurich Leven	Financials	1			
211	Nuts Ohra Beheer BV	Financials	11	4	303.704	0.167
212	Kredietbank (Nederland) NV	Financials	5			

1996

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
213	Bank Of Tokyo-Mitsubishi (Holland) NV	Financials	7			
214	Commerzbank (Nederland) NV	Financials	6			
215	De Amersfoortse Verzekeringen NV	Financials	7	5	5.228	0.500
216	Generali Verzekerings-groep N. V.	Financials	11	3	12.593	0.333
217	Royal Nederland Verzekeringsgroep NV	Financials	9	2	10.013	0.000
218	Levob Verzekeringen BV	Financials	6	1	0.000	
219	Zwolsche Algemeene NV	Financials	10	1	0.000	
220	Wereldhave NV	Real Estate	7	3	14.475	0.333
221	Robeco Bank Holding BV	Financials	6	4	34.477	0.333
222	NV Nederlandse Gasunie	Resources	14	5	40.553	0.333
223	Achmea Group	Financials	24	8	122.759	0.238
224	Aegon NV	Financials	15	30	847.579	0.209
225	Asr Verzekeringsgroep NV	Financials	8	6	38.435	0.100
226	Fortis Amev	Financials	15	11	544.758	0.109
227	Ing Group	Financials	17	22	540.105	0.148
228	Rabobank Group	Financials	30	12	165.228	0.127
229	Sns Reaal Group	Financials	16	3	195.659	0.000
230	Uap Nieuw Rotterdam Holding	Financials	16	7	53.135	0.762
231	Nederlandse Participatie Maatschappij NV	Investment companies	20	21	1486.386	0.153
232	Nomura Bank Nederland NV	Financials	6			
233	Vib NV	Financials	8	13	184.551	0.242
234	Algemene Levens-herverzekering Mij. NV	Financials	5	2	0.000	1.000
235	Coöperatie Univé Verzekeringen B.A.	Financials	22			
236	Ned. Fin.-Mij. Voor Ontwikkelingslanden NV	Financials	16	5	74.948	0.100
237	Tokai Bank Nederland NV	Financials	5			
238	Goudse Verzekeringen BV	Financials	15	2	6.245	0.000
239	Onderlinge Waarborg-maatschappij Rzg U.A.	Financials	5			

1996

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
240	Vvaa Groep BV	Financials	9	2	0.000	1.000
241	Yamaichi Bank Nederland NV	Financials	5			
242	Uni-INVest NV	Financials	5			
243	Aot	Manufacturing	6	2	0.000	1.000
244	Axxicon	Manufacturing	5	1	0.000	
245	Burgman-Heybroek	Manufacturing	7			
246	Holland Colours	Manufacturing	8	1	0.000	
247	Ict Automatisering	Manufacturing	6	1	0.000	
248	Krasnapolsky Hotels & Restaurants NV	Real Estate	4	4	192.000	0.500
249	Weweeler	Manufacturing	4			
250	Koninklijke Textielgroep Twente NV	Manufacturing	5			

2001

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
1	Koninklijke/Shell Groep	Resources	11	20	449.796	0.364
2	Koninklijke Ahold NV	Trade	14	18	1 085.843	0.210
3	Unilever NV	Manufacturing	19	6	8.967	0.700
4	Hewlett-Packard Europe BV	Manufacturing	3			
5	Koninklijke Philips Electronics NV	Manufacturing	11	13	228.901	0.301
6	Akzo Nobel NV	Manufacturing	14	16	449.394	0.273
7	Ibm Global Holdings BV	Real Estate	5	2	0.000	1.000
8	Shv Holdings NV	Trade	17	13	216.204	0.255
9	Koninklijke Kpn NV	Utilities	11	14	274.148	0.263
10	Tpg NV	Utilities	13	9	87.476	0.190
11	Trafigura Beheer BV	Trade	5			
12	Buhrmann NV	Trade	12	18	1 487.356	0.176
13	NV Nederlandse Gasunie	Trade	15	5	133.000	0.333
14	Hagemeyer NV	Trade	8	8	61.720	0.518
15	Dsm NV	Manufacturing	13	11	935.443	0.208

2001

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
16	Agip International BV	Resources	5			
17	Canon Europa NV	Trade	4			
18	Ingka Holding BV	Trade	10			
19	Esso Nederland BV	Manufacturing	7	2	0.000	
20	Nissan Europe NV	Trade	9			
21	Heineken NV	Manufacturing	14	21	722.949	0.250
22	Cisco Systems International BV	Real Estate	3			
23	Koninklijke Luchtvaart Maatschappij NV	Other	12	13	310.432	0.256
24	Vedior NV	Real Estate	11	1	0.000	
25	Laurus NV	Trade	11	13	501.226	0.321
26	Ericsson Holding International BV	Manufacturing	3			
27	Reed Elsevier Plc	Manufacturing	11	6	18.748	0.400
28	Randstad Holding NV	Real Estate	11	11	364.928	0.245
29	Fujitsu Siemens Computers (Holding) BV	Trade	13			
30	Corus Nederland BV	Manufacturing	8	1	0.000	
31	Cepsa International BV	Trade	3			
32	Xerox INVestments Europe BV	Manufacturing	6			
33	Ispat International NV	Manufacturing	8			
34	Hollandsche Beton Groep NV	Manufacturing	10	9	157.056	0.417
35	Sara Lee/De NV	Manufacturing	14	10	261.386	0.300
36	Cargill Holdings BV	Manufacturing	3			
37	Essent NV	Utilities	17	10	395.708	0.143
38	Koninklijke Vendex Kbb NV	Trade	10	9	312.069	0.250
39	Microsoft International BV	Real Estate	3			
40	Dell Products (Europe) BV	Trade	5			
41	Cadbury Schweppes INVestments BV	Manufacturing	13			
42	Koninklijke Numico NV	Manufacturing	10	10	400.497	0.244
43	Koninklijke Vopak NV	Manufacturing	11	20	639.421	0.330
44	Mitsubishi Motors Europe BV	Trade	7			
45	Getronics NV	Real Estate	8	12	28.838	0.656

2001

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
46	Friesland Coberco Dairy Foods Holding NV	Manufacturing	15	5	340.435	0.200
47	Philip Morris Holland BV	Manufacturing	6	4	387.910	0.333
48	Sony Europa BV	Trade	5			
49	Koninklijke Wessanen NV	Manufacturing	8	9	137.176	0.196
50	Eurospecialities Foods BV	Manufacturing	2			
51	Zuivelcoöperatie Campina U.A.	Manufacturing	17	8	700.387	0.214
52	NV Nuon	Utilities	16	14	477.982	0.288
53	Wolters Kluwer NV	Manufacturing	9	13	331.892	0.397
54	Dow Benelux NV	Manufacturing	6			
55	Dhl Worldwide Express BV	Utilities	15			
56	Petroplus International NV	Trade	5	3	244.424	0.333
57	Sun Microsystems International BV	Manufacturing	1			
58	Coöperatie Koninklijke Cebeco Groep U.A.	Manufacturing	16	9	486.657	0.111
59	Vnu NV	Manufacturing	12	17	706.774	0.290
60	Pon Holdings BV	Trade	11	7	24.604	0.400
61	Emc (Benelux) BV	Manufacturing	6			
62	Océ NV	Manufacturing	11	22	851.239	0.263
63	Nutreco Holding NV	Manufacturing	9	4	0.000	1.000
64	Warner-Lambert Holland BV	Manufacturing	2			
65	Lucent Technologies Emea BV	Manufacturing	3			
66	Alfred C. Toepfer International BV	Trade	14	2	0.000	0.500
67	Billiton Marketing BV	Trade	4			
68	Merck Sharp & Dohme Int. Services BV	Manufacturing	1			
69	Csm NV	Manufacturing	10	20	628.889	0.308
70	Koninklijke Volker Wessels Stevin NV	Manufacturing	9	13	392.030	0.288
71	Imtech NV	Manufacturing	8	16	1 170.583	0.271
72	Stork NV	Manufacturing	10	10	191.481	0.333
73	Louis Dreyfus Holding Netherlands BV	Trade	1			

2001

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
74	Alcoa Europe Holding BV	Manufacturing	3			
75	NV Nederlandse Spoorwegen	Utilities	9	21	772.240	0.359
76	Gucci Group NV	Manufacturing	15	2	0.000	0.500
77	Amstelland NV	Manufacturing	8	9	631.556	0.194
78	Ahp Holdings BV	Manufacturing	11			
79	Nec Computers International BV	Manufacturing	7			
80	Epson Europe BV	Trade	4			
81	Daf Trucks NV	Manufacturing	10	3	0.000	1.000
82	Asml Holding NV	Manufacturing	11	4	461.343	0.167
83	Schuitema NV	Trade	10	8	815.411	0.095
84	Ballast Nedam NV	Manufacturing	9	8	123.721	0.357
85	Otra NV	Trade	4			
86	New Holland Trade NV	Trade	2			
87	Mccain Europa BV	Manufacturing	5			
88	Yamaha Motor Europe NV	Trade	6			
89	Addax BV	Trade	2			
90	Bacardi-Martini BV	Manufacturing	9			
91	Blokker Holding BV	Trade	5	8	124.147	0.482
92	Atos Origin BV	Real Estate	4	5	45.382	0.350
93	Draka Holding NV	Manufacturing	11	5	0.000	1.000
94	Lekkerland Benelux NV	Trade	5	4	92.830	0.500
95	Hunter Douglas NV	Manufacturing	15	3	0.000	1.000
96	Tui Nederland NV	Other	9	3	21.418	0.333
97	Opg Groep NV	Manufacturing	9	4	72.344	0.500
98	Kappa Holding BV	Manufacturing	8	4	18.046	0.500
99	Dumeco BV	Manufacturing	16	3	1.000	0.167
100	Equant NV	Real Estate	12			
101	National Semiconductor International BV	Trade	4			
102	Jt International BV	Manufacturing	6			
103	Kuwait Petroleum (Nederland) BV	Trade	4			
104	Heijmans NV	Manufacturing	10	14	655.620	0.179
105	The Greenery International BV	Trade	14	2	262.000	0.000
106	Tetra Laval BV	Trade	2			

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
107	Koninklijke Bam Nbm NV	Manufacturing	10	9	407.341	0.089
108	Mitsubishi Electric Europe BV	Trade	8			
109	Holland Chemical International NV	Trade	4	4	0.000	1.000
110	Kendrion NV	Manufacturing	6	4	0.000	1.000
111	Transmissions And Engineering Serv.Neth. BV	Manufacturing	6			
112	Denso International Europe BV	Manufacturing	3			
113	Vodafone International BV	Utilities	3			
114	Hoogwegt Groep BV	Trade	4			
115	NV Elektriciteits-Produktiemij. Zuid-Ned. Epz	Utilities	3	2	0.000	
116	Ibm Nederland NV	Trade	5	1	0.000	
117	Daimlerchrysler Nederland Holding BV	Trade	9	4	15.360	0.667
118	Siemens Nederland NV	Manufacturing	9	3	9.793	0.333
119	NV Eneco	Utilities	9	3	262.000	0.333
120	Apple Computer Holding BV	Trade	2			
121	Alenia Marconi Systems NV	Manufacturing	8			
122	Evc International NV	Manufacturing	7			
123	Metro Distributie Nederland BV	Trade	7			
124	Athlon Groep NV	Real Estate	9	4	63.376	0.250
125	Compaq Computer BV	Trade	6			
126	Totalfinaelf Nederland NV	Trade	4			
127	Libertel NV	Utilities	10	3	8.280	0.167
128	Abbott Holdings BV	Trade	1			
129	Ricoh Europe BV	Trade	6			
130	Koninklijke Coöperatie Cosun U.A.	Manufacturing	25	1	0.000	
131	Swets & Zeitlinger Holding NV	Manufacturing	7	2	0.000	0.500
132	Granaria Holdings BV	Trade	1			
133	Coöperatie Cehave Landbouwbelang U.A.	Manufacturing	3	1	0.000	

2001

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
134	Start Holding BV	Real Estate	7	2	520.000	0.000
135	Prada Holding BV	Trade	5			
136	Electrabel Nederland NV	Utilities	10	4	285.632	0.167
137	Samas-Groep NV	Manufacturing	9	11	268.633	0.300
138	United Pan-Europe Communications NV	Utilities	14			
139	Euretco NV	Real Estate	7			
140	Wegener NV	Manufacturing	11	2	5.582	0.000
141	Geveke NV	Trade	7	1	0.000	
142	Gti NV	Manufacturing	8	6	313.400	0.133
143	Koninklijke Frans Maas Groep NV	Other	7	9	528.769	0.264
144	Gamma Holding NV	Manufacturing	9	14	936.113	0.181
145	Asm International NV	Manufacturing	8	5	54.592	0.300
146	Koninklijke Nedlloyd NV	Other	6	11	346.758	0.236
147	Hal Holding NV	Real Estate	6	13	615.069	0.205
148	British American Tobacco Hold. (Neth.) BV	Manufacturing	3			
149	Merck Sharp & Dohme BV	Manufacturing	8			
150	Du Pont De Nemours (Nederland) BV	Manufacturing	8	2	0.000	1.000
151	Archer Daniels Midland Nederland BV	Manufacturing	3			
152	Beheer Koop Tjuchem BV	Manufacturing	1			
153	Universal Studios International BV	Other	3			
154	Koninklijke Boskalis Westminster NV	Manufacturing	8	7	213.481	0.300
155	Bocchi Holding BV	Trade	4			
156	Cap Gemini NV	Real Estate	7	1	0.000	
157	Wavin BV	Manufacturing	9	8	231.529	0.250
158	Teva Pharmaceuticals Europe BV	Manufacturing	7	1	0.000	
159	Van Drie Holding BV	Manufacturing	1			
160	Crh Nederland BV	Trade	6			
161	Ihc Caland NV	Resources	11	13	679.076	0.333
162	Nestlé Nederland BV	Manufacturing	7	1	0.000	
163	NV Holdingmaatschappij De Telegraaf	Manufacturing	11	1	0.000	

2001

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
164	Macintosh Retail Group NV	Trade	8	10	884.424	0.144
165	Arcadis NV	Real Estate	10	2	0.000	1.000
166	Dura Vermeer Groep NV	Manufacturing	12	6	247.004	0.100
167	Bosal Holding BV	Trade	3			
168	Sligro Beheer NV	Trade	6	2	42.741	0.000
169	Tbi Bouwgroep BV	Manufacturing	2			
170	Abb Oil & Gas Europe BV	Manufacturing	4			
171	Accenture Participations BV	Real Estate	3			
172	Gak Nederland BV	Other	1			
173	Pcm Uitgevers NV	Manufacturing	10	6	74.684	0.250
174	Sew-Eurodrive International BV	Manufacturing	3			
175	Coöperatie Intres U.A.	Trade	11	3	0.000	0.000
176	Connexxion NV	Utilities	1			
177	Holding Pricewaterhouse-coopers Nederland BV	Real Estate	4			
178	Aramco Overseas Company BV	Trade	5			
179	Econocom International NV	Trade	8			
180	Tengelmann Holding BV	Trade	2			
181	Samsung Electronics Benelux BV	Trade	6			
182	Fugro NV	Real Estate	9	6	172.898	0.267
183	Roto Smeets De Boer NV	Manufacturing	8	3	0.000	1.000
184	Van Der Sluijs Holding Statendam BV	Trade	1			
185	Remu NV	Utilities	13			
186	L.V.I. Holding NV	Manufacturing	12			
187	Mars BV	Manufacturing	12			
188	Landis Group NV	Real Estate	6			
189	Viacom International (Netherlands) BV	Other	4			
190	International Masters Publishers BV	Manufacturing	3			
191	Eagleville Group BV	Trade	3			
192	NV Deli Universal	Trade	3			

2001

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
193	Teka BV	Manufacturing	8			
194	Coöp. Verk.- & Prod.Ver. Aardappelm. & Deriv.'Avebe' B.A.	Manufacturing	13	2	0.000	1.000
195	Beers NV	Trade	6	8	76.131	0.607
196	Pinkroccade NV	Real Estate	13	3	9.627	0.333
197	Nylstar NV	Manufacturing	8			
198	Van Leeuwen Buizen Groep BV	Trade	8	4	292.722	0.083
199	NV Luchthaven Schiphol	Other	11	15	814.385	0.271
200	NV Delta Nutsbedrijven	Utilities	8			
201	Ing Groep NV	Financials	19	25	1027.361	0.216
202	Abn Amro Holding NV	Financials	22	23	930.798	0.167
203	Fortis	Financials	23	15	1 173.262	0.214
204	Coöp. Centrale Raiffeisen-Boerenleenbank B.A.	Financials	25	11	411.060	0.042
205	Aegon NV	Financials	14	19	623.598	0.213
206	NV Bank Nederlandse Gemeenten	Financials	16	10	215.231	0.125
207	Eureko BV	Financials	15	2	0.000	1.000
208	De Nederlandsche Bank NV	Financials	15	20	1 315.673	0.205
209	Sns Reaal Groep NV	Financials	10	2	3.275	0.000
210	Delta Lloyd NV	Financials	12	6	290.952	0.150
211	Nederlandse Water-schapsbank NV	Financials	13	6	110.066	0.333
212	Nib Capital NV	Financials	12	6	175.089	0.267
213	Van Lanschot NV	Financials	13	12	818.500	0.189
214	Axa Verzekeringen BV	Financials	9	4	262.000	0.500
215	Zwitserse Mij. Van Levens-verz. En Lijfrente	Financials	4			
216	Labouchere NV	Financials	11	4	33.780	0.500
217	Friesland Bank Holding NV	Financials	10	3	2.136	0.333
218	Kas Bank NV	Financials	10	3	64.086	0.167
219	Fgh Bank NV	Financials	7	3	35.761	0.333
220	Banque Artesia Nederland NV	Financials	12			
221	Commerzbank (Nederland) NV	Financials	5			

2001

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
222	Kbc Bank Nederland NV	Financials	5			
223	Royal Nederland Verzekeringsgroep NV	Financials	9	2	262.000	0.000
224	Generali Verzekeringsgroep NV	Financials	8	3	166.307	0.167
225	Canada Trust Bank NV	Financials	6	1	0.000	
226	Zurich Leven	Financials	1			
227	Levob Verzekeringen BV	Financials	6			
228	Zwolsche Algemeene NV	Financials	4	1	0.000	
229	Bank Of Tokyo-Mitsubishi (Holland) NV	Financials	6			
230	Mizuho Bank Nederland NV	Financials	5			
231	NV De Indonesische Overzeese Bank	Financials	5			
232	Swiss Re Nederland Holding BV	Financials	6			
233	Aot NV	Financials	6	4	0.000	1.000
234	United Garanti Bank International NV	Financials	9			
235	Finansbank (Holland) NV	Financials	6			
236	Dela Coöperatie U.A.	Financials	6	5	357.269	0.300
237	Demir-Halk Bank (Nederland) NV	Financials	10			
238	Zorgverzekeraar Vgz Groep	Financials	10			
239	De Goudse NV	Financials	10	3	150.343	0.000
240	Kempen & Co NV	Financials	9	7	189.202	0.400
241	Winterthur Levens-verzekering Maatschappij	Financials	1			
242	Onderl. Levensverz.-Mij. "'S-Gravenhage" U.A.	Financials	8			
243	Ncm Holding NV	Financials	12	7	178.911	0.286
244	Erasmus Groep BV	Financials	9			
245	Amicon Groep	Financials	10			
246	Owm Cz Groep Ziektekosten U.A.	Financials	10	3	0.000	1.000
247	Interpay Nederland BV	Financials	11	8	138.911	0.089
248	Eurocommercial Properties NV	Financials	6			

2001

nr	Name	Sector	Board Size	Inter-locks	Between-ness	Closure
249	Robein Leven NV	Financials	5			
250	Citco Bank Nederland NV	Financials	10			

Appendix IV

Big Linkers

Table IV.1: Big Linkers

	1976	1996	2001
Number of big linkers	68	47	32
Percentage of interlocks			
Created by big linkers	67.5	58.9	53.5
Total number of positions	344	230	146
Total number of executive positions	35	22	2

Directors with More Than Three Positions in Both 1996 and 2001:

P. Bouw	4	7
M.W. Dekker	5	4
F.H. Fentener van Vlissingen	7	5
R. Hazelhoff	9	4
P.C. van den Hoek	4	4
P.J. Kalff	4	6
N. Kroes	4	4
A.H. Land	4	4
H. Langman	7	5
H.B.van Liemt	5	4
A.A. Loudon	5	4
J.V.H. Pennings	5	4
A.H.J. Risseeuw	4	5
H. de Ruiter	8	7
G. van Schaik	7	4
K.J. Storm	4	4

Big Linkers in 1976:
The numbers following the names denote the total number of positions at the top 250 firms, the number of executive positions, and the number of supervisory positions.

J.R.M. van den Brink 9 1 8
A. Jiskoot 8 1 7
W.A.J. Bogers 8 1 7
L.P. Ruys 7 0 7
J. de Wilde 7 1 6
P.A. Blaisse 7 0 7
A.W.J. Caron 7 0 7
J. Loopuijt 7 0 7
J.A.H. Delsing 7 1 6
H.J.W. Brouwer 7 0 7
B. Pruijt 7 0 7
W.T. Kroese 7 0 7
O. Vogelenzang 6 1 5
C.F. Karsten 6 1 5
E.H. van der Beugel 6 0 6
P.M. van Doormaal 6 0 6
C.R.C. Wijckerheld Bisdom 6 0 6
J. van der Velden 6 1 5
H.J. Kruisinga 5 1 4
P.M.H. van Boven 5 0 5
P.L. Justman Jacob 5 0 5
S. Orlandini 5 1 4
PH.C.M. van Campen 5 0 5
D. Haentjens Dekker 5 1 4
K. Fibbe 5 1 4
H. Langman 5 1 4
F.J.F.M. van Thiel 5 0 5
G. van der Wal 5 0 5
H.N. Wakkie 5 1 4
J. de Vries 5 1 4
J. Visser 5 1 4
E. van Veelen 5 1 4
A. Meijer 5 1 4
J.M. van Susante 5 0 5
H. Stout 5 0 5
Y. Scholten 5 0 5
B. Roolvink 5 0 5
H.M. van Mourik Broekman 5 0 5
J.A. Bakker 4 1 3
H.J.E. van Beuningen 4 0 4
J. Bartels 4 1 3
S.C. Bakkenist 4 1 3
L.E.J. Brouwer 4 0 4
M.G. de Bruin 4 1 3
L.M. Kretzers 4 1 3
B.W. Biesheuvel 4 0 4
F. Hoogendijk 4 1 3
Jhr. mr. F.O.J. Sickinghe 4 1 3
E.K. den Bakker 4 1 3
C.D. Matthijssen 4 0 4
Jhr. S.G. van Weede 4 1 3
H.W.A. van den Wall Bake 4 0 4
N. van der Vorm 4 1 3
E.H. Toxopeus 4 0 4
M. Ruppert 4 0 4
J.W. de Pous 4 0 4
H.D. Pierson 4 1 3
P.E.E. Kleyn van Willigen 4 0 4
L.H. Meerburg 4 0 4
W.H. Fockema Andreae 4 0 4
D.F.W. Langelaan 4 1 3
J. Kraaijeveld van Hemert 4 1 3
F. Jockin 4 1 3
B.F.C.M. Ingen-Housz 4 0 4
G. van 't Hull 4 0 4
G.F. Hepkema 4 2 2
B.A.J.M. van Hellenberg Hubar 4 1 3
H.H. Nauta 4 0 4

Big Linkers in 1996:

R. Hazelhoff 9 0 9
H. de Ruiter 8 0 8
H. Langman 7 1 6
A. Maas 7 0 7
A.P.J.M.M. van der Stee 7 0 7

J.M.H. van Engelshoven 7 0 7
F.H. Fentener van Vlissingen 7 1 6
G. van Schaik 7 0 7
A.J. Reeders 6 1 5
J.F.M. Peters 6 0 6
J.C.M. Hovers 5 1 4
J.V.H. Pennings 5 1 4
P.A.W. Roef 5 0 5
H.P.H. Crijns 5 0 5
A.A. Loudon 5 0 5
J. Groenendijk 5 0 5
M. Ververs 5 0 5
R.J. Nelissen 5 0 5
H.B. van Liemt 5 0 5
W. Overmars 5 0 5
M.W. Dekker 5 1 4
N.G. Ketting 4 1 3
J.J. van Rijn 4 0 4
J.B.Th. Manschot 4 1 3
A.H.J. Risseeuw 4 1 3
J.D.R.A. Bax 4 1 3
F.H.M. Grapperhaus 4 0 4
P.J. van Dun 4 1 3
J.D. Timmer 4 0 4
M. Kuilman 4 0 4
L.J.M. Berndsen 4 1 3
O.H.A. van Royen 4 0 4
P. Bouw 4 1 3
A.H. Land 4 1 3
N.J. Westdijk 4 1 3
N. Kroes 4 0 4
G.J. Swalef 4 1 3
W.H. Brouwer 4 0 4
Th.M. Scholten 4 0 4
W. Vlasblom 4 1 3
P.J. Kalff 4 1 3
G.M.L. van Loon 4 1 3
A.W. Veenman 4 1 3
K.J. Storm 4 1 3
P.C. van den Hoek 4 0 4
F.A. Maljers 4 0 4
F.J. de Wit 4 1 3

Big Linkers in 2001:

P. Bouw 7 0 7
A.G. Jacobs 7 0 7
H. de Ruiter 7 0 7
J.M. Hessels 6 0 6
P.J. Kalff 6 0 6
H. Langman 5 0 5
F.H. Fentener van Vlissingen 5 0 5
A.H.J. Risseeuw 5 0 5
R. Zwartendijk 5 0 5
M. Ververs 5 0 5
R. Hazelhoff 4 0 4
L.A.A. van den Berghe 4 0 4
H.B. van Liemt 4 0 4
Jhr. A.A. Loudon 4 0 4
C. Boonstra 4 0 4
J.L. Brentjens 4 0 4
C.J. Brakel 4 0 4
M.W. Dekker 4 0 4
P.A.F.W. Elverding 4 1 3
J. Kremers 4 0 4
N. Kroes 4 0 4
J.F. van Duyne 4 0 4
A.H. Land 4 0 4
M.C. van Veen 4 0 4
D.G. Eustace 4 0 4
P.C. van den Hoek 4 0 4
J.V.H. Pennings 4 0 4
K.J. Storm 4 1 3
A.N.A.M. Smits 4 0 4
G. van Schaik 4 0 4
J.M. Schröder 4 0 4
Jhr. H.A. van Karnebeek 4 0 4

Appendix V:

Meetings of the Interviewees

Figure V.1 shows how the interviewees are connected through board meetings with each other. The circles represent the interviewees,[1] the anonymous squares represent the firms where the interviewees hold board positions.

Figure V.2 presents a more condensed version of the meeting network, and leaves out the corporations that are involved in binding together the interpersonal meeting network of the interviewees. Next to the direct connections, 21 of the interviewees were connected at distance two. They both meet a third person who could bring the two together. Figure V.3 shows the network of indirect contacts between the interviewees. The thicker the tie, the more indirect connections exist between board members. These network drawings clearly show that even a random selection of directors find themselves heavily intertwined in the corporate elite network.

Figure V.1 Corporate Network of the Interviewees

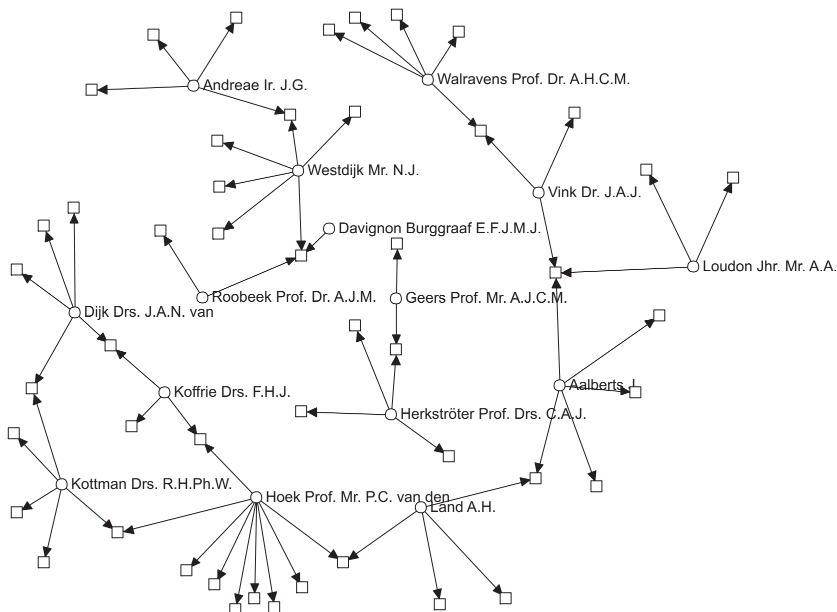


Figure V.2 Corporate Meeting Network Interviewees

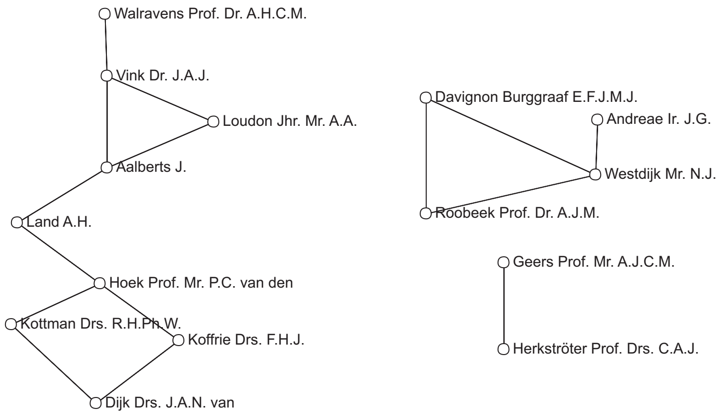
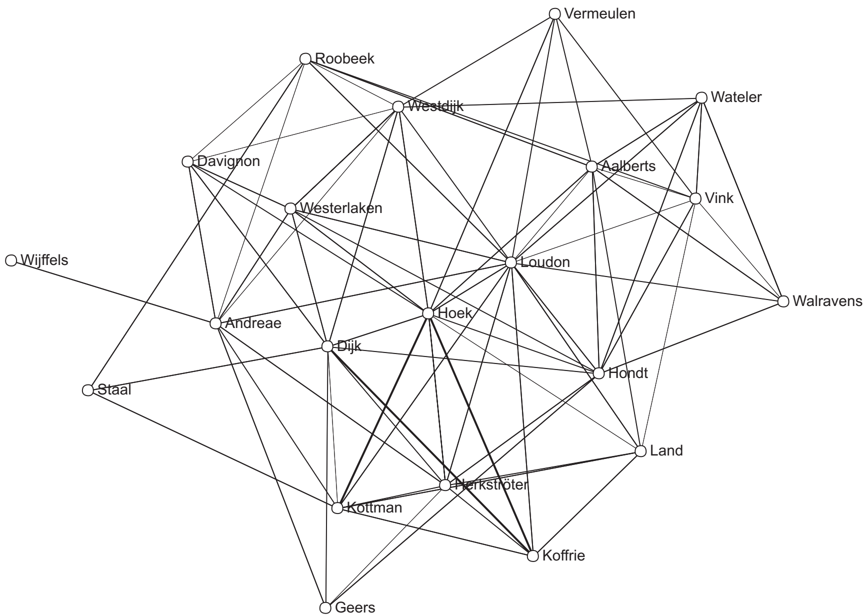


Figure V.3 Indirect Connections between Interviewees



NOTES

1 Corporate Communities, Governance and Control

1 Albert used the term Neo-American instead of Anglo-American. Furthermore, the market models discussed here are all forms of capitalism, being systems that promote private investment and business and include competition as an organising principle. The models do differ in the extent to which they promote competition as opposed to coordination.

2 The term 'market' can be used to denote a number of phenomena. Deriving from *marcatus* (trade), it is defined variously, including: a space where buyers and sellers meet, a group of (potential) buyers, a segment in the economy and the available supply of or potential demand for specified goods or services. However, one of the most dominant usages of the term market is to denote an ideal type of mechanism for economic exchange. In such a free or *liberal* market, production and distribution of goods and services take place through self-organising mechanisms based on full competition, and needs no external coordination. In this book, the *liberal market* is used to denote this. When referring to a segment in the economy, market is used in combination with that segment (such as the labour market, the capital market, the stock market).

3 The varieties of capitalism literature suggests that business systems should be understood in terms of the institutional setting of an economic region, encompassing legal, labour capital aspects and the like (Hall and Gingerich 2004; Hall and Soskice 2001b). These scholars include multiple institutional fields in the analysis of corporate regimes, such as education and welfare arrangements, and stress resilience to change. As they argue, institutions in an economic arena (most often the nation state) interact and complement each other. These institutional complementarities create comparative institutional advantages (Hall and Soskice 2001a, p. 39), alleviating the need for institutional change under pressures of international competition. These different institutional settings go together with different modes of governance (Heinze 2004).

4 Höpner and Jackson (2001) show how different institutional set-ups do

indeed create very different corporate regimes. They found that stock-listed corporations in Germany and the UK pursue different states of equilibrium, reflecting the comparative institutional advantage of the corporate regime. The corporate strategy of German companies follows a low-level equilibrium, where low share prices go together with low corporate earnings. British corporations, on the other hand, create a high-level equilibrium, where high corporate earnings sustain high share prices. The shareholders of German corporations receive competitive rates of return, as long as market capitalisation remains low. By contrast, UK firms have higher share prices, but require higher payments to investors to maintain comparable returns to capital. The consequence of these differences is that British corporations are much more appreciated on the stock market, whereas German corporations have a higher turnover and, above all, are able to sustain nearly double the number of employees. The British corporate regime favours capital over labour, whereas in Germany it is the other way around.

5 For the Dutch case, it is worth noting that considerable debate has taken place regarding the word ‘comply’ during the drafting of the 2003 Tabaksblat code for good governance. It was argued that ‘comply’ presupposes rules. After successful lobbying, the word ‘comply’ was changed for the word ‘apply’, making it less strong. The corporate elite thus successfully lobbied for a corporate governance code that remains more principle-based than rule-based.

6 Corporate networks in Asia are also well studied, but show very different patterns and functions, mainly because of the corporate group structures common in this region of the world (Scott 1987; Scott 1999). In Japan they take the form of the *Keiretsu*, which evolved from the pre-war family/region based *zaibatsu* (Aoki 1990; Berglof and Perotti 1994; Yafeh 2003), in South Korea as vertically organised *chaebols* (Chang and Chang 2003; Feenstra, Yang and Hamilton 1997), in China as *qiye jituans* (Kleister 1998), and other forms in Taiwan (Numazaki 1986) and Singapore (Sabhlok 2001; Zang 2000). In contrast to New Zealand, the network of board interlocks in Australia shows signs of increasing strength and cohesion, particularly at the interpersonal level (Alexander 1998; Alexander 2003; see also Heemskerk 2004b for a comparison with the US and the Netherlands). With Australia as an exception, all authors seem to agree with Barnes and Ritter (2001) that, while the inter-firm networks are becoming less concentrated, this does not mean that they have become insignificant. This is corroborated by studies of networks of interlocking directorates that are not comparative in time. A major contribution was a comparative study of ten nations in 1976 (Stokman, Ziegler and Scott 1985). Others include case studies of Switzerland (Nollert 1998; Nollert 2005), the Netherlands (Nollert 2005), Spain (Aquilera 1998), Germany

(Pappi, Kappelhof and Melbeck 1987), Hungary (Vedres 1998), Sweden (Smangs 1999), South Africa (Cox and Rogerson 1985) and Israel (Maman 2000).

7 In Dutch: 'De gehele economie in ons land is in handen van rond de tweehonderd personen. Van een groep mensen, die elkaar goed kennen en elkaar frequent ontmoeten in verschillende colleges. Het is een evenzo deskundige, financieel sterke als beangstigende groep.' (cited in Helmers et al. 1975, p. 11).

8 In reaction to the initial research report, Mertens remarks that he came to his observation mainly because of 'intuition and experience' (*De Nieuwe Linie*, 5 January 1972). He did have some inside knowledge on the matter. As his records shows, he himself was member of a number of boards such as the Centrale Volksbank, investment fund WeBeFo, chairman of de Volkskrant and printer Lumax, member of the supervisory board of the Katholieke Economische Hogeschool in Tilburg, and outside director at the insurance company Concordia. Mertens was inspired by a current affairs program on Dutch television in which he participated (*Vara's achter het nieuws*), which dealt with the topic of economic power (see De Hen 1972). Interestingly, one of the main advisors for this program was V. Halberstadt, who grew to be one of the most influential persons of the Dutch elite. He is known in elite circles as the man with the largest address book. Halberstadt is the director of multiple firms, a professor at Leiden University, and a close friend of the Dutch royal family. For many years he was also the secretary-general of the yearly Bilderberg conferences.

9 A full list of all national and regional corporate governance codes is provided by the *European Corporate Governance Institute* (http://www.ecgi.org/codes/all_codes.php).

10 As Samuels notes, 'the interpretation of Smith has been influenced by a selective filtration process. [...] a process deeply channelled by ideology, power, and whatever governs professional or disciplinary concerns' (Samuels 1977, p. 190). In general, a less selective reading of Adam Smith reveals a much more nuanced and complex view of economic, and indeed social, relations than commonly attributed to him.

11 Elite-threatening actions include the repeal of structures that protect management from hostile takeovers (such as poison pills), CEO dismissal, the creation of independent nominating committees, and separation of the CEO and board-chair positions (in the one-tier system)

12 This practice was in fact also commonplace at the European level of competition policy. Of all the notifications under Article 81 of the EC treaty, which prohibits cartels and other forms of collusion, only 0.5 per cent generated negative decisions in the past. This observation provides evidence for the lenient stance of the Commission towards cartels in the past. Angela Wigger made me aware of this point.

13 See for instance the work of Beuving on second-hand car trade between Europe and West-Africa (2004; 2006). He shows that traders and middlemen do not act as rational actors, with gambling behaviour reminiscent of the gold fever of Klondike. Gambling, rather than calculating, seems dominant as a logic for economic action.

14 This adjustment commonly entails adjusting the rationality of actors. Research emerged that reconstructed the utility function used in economic models, by introducing alternative components for this function that are commonly not included. For instance, Fehr and Smidt (2004) argue that economic actors can be driven by personal motives. Likewise, Engelmann and Strobel (2004) see inequity aversion (the preference for 'fair' rewards) as an important determinant of human behaviour.

15 Ownership also creates network ties at the inter-organisational level. It is possible to conceive ownership ties as a bipartite network as well. It suffices to replace directors with owners in the conceptual scheme of figure 1.1. From these ownership ties, one can derive a network of firms that share one or multiple owners, and a network of owners were the ties are common investments (see for instance Kogut and Walker 2001). However, this analytical perspective disregards the most obvious and more direct relationship that exists when corporations themselves hold ownership of other corporations. In terms of a governance network, emphasise lies with direct ownership ties when applicable.

16 These findings are based on an analysis of the amount of 'executive interlocks', i.e. board interlocks that are created by an executive director. Chapter 2 discusses these ties in detail. Companies in the USA were less heavily interlocked during the 1970s than their Rhenish counterparts such as the Netherlands, Germany and Switzerland. However, the interlocks that did exist were predominantly executive ties, pointing at an institution-oriented network (Fennema 1982; Stokman and Wasseur 1985). But while 30 per cent of all interlocks amongst the top 250 in the USA were executive ties in 1976, twenty years later this percentage has already dropped to 19 per cent (Heemskerk 2004b). Apparently, a key property of the network in the USA showed clear signs of change.

17 Rajan and Zingales (2001) argue against this dominance of legal origin as a time-invariant explanation for cross-country differences. Not only do they show that by most measures, countries were more financially developed in 1913 than in 1980, they also point out that the legal origin provides no explanation for the decline and subsequent growth of the financial sector. The financial sector does not develop monotonically, and according to Rajan and Zingales, trade openness is perhaps more important than legal institutions in understanding economic and financial development.

18 The formal legal mechanism is sufficient to generate institutional change

only in cases in which payoffs are not highly interdependent (Culpepper 2005). In those cases, individual firms can shift their strategy immediately without any restraints. For instance, this is the case with the shift from coordinated to uncoordinated wage bargaining, in the field of industrial relations (ibid.). However, when the coordinative element of the pay-off is high, legal changes are not sufficient. The price cartel in the construction industry is a case in point. Pay-off of involvement in board interlocks and corporate elite networks is difficult to assess precisely. The relation between corporate profitability and a firm's network position is complex, and mixed at best (Mizruchi 1996). Burt (1983) found no effect on profitability of having suppliers, bankers or customers on the board, while others even found a negative relationship between performance and interlocks with banks (Dooley 1969; Fligstein and Brantley 1992; Mizruchi and Stearns 1988; Pfeffer 1972). However, other studies do find a positive relationship between directors interlocks and profitability (Burt 1983; Pennings 1980). The benefits of being part of the network are likely to be much more subtle, and must be sought in such attributes as information, trust, influence, prestige and esteem. Contrary to the multifaceted aspects of positive pay-off, negative pay-offs of board interlocks are likely to be much more straightforward. Thus, a shift in balance in a cost-benefit analysis of involvement in the corporate governance network occurs is most likely to be the result of increasing negative pay-offs.

2 Decline of the Corporate Network

1. In Dutch: 'de nijverheid te ondersteunen door haar geld te lenen of vennoot te worden, is een denkbeeld, dat alleen in tijden van ziekelijke overspanning ingang kan vinden.'
2. Frentrop (2002) gives an excellent and elaborate overview of corporate governance issues in the Netherlands from the 1600s onward.
3. In Dutch: 'Het is met het oog hierop noodzakelijk, dat er een zoo eng mogelijke samenwerking bestaat tusschen de industrie en het bankwezen.'
4. This *structuurregeling* was put into practice in 1971, and had three manifestations: the full structure regime, the mitigated structure regime, and the exempted structure regime. Roughly all large firms had to apply the control structures from this regime. It should noted that multinational corporations, given that most of their employees work outside the Netherlands, are granted leeway in applying the structure regime.
5. The number of firms that fall under the structure regime dropped significantly over the years. By 1993, only 53.15 per cent of a selection of 143 large non-financial firms applied the structure regime (compulsory: 41.96 per cent; voluntary: 9.79 per cent; mitigated: 1.4 per cent) (De Jong and Röell 2005).

6 When the Rabobank was created through a similar merger in 1972, this policy also applied to them.

7 A number of attempts to create industry banks, just like the German (and Belgian) ones, were not successful. Following the example of the Belgian and German banks, the Crediet- en Depositiebank of Dr. Samuel Sarphati attempted to acquire majority stakes in promising new industrial firms. However, nine years after its start in 1863 it merged with a French bank, becoming the Banque de Paris et de Pays-Bas (Paribas). Likewise, the Algemene Maatschappij voor Handel en Nijverheid, a direct participation of the Paris-based Crédit Mobilier, did not last long (De Hen 1972, p. 99). De Hen concludes that, 'the Dutch banking sector, as it developed after 1870, considers the ownership of large parts of corporate shares and the related risk-bearing voting power in non-financial firms, as undesirable (in Dutch:'het Nederlandse bankwezen zoals het zich na circa 1870 heeft ontwikkeld, beschouwt het bezit van grote aandelenpakketten en daarmee van direct risicodragende zeggenschap in niet-financiële instellingen in principe als ongewenst.') (ibid., p. 100). As a result, Hilderding's theory of finance-capital ('Kapital in der Verfüging der Banken und in der Verwendung der Industriellen' (see Hilferding 1910/1968)), was never fully applicable. This specific form of industrial finance, with its characteristically strong (personal) ties between banks and industry remained mostly a German practice. An exception was the Nationale Investeringsbank (now NIB Capital), established after the Second World War with the explicit goal of financing industry through participations. The NIB monitored its 'clients' through a system of outside directorships (*participatie commissarissen*).

8 At the turn of the century, banks officially still needed consent from the minister of finance for a ten per cent participation in a non-financial firm, a merger, or for a five per cent participation (in capital or in votes) in another bank. However, with a European rather than a national market, the objections to equity ties amongst Dutch financials have largely vanished.

9 In some cases, a special foundation holds certain priority shares, and the foundation itself is under the control of the corporate management or allied partners. Priority shares are also used by the government to gain control over privatised former state companies, while gradually decreasing their capital stakes. For instance, the Dutch state still controls major decisions at the TNT Post group, while their capital share is already below the 20 per cent. In December 2005, the Dutch government returned its 'golden share' of formerly state-owned KPN, and in April 2006 the European Commission ruled that the Dutch state must sell its 'golden share' of TNT as well.

10 A third statutory defence is the blocking device, where the transfer of the

share is bound to certain rules. For example, permissions from the board might be necessary to sell one's shares, or there is a limit as to who can own the shares. Subsequently, the X per cent rule can limit ownership of one single shareholder. 10.5 per cent of the 143 non-financials had a X per cent arrangement (De Jong and Röell 2005).

11 Still, a number of large Dutch corporations do in fact make use of a holding or non-listed company as owner. A good example of such a – rather straightforward – defensive ownership structure is that of Heineken. Heineken Holding controls Heineken NV through a 50.005 per cent share. Both corporations are stock listed. The Heineken family controls the Heineken Holding through their Swiss company L'Arche Holdings SA, which in turn holds 50.0005 per cent of the holding company. Likewise, in the financial sector, a number of key players are owned by holding companies. This is especially a practice of firms that are cooperatives, or have a cooperative history. According to some definitions (notably La Porta, Lopez-de-Silanes and Shleifer 1999), these chains of ownership might be denoted as pyramids. For instance, Coöperatie Achmea controls the insurance conglomerate Achmea Holding through a 33.04 per cent stake. Following La Porta et al., all companies in which Achmea Holding maintains stakes of more than 20 per cent are part of a pyramid. Other examples of cooperative financials are Aegon (controlled by Vereniging Aegon) and SNS Reaal Groep (controlled by Stichting Beheer SANES).

12 Because the Dutch government acted under pressure from the European Union to come up with these legal adoptions, the law did not function very well in the first few years. Just as with the legislative changes in the banking sector, this *Wet Melding Zeggenschap* was a direct result of European directives, in this case the 1988 Large Holdings Directive. Under this law, shareholders have to report their participation when it reaches certain thresholds. Notification is required once the participation in a company reaches 5, 10, 25, 50 or 75 per cent. However, in the early days when the law first became effective, the information on ownership was not only incomplete, it was also often incorrect.

13 Here we do not want to limit ourselves to listed companies only, since we are interested in the Dutch economy as a whole. A predisposition in favour of listed firms would strongly bias the results. It is striking to see how influential publications on ownership composition across countries only focus on the 20 or so largest stock listed corporations in a country (e.g. La Porta, Lopez-de-Silanes and Shleifer 1999). While such an approach does enable the authors to engage in a comparative study, the basis of their conclusions remains small.

14 The data on ownership largely derives from the reports of the *Autoriteit Financiële Markten* (AFM), and the REACH databases (Bureau van Dijk 1996-2001).

15 The distribution of firms with majority shareholders across categories was as follows. foreign owned 1997: 24 per cent, 2001: 38 per cent; state owned 1997: 8 per cent, 2001: 4 per cent; state big block holder 1997: 0 per cent, 2001: 4 per cent; Dutch subsidiary 1997: 10 per cent, 2001 4 per cent; holding/ultimate owner: 1997 3 per cent, 2001: 6 per cent.

16 State-owned shareholdings in the Netherlands by capital share

	100	**90-50**	**49.9-10**	**>10**	**Total percentage**
1997	21	25	13	8	67
2001	21	14	18	5	58

17 A more inclusive approach examines all significant shareholdings. Note that here we do not consider concentration of ownership per firm, but the size of ownership stakes. Because data on ownership for this large sample is relatively unreliable, it is not prudent to infer the concentration of ownership per firm on this basis. However, we can report on the size of the shares for which we do have information. There are about 4,000 disclosed shareholdings in 1997, and about 500 more in 2001. As is the case amongst the shareholdings of the top 50 corporations, the lion's share of these shareholdings represents full ownership. This highly skewed distribution blurs the picture. Therefore, the third column in the table contains the percentage of the number of shareholdings in five tiers, excluding all shareholdings of more than 99 per cent.

Ownership Concentration

Proportion of	**1997**			**2001**		
owned stock	**N**	**%**	**<99**	**N**	**%**	**<99**
99+	1489	43.8		2599	58.2	
75-98.9	80	2.4	4.2	108	2.4	5.8
50-74.9	237	7.0	12.4	317	7.1	17.0
25-49.9	342	10.1	17.9	312	7.0	16.7
10-24.9	341	10.0	17.9	345	7.7	18.5
5-9.9	603	17.8	31.6	516	11.6	27.6
-4.9	305	9.0	16.0	269	6.0	14.4
Total shareholdings	3397		1908	4466		1867
Total firms	2177		703	3325		735

18 A basic classification into seven sectors, showing the number of firms in that sector in 1976, 1996 and 2001 shows the following: resources 8, 4, 3; manufacturing: 92, 108, 93; utilities 30, 17, 15; financial institutions 50, 50, 50; trade 47, 42, 62; real estate 4, 2, 19; other 19, 27, 8.

19 Hopefully, the accuracy of available databases will increase over the coming years, because they do present great opportunities for research on board interlock structures. So far, collection of yearly data remains a daunting task. However, there are positive prospects for the near future. First, there are a growing number of laws in place that enforce the publication or disclosure of relevant information. Furthermore, this information is increasingly considered to be of strategic importance for stakeholders in the corporate governance arena. Hence, a number of institutions already collect a huge amount of information. For the future, this information could present an enormous impetus to the research of interfirm relations at a national, an international (comparative) and at the global level.

20 In an earlier, exploratory study on the network of Dutch board interlocks in 1996, the effects of intra-group interlocking was explicitly investigated (see Heemskerk 2001). Other recent studies on Dutch board interlocks such as Nollert (2005) and Windolf (2002) do not take this extra step. As a result, their studies report higher numbers of interlocks and 'big linkers' (people with more than three positions).

21 Again, in contrast to Nollert (2005), and – as became evident when rechecking the 1976 data – to some extent also in contrast to the 1985 Corporate Power study (Stokman and Wasseur 1985). For the current research, the decision was made to exclude advisory boards, and to include voting members of the board only. The problem of including the advisory board in the analysis was already mentioned by AMRO chairman Van den Brink when he reflected on the initial research findings of *Traces of Power* (De Bruijn 1972; Mokken 1971). As a consequence, the 1976 network differs slightly from the one analysed by Stokman et al. Companies could reach astonishingly high levels of network centrality due to their advisory boards, which would not in fact reflect institutional bonds with other firms, nor a strong involvement of advisors with the firm. In this study, advisory boards are not considered to be a part of the institutional board overlap network of the largest firms in the Netherlands.

22 Höpner and Krempel (2003) give a good example of how the visual inspection of corporate networks, combined with a qualitative-historical analysis, helps to understand the politics of the German corporate network.

23 An interlock between two boards is created when one or multiple directors sit on both boards. The interlock is an *edge* between the two boards. If two people sit on both boards, two interlocks exist, and the edge has a value (multiplicity) of two.

24 Distance is a simple yet crude measure for cohesiveness. Chapter 4 elaborates on this issue while discussing social closure. For now, average distance provides us with insight into the cohesion of the network.

25 Stokman et al. (1985) made use of a different sample, varying between the 67 and 89 companies during the period 1960-1980. A comparison of their exact findings is not very useful, although the tendencies they uncover (such as a smaller board size after 1969) do bear significance. For instance, for 1976 they find an average board size of 14 members.

26 Note that there are more positions than there are directors, because some directors sit on more than one board.

27 Contrary to the overall decrease in directors during the years under observation, there are a few women taking positions on corporate boards during that period. Yet, given the persistent and astonishingly small number of female corporate directors, this small increase does not give much hope. In 1996, 38 women directors were at the top 250 corporations. Five years later, 62 women can be counted. Much should be done to ensure a better balance of gender in the corporate boards of the Netherlands.

28 Directors are referred to in masculine for practical purposes. Still, by the turn of the century, this describes the empirical reality well, since only a very few number of women occupy the top decision-making organs of the corporate economy (see previous note).

29 A third, yet quite unlikely option, is that a person holds positions on two executive boards. This does occur, but usually between parent companies and their subsidiaries. However, given the selection criteria we applied, this kind of tie is highly unlike

3 The End of the Old Boys Network

1 Hoogenboom worked with the lists of the inner circle from Schijf (1993), and compiled information on nobility himself. One should note that due to selection criteria, the list of interlockers is longer in 1886.

2 In contemporary Dutch: ‘Nu ze tegenwoordig menschen van dat soort burgemeester maken, moeten die maar in hun buurt blijven.’

3 The Central Bureau of Genealogy in the Netherlands registers membership of the aristocracy. Membership of the nobility is published in *Nederland’s Adelsboek* (Centraal Bureau voor Genealogie 2001), and membership of the patriciate is registered in *Nederlands Patriciaat* (Centraal Bureau voor Genealogie 2000). In a few cases, the most recent family genealogy in *Nederlands Patriciaat* dated from before the birth of the corporate elite member with the same family name. In 1996, there are 15 persons for whom we cannot ascertain their status, and in 2001 there are 16 people, mostly the same. Even if these people did descend from the patriciate, they clearly did not feel compelled to confirm their status and

renew their family's genealogy in the register. There are no clear indications that the propensity for people to (renew) their listing has diminished over time. They seem to serve first and foremost as a tool for the elite itself, in order to (institutionally) distinguish between new and old families.

4 The differences in prestige within the corporate elite are not exclusively determined by the formal position of board members in the meeting network. Differences in status attainment also stem from personal characteristics and bonds of affinity among the directors, as well as from the positional power they have. Clearly, the CEO of Philips will have more standing than an outside director of a small trading firm. However, not every consecutive Philips CEO is necessarily endowed with the same prestige in the corporate elite. Here, not only positional but also personal characteristics play a role. For example, certain well-respected interlockers are well known to the public because they frequently appear in the media. Others, however, choose a position of relative anonymity and shield themselves from media attention. As one less known, yet highly connected corporate interlocker explains: 'I prefer to be a bit invisible, because it allows me to be myself. (...) If I want to be effective, I must operate in the background'. (In Dutch: 'Ik ben graag een beetje onherkenbaar, dan kan ik tenminste mezelf zijn. Ik ga liever een blokje om, dan dat ik word herkend. Als ik effectief wil blijven, moet ik op de achtergrond functioneren'.) *de Volkskrant* 7 January 2006.

5 The top 100 non-financials and the top 25 financials compose the top 125, and the top 50 non-financials and 15 financials compose the top 65. There are a few outliers. In particular, Stokman et al. (1988) report that the group of interlockers comprises 24 per cent of the corporate elite in 1976, and even 26 per cent by 1980 (omitted in the table). These findings are in contrast with my observations. This difference is not the result of the much larger sample size we used. Table 3.1 also reports the share of interlockers in the sub-selections of the top 125 and top 65 corporations for 1976 and 1996. The absence of differences between the samples indicates that the interlockers amongst the corporate elite are just as prone to sit on the board of smaller firms as they are for larger firms. Closer inspection of the selection criteria of Stokman et al. (ibid., p. 191-192) suggests an explanation for this inconsistency. They chose to exclude a number of 'deviating' firms from the sample. In a later publication, one of the co-authors of the study reports on an extended version of the set of firms in 1984 (144 firms) (Van der Knoop 1991). For this larger set, he finds that 17 per cent of the corporate elite is an interlocker: a drop of nine per cent in four years time. This underlines a strong effect of the outlier results.

6 Small as compared to what one would expect given a random network of the same properties.

7 While the increase in average distance of 0.3 might seem quite insignificant, one should keep in mind that these are averages, and that the size of the corporate elite has decreased considerably.

8 The general tendency of decreasing social embeddedness of the corporate elite as a whole is in line with the findings on the corporate board overlap network, but the network configuration in 1996 stands out due to its preservation of connectedness. However, this preservation is only possible at the expense of directors losing local centrality (as measured by the number of people an average corporate director meets). In 1996, the most common number of meetings amongst the corporate elite (the modal number) was only seven, while in 1976, and in 2001, this was about nine meetings. Because of the skewed distribution of meetings over the corporate elite, the average number of meetings per director shows much larger differences. During the mid-1970s, the average number of meetings was still 18.9. Twenty years later, due to decreasing board size, a director only meets 12.8 other directors on average, and by 2001 11.4. The reduced importance of the highly connected directors took place before the mid-1990s. During the mid-1970s, directors with up to 11 meetings accounted for 47 per cent of all meetings, while in 1996 and 2001, this group accounted for 65 per cent of all the meetings.

9 Interview in the *NRC Handelsblad* 28 December 2003

10 As a result, the small world coefficient (Davis, Yoo and Baker 2003) has extraordinarily high levels as well, with 51.35 in 1976, 66.49 in 1996 and 49.60 by 2001.

11 Conyon and Muldoon make use of a more sophisticated, yet less straightforward measure of clustering when they compare actual findings with expected results. In particular, they control for degree distribution. The clustering coefficients as reported in the text are the 'Watts-Strogatz' calculations.

12 The Dutch network is close to the UK (0.889) in terms of clustering.

13 In networks with large average distances, betweenness is not very meaningful. Note that this table reports on only those interlockers that form part of the dominant component.

14 Respectively, the clustering was 1.96, 2.24 and 1.62 times the expected value given a random distribution in 1976, 1996 and 2001.

4 The Corporate Elite's Informal Networks

1 The interviews were conducted in collaboration with Mijke van Ballegooijen.

2 One exception is Khurana's (2002) study on the irrational quest for corporate saviours, but this study is limited to the USA, and only looks at the recruitment of directors. Garten (2001) provides a more elaborate insight

into 'the mind of the CEOs', but his book lacks a sociological interpretation.

3 The interviewees were initially approached with a formal letter that introduced the research and asked for their cooperation (for more on corporate elite access, see Galaskiewicz 1987; Richards 1996; Thomas 1993; Useem 1995). The letter sketched the aim of the research only in broad terms, leaving the topic rather vague as 'the changes in corporate governance in the past twenty years'. Furthermore, the letter mentioned that the interview would not discuss company policy on corporate governance, but rather the ideas and experience of the interviewees themselves. This letter was followed by a phone call, usually to the secretary of the board. In some cases the letter had to be resent. In a few cases, directors were contacted at their private address, and in a few other cases the secretary of the directors contacted us in response to the initial letter.

4 A strategy for a survey that is likely to increase the return rate would be to gather personal information about the directors, and subsequently ask them to correct and complete the data, as Beekenkamp did. Furthermore, the response rate to surveys might very well be related with the 'acceptability' of elites in society. Recently, *de Volkskrant* newspaper published a series of articles on the Dutch elite (these include Dekker and Van Raaij 2006a; Dekker and Van Raaij 2006b). As part of this project, a survey amongst 400 people from this elite was held. With 278 respondents (almost 70 per cent), the response rate was high.

5 As a result of the sampling, the relative size of the four groups in the sample closely resembles the relative size in the entire inner circle. Respectively: Group 1: 39.1 per cent/ 38.1 per cent, Group 2 13.0 per cent / 23.8 per cent, Group 3 39.1 per cent/ 31.2 per cent and Group 4 8.7 per cent/6.9 per cent. Some comments on Group 2 are in the text.

6 One pilot interview was used to test the structure of the interview. Since significant changes were made to the structure of the interviews, the pilot interview has been omitted from the analysis.

7 One of the many examples is Max Hirschfeld, see Baruch (1962, part II, p143) for some remarks and Fennema and Rhijnsburger (Forthcoming) for a comprehensive view on the life of interlocker Hirschfeld.

8 In terms of social capital, the like-me principle can lead to sub-optimal outcomes when all contacts have the same set of resources at their disposal. This is a particular problem in low status social groups. A dense network with similar others will not help someone much when he and his contacts all live in the same ghetto, deprived of means and opportunities to escape the social and economic backwaters (see for instance Fernández-Kelly 1995, on social capital in the urban ghetto). A mix of weak ties and strong ties can help to counter this lock-in effect. Whereas strong ties within subgroups build bonding social capital, weak ties constitute bridg-

ing social capital. For high status groups such as the corporate elite, the like-me principle actually works to their advantage, as the levels of social, cultural and economic capital of the people in the social networks (both strongly and weakly connected) are deemed to be high.

9 These figures are based on a comparison of the list of directors in 1996 with the *Staatsalmanak*, a directory which lists positions in the government. An earlier article discusses these links in more depth (Heemskerk, Mokken and Fennema 2002; see also Mokken and Stokman 1979a).

10 The Johanniter Order is one of three knightly orders in the Netherlands. The other two are the German Order of Balije of Utrecht and the Catholic Sovereign Military Order of Malta. The Johanitter Order is open to all Dutch men and women, while the other two are restricted to nobility. According to Dronkers: 'The German Order admits only Dutch Protestant males and requires in addition to four noble quarters that both parents come from lineages that were aristocratic before 1795. The Order of Malta admits Dutch men and women over 25 who are practising Roman Catholics, are married according to canonical law and are listed in the records of the Dutch aristocracy with the Supreme Council of the Nobility. In addition, the marriages of their forebears concluded in the previous hundred years, as well as the current lifestyles of the prospective members, need to be worthy of admission to the Order' (Dronkers 2003, p. 83-84).

11 Of course, fraternities play an important role in many societies. For instance, both candidates for the presidency in the 2004 elections in the USA, George W. Bush and John Kerry, are 'Bonesmen': members of the exclusive Skull and Bones society at Yale University. This elite and highly exclusive society is known to deliver leading figures to USA business and politics.

12 'What is permitted to Jupiter, isn't permitted to oxes.'

13 Low levels of membership remains a problem throughout the twentieth century (ISO and LKvV 2003). However, as fraternities serve a certain role in the reproduction of elites, it is safe to assume that student fraternities are here to stay. In fact, in more recent times, student organisations and fraternities are beginning to regain popularity. At the same time a new elite educational trajectory is emerging. Don Weenink (2005) shows that elite trajectories are being constructed in Dutch higher education. In upwardly mobile families, the parents tend to prefer that their children follow new, dual-language school trajectories, where the youngsters receive an education that prepares them for a cosmopolitan career. Furthermore, Weenink finds that this group of students is more competitive than pupils who follow the classic variant of the highest tier in Dutch higher education, the *gymnasium*.

14 A survey of a newspaper among the Dutch elite (n=278, response rate 78

per cent) showed that 75 per cent of the corporate elite was member of a student organisation, 80 per cent of whom were a member of a traditional *corps* (Dekker and Van Raaij 2006a). A incomplete list of *corps* alumni among the CEOs includes Anthony Ruys (Heineken), Hans Wijers (Akzo), Rijkman Groenink (ABN AMRO), Jeroen van der Veer (Shell), Anton van Rossum (Fortis), Rob ter Haar (Hagemeyer), Frans Koffrie (Buhrmann), Rob van den Bergh (VNU), and Gerard van Loon (CSM). Likewise, many well-sought supervisory directors spend their student years as a member of the *corps*, such as Karel Vuursteen (former Heineken), Jan-Michiel Hessels (former Vendex), Morris Tabaksblat (former Unilever), Jan Kalff (former ABN AMRO), Ton Risseeuw (former Getronics), Paul Fenetener van Vlissingen (former SHV), Ewald Kist (former ING), Cees van Lede (former Akzo), and Aarnout Loudon (former Akzo).

15 Exemplary is the comment of law firm executive Van Marwijk Kooy, who was also on the board of the Rotterdam Hockey Club Victoria. When a young hockey player hinted that he would like to work at the law firm, Van Marwijk Kooy informed the human resource manager of his firm he could expect this person (Weeda 2001). It is hard to conceive of a better introduction.

16 In the following quote, one of the directors explains the importance of social relations in recruitment: ‘One of the most difficult tasks of being a corporate manager is the recruitment of new employees. That’s where we make most of our mistakes. In spite of the increased knowledge in that area, I noticed that if we fail, it is because we misjudged somebody. It is not so much a matter of a lack of professional skills; that can be reasonably measured. Errors are made when somebody, for one reason or another, doesn’t fit the culture. We cannot assess how this person thinks and lives and whether he will fit in the corporation. Because culture is: this is how we do it. And these are very persistent patterns, where I see people fail, and saw people fail. So in the end, you need to know somebody incredibly well in order to know whether he fits into the environment.’

17 Generalised reciprocity is perhaps best described by a quote from the famous baseball player Lawrence Peter ‘Yogi’ Berra: ‘If you don’t go to their funeral, they won’t come to yours’.

18 The *Heeren 17* is a club for corporate elite members with a Frisian background. Other clubs are *De Haagsche Schouw*, *De Haagsche Club*, *De Klos*, and *De Kruiwagen*. The corporate elite also meet at clubs such as the *Royal Sailing and Rowing Club De Maas*, *Sociëteit De Witte, Nieuwspoort, Arti & Amicitiae,* and the Rotary. Furthermore, Dutch-based yet highly international, the Rare Birds Club is a private society of wealthy individuals, established by the late Prince Bernhard. Its aim is to collect money through auctions in order to help rare and almost extinct birds. In this, the Rare Birds Club is not very different from another (international) elite

society that was established by Prince Bernhard: The 1001 Club. In 1970, as president of the World Wildlife Fund, Bernhard invited 1000 (he himself was the 1001th member) wealthy and influential people to join by donating 10,000 dollars in a trust fund that would benefit the WWF. Ever since, the 1001 Club has been an impressive transnational private social network, organising several events a year (the membership fee has increased to 25,000 dollars in 2005).

19 Another factor adding to the reluctance of meeting and communicating is the risk of insider trading on the stock market. Most of the corporate elite members invest in stock, and given the relatively small business circles in the Netherlands, it is very likely that one would invest in the corporation of an acquaintance. In these configurations, the risk of insider trading is high. And although until now it has proven very difficult, if not impossible, for prosecutors to actually prove that insider trading took place, the mere accusation of these actions are sufficient to ruin a corporate career.

5 Formalisation of Governance

1 These 25 firms are the ones that make up the Amsterdam Exchange Index (AEX). This index includes listed firms on the basis of the highest turnover of shares and market capitalisation.

2 There are some indications that the bursting of the dot-com bubble and the concomitant stock market crash in 2001 put a (temporary) stop to the decreasing tenure of the corporate elite. In 2003, for the first time in five years, CEO turnover in Europe was less than ten per cent (Lucier, Schuyt and Handa 2004). Developments in the Netherlands follow a similar pattern. Whereas at the end of 2003 38.6 per cent of CEOs were appointed less than two years ago, we see that one year later this figure dropped to 24.3 per cent (34 persons). Likewise, in 2004, a CEO of a Dutch stock-listed company spent, on average, 5.3 years at a company, compared to 4.5 years in 2002. These figures suggest that Dutch boards are stabilising after a period of turmoil.

3 Which some firms actually endorse. For instance, the newly built head office of ING is fully transparent with walls of glass.

4 This section is based on research done in collaboration with Mijke van Ballegooijen (Van Ballegooijen 2005).

5 John Elkington coined the term Triple P approach (People, Planet and Profit), stating that ‘companies should be held accountable to a “triple bottom-line” of pursuing social justice inside and outside the company, environmental quality, and economic prosperity through creation of employment and sources of income’ (Elkington 1997, p. 14).

6 For instance, in the Netherlands, ABN AMRO has been criticised by polit-

ical action groups (organised by the Socialist Party) for its involvement in the production of cluster bombs (through its client INSYS). When the second Gulf War broke out, pressure grew for ABN AMRO to disengage their ties with this firm. Finally, the bank sold its shares in INSYS. Not much later, a director of the bank explained in one of our interviews that that they are very active in CSR. 'If somebody produces mean weapons, well, than we don't finance them.' So, when the decision was made to change the policy, the directors immediately endorsed it.

7 The labels 'promotor' and 'sceptic' were only attributed after due consideration of the entire interview. So, while a number of questions had the particular purpose of uncovering the orientation of the interlockers (such as, 'which topics do you relate with stakeholder management?', and 'how do you explain CSR policies to your shareholders?'), the parts of the interview that did not explicitly deal with the issue of stakeholder and shareholder orientation were not dismissed. By doing so, the final attribution of the labels is consistent with the attitude of the interviewees throughout the interview. The same approach has been applied for the attribution of management orientations.

8 Historic exchange rates were based on information provided by the International Institute for Social History. The rates and conversion sheets were available at the website of the IISG in 2006 at http://www.iisg.nl/hpw/.

9 Interview in *de Volkskrant* 6 november 2004.

6 Conclusions

1 Historic exchange rates were based on information proved by the International Institute for Social History. The rates were available at the IISG website in 2006 at http://www.iisg.nl/hpw/.

Appendix V

1 The names of the interviewees are mentioned with their approval.

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