



# Exploring Power and Corporate Elites

## From community to brokerage?

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### Introduction

Current research on corporate governance largely neglects essential questions of the **distribution of power** over stakeholders such as management, workers, stockholders, consumers and society at large

Back in the 1970s **political scientists have been pioneers** in applying advanced and innovative network analysis on corporate networks as a means of unravelling the power structure of the corporate elite

Corporate board interlocks were seen as traces of power either reflecting a dyadic resource dependency perspective, a constellation of (financial) interests, or as a structure of class cohesion

Since that time, networks of the corporate elite underwent large transformations, calling for a **rethinking of power** in corporate networks

**Shareholder interest** became more dominant in corporate governance. In stakeholder-oriented coordinated market economies such as Germany and the Netherlands this shift induced significant changes for the role and position of the corporate elite

### What remains of power in this new configuration?

### What is Power?

**Power is the capacity of actors (persons, groups or institutions) to fix or to change (completely or partly) a set of action or choice alternatives for other actors (Mokken and Stokman 1978)**

Power as a **capacity** stems from both the **power position** and the **power base**.

Power base reflects the resources, the power position the social configuration in which these resources can be utilised

### Social capital as power

'a group whose members manifest trustworthiness and place extensive trust in one another will be able to accomplish much more than a comparable group lacking that trustworthiness and trust' (James Coleman)

At the **level of the individual**, resources can be a base of power and a position of **brokerage** a power position

At the **level of a group**, trust can be a base of power, and a dense network with **social closure** a power position.

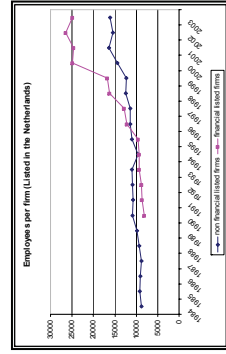
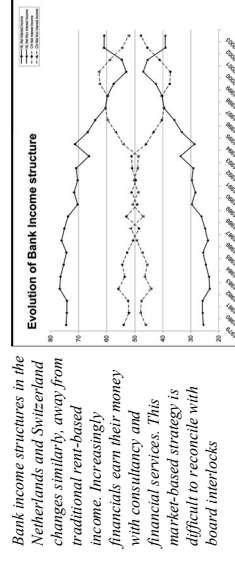
### Dynamics in Corporate Networks

Corporate networks show signs of decline. Some observations illustrated with examples from Europe:

- Corporate networks become sparser: fewer ties (see table below)
- Executive directors in particular retreat from interlocking directorates (see table below)
- Changing strategic position of financials, away from durable relations with industry (see figure evolution bank income structure)
- At the same time: ongoing concentration leads to larger firms (see figure employees per firm)

The table illustrates the decline of corporate networks in Switzerland, the Netherlands, and also includes figures on the EU (total and only across borders). Interlocks have been steadily removed, leaving a smaller and sparser network. Ties created by executives were particularly prone to vanish. Financials no longer send their bankers to the boards of industrial firms. A European network seems to emerge

	NL	1976	1986	2001	1980	1990	2000	2005	2006	EU	Pan EU
firms with interlocks	194	196	137	104	97	93	273	168			
% of sample	4.4	4.8	3.7	2.7	2.5	2.3	10.6	9.4			
% of sample interlocks	11.6	12.4	8.7	6.7	6.3	5.1	18.6	16.6			
total number of ties	952	775	481	434	394	207	854	293			
total number of multiple ties	121	47	33	77	66	20	120	16			
ties between finance and industry	467	279	176	-	-	-	-	-	-	-	-
number of directed ties (executive)	272	205	77	-	-	-	-	-	-	178	46
number of non directed ties	680	650	457	-	-	-	-	-	-	32	7



### Changing Power Configurations

We consider the power position amongst the inner circle: those directors with multiple positions. Brokerage signals individual power, closure reflects group power

- The corporate **inner circle** is both smaller and not as well connected (table previous column)
- The (ego) network of the directors becomes **smaller**, illustrated by degree centrality (figure degree distribution)
- Individuals are **increasingly brokers** in the network, as illustrated by larger betweenness centrality (table below)
- Social closure of the meeting network of the inner circle goes down, signalling less opportunities for power at the level of the group (bottom figure)

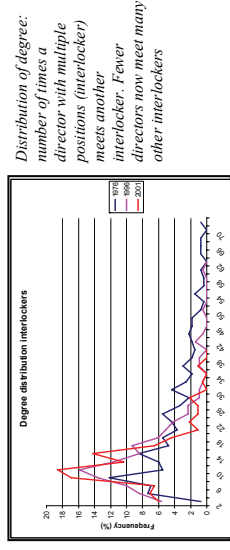
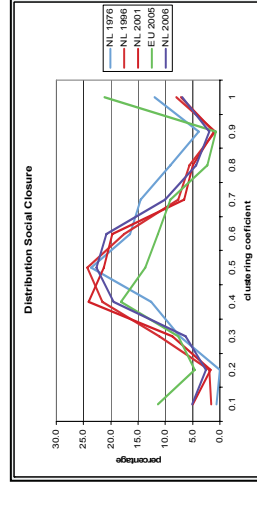


Table: Betweenness measures brokerage (being in-between). Low betweenness centrality scores decrease, while high betweenness centrality scores increase. Directors are increasingly power brokers in the network

	1976	1986	2001	D1	D2	%
<=0.1	89	53	27	-36	-40.46	-26
0.1 <...< 0.5	74	72	36	-2.70	-3.68	-47.22
0.5 <...< 1.5	51	76	36	25	49.02	32
1.5 <...< 2	12	12	17	5	41.67	5
>= 2	19	20	24	5	26.32	4

Clustering measures social closure as the extent to which ones neighbors are inter-connected (ego network density). Trend towards less clustering in the Netherlands. Overall clustering coefficient drops from 0.663 in 1976 to 0.519 by 2001. The green line shows closure of interlockers at the European level, suggesting a mix of dense pockets with a large group of brokers.



### Further Questions

The findings suggest that the corporate elite as a group has less power.

Power at the individual level through brokerage (position) and growing size of the firms (base) increases.

- How does the growing power position of individual directors relates to the **increased power of shareholders?**
- Are we talking about power or actually about **status?** ('prestige is to power what reliability and solvency are for money?')
- How does the increased power of **external supervisory bodies** relates to the decreased power of the corporate elite?
- What is happening at the **European level?** Do we witness a transformation of formerly national structures of corporate power to a new pan-European level, or do new power structures and strategies emerge?



### Some Next Steps

- Further develop power base measures
- Introduce trust as power resource
- Run network statistics for other countries (Germany, France)
- Investigate power position directors and elite through the formation of corporate governance codes

### Some Publications

- Heemskerk, Eelke M. & Schnyder, G. (2008) 'Small States, International Pressures, and Interlocking Directorates: The Cases of Switzerland and the Netherlands', *European Management Review* 5(1): 41-54.
- Heemskerk, Eelke M. & Schnyder, G. (2008) 'Decline of the Corporate Community. Network Dynamics of the Dutch Business Elite. Amsterdam University Press / Chicago University Press
- Heemskerk, Eelke M. & Femema M. 'Network Dynamics of the Dutch Business Elite', *submitted*.
- Meindert Fennema & Heemskerk, E. (2008) *Nieuwe Netwerken. De elite en de ondergang van de NV Nederland*. Amsterdam: Bert Bakker

