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Eelke M. Heemskerk, Decline of the Corporate Community. Network Dynamics of the Dutch Business Elite. Amsterdam: Amsterdam University Press, 2007, 253 pp.

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Book reviews

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Comparative studies analysing national varieties of capitalism and their possible convergence due to increasing economic globalisation also address the debate on different forms of corporate governance. It has been recently observed, in fact, that stakeholder-oriented corporate governance – typical of the Rhenish coordinated market economy and characterized by a concept of the firm as a community of interest, in which all stakeholders should be able to voice their concerns – is giving way to a shareholder-oriented governance, a feature of the Anglo-American liberal market economy in which the firm is conceived above all as a value-creating instrument on behalf of shareholders.

The study by Heemskerk represents an interesting contribution to this debate and it investigates the way business elites face exogenous pressures pushing them towards the adoption of a shareholder-oriented corporate regime in a small Rhenish country: the Netherlands. The increasing spread of the shareholder model, in fact, is largely due to external forces. The ongoing internationalisation of business and finance, for instance, have promoted the diffusion of Anglo-American practices and ideas in different countries, partly as a result of increased levels of international mergers and acquisitions. According to Heemskerk, however, it is only when these growing exogenous pressures meet a receptive business elite, willing to adopt a new system of shared-belief, that real change does occur.

This book therefore investigates the shift in the Dutch corporate regime from a relational perspective, i.e. analysing the connection between the spread of a liberal corporate governance and change in the corporate elite social structure. Moving from the assertion that governance networks are coordination mechanisms, usually associated with coordinated market economies, Heemskerk intends to describe changes in the architecture of the corporate elite's social network and to interpret them in relation to shifts in the corporate regime. To this aim, the author undertakes 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. The network of board interlocks is studied with both an inter-firm and an interpersonal approach. Moreover, further insight into the role that these networks play for the corporate elite and corporate governance is provided through qualitative interviews with members of the business elite.

Chapter 2 deals with inter-firm interlocks, which establish a network amongst firms sharing corporate directors. Board interlocks, conceived here as an opportunity structure, can be an important element of governance playing a role in coordinating economic action between corporations. Despite this, the empirical findings show that the Dutch inter-firm network has suffered a remarkable restructuring: while in the 1970s the network of interlocking directorates was extensive and well connected, with a very large dominant component, during the following years it lost its strength and cohesiveness.

At the end of the twentieth century, the share of firms that are linked has dropped significantly.

Subsequently, the author introduces the issue of the corporate elite networks, investigating the interpersonal component of board interlocks. Chapter 3 starts with the analytical distinction between the *old boys network*, as a status group with common social background, and the structural concept of the *inner circle*, that is created through interlocking directorates. The research shows that both networks changed radically during the period under investigation. The *old boys network*, characterised by longstanding friendship, kinship ties and aristocratic distinctiveness, is gone. At the same time, the network of interlocking directors – the *inner circle* – has become less connected and thinner, maintaining some functional features but ceasing to be a meeting place for a cohesive community. In short we can say, assuming a Weberian perspective, that Heemskerk is claiming that the corporate elite has transformed itself from a status group with a strong sense of belonging, into a socio-economic class simply defined on the basis of a shared occupational position.

Chapter 4 widens the research by incorporating the social network of the corporate elite that can be observed outside the interlocking structure. Several scholars have underlined how cohesion amongst corporate elites is the outcome of many different relations. Corporate elites, in fact, meet informally at business associations, non-profit organisation boards, dinners and debating clubs, private circles, receptions, tournaments and so on. The analysis of these networks, led with semi-structured interviews, calls for some nuances in previous findings about the disintegration of corporate elite networks. Despite fragmentation, in fact, informal and private meetings remain in place and are still used by the elite to create consensus or to entertain existing relationships. Nevertheless, although informal networks still carry out some general tasks, interviews show that this kind of meetings are no longer able to provide a strong sense of belonging for the corporate community.

Chapter 5 tries to find out if and how the previously illustrated changing network configurations affect the corporate governance regime. Resorting to qualitative tools, the author argues that Dutch corporate governance has become increasingly formal and he investigates the main driving forces for this formalisation, that gives way to a growing codification of behavioural norms.

According to several scholars, a sign of the shift towards the shareholder-oriented corporate governance is given by a change in corporate law, with a soaring formalisation of the corporate norm system into codes of conduct and best practices. In fact, while the Rhenish corporate governance is based upon principles, with room for business self-regulation, the Anglo-American model is based on legislation.

In the author's opinion, the increasing formalisation of corporate norms can hence be interpreted as a sign of the shift in the Dutch corporate regime from a stakeholder-oriented towards a shareholder-oriented system. According to Heemskerk, in fact, the ongoing disintegration of the corporate elite social network jeopardizes the traditional corporate norm system, based upon the sense of belonging to a community that provides a moral foundation of business. The result is a reduced self-normative capacity of the corporate elite, that requires codified norms of conduct.

Following a long season of enthusiasm, the effectiveness of the rule-based governance and the general achievement of the shareholder-oriented form of capitalism started to be criticized after its failures were revealed through cases of fraud and mismanagement (such as Enron, Worldcom, Parmalat, Ahold and many more). In his conclusion, the author therefore points out the role of the corporate elite network in disciplining directors through the foundation of a shared belief system and the consequent risks of a disintegration of such networks.

Despite its attention to structural factors, the book is however devoid of an analysis of the role played by formal institutions in affecting corporate governance. The author's argument, that changes in institutions are essentially a mere adaptation to a shift introduced with common practices by the business elite, is not quite convincing. The business community, in fact, often has to face formal changes without being able to control them (e.g. changes in corporate law), but simply finding new strategies to act in a different context. In the challenge described by Heemskerk between the national business elite and transnational homogenizing forces, the intermediate level of the national institutional framework is therefore lacking, yet it seems to be crucial to understand corporate governance.

Another possible criticism is represented by the author's idealized and in a sense nostalgic approach to the business elite. Heemskerk's picture of a moral business community, based upon sense of belonging, giving way to an individualistic corporate elite, recalls the strict dichotomy between *Gemeinschaft* and *Gesellschaft* by Tönnies. This approach leads to overemphasize the upsides of the elite's social cohesion, in one's capacity as the provider of a moral foundation of business, however it also disregards the risks connected to this social closure. In particular, significant aspects like collusion or entrance barriers are not explored by the author, whereas in some cases the role of a broader corporate formalisation in assuring transparency and accountability from firms and directors is underestimated.

Despite these critical aspects, this book represents a significant contribution to the study of corporate elite and corporate governance. The strong point of the work is undoubtedly the multifaceted research design, which enables to simultaneously consider different levels. The result is an in-depth case study, that combines qualitative and quantitative methods and that keeps together both the macro level of interpersonal and inter-organizational structures and the micro level of firms and directors. The use of a longitudinal approach, moreover, provides this study with a historical depth that is lacking in many other researches, representing a valuable starting point for broader comparative analysis within a cross-national design.

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