Chapter 8

# THE CORPORATE ELITE AND THE POLITICS OF CORPORATE CONTROL

Gerald F. Davis

## INTRODUCTION

The relation between capital and the state, and in particular the relative power over state policymaking of business executives as a class, has been the topic of perennial debate in post-war political sociology. Pluralists argued that the corporate elite—the individuals occupying the highest positions in large corporate bureaucracies—may or may not have more political power than other segments of society, but their common interests are few and their contrary interests numerous. For example, firms in capital-intensive industries have different interests from firms in labor-intensive ones, and elites in the Rust Belt differ from those in the Sun Belt. Thus, the national corporate elite does not exercise undue influence over public policy because its members are unable to agree on common interests and a common course of political action, and therefore the elite does not form a politically meaningful class. Elite theorists (or instrumentalists) countered that a variety of mechanisms exists to overcome conflicting interests among corporate executives and facilitate cohesive political action rooted in shared class interests. Common membership in social clubs and business associations and on boards of directors allows members of the

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corporate elite to work out their differences in private before entering into the political arena, and collective action by actors controlling substantial economic resources can be quite effective in shaping public policy. State policy is thus pushed in the direction favored by business. Finally, structuralists argued that while the corporate elite may be a ruling class, "the ruling class does not rule" (Block 1977)—like the pluralists, structuralists contend that conflicting interests among members of the elite are sufficient to disrupt class cohesion, and the state is relatively autonomous from capture by particular segments of the elite. Yet because of the state's inherent interest in maintaining a growing economy, policies are "spontaneously" constructed that serve the best interests of business even without direct intervention by members of the elite (see Useem 1984 and Mizruchi 1992 for discussions of these positions).

Organizational sociologists entered into this debate by specifying how the social structure in which business is embedded conditions how the corporate elite comes into contact with government in ways that promote the long-term policy interests of this class. C. Wright Mills' *The Power Elite* (1956), the classic statement of the elite theory position, argued that economic resources were concentrated within a relatively small number of large businesses, giving their managers disproportionate power, and that an enlightened segment of the corporate elite had emerged that was capable of recognizing members' common class interests and acting on them effectively. To the extent that a few corporations held a disproportionately large share of economic assets, and the individuals running these corporations were mutually acquainted and recognized common interests, the corporate elite could be considered a power elite. Early research in this tradition was heavily descriptive in flavor, focusing on social institutions meant to facilitate the recognition of common interests (e.g., Domhoff 1970). Subsequently, structural analysts combined the theoretical background of organization theory with the methodology of network analysis to examine systematically the social structural mechanisms thought to produce class-conscious political action. From the start, structural analysts focused on the most visible and pervasive network linking large corporations, namely, the interlock network formed through shared members of the board of directors. Much early research sought simply to determine the dynamics of network ties (who shared directors with whom, and why) and to map the network (what distinguished clusters of connected corporations, and who was most well-connected; see Mintz and Schwartz 1985). Later research looked to network ties to explain corporate economic and political action, and in particular the extent to which network ties translated into political cohesion (see Useem 1984; Mizruchi 1992), thus bridging the agendas of political and organizational sociology.

This chapter reviews arguments and evidence on the question of whether the corporate elite is a power elite, including new analyses of changes in the corporate interlock network during the 1980s. In brief, I argue that the corporate elite's direct influence over the state has waxed and waned over time (see Vogel 1989), and that the decade of the 1980s was a time of upheaval for the corporate elite as a class that substantially disrupted its mechanisms for acting as a power elite. The managerial revolution, in which large firms experienced a separation of ownership and control, created a class of managers with common interests that ultimately evolved capacities for unified political action as an unintended outcome of the construction of an inclusive intercorporate network (Useem 1984). The high water mark of this class' political activism came in 1980: with the social structural mechanisms for political cohesion in place and a widely-recognized common interest in reversing the trend toward state intervention in business affairs, the corporate elite strongly supported the policy agenda of Ronald Reagan. Reagan's election to the presidency brought a much-sought after regime of de-regulation in the workplace and elsewhere, and his success was largely attributable to the support he received from business (Useem 1990).

Ironically, however, de-regulation extended to the "market" for hostile takeovers, in which outsiders seek to buy control of a corporation directly from its owners against the wishes of its managers. This produced a wave of takeovers that threatened over one-fourth of the largest American corporations and undermined the very basis of the managerial class by reducing the gap between ownership and control. Primarily due to takeovers, the prevalence of mechanisms posited to promote cohesion and class-conscious political action by the corporate elite—corporate diversification and an inclusive directorate interlock network with banks at the core—declined dramatically during the 1980s, while a new elite of pension fund managers correspondingly increased in power (Davis and Thompson 1994). The result is a set of theoretical puzzles that have yet to be worked through but that provide a fertile ground for structural analysis.

This chapter is organized as follows: I first define the corporate elite, describe the process by which individuals join the elite, and argue that managerial autonomy is the master interest of this class. I describe the origins and structure of the interlock network, which ties virtually all large corporations into a single social structure with banks at the center, and how this structure provides a basis for the corporate elite to act as a power elite. I then discuss the challenge to the corporate elite posed by the takeover wave of the 1980s, how the elite responded to this challenge, and how changes in the interlock network undermined the network as an infrastructure for elite cohesion. I close with a discussion of prospects for research and theory on corporate and other elites in a post-managerialist world.

## WHO ARE THE CORPORATE ELITE, HOW DID THEY GET THERE, AND WHAT DO THEY WANT?

The corporate elite consists of the top executives and directors of the largest corporations. This group has direct control over wealth-producing property and makes large-scale investment and employment decisions that critically determine the direction of the American economy, including plant location and layoff decisions that shape regional economic health as well as the life chances of the individuals that work for the corporations they control. Economic assets and, to a lesser extent, employment have been disproportionately concentrated among a relatively small number of corporations for several decades in the United States. In 1933, the 200 largest nonfinancial corporations accounted for 57 percent of the assets of all nonfinancials, while by the mid-1970s, the comparable figure was 35 percent. These 200 firms accounted for roughly 19 percent of non-governmental employment in 1975. Among manufacturers the level of concentration had not experienced the same sort of drop by the mid-1970s—the 200 largest firms accounted for 48 percent of manufacturing assets and 31 percent of manufacturing employment (Herman 1981, pp. 190-192). Across all business sectors, 55.3 percent of nongovernmental employees worked for the 750 largest U.S. firms in the early 1980s (Useem 1984, p. 35). The degree to which such concentration has the potential to translate into political power is aptly summarized by Useem (1984, pp. 35-36), who notes that the 196 Chief Executive Officers (CEOs) who were members of the Business Roundtable in the early 1980s ran corporations with annual revenues totaling nearly half the U.S. gross national product.

A small number of individuals—the corporate elite—are thus disproportionately responsible for controlling the economic might of the United States. Unsurprisingly, then, the questions of how the individuals that comprise the corporate elite come to exercise corporate control, and how far their influence extends, are of perennial interest among students of elites in society. The standard story is straightforward. In early U.S. capitalism, control came through direct ownership, as founder-owners and their descendants managed the firms in which they owned substantial stakes. As the scale of enterprise grew, however, so did the need for capital, and ownership of large corporations became dispersed among thousands of stockholders while the management of firms increasingly fell to professional managers owning relatively small stakes themselves. Thus came about the separation of ownership and control made famous by Berle and Means (1932), where fragmented owners have little effective corporate control while managers have control with little ownership. By hypothesis, this created a situation of "managerialism" in which top managers have expansive discretion to pursue their own ends with little constraint from the demands of shareholders.

There can be little doubt that ownership of large American corporations is dispersed and has become more so over time (see Herman 1981; Scherer 1988), and that managers of large corporations own little of the firms they run—in the median *Fortune 500* firm in 1986, all executives and directors combined owned less than three percent of shares, although this small proportion can be quite large in dollar terms. Far more contentious is the claim that the dispersion of corporate ownership gives managers the power to run firms as they see fit. Similar critiques of managerialism have come from sociologists (Zeitlin 1974) and economists (Jensen and Meckling 1976), who argue that compelling pressures induce managers to act in the best interests of owners by seeking to maximize profits. These critiques have been both influential and controversial, and an appropriately detailed response is beyond the scope of this chapter (see Davis and Thompson 1994 for an extended counter-critique). But the fact that over one-fourth of the *Fortune 500* were subject to takeover bids during the 1980s provides prima facie evidence of managerialism accompanying a widespread separation of ownership and control (Davis and Stout 1992). Thus, I will assume that managerialism is, or was, a broadly accurate description of corporate reality prior to the 1980s.

In the absence of control through ownership, bureaucratic and political processes within organizations become paramount in determining who ascends to the top of the corporate hierarchy (Meyer 1991). Organization theorists have developed sophisticated accounts to explain which functional departments—manufacturing, sales, marketing, finance, legal, or others—gain power within the corporation. Resource dependence theorists argue that organizational sub-units become powerful by effectively dealing with critical contingencies in the organization's environment. This power is used to institutionalize bureaucratic procedures favorable to the powerful department which ensure that the outlook of that department dominates both subsequent internal power struggles and corporate strategy (Pfeffer and Salancik 1978; Pfeffer 1992). Thus, the departmental backgrounds of the CEO and other executives provide evidence about which units have power within the organization. Once in power, CEOs from different functional backgrounds pursue characteristic organizational strategies that reflect their training and experience; for example, firms with manufacturing CEOs are prone to acquiring suppliers in order to stabilize production uncertainties, while firms with sales and marketing CEOs tend to buy firms with related product lines in order to exploit synergies (Fligstein 1990). While departments initially gain power by solving critical organizational problems and retain power by institutionalizing procedures for advancement, individuals get ahead in corporations by having elite educational backgrounds and being tied into social networks. Thus, CEOs are more likely to have attended elite colleges, or to have come from elite families if they did not attend an elite college, than other top executives

(Useem and Karabel 1986), and individual mobility within corporations is directly tied to the network of social contacts that managers maintain (Granovetter 1986; Burt 1992).

Ascension into top management is nominally controlled by the board of directors which, as the shareholders' representative body, occupies the top of the corporate hierarchy. But board members themselves generally owe their slots on the board to the managers that invited them (Anderson and Anthony 1986). By controlling membership on the board to which they report, CEOs and other top executives are better able to maintain control within the firm and, implicitly, to screen entrants into the corporate elite. When *Fortune* firms appoint new directors, one-quarter of them are executives of the firm given slots on the board (inside directors), while more than 40 percent of the rest are recruited from the boards of other *Fortune* firms. Not surprisingly, what CEOs seek when they recruit a director is someone who knows how the game is played and who will look out for the CEO's interests, as evidenced by the fact that members of boards that approved "golden parachutes" (lucrative severance contracts) for CEOs subsequently joined new boards at a significantly higher rate than members of boards that did not (Davis 1993). Moreover, one-quarter of the directors recruited from *Fortune* firms come from boards with which the focal firm already shared a director; in other words, directors commonly recruit from the other boards on which they serve. For example, Drew Lewis, CEO of Union Pacific, served on the board of American Express with Henry Kissinger and James Robinson III (the CEO of American Express) in 1986. In 1987, Kissinger was recruited to the Union Pacific board, thus creating a stronger tie between American Express and Union Pacific and, presumably, a debt of gratitude from Kissinger to Lewis. In 1989, Robinson also re-joined the Union Pacific board after a break of several years, making the tie between the two firms even stronger. Months of outside pressure on the American Express board ultimately resulted in Robinson's ouster in early 1993, but insider reports indicate that Lewis was Robinson's staunchest boardroom defender until the end.

Thus, organizational and bureaucratic processes within firms and network processes across firms control admission into the corporate elite, and through its control of these processes the elite forms in essence a self-perpetuating oligarchy (Herman 1981; Anderson and Anthony 1986). But does the corporate elite count as a class? The definition of class in this case is problematic. Classes are defined in the first instance by shared interests. The classic Marxist definition of class is based on one's relation to the means of production; those that own wealth-producing property form the capitalist class and are united by an objective class interest. As we have seen, however, members of the corporate elite rarely own significant stakes in the corporations that they control, and thus class position is defined primarily by occupation, not social background or ownership (see Pfeffer 1987). One could argue that both owners and managers are merely different segments of the same social class (Zeitlin 1974), yet blurring the distinction between these groups dulls the analytical power of the concept of class. Moreover, those who own and those who manage corporations typically have directly contradictory interests in issues such as whether excess funds should be retained by the firm or distributed to stockholders, or whether the firm should pursue a program of diversification through acquisition; the latter conflict is at the heart of hostile takeover struggles (Davis and Stout 1992) and provides the basic problematic for the contemporary theory of the firm (Jensen and Meckling 1976). Thus, the corporate elite is a distinct class of mutually-acquainted individuals with shared interests that differ from those of corporate owners.

Members of the corporate elite share a single overriding master interest: to maintain their ability "to allocate or appropriate [economic resources under their control] as they see fit—without interference from either labor unions or government officials" (Vogel 1978, p. 54) and, more recently, shareholders (Useem 1992). Protecting management autonomy is the criterion by which executives evaluate governmental policy, according to Vogel, as well as the driving motivation behind much managerial strategy (Pfeffer and Salancik 1978). Beyond a common interest in maintaining autonomy from governmental and other intervention, however, members of the corporate elite share few apparent class interests that could unite them in common cause, and have much that divides them. Trucking companies and railroads, for example, have divergent interests on truck weight limits (Pfeffer 1987), and labor intensive companies oppose high-tech firms on labor reform (McQuaid 1980). The critical question is whether—and how—the individuals that run businesses are able to look beyond parochial interests to their larger, often unspecified, class interests.

## THE INTERLOCK NETWORK AS A MECHANISM OF CORPORATE ELITE COHESION

The question of whether members of the corporate elite are too parochial and fragmented to articulate and act on common interests—and therefore focus solely on the immediate interests of their firm or industry—or whether they are able to form a coherent ruling bloc to influence governmental policymaking has been the subject of an animated debate between, respectively, pluralists and elite theorists (see Useem 1984 and Mizruchi 1992 for excellent reviews of this debate). Put another way, the issue is whether the corporate elite is capable of moving from a class-in-itself, defined by shared interests, into a class-for-itself, capable of acting collectively on class interests (see, e.g., Griffin, Wallace, and Rubin 1986). Much of the work of elite theorists and their heirs has focused on the interorganizational vehicles that have evolved which serve to aggregate the interests of the corporate elite and which aid in pressing these interests on the state by promoting elite unity.

A variety of mechanisms bring order to a corporate world that should be, according to the logic of the economic theory of markets, a Hobbesian war of all against all (Glasberg and Schwartz 1983; Granovetter 1985). The most widely-studied mechanism of intercorporate order is the network formed by interlocks among boards of directors. An interlock between two firms is created when they share a common director. Boards of directors are nominally at the top of the corporate hierarchy, and the potential for coordination or control afforded by individuals holding seats on two or more boards has been recognized for decades. Thus, the Clayton Act of 1914 banned interlocks among competitors in the same industry, and this ban has been entirely effective (Zajac 1988). Other types of interlocks are not banned, however, and they have been commonplace among American firms throughout the twentieth century (Mizruchi 1982). By the early 1980s, the median *Fortune* firm shared directors with seven other large firms, creating a vast network of overlapping boards, and fewer than 10 percent of the firms in this population did not share at least one director with another *Fortune* firm.

The prevalence of interlocks has spawned dozens of studies by students of organizations and elites over the past two decades (see Davis and Powell 1992 for a review). While interlocks are pervasive and potentially of great significance, however, their interpretation has been something of a theoretical Rorschach test, with two main competing models to explain them: the interorganizational model and the intraclass model (see Palmer 1983; Pfeffer 1987 for discussions of this debate). More recently, researchers have argued that the two models are complementary: interorganizational processes create interlocks that facilitate intraclass cohesion (Palmer, Friedland, and Singh 1986; Mizruchi 1987). The interorganizational model sees interlocks as a method for organizations to cope with uncertainty brought about by dependence on powerful actors in the environment (Pfeffer and Salancik 1978). Resource dependence theorists, following the logic of Selznick's (1949) famous study of the Tennessee Valley Authority, argued that organizations can co-opt powerful constituencies by appointing representatives of those constituencies to the board of directors. By hypothesis, those individuals appointed to the board would come to empathize with the organization's point of view. For example, a firm might appoint an executive of a supplier of a critical resource to its board in order to ensure access to that resource. Thus, the interlock network that results is simply the aggregate of shifting sets of dyadic ties among interdependent organizations, with no clear interorganizational power structure emerging (Glasberg and Schwartz 1983).

Evidence for the notion that interlocks are used to co-opt sources of environmental uncertainty is equivocal at best. Studies at the industry level find that interlocks between industries tend to follow patterns of resource dependence

(Pfeffer and Salancik 1978; Burt 1983), yet these results have not held up at the firm level, where two studies using different samples in different time periods failed to uncover links between dependence and interlocking (Palmer et al. 1986; Mizruchi 1989). Appointing a representative of a supplier of a critical resource may reduce uncertainty, but the downside of this tactic may be a loss of autonomy as the firm is constrained to purchasing from that supplier. Only about 5 percent of *Fortune 500* firms in 1986 maintained interlock ties with other *Fortune* firms operating in industries that were significant buyers or suppliers of the focal firm's primary industry, indicating that very few felt the tradeoff of greater certainty for less autonomy was worth it.

Several studies have also looked at the reconstitution of interlock ties that are "accidentally" broken, that is, cases when the shared director dies or retires. Interlocks created to serve organizational purposes, such as co-opting an important supplier, should be quickly reconstituted when they are broken, as the co-opting firm appoints another representative of the supplier to its board. In fact, only about one-sixth of the broken ties among *Fortune 500* firms during the mid-1960s were reconstituted, suggesting that such ties were rarely used for co-optation (Palmer 1983). Reconstitution was more likely when the firms were linked by some mechanisms of formal coordination, were headquartered in the same city, or when the director creating the original interlock tie was an executive of one of the firms (Palmer et al. 1986). Canadian firms reconstituted ties more often when the interlocked firms shared more than one director, when one of the interlocking directors was an executive of one of the firms, or when the firms were tied by joint ownership (Ornstein 1984). While these results may be somewhat consistent with a co-optation story, they are also consistent with the idea that firms conduct a fairly limited search when they appoint a new director, looking to other firms with which they do business or already share a director or to executives that run local businesses for likely candidates.

Collusive interlocks among competitors are virtually nonexistent, and cooptive interlocks are extremely rare and of minor importance in general, but a particular type of tie is both common and potentially significant for producing intercorporate order—interlocks between industrial corporations and commercial banks. Banks control access to capital, a uniquely critical resource, and their trust departments manage potentially influential ownership stakes in a large number of corporations, leading some to conclude that banks exercise a relatively direct form of control through ownership and lending relations (Kotz 1978). A notable flaw in the logic of this theory is the fact that U.S. commercial banks (as opposed to investment banks) have been forbidden by law from owning or dealing in securities (stocks) since the Glass-Steagall Act of 1933 (Roe 1990)—the equity banks nominally "own" is generally held by the banks' trust departments for other people—and that banks are "relentlessly passive" toward incumbent managers when it comes to voting the shares they hold because they do not want to offend actual or potential loan customers (Black 1990, p. 600). Banks' discretionary control over loan capital, however, is a potential source of power. According to the logic of resource dependence theory, firms should be expected to cope with the uncertainty caused by bank power by establishing co-optive interlock ties to banks, particularly when their need for access to capital is greatest. Thus, Mizruchi and Stearns (1988) found that, over time, firms were more likely to appoint representatives of financial institutions to their board when profits and solvency were declining, and that interlocks with financial institutions were much more likely to be reconstituted when the tie was broken than were other types of broken interlocks (Stearns and Mizruchi 1986).

As one would expect given their economic importance and the relatively large size of their boards (nearly twice that of industrial boards), large banks have persistently been among the most heavily interlocked firms (Mintz and Schwartz 1985). Yet overwhelmingly these ties are created by the bank appointing an industrial executive to its board rather than the other way around. For example, J.P. Morgan & Co. (parent of Morgan Guaranty Trust) was the most heavily-interlocked firm in 1982, with ties to 48 other *Fortune* firms, yet its executives collectively sat on only three *Fortune* firm boards. Results from a longitudinal study of Canadian firms in the mid-1960s indicate that executives were asked to join bank boards when the firm they ran was particularly profitable (Richardson 1987), a finding suggesting that banks seek to fill slots on their boards with executives from successful firms. Conversely, industrials rarely put bankers on their boards—bank executives were substantially less likely than other directors to join new boards in the late 1980s (Davis 1993), and fewer than one in eight *Fortune 500* firms had an executive from one of the 50 largest banks on its board in 1982. Thus, very few bank interlocks could be interpreted as instances of dependent industrial firms seeking to co-opt suppliers of capital.

The aggregate set of findings indicates that while banks traditionally maintained a commanding position at the core of the interlock network, they did not (and could not) use this position to exercise direct control over other corporations (Mintz and Schwartz 1985). Rather, according to financial hegemony theory, banks maintained a large number of interlocks as an effective way to gather intelligence about broad and diverse sectors of the economy. Banks rarely intervened directly in the decision making of corporations, but instead exercised hegemony through their direction of capital flows, which allowed some sectors to flourish while other wilted. Because a relatively small number of New York banks controlled a disproportionate amount of loan capital and were tied together through loan consortia and other means, they were uniquely positioned to coordinate corporate action among American businesses, potentially producing the sort of stable intercorporate order that is not contemplated in resource dependence theory and that is explicitly ruled out in pluralist political accounts (Mintz and Schwartz 1985). Moreover, banks' large boards, packed with executives of successful firms from diverse industries, provided a regular meeting place for the cream of the corporate elite.

## FROM CLASS-IN-ITSELF TO CLASS-FOR-ITSELF: THE CORPORATE ELITE AS A POWER ELITE

Regardless of why particular interlocks were created, or why banks maintained the most interlocks, the aggregate outcome was a vast network of overlapping boards linking virtually all large corporations into a single social structure with banks at the center. The political implications of this structure did not go unnoticed by network theorists interested in the pluralism vs. elitism controversy. As with many debates, what at first appeared to be a dichotomy—is the corporate elite a cohesive power elite or not—was more fruitfully considered a continuum: "The key question is not whether business is unified but rather when; that is, the conditions under which unity and opposition occur" (Mizruchi 1992, p. 31). Adam Smith long ago noted that "people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public" (quoted in Granovetter 1985, p. 484), and corporate boardrooms, particularly those of banks, are regular forums for merriment and diversion for members of the corporate elite. This fact provided the basis for a elegant resolution of the debate between pluralists and elitists.

Pluralists pointed out that societal elites have a number of parochial and sharply competing interests among themselves that should prevent them from forming a united front, and it was easy to find cases of overt conflict among business elites to support their point (e.g., Bauer, Pool, and Dexter 1963). In response, elite theorists pointed to mechanisms promoting a common outlook among members of the upper class, such as private boarding schools, social clubs, and policy associations (e.g., Domhoff 1970). Following this lead, Useem (1984) argued that an unintended consequence of the evolution of the managerialist corporation was to create mechanisms that could serve a similar function for the corporate elite. In particular, corporate concentration and diversification, as well as the construction of a diffuse and inclusive interlock network, provided an infrastructure for members of the corporate elite to overcome their political differences and present a united front.

If parochialism—taking only the perspective of a single organization in a single industry—is the problem, then corporate diversification and a diffuse interlock network are the solution. Most large American manufacturers were diversified conglomerates operating in a number of industries by 1980, with only about one-fourth focused on a single industry (Davis, Diekmann, and Tinsley 1994). The top executives of such diversified firms are less prone to the narrow industry-specific viewpoints of more focused firms. Moreover, the interlock network created a set of individuals (multiple directors) that sit on numerous corporate boards and are thereby exposed to the political and economic concerns of diverse sectors of the economy (Useem 1984). Through their experiences on multiple boards, these individuals become a cosmopolitan and politicized "inner circle" fluent in the common interests that cut across sectors and able to envision the long-term interests of the corporate elite as a class. Members of the inner circle "are in a position to help aggregate and promote general business interests. This segment enters into contact with government in a fashion that screens out parochial corporate concerns and favors classwide concerns" (Useem 1982, p. 205). Multiple directors are far more likely than single directors to sit on the governing boards of nonprofit institutions, government advisory boards, and especially business policy associations such as the Business Roundtable through which businesses construct common positions on political issues (Useem 1984). As a result, "[r]ather than having to sift through the disparate demands of a thousand chief executives, government officials are presented with an integrated vision already developed by those members of the corporate community best positioned to reconcile the competing demands" (Useem 1990, p. 286). Although the theory is more about individuals (i.e., members of the inner circle) than firms, one implication is that more heavily-interlocked firms will engage in more "class-conscious" political action, a notion that has received mixed empirical support (see Burris 1987; Clawson and Neustadtl 1989).

Of course, the creation of an inner circle did not resolve all issues of corporate political unity once and for all. Not every business is tied in to the inner circle, and corporate leaders still publicly oppose one another on important political issues. Corporations have political power to the extent that they are unified, that is, their political behavior is similar. Thus, an alternative and somewhat complementary approach to the problem of corporate political power is to look at the factors promoting similarity among firms. Interorganizational theorists have described a battery of mechanisms hypothesized to promote similar practices among firms, either through voluntary adoption or pressures for conformity; ownership relations, inter-industry constraint, and interlocking boards can all push firms toward similar practices, including similar political behavior (Mizruchi 1987). Analyzing data on the similarity of political action committee (PAC) contributions among pairs of firms, Mizruchi and Koenig (1986; Mizruchi 1989) found that firms operating in industries that were interdependent made more similar PAC contributions, as did firms that interlocked with the same financial institutions and those partially owned by the same financial institutions. Comparable results held for similarity in testimony before Congress (Mizruchi 1992). These findings support the notion that, largely as an unintended result of mundane interorganizational dynamics, corporations evolved a set of mechanisms that promoted class-wide unity in political behavior, with interlock ties to the same bank playing a particularly important role in promoting similarity (Mizruchi 1992, p. 243). To the extent that these mechanisms are in place, then, unified political action among the corporate elite should be expected.

Intercorporate relations thus created mechanisms promoting the capacity for unified political action among the corporate elite, including connections between particular firms and to common banks as well as an inner circle of politically-active multiple directors with exposure to diverse sectors of the economy. The perceived interest of the corporate elite in capitalizing on these mechanisms came with the political environment for business of the 1970s, in particular the advent of cross-industry regulation by agencies such as the Environmental Protection Agency, the Occupational Safety and Health Administration, and the Equal Employment Opportunity Commission. While previous regulatory regimes tended to be industry-specific, the new system affected all businesses, prompting corporate executives to unite in policy organizations such as the Business Roundtable (McQuaid 1980). "Executives of the large American corporations reported the growth of an awareness that all were experiencing increasingly burdensome federal demands and that a joint counteroffensive was overdue.... All asserted that the continued expansion of regulation required concerted political counteraction" (Useem 1990, p. 277). Thus, "in 1980 the policy *business* believed best promoted its long-range interests as a class was support for ideological conservatives" (Clawson and Neustadtl 1989, p. 765). Businesses mobilized to target "excessive" government spending and regulation of business decision making, with apparent success: "The political thrust, electoral success, and continued commitment in office of the Thatcher and Reagan governments were in no small part a product of this business rush into politics. Both governments sharply reduced controllable social spending [and] lifted controls on business" (Useem 1990, p. 285). According to these accounts, the crowning achievement of the corporate elite's nascent political power in the United States was the election of Ronald Reagan to the presidency.

## CHALLENGES TO THE CORPORATE ELITE IN THE 1980S

Yet unintended consequences came back to haunt the corporate elite, as the Reagan Administration's laissez-faire stance extended beyond de-regulation of the workplace to include antitrust and the "market" for takeovers of large firms. Takeovers typically are accomplished by outsiders ("raiders") who buy a controlling amount of a firm's equity directly from the firm's shareholders. Because shares are traded on public markets such as the New York Stock Exchange, raiders are not required to get management's permission before they buy control—indeed, buying a firm to get rid of incompetent management is the most widely-cited rationale for takeovers (Manne 1965)—and in cases where management resists, it is considered a hostile takeover. Prior to the 1980s, antitrust concerns were sufficient to prevent takeovers of many large firms that otherwise would have been attractive targets. Early in the decade, however, Reagan's choices for positions in the Federal Trade Commission and the antitrust wing of the Justice Department indicated that size alone would not be a barrier to mergers, paving the way for large transactions such as Chevron's acquisition of Gulf Oil in 1984. In 1982 the U.S. Supreme Court, influenced by the pro-takeover arguments of Chicago School economists and legal theorists, struck down laws in most states that limited hostile takeovers with the *Edgar* v. *MITE* decision. The Securities and Exchange Commission was also populated by Chicago School sympathizers who ardently defended the value of takeovers from those in Congress and elsewhere that sought to regulate them. A new set of entrepreneurs—raiders who were outsiders to the corporate elite (Hirsch 1986)—made use of financial innovations such as junk bonds and large bridge loan funds to buy diversified corporations in order to split them up and sell off the parts upon completion of the deal (Davis et al. 1994).

The result of this push for free markets and de-regulation was an extended wave of takeovers and mergers that saw one-third of the *Fortune 500* disappear as independent entities (Davis and Stout 1992). Large corporations were virtually immune to unwanted takeovers prior to the 1980s, and those who ran them could be confident of relatively long tenures at the top of bureaucracies in which control was allocated through routine organizational processes (Meyer 1991). Yet with the exception of perhaps the dozen largest firms, size alone was no longer sufficient to ensure stable control during the 1980s. Moreover, the managers and boards of firms that succumbed to takeover typically lost their jobs, and with them their positions in the corporate elite. The very basis of the managerial class—control unconstrained by ownership—crumbled, bringing with it much of the infrastructure for elite cohesion. Ironically, the corporate elite's success as a politically active class undermined the material basis of that class by reversing much of the managerial revolution. The takeover wave in turn weakened and in some cases altered the direction of collective corporate political activism: firms that were taken over and saddled with substantial debt had more immediate concerns vying for their attention than the long-term interests of their class (Useem 1993, ch. 5).

The corporate elite did not passively endure the challenge posed by the takeover wave, however, but attempted to launch a managerial counter-revolution at the federal, state, and firm levels, with varying degrees of success. At the federal level this effort was half-hearted and unlikely to succeed as long as Reagan held office. The Business Roundtable, the foremost association for class-conscious political action by the corporate elite (Useem 1984), proposed federal regulation of hostile takeovers, and Congress held countless hearings and considered dozens of bills to regulate takeovers—none of which passed.

Because the Reagan Administration and the SEC in particular vehemently opposed regulation restricting the "market for corporate control," any federal laws aimed at restricting takeovers were doomed to failure (Romano 1988). Even if the political climate were more hospitable, it is not clear that members of the corporate elite could have overcome their differences to form a common political front on this issue. While managers want to avoid being the target of a hostile takeover, they also want to maintain their own ability to carry out takeovers, an ambivalence of no small irony. In the words of raider T. Boone Pickens, "The Business Roundtable says takeovers are hurting the U.S. economy, yet 76% of its member companies have carried out takeovers in the last three years. How hypocritical can you get?" (Pickens 1988, p. 54). Indeed, AT&T, the most central industrial firm in the interlock network throughout most of the 1980s, also launched the largest hostile takeover of the early 1990s with its bid for NCR in 1990-1991. Even on such a fundamental issue as the stability of corporate control, the corporate elite was implicitly if not explicitly divided at the national level.

At the state level, however, local segments of the corporate elite were considerably more successful at pressing state legislatures to limit hostile takeovers, and 40 states had adopted anti-takeover laws by 1992 (Davis and Thompson 1994). Because the number of major firms incorporated in each state is generally small, with the exception of Delaware, and because local businesses cultivate long-term relationships with state legislators, it was easier for corporate managers to organize for collective action at the state level than at the national level. The histories of anti-takeover laws passed in the late 1980s are similar across the states: "State takeover laws are typically sponsored by a local chamber of commerce at the behest of a major local corporation that has become the target of a hostile bid. They are often enacted rapidly, sometimes over a few days in a special emergency session...[and] usually...without public hearings. Legislators' support is bipartisan and nearly unanimous" (Romano 1992, p. 52). The very different experiences of corporate managers at the state and federal levels during the same time period demonstrate that cohesion among members of the corporate elite is contingent not simply on the existence of interorganizational mechanisms but on the political level at which policy is made.

At the level of the firm, while interlocks did not directly protect firms from takeover, they did play a useful role in protecting members of the corporate elite by spreading innovations in takeover defense. A variety of colorfully-named devices meant to make unwanted takeovers more difficult became prevalent among large corporations during the 1980s, including "shark repellents" and "poison pills." The poison pill makes hostile takeover prohibitively costly by giving shareholders rights to buy shares in the firm at a two-for-one rate when a raider buys a large stake without the board's approval. Because boards can adopt a pill without shareholder approval, pills were quite popular during the late 1980s, when a substantial majority of large corporations adopted them. The interlock network directly aided the spread of the pill: heavily-interlocked firms were the earliest adopters after it was legalized in late 1985, and firms were quicker to adopt a pill when they were interlocked with a firm that had already done so; thus, the network's structure directly facilitated the rapid spread of the pill (Davis 1991). Ties to prior adopters also promoted adoption of golden parachutes—handsome severance packages for executives terminated after a takeover—and classified boards—arrangements in which the board of directors is broken into three classes elected on rotating years, making it difficult for a dominant stockholder to buy control of the board in a single year (Davis 1992). The interlock network clearly played a part in slowing the takeover wave, if not a decisive one.

By 1990, however, when a widespread regulatory regime limiting takeovers was in place, the social organization of the corporate elite had been substantially altered. Point by point, every mechanism posited to facilitate elite cohesion at the national level suffered during the 1980s. Conglomerates were substantially more likely to be taken over than focused firms, and most conglomerates that were not taken over voluntarily rid themselves of unrelated businesses, resulting in a 1990 *Fortune 500* that was roughly half as diversified as its 1980 counterpart (Davis et al. 1994). To the extent that corporate diversification helps overcome political parochialism, the corporate elite was considerably less cosmopolitan at the end of the decade than the beginning. The interlock network was also challenged by the takeover wave. Heavily-interlocked firms were no less prone to takeover than isolates (Davis and Stout 1992), consistent with Hirsch's (1986) argument that raiders were outsiders with little respect for the power structure of the corporate elite. Moreover, takeovers eliminate nodes in the interlock network, as the board of directors is commonly dissolved or reconstituted. The proportion of isolates (firms with no interlocks) increased over the course of the 1980s, while the average number of interlocks each firm had decreased modestly.

Up until the beginning of the 1980s, banks consistently occupied the core of the intercorporate network, but for a variety of reasons they have come to play an increasingly peripheral role in the economy as their share of financial assets in the United States dropped from nearly 40 percent 20 years ago to 24.5 percent today. "The banking industry is becoming irrelevant economically, and it's almost irrelevant politically," according to a former chairman of the Federal Deposit Insurance Corp. (*Wall Street Journal*, July 9, 1993). Investors have increasingly shunned bank deposits in favor of mutual funds, and credit-worthy customers commonly issue their own debt rather than borrowing short-term from banks. There is a variety of alternative means to take on debt without the help of commercial banks, and thus banks no longer have the privileged control over loan capital that they once did. The eroded power position of banks is reflected most dramatically in their declining centrality in the interlock network, both in absolute and relative terms. In 1982, seven of the ten most heavily-interlocked *Fortune* firms were banks; in 1986, banks made up four of the top ten; and by 1990, only two of the top ten were banks, despite the fact that bank boards continued to be far larger on average than industrial firm boards. Also telling is the fact that firms with commercial bank executives on their boards were no less likely than other firms to receive takeover bids (Davis and Stout 1992). To the extent that it ever existed, bank hegemony among American corporations was a thing of the past by the end of the 1980s.

Commercial banks have been something of a paper tiger since the 1930s, however, when the Glass-Steagall Act separated investment banking from commercial banking. Prior to that time, banks were powerful financial intermediaries owning significant stakes and holding board seats on portfolios of firms, putting them at the center of business groups such as that formed by J.P. Morgan. Populist sentiment in the United States had long been suspicious of economically-concentrated and politically powerful banks, however (Roe 1991). The onset of the Great Depression, blamed in part on the banks, saw a raft of reforms that substantially reduced the power of banks and other financial institutions by restricting their ability to own large stakes in individual corporations or to exercise significant control over debtor firms. At the same time, the rules governing proxy voting in corporations were deliberately tilted to favor the firm's managers: "Congress, the SEC, and the states fully intended the rules to insulate corporate managers from too much shareholder oversight, by financial institutions or anyone else.... One purpose of the Proxy Rules, a [1934] Senate Report explains, was to protect investors from proxy solicitations 'by irresponsible outsiders seeking to wrest control of a corporation away from honest and conscientious corporation officials'" (Black 1990, p. 564). An instructive comparison for how things might have turned out under a different regulatory regime is Germany, where three banks control more than 40 percent of the stock and thus bank control of corporations is unambiguous (Roe 1990). But while U.S. banks' position of power may have been weak for decades, their boards played a crucial function in facilitating corporate political unity (Mizruchi 1992), a function which their drastically eroded centrality leaves them ill-suited to serve today.

## RETHINKING CLASS AND CORPORATE ELITES IN A POST-MANAGERIALIST WORLD

The takeover wave slowed to a trickle by the early 1990s, but the failure of the corporate elite to bring about federal regulation of takeovers—even the relatively modest restrictions proposed by the Business Roundtable—starkly demonstrates that this class had at best limited capacities to act as a power elite at the national level, and there is little reason to expect that the corporate elite will experience a resurgence of political power. Large firms are far less diversified, interlocks are less pervasive, and banks in particular are much less central in the interlock network than was true at the beginning of the 1980s. Furthermore, during the early 1990s the Business Roundtable has consistently been on the losing side of policy debates on issues of fundamental interest to the corporate elite, such as management's control of the proxy system and the board's discretion over executive pay packages (Davis and Thompson 1994), while George Bush suffered a resounding defeat in the 1992 Presidential election in spite of being the overwhelming favorite of the corporate elite. Under these conditions, it is difficult to sustain the notion that the corporate elite in the 1990s is a national power elite, or that the elite contains a uniquely influential and cohesive inner circle. The corporate elite is only intermittently successful at mobilizing as a class, and when it does mobilize it is rarely sufficiently unified and powerful to uniquely determine political outcomes at the national level.

Although the corporate elite cannot be considered a self-reproducing ruling class with ongoing control over national policy, as the crudest formulations of elitism would have it, it is nonetheless a politically meaningful group, and the social structures in which its actions are embedded are demonstrably important in shaping consequential economic and political outcomes. But the experience of the 1980s argues for a more variegated view of the political power of the corporate elite and a more nuanced representation of the function of the interlock network. The most impressive advances in theory on the power of the corporate elite came when it was recognized that the power of this class was contingent on the existence of a social infrastructure, based in interorganizational dynamics, that could allow them to overcome their differences: the corporate elite could act as a power elite *to the extent* that its members were connected through mechanisms such as direct interlocks and indirect ties through banks (Useem 1984; Mizruchi 1992). The next step is to build on this foundation by adding sources of variation into theory about corporate elite power that experience indicates are important, such as state governments, capital markets—particularly institutional investors—and federal regulators that govern the link between institutional investors and the corporate elite, specifically the Securities and Exchange Commission (SEC). Theoretical treatments of the relationship between "capital" and "the state" commonly fail to recognize what is distinctive about the American experience: the federal system of corporate law implies that governmental policy is made at multiple levels with potentially divergent outcomes, and capital is fragmented between groups with conflicting interests—owners and managers. Both state and capital are plural, and the ability of the American corporate elite to get what it wants is inextricably bound up in those facts.

First, many issues of greatest importance to the corporate elite—including most corporate law, as well as issues such as corporate tax levels and plant closing legislation—are decided by state legislatures and courts, yet this level receives virtually no attention from organizational sociologists. Corporations are chartered by states, not by the federal government, and states have somewhat divergent approaches to corporate law, with some (notably California) tilting in favor of shareholders, while others (notably Pennsylvania) favoring managerial interests. The history of takeover legislation during the 1980s makes clear the importance of distinguishing among political levels and between states (see Roe 1993 for an excellent account). While the federal government opened the way for hostile takeovers and avoided significant restrictions on them throughout the decade, most state legislatures were remarkably accommodating in responding to requests for protection from local businesses. Although it is possible to imagine that state legislators were looking out for the best interests of all residents in the state who might be threatened by the rough-and-tumble of unrestrained capitalism, Romano (1992, p. 52) notes that: "Business lobbying groups that are the moving force behind takeover statutes uniformly and vigorously oppose plant-closing legislation, and takeover statutes regulating severance pay and union contract security are careful to exempt friendly [i.e., management-approved] acquisitions. If employees' job security, not just management's, was the real object of concern, we would not observe such carefully crafted distinctions." It appears that a crude form of elitism is not far wrong as a description of the relation between local corporate elites and state legislatures, although far more research from a sociological perspective is needed on this front.

Second, members of the corporate elite are no longer even masters of their domain within the corporation due to new pressures for control through ownership. Managerial power previously accrued through bureaucratic and political processes rather than through ownership (Meyer 1991), and while the takeover wave has subsided, control through ownership has begun to be felt even in the largest corporations that were relatively unscathed by the takeover wave. One clear sign of this new post-managerialist order came when the CEOs of IBM, Westinghouse, and American Express all "resigned" under pressure from angry institutional investors during the same week in January 1993, three months after similar pressures ended the career of GM's CEO. This remarkable shift in the balance of corporate power would have been unthinkable under a managerialist regime. Given that much of our understanding of power struggles within corporations is based on the experience of large, bureaucratic managerialist firms during the post-War era, the need to re-think the basis and prospects of the corporate elite is apparent. Useful work has begun to appear in this area (e.g., Useem 1993), but far more is needed. One implication seems clear: if members of the corporate elite cannot be certain of their own job security, their political influence will be sharply limited.

While the corporate elite may be in decline as a class-in-itself, an unprecedented new class is forming among the managers of pension funds and other institutional investors that merits substantial attention from structural researchers. Like corporate managers, fund managers as individuals share an ambiguous relation to the capital under their immediate control. Yet unlike corporate managers, their performance may be calculated with great precision by determining how the equity under their control has gained or lost in value. As a result, they share a common interest in seeing maximum increases in the stock market values of the firms in which they hold shares. This common interest, as well as an emerging social infrastructure of trade associations, has propelled fund managers into political activism aimed at state and federal governments and, more frequently, directly at the corporations in which they own stakes. The conspicuous absence of such activism prior to the late 1980s is itself attributable in part to efforts by the corporate elite to restrain the emergence of an "institutional investor class" by making it difficult for institutional investors to join forces for collective action aimed at the corporations they owned (see Roe 1991); as Przeworski (1985, p. 71) pointed out, "The very right to organize is an effect of struggles that in turn shapes the form of class organization." Due to the ideological tilt of the SEC in the early 1990s, however, activism by institutional investors increased in scale and scope and promises to decisively influence the form of corporate action into the future (see Davis and Thompson 1994 for a fuller development).

Finally, although the interlock network was battered by the takeover wave and apparently failed to provide a means for the corporate elite to act as a power elite, evidence of its considerable influence over corporate decision making has accumulated over the past several years. O'Reilly, Main, and Crystal (1988) found that CEOs were better paid to the extent that the outside directors on their board were paid well. Powers (1989) found that CEOs in the 1960s were less likely to be fired in the wake of poor performance when they sat on numerous outside boards. Haunschild (1993) found evidence that firms imitated the acquisition activity of the other firms with which they were interlocked, that is, that organizations did more takeovers of various types after their interlock contacts had done so. And Palmer, Jennings, and Zhou (1993) found complex results indicating that large firms in the 1960s were more likely to implement a multi-divisional organizational structure depending on the organization structures of the firms with which they shared directors. Coupled with the findings that poison pills and other takeover defenses spread through interlocks (Davis 1991, 1992) and that firms made more similar PAC contributions when they shared directors with the same banks (Mizruchi 1992), these findings support the notion that the interlock network—both the behavior of a corporation's direct contacts as well as the corporation's position in the network—has a substantial influence over decisions regarding corporate strategy, structure, and governance. If not a power elite, then the corporate elite is certainly an interdependent social group with effective mechanisms of mutual influence. The interlock network provides a source of order, if not class power, and is therefore still an appropriate object of study.

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## NOTES

1. When not otherwise cited, the analyses and descriptive statistics reported come from analyses done for this chapter. The dataset used for the analyses is described in Davis (1991, 1992, 1993). For brevity's sake, I refer to "*Fortune* firms" and "*Fortune 500* firms" in the text. "*Fortune* firms" include all members of the 1980 and 1986 *Fortune 500* largest industrial firms and the 50 largest commercial banks, 25 largest diversified financials, 25 largest retailers, and 25 largest transportation companies for which data were available. Board data were available for 648 of these firms in 1982, 592 in 1986, and 591 in 1990.

2. The scrupulous enforcement of the Clayton Act is indicated by the fact that the Justice Department viewed having UAW representatives simultaneously on the boards of Chrysler and American Motors as a possible violation (Black 1990).

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