Chapter 2

From Oligarchy to Corporate Governance: The End of the Old Boys' Network?

Canada's elite has long had a reputation for closure and cohesiveness, reaching back to colonial times when 'the ruling classes of Upper and Lower Canada formed a tight set of family relations and were firmly based on a union of interlocking interests' (Clement, 1975: 50). The corporate form of capitalist organization took hold late in the nineteenth century, and as early as 1908–13—a period of extensive mergers—a tightly integrated network of interlocking directorates among the largest corporations gave a few dozen major capitalists sway over much of the economy (Piedalue, 1976; De Grass, 1977). In his 1975 bestseller, *The Canadian Establishment*, Volume 1, Peter C. Newman wrote that

> Without being a social compact, the confederacy of Canadian Establishments—loosely knit yet interlocking—forms a psychological entity. Its members share habits of thought and action, common sets of values, beliefs, and enemies. They consider themselves an untitled aristocracy whose virtue has been certified by elevation to one of the dominant elites (1975:446).

There is a long tradition of sociological analysis emphasizing the social closure of the 'higher circles' (Mills, 1956; Domhoff, 1998)—the restricted access to elite positions that enforces a kind of monoculture within the business community. Vivid images of the Protestant Establishment (Baltzell, 1964), the Vertical Mosaic (Porter, 1965), and an 'old boys' network' manned by a few dozen corporate capitalists easily come to mind. Such a network can provide a basis for business leadership. A socially integrated elite is capable of reaching consensus on common issues and strategies.

The fate of the old boys' network—and more broadly of corporate capital's largely oligarchic social organization—is the focal point of this chapter. By way of entry, let us first deal with some matters of terminology. What exactly is meant by 'social closure' and 'elite cohesiveness'—the defining attributes of old boys' networks? In the neo-Weberian tradition best exemplified by Frank Parkin, social closure is 'the process by which social collectivities seek to maximize rewards by restricting access to resources and opportunities to a limited circle of eligibles' (Parkin, 1979:44). An elite secures such privilege, at the expense of other groups,

through *exclusionary practices* that give rise to a social category of 'ineligibles or outsiders' (1979:45). Parkin helpfully contrasts aristocratic and bourgeois forms of exclusion. The former is built around an ascriptive lineage system, the latter around universal criteria that are indifferent to ascriptive attributes. However, since the bourgeoisie is a ruling class whose social power is founded on its control of heritable private property, 'there is . . . a permanent tension within this class resulting from the need to legitimate itself by preserving *openness of access*, and the desire to reproduce itself socially by resort to *closure on the basis of descent*' (Parkin, 1979:47; emphasis added). The rise of credentialism—the inflated use of educational credentials as a way of restricting access to key positions—needs to be assessed in light of this tension. In aristocratic or caste systems, families of the dominant group pass on their privileges directly to their own descendents. In capitalism, 'succession along kinship lines must be accomplished in conformity with the application of criteria that are ostensibly indifferent to the claims of blood' (1979:63). Viewed in this light, the professionalization of corporate management not only mobilizes talent in the larger population and opens channels into the corporate elite. It also enables established families to pass on privilege as 'cultural capital' signifying fitness for participating in the life-world of the elite.

Closure is analytically distinct from *cohesiveness*, by which I mean the social organization that is an integral aspect of elite hegemony. The mechanisms of closure certainly provide for cohesion and thus help members of the corporate elite to reach consensus and exercise political-cultural direction. With closure, as Weber (1947:428–9) emphasized, comes social prestige—a crucial element in a ruling group's hegemony. However, elite closure can also pose legitimation problems. With the advance of bourgeois society, aristocratic forms of closure become culturally archaic. They conflict both with established cultural elements, such as the liberal commitment to equal opportunity, and with emerging cultural elements, such as the late-twentieth-century pluralist commitment to multiculturalism.

As business journalists have suggested (Newman, 1998; Partridge, 1998), there is reason to doubt that such closure remained entirely intact at the close of the twentieth century, in Canada or elsewhere (Zweigenhaft and Domhoff, 1998). The socio-cultural sources of change are several:

- the multiculturalism and feminism championed by new social movements and implemented to some extent in various equity policies (Fraser, 1997; Day, 2000),
- neoliberalism's own emphasis on competitive individualism, which—in rejecting an ethics of solidarity—recommends meritocracy over plutocracy (Chossudovsky, 1975; Beauchemin, 1997), and
- a rising 'global' consciousness within corporate business—a notion that world-class business should shed traditional corporate paternalism and establish the climate for 'total organizational creativity', unlocking 'the creative potential of workers, suppliers, and customers' (Dauphinais and Price, 1998:20–2).

Considering all this, it is reasonable to ask whether in recent years ossified and oligarchic forms of elite closure have given way to greater diversity and openness.

This is the central issue probed here. How have the social structure and culture of the elite changed? To what extent has the elite become less exclusive and more representative of the broad population? Have credentialized advisors, technical experts, and professionals gained ground in elite circles, compared to major shareholding capitalists? These matters are explored in the first section below, on the *changing composition* of the corporate elite. The second section applies a network analysis to the issues of *structural cohesiveness and closure*. Has the elite become less focused on a tightly knit old boys' network, a 'confraternity of power' cemented by common memberships in private clubs? Finally, the third section explores the significance of an emerging *discourse of corporate governance*—evident in the business press and in interventions by business leaders in the mid-to-late 1990s. Can this discourse be read as a project of moral and intellectual reform within the corporate elite? If so, what are the implications for elite social organization and corporate hegemony?

Whither the Vertical Mosaic?

In 1965, Porter described a system of stratification in Canada that placed the British charter group at the top. The French charter group held a decidedly secondary position, and other ethnic groups were positioned according to the often disadvantaged status accorded to them on their entry as immigrants. The economic elite itself—the 985 Canadian-resident directors of the 170 dominant corporations of the 1950s—was entirely male and overwhelmingly of British ancestry (Anglo-Scottish-Irish), reflecting the fact that economic development had been in the hands of British Canadian males (Porter, 1965:264, 286).[1] Only 6.7 per cent of the elite could be classified as French-Canadian, even though French Canadians made up about a third of the 1951 population. Very few non-charter groups were represented at all. Porter depicted the elite as a homogeneous group, whose members interacted not only in the boardrooms but in elite clubs reserved for those with the money and cultural credentials to gain admission. The overwhelming dominance of 'the Brits' extended well beyond the corporate economy: 'given the hegemony of British language, culture, and social and political institutions, English Canada before the 1960s was, for most purposes, a monocultural, monolingual, single-nation state, and made no apologies for being so' (Day, 2000:178). Wallace Clement's (1975) follow-up investigation replicated Porter's basic findings but with a slightly lower level of British predominance in the economic elite of 1972 (86.2 per cent) and a slight increase in the representation of French and other ethnic backgrounds. Later research also detected a weakening in British predominance (Niosi, 1981; Ornstein and Stevenson, 1984; Ogmundson and McLaughlin, 1992). Apparently, the trend since the 1950s has been towards a modicum of multiculturalism within Canada's corporate elite.

Feminists have pointed to the gender-blindness of Porter's conception of the 'vertical mosaic'. In highlighting the stark ethnic inequities around which Canadian society was structured, Porter gave scant attention to women's exclusion from social power. He 'did not consider how the vertical mosaic was gendered in all of its manifestations' (Hamilton, 1996:3). The 'confraternity of power' that Porter described (1965:540–1) was, as Bonnie Fox (1989:138) has written, a *brotherhood*. Indeed, the most striking aspect of elite homogeneity has been the exclusion of women. Much of the elite's social solidarity has been founded on a masculinist ideology of male bonding, underwritten by the exclusion of women from corporate boardrooms, elite private clubs, and the like. Yet women *have* been active in the life of the elite, not only in socializing the next generation, instilling the proper class sensibilities and capacities, but in extending the reach of elite influence into civil society. As Fox notes, 'upper-class women's involvement in service organizations, philanthropic groups, social and educational reform bodies, and other community organizations typically protects class interests' (1989:139). Although the scope of the present study does not extend to these issues, it is possible to present some indications of the changing gender composition of Canada's corporate elite, and of the positioning of women within it.

Porter and Clement included as members of the economic elite all the directors of the very largest corporations. However, in structural terms this designation is over-inclusive. Most members of this group—more than three-quarters of directors—hold only single directorships in large corporations. As I have argued elsewhere (Carroll, 1984:248), it is the holders of multiple directorships—the intercorporate linkers—who are the appropriate population to analyze in mapping the corporate elite as a social network (cf. Ashley, 1957; McKie, 1976). Michael Useem (1981) refers to these individuals as corporate capital's *dominant stratum*: those directors who sit on two or more major corporate boards. Typically numbering fewer than 500, this group generates the entire network of interlocking directorates, and, along with the 250 or so largest Canadian corporations, is the object of this study. Indeed, *hereafter the term 'corporate elite' will be synonymous with what Useem calls the dominant stratum*. In this sense, the net cast here is relatively small. Clearly, if an old boys' network has persisted it should be found within the dominant stratum of corporate directors. Alternatively, changes in the structure and composition of the group of corporate interlockers might signal the decline of the old business oligarchy. We need to interrogate our data as to how tightly knit or diffuse the elite's network is, and how social categories like gender and ethnicity are represented and positioned within it. The key questions thus revolve around the network's cohesiveness, its centralization, and its closure. Our starting point in this section is simply the overall composition of the elite.

The profile of the corporate elite in Table 2.1, based on 489 individuals in 1976 and 426 in 1996, furnishes a longitudinal comparison. The trend is unmistakably toward a *reduction in closure*:[2]

- By 1996 nearly one in ten of the leading corporate interlockers was female, up from a base of zero in the 1950s and less than one per cent in 1976. While the 1996 proportion can hardly be considered a bourgeois-feminist triumph, it does represent an erosion of patriarchal closure.
- There was a definite erosion in the predominance of the British charter group, although even in 1996 nearly two-thirds of the elite appeared to trace their origins to the British Isles. The ethnic groups gaining representation in the corporate elite were diverse but nearly entirely European: the trajectory of develop-

ment was toward a *Eurocentric multiculturalism*. Whereas in 1976, 90.6 per cent of the elite were British or French in background, twenty years later, in 1996, 82.3 per cent were members of the two European charter groups; yet less than one per cent (all of them ethnically Japanese or Chinese) came from ethnic backgrounds outside of Europe. Compared to the population overall, this newfound multiculturalism looks rather tepid. The overall demographic trend in Canada from 1971 to 1991 was towards erosion of European ethnic predominance. In the higher echelons of corporate capital, however, this sea-change registered merely as a modest increase in elite members of Asian background.[3] In effect, the dominance of the British charter group was reduced, but the elite as a whole remained Eurocentric in its ethnic composition.[4]

- There was a striking *decrease* in the proportion of members belonging to one or more elite social clubs. In the 1950s the common pattern was for members of the elite to belong to three or four clubs in their city of residence (Porter, 1965:304). In 1976, clubs were still a basic aspect of the elite's life-world, and half of all members belonged to *four or more*. Yet by 1996, consistent with trends in the US (Barnes and Ward, 2002), nearly half of the elite reported no club memberships, and only 22 per cent belonged to four or more.[5]
- Finally, the table shows an interesting combination of a *greying of the elite* and an *accumulation of educational credentials*, particularly the MBA/MComm, and other post-baccalaureate degrees. The middle of the age distribution (ages 51–65) accounted for about three-fifths of the elite in both years (61.3 per cent and 58.2 per cent respectively), but the post-retirement age proportion increased substantially.

It is difficult to say much about the three women who were members of the elite in 1976, except to note that, consistent with the tradition of patriarchal closure,

TABLE 2.1
A Social Profile of the Canadian Corporate Elite, 1976 and 1996

Percentage of elite who were . . .	1976	1996
Women	0.6	9.2
British background	77.9	63.8
French background	12.7	18.3
German background	3.5	4.7
Jewish background	2.0	4.0
Scandinavian background	1.8	3.1
Other European background	1.8	4.9
Asian background	0.2	0.9
Members of one or more elite club(s)	89.9	54.3
Over 65 years old	21.9	30.5
Without a bachelor's degree	27.3	15.4
With MBAs or MComms	4.8	13.7
With other post-baccalaureate or professional degrees	38.5	50.7

none of them belonged to any exclusive social club. The two for whom we could determine birth year were both 50 years old—nine years younger than the mean age for the 1976 elite. By 1996, few of the 39 women in the elite participated in the private world of elite social clubs. Of the 37 women whose biographical information we could trace, 30 did not belong to any elite clubs. Only four of the seven who were members of one or more clubs belonged to any of the key clubs mentioned in Porter's and Clement's studies,[6] and only one, Helen Sinclair, an executive with Bankworks Trading Inc., belonged to two of the key clubs. Men in the elite, on the other hand, belonged to as many as ten clubs in 1996, and some, like Allan Taylor, retired chair of the Royal Bank, were members of five of the seven key clubs. Overall, half of the men belonged to two or more clubs, and nearly a quarter of them belonged to four or more. At the close of the twentieth century the network of club memberships was still largely a male preserve.

Since the leading lights of the corporate elite accumulate club memberships as they age,[7] this finding may have to do with persistent age differences among men and women in the elite. In 1996 the women had a mean age of 53, compared with a mean of 61 for the men. In 1996 there was also a difference between the genders in educational background, but here the contrast cannot be neatly quantified. Women were over-represented in the categories of advanced academic training—25 per cent of elite members holding master's degrees were women, and 15.2 per cent of Ph.D.s were women. Yet women also accounted for a disproportionate share of those with the least education: 16.7 per cent of those without any post-secondary education were women (three of these seven being members of wealthy shareholding families).[8] In contrast, men were over-represented among those with the most standard professional passports in the world of corporate business—law degrees (95.7 per cent) and MBAs (94.7 per cent)—as well as among those with bachelor's degrees (96.4 per cent).

The Class Structure of the Corporate Elite

With this preliminary analysis pointing to a weakening in closure along ethnic and gender lines, we now consider the elite's class composition. In the 1970s a raft of neo-Marxist studies led to some major advances in the analysis of class (Poulantzas, 1975; Carchedi, 1977; Wright, 1978), which were subsequently applied in empirical studies of the Canadian class structure (Johnston and Ornstein, 1982; Clement and Myles, 1994). While it is clear that directors of large corporations participate in what Carchedi (1983) calls the global *function of capital*—controlling the work of executives who are responsible for the whole of the enterprise—not all corporate directors are active, functioning capitalists. A certain proportion of corporate directors are advisors to corporate capitalists. They are *organic intellectuals* of the capitalist class, entrusted with 'organising the general system of relationships external to . . . business itself' (Gramsci, 1971:6).[9] Such intellectuals are 'organic' in a double sense: they are 'organizers' of an advanced capitalist way of life and their intellectual work is functionally—organically—predicated on the dominance of capital in human affairs.[10]

Jorge Niosi's (1978; 1981) investigations of corporate business from the 1970s have relevance here. In criticizing the notion of a homogeneous corporate elite, Niosi sorted the directors of 136 large Canadian-controlled corporations into four groups: (1) legal advisors, (2) financial advisors, accountants, and technicians, (3) managers, and (4) large stockholders (1978:133–45; 1981:15). The first two groups are corporate capital's organic intellectuals. The latter two are the actual corporate capitalists who wield strategic and/or operational control in the world of corporate business, and whose own income derives principally from the economic surplus that capital appropriates from labour. In effect, Niosi's class categorization distinguishes between those directors whose ownership of capital or incumbency in top executive positions enables them to wield capitalist *authority* and those who participate as advisors. Niosi found that the latter had only nominal holdings of company shares and received modest compensation for their board service. Corporate officers, however, received generous salaries and frequently accumulated shares in the company, all of which aligned them with the major shareholders who in Niosi's view constitute the dominant section of the bourgeoisie, controlling actual corporations through the voting rights that accrue to owners of large blocks of shares (1981:16).

The present analysis follows Niosi's, but makes some additional distinctions. The complexity of corporate organization and business strategies draws a wide spectrum of organic intellectuals into the corporate elite as their advice is sought by multiple large corporations. Based on the biographical descriptions of members of the elite in standard reference publications, we can classify corporate advisors into six categories:

- legal advisors (lawyers actively practising law as their main pursuit, typically in one of the large legal firms identified by Clement (1975) and Niosi (1978:135–40),
- consultants (management consultants, financial consultants, engineers, geologists, other scientists not employed within academe),
- academic advisors (professors, university presidents, professional policy researchers employed by organizations such as the C.D. Howe Institute),
- state officials (members of the Senate of Canada, public servants, ambassadors, lieutenant-governors),
- other advisors (outside corporate directors with or without other occupations, including retired politicians and administrators, deputy chairs of major corporate boards, medical doctors, trade unionists, and freelance editors),
- *éminences grises* (retired business executives serving as outside directors of several large corporations).

Among *corporate executives* we may distinguish between (1) presidents or CEOs in Top 250 corporations, (2) lower-level executives in the Top 250, and (3) executives or proprietors of corporations outside the Top 250. In terms of corporate power, the first of these groups is clearly dominant and constitutes a nexus of strategic and operational control. Those in the second category may exercise more operational control (internal to a given firm) than strategic control over investment. The third category encompasses a wide range of situations, but generally involves operational and often strategic control over middle-sized businesses.

What Niosi's research tells us is that the corporate elite has its own class structure, which needs to be charted if we are to reach a sociological understanding beyond the superficial image of 'powerful people'. Following Niosi, and using his own findings to classify some individuals in 1976, we consider the most powerful class position within the elite to be that of *major shareholders*: people who own enough voting stock to claim a position on a corporation's board. Here the ownership of capital—the ultimate basis for economic power in a bourgeois society—is decisive, and the status one occupies in a managerial hierarchy is irrelevant. These very rich individuals and families personify the dominance of the capitalist class; yet they make up only a segment of the corporate elite.[11]

Table 2.2 shows that the elite consists mostly of capitalists, some actively functioning and others retired. Within the actively functioning category major shareholders make up a slightly increasing proportion—running against the notion that corporate capital is becoming increasingly 'depersonalized'—that is, owned institutionally rather than by persons (Scott, 1997). By 1996 slightly more than one-tenth of the elite were major shareholders. On the other hand, non-presidential executives decreased as a proportion of the elite.[12] The tabulation also reveals growth in certain strata of the corporate advisors. Lawyers make up a fairly constant one-tenth of the elite, and in neoliberal times there has been no increase in the tiny complement of state officials. However, the proportions of retired capitalists, consultants, and academics increased, from 7.0 to 15.2 per cent overall.

As for the intersections of gender and class, in 1976 two of the three elite women held high-status positions in the public sphere but were marginal to the world of corporate business.[13] This gendered marginality continued into the late 1990s, as

TABLE 2.2
Class Positions in the Corporate Elite (%)

Class Position	1976	1996
Major shareholder in a Top 250 firm	9.2	10.6
President/CEO of a Top 250 firm	21.9	17.9
Other executive in a Top 250 firm	12.1	7.5
Chair of a Top 250 firm	5.3	6.6
Executive or proprietor in a smaller firm	31.1	30.1
Éminence grise	2.9	6.8
Legal advisor	10.8	9.9
Consultant	3.1	4.9
Academic advisor	1.0	3.5
State official	1.4	0.9
Other advisor	1.2	1.2
Total	**100.0**	**100.0**

women tended to hold advisory positions; 38.4 per cent of women (compared with only 6.7 per cent of men) were consultants, academic advisors, or other advisors. Most of the male advisors were corporate lawyers—in fact, 10.4 per cent of all the men in the elite were legal advisors, but only 5.1 per cent of the women. Finally, among the advisors, women were entirely absent from the categories of *éminences grises* and state officials. Beyond these advisory positions the pattern of male dominance in positions of capitalist authority continued into the late twentieth century. More than a quarter of men were either CEOs (19.4 per cent) or chairs of top corporate boards (7.3 per cent); only one woman was a CEO and none chaired a board. More than half of all women in the elite held positions of capitalist authority, but most of them were executives in smaller firms (35.9 per cent of women, compared with 29.5 per cent of men). The other authority positions showed no discernible gender differentiation in the sheer numbers; however, it is worth noting that all four of the women who were major shareholders of Top 250 companies had achieved that status by virtue of a family connection with a male corporate owner.[14] Not only do women remain under-represented in the elite, but they tend to inhabit its lower strata as advisors or lower-level executives. A glass ceiling continues to restrict entry into all but a few top-level positions in the class structure of the corporate elite (Fleming, 1991:163; Hughes, 2000).

Bearing in mind that surnames can provide only crude and gender biased indications of ethnicity, we can nevertheless venture some analysis of the intersection between ethnicity and class within the corporate elite. Given the overwhelming predominance of the British charter group in 1976, comparisons of class positioning across ethnic groups at that time are not terribly meaningful. Still, the very few corporate interlockers with non-British surnames were in some respects positioned distinctively in the class structure of the elite, and these ethnic distinctions offer further clues to the elite's trajectory.

Considering as three contrasting groups the French, Jewish, and 'other' non-charter members of the elite, there was a definite movement 'upward' by French-Canadian corporate directors. In 1976 the French group was over-represented in the lower echelons of the elite: more than a quarter (25.8 per cent) of all French-Canadian elite members were corporate advisors, but not a single one was an *éminence grise*. The French-Canadian directors who wielded capitalist authority tended to be executives in smaller firms or lower-level executives in dominant ones. In fact, 51.6 per cent of the entire French-Canadian segment occupied one of these positions (compared with 43.2 per cent in the elite overall). Only 4.8 per cent of French-Canadians were major shareholders in a Top 250 firm, and 17.7 per cent were presidents, CEOs, or board chairs. Twenty years later, in 1996, French Canadians not only made up a larger proportion of the elite, they occupied more powerful positions. Although still under-represented among the *éminences grises* (only 2.6 per cent of French-Canadian members fitted this designation), they had gained status at the higher reaches of capitalist authority—as major shareholders (19.5 per cent) and as presidents and CEOs (16.9 per cent) of dominant firms.

As in the US (Zweigenhaft and Domhoff, 1998:23–7), Jews make up a small but increasing proportion of the corporate elite, and our cross-tabulation shows a distinctive class positioning. In 1976, six of the ten Jewish members of the corporate elite were major shareholders in Top corporations, suggesting that for them—in contrast to the charter groups—personal control of corporate capital was the main basis for membership in the corporate elite. This pattern was evident, to a lesser extent, among members of other non-charter groups, one-quarter of whom were major shareholders in Top corporations and none of whom was an *éminence grise* in 1976. By 1996, Jewish members of the elite continued to be over-represented among major shareholders.[15] However, the distribution of other non-charter ethnic minorities now resembled the overall class distribution except that they were nearly completely excluded from the *éminence grise* category. The latter, of course, is a particularly 'sedimented' category, in the sense that the stratum of retired corporate capitalists who remain active in corporate governance at any given time will reflect past stratification patterns. The legacy of the Vertical Mosaic was plain in 1996, when 25 of the 29 *éminences grises* had British backgrounds.

Old Boys No More?

This chapter is the place where we introduce the rudiments of network analysis as a means of depicting the social structure of the corporate elite. In the sociology of elites, Stephen Berkowitz (1980) has argued that classic studies such as C. Wright Mills's (1956) and John Porter's (1965) ignored important *relational* aspects of corporate power, relying instead on a simple 'aggregative' approach which 'can tell us little about the *systemic* relationships among elements' of the elite (Berkowitz, 1980:15). As a structure, a social network consists in a collection of *points*, representing social units or actors of some kind, and *lines*, representing social relations of some kind. When we apply this idea to the leading corporations and their directors, we notice that the set of interlocking directorates constitutes a *dual* network: a structure of interlocking corporate boards (sharing common directors) and of interlocking corporate directors (sitting on common boards). This *duality* of corporate networks is itself an important property, which obliges us to consider the individual director and the corporate board as interdependent units of analysis (Brieger, 1974; Carroll, 1984).

Here, our concern is with how the multiple board affiliations of individual directors knit them into a more or less cohesive bloc at the centre of corporate power. Structurally speaking, this is what we mean by an integrated elite. A first step is to map the interpersonal network that is generated by common board memberships among directors of the largest corporations. Corporate directors have contact with other directors simply by serving with them on a single board. A simple measure of elite cohesion is the mean number of interpersonal contacts among corporate directors—that is, the average number of fellow directors with whom a corporate director serves. For directors of single companies this is strictly a function of the size of corporate boards, which on average *fell* from 13.27 in 1976 to 11.30 in 1996. For directors of multiple dominant firms—our corporate elite—it is a function both of the size of boards and of the number of directorships held. We will examine the reasons for the decrease in board size later on, but for now we can note its impact

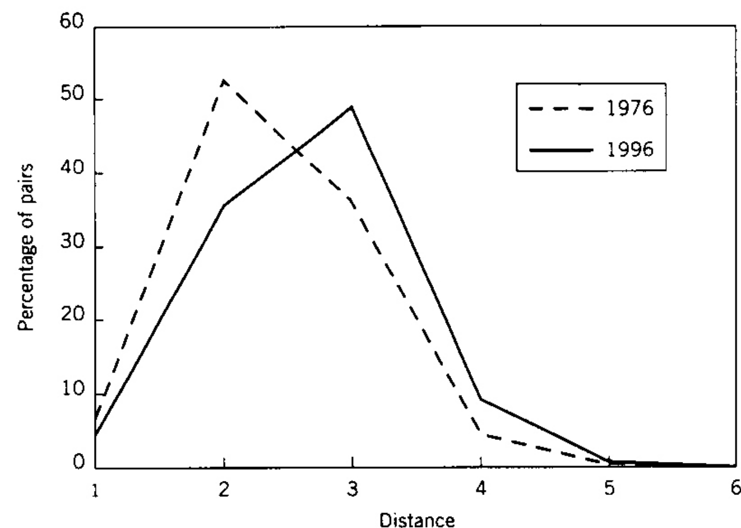
in *thinning* the network of interpersonal contacts. The mean number of interpersonal contacts among members of the elite dropped from 34.0 to 20.8.[16]

What impact did the thinning of the interpersonal network have on the elite? Is it evidence that the old boys' network has been weakening? One way of getting a grip on this issue is to examine some basic features of network integration. In the first place, we can ask whether the members of the corporate elite constitute what network analysts call a connected component (all of whose members are directly or indirectly inter-connected), or are fragmented into several disjointed components. A simple way of assessing this is to consider the size of the elite's dominant component, the largest set in which all points are ultimately reachable by all other points. We find that nearly the entire elite remained configured as a connected set of points across the decades. In 1976, 485 of the 489 corporate-elite members belonged to the dominant component; in 1996, 424 of the 426 were mutually reachable. Nevertheless, with the thinning of ties, the *density* of the lines—the relative incidence of direct ties among individuals—dropped from 0.065 to 0.044. By 1996 only 4.4 per cent of all the pairs of corporate-elite members served together on one or more Top 250 board.

This decrease in density meant an increasing *distance* between persons in the network (see Figure 2.1). In 1976, the corporate elite was a very small world indeed. Most members of the connected component could reach each other either directly (i.e., they served on the same board) or at one remove (i.e., they served on different boards that each included a common third member of the elite). Although the distance between persons did not increase dramatically, the shift was enough that by 1996 only two-fifths of pairs could reach each other at distance 2 or less. In the 1970s the elite's board affiliations generated an interpersonal network in which most directors were either corporate colleagues (on a common board) or colleagues of colleagues, forming a tightly knit community. By 1996 the elite's life-world was less densely integrated.

If we look more closely within the network, it is possible to distinguish the centrally positioned members from the marginal ones. The most immediate measure of centrality is simply the number of Top boards on which a director sits. In both years there was considerable variation in the numbers of directorships held by individuals, but the tendency was towards a reduction in those numbers by 1996, from a mean of 3.06 to 2.83. The number of so-called big linkers (Stokman, Ziegler, and Scott, 1985)—those holding four or more directorships and thus having direct contact with all the other elite members who served on those boards—fell from 128 to 82. At the top end of the 1976 distribution, John H. Moore, chair and president of the investment company Brascan Ltd, was a director of 10 Top firms and thus had the greatest number of direct ties to other members of the corporate elite. In total, Moore served on one board or another with 109 other members of the elite. Ian Sinclair, chair and president of Canadian Pacific, had nine major directorships in 1976 and placed second in interpersonal contacts, with direct ties to 103 other members of the elite. By 1996, the top end of the distribution of directorships was again claimed by the chair of Brascan, Senator Trevor Eyton. However, his ten directorships created contacts with only 49 other elite members. Former Alberta

FIGURE 2.1
Distances in the Interpersonal Network, 1976 and 1996



Premier Peter Lougheed, with eight directorships, had the most interpersonal contacts (66).

We can see how, particularly for the big linkers, a reduction in the number of directorships held, combined with the decrease in directorate size, meant a considerable decline in interpersonal contacts. The result was a decrease in elite integration. As directors trimmed corporate affiliations and as boards shrank, the capacity of well-connected directors to serve as the interpersonal network's central 'hubs' diminished. In 1976 the direct ties that men like Moore and Sinclair had to a substantial proportion of the entire elite meant that most of the elite were linked either directly or at one remove (e.g., through common ties to Moore or Sinclair). By 1996 this was no longer the case. If we consider the centre of the network to consist of directors with at least 50 direct contacts in the elite, that centre shrank from 101 members to only nine. By 1996 the corporate elite had a looser—though by no means fragmented—social organization.

Historically, bank boards have been central nodes in the Canadian corporate network (Piedalue, 1976; Porter, 1965; Clement, 1975). Part of the reason for the emptying-out of the centre has to do with the decreased prominence of the five big chartered banks as meeting points for great numbers of the corporate elite. In 1976, as Table 2.3 shows, the boards of each bank brought together dozens of elite members—the Canadian Imperial Bank of Commerce (CIBC) alone had 41 on its board. Banks are prohibited from interlocking with each other, so the number of elite members directing one or another bank can be added to determine the pro-

TABLE 2.3
Number of Elite Directors Serving on a Board of One of the Big Five Banks

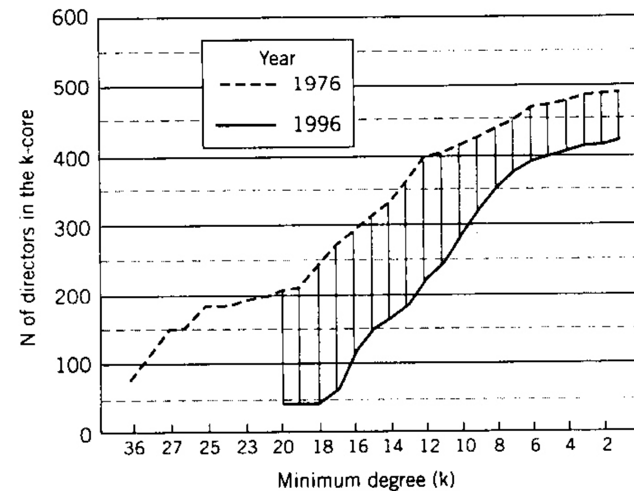
	1976	1996
Bank of Montreal	39	17
Bank of Nova Scotia	26	17
CIBC	41	21
Royal Bank of Canada	36	22
Toronto-Dominion	30	20
Total	172	97

portion of the entire elite that sits on bank boards. We can see from the tabulation that a total of 172 members of the elite, 35 per cent of its total membership, sat on a major bank board in 1976. For many of these people, service on two or three other boards would easily provide direct contact with a sizable fraction of the elite. Twenty years later, the banks played a less integrative role, although their boards continued to have more elite members than did other boards. The total of 97 members on the big five bank boards represented 23 per cent of the elite.

The decline in the integrative capacity of the most central individuals, and the most central boards, suggests that the old boys' network became more diffuse. Perhaps the most revealing way of probing for 'old boys' is to search for a core group of directors who are heavily interlocked with *each other*. Using Seidman's 'k-core' criterion, Figure 2.2 compares the size and structural integration of core groups nested within the interpersonal network. The '*k*' in k-core is the criterion for establishing the membership of a core group. Each member of the identified core group must be directly tied to at least *k* other members of the group. In 1976 the centre of the network consisted of a '36-core' of 80 directors: each of the 80 sat on one or more boards with at least 36 of the other 79. These 80 directors made up a very tight inner circle nested within a 30-core of 116 directors, which in turn was nested within a 27-core of 147 directors. By 1996 the centre of the network was more diffuse. The most integrated group was a 20-core of 43 directors, nested within a 17-core of 63 directors, which in turn was nested within a 16-core of 115 directors. To express the difference in terms of density, in 1976 the central group of 116 heavily interlocked directors had a density of 0.38: nearly two-fifths of the most central directors sat together on one or more boards! In 1996 the central group of 115 heavily interlocked directors was only half as dense (0.19).[17]

Let us consider these groups as reasonable approximations of an old boys' network, with the difference in density revealing a loosening in the network. We can also distinguish as more peripheral regions the inner and outer margins, as shown in Figure 2.2, with the outer margin extending to the least central members of the elite in each year. For 1976, we designated as the inner margin 153 individuals (31 per cent of the elite) who although not in the central group of 116 did belong to the 27-core; for 1996 we designated the 126 individuals (30 per cent of the elite) who were not in the central group of 115 but did belong to the 11-core.

FIGURE 2.2
Core Groups Within the Interpersonal Network



Lines indicate the number of directors included in the k-core at a given step.

Distinguishing these regions enables us to assess whether the central group constitutes an old boys' network. Rytina and Morgan's 'arithmetic of social relations' (1982:103–6) gives us an ideal-typical scenario for such a network. An old boys' network implies that within a larger population there is a group whose members, drawn from a common elite background, interact extensively with each other and only sporadically with the majority group, whose cohesion is negligible. If the old boys 'collectively combine the size of a minority, modest self-selection, and an abundance of contacts, the result is a connected core and a disconnected collection of hangers on' (1982:106). In such a situation, 'the old boys are in a far better position to make arrangements with each other on the basis of mutual trust' and 'to facilitate the formation of larger, more effective coalitions' involving the larger population (104).Table 2.4 shows the extent of contact within and across the network's core (i.e., central group) and margins.[18] In 1976 the network resembled the Rytina and Morgan scenario in that the inner and outer margins were much less integrated than the core. But instead of 'hanging on' to core members, directors in the inner margin tended to have contacts with each other. The same pattern was sustained in 1996, but the mean degrees were generally halved. The interpersonal network has been centralized around a core, but not in the highly hierarchical manner of a full-fledged old boy's network.

Of course, the interpersonal contacts summarized in Table 2.4 arise out of directorships with corporations that occupy varying positions in the intercorporate network. Banks, as we have seen, have been among the most central firms in the network. Hence the directors of banks will tend to be central in the interpersonal network, as they meet with many other members of the elite who also

TABLE 2.4
Mean Degree Within and Between Core and Margin, 1976 and 1996

1976 Mean sectoral degrees			
	Outer margin	*Inner margin*	*Core*
Outer margin	7.9	7.6	6.0
Inner margin	3.9	23.3	8.9
Core	2.8	8.2	43.7
1996 Mean sectoral degrees			
	Outer margin	*Inner margin*	*Core*
Outer margin	4.9	3.4	3.1
Inner margin	2.3	12.2	5.9
Core	1.9	5.4	22.2

serve on bank boards. In fact, the banks have supplied the interpersonal network's core with the lion's share of its members. In 1976 *all of the 116 'core' directors held bank directorships*, and 56 of the inner-margin members were bank directors. In 1996 *every one of the 97 members of the corporate elite who held a bank directorship was in the core.* Clearly, and despite the declining numbers of corporate interlockers on bank boards, the banks continued to be at the heart of the network, and serving on a bank board continued to be a passport into a central position in the corporate elite. Corporate directors without such a passport were largely excluded from the most concentrated meeting-points in the network. They tended to occupy more marginal positions, and by implication their contacts also tended to be on the margins. In this way, the interpersonal network continued to be structured in two tiers, around the hegemonic position of the banks as key allocators of financial capital (Mintz and Schwartz, 1985; cf. Marx, 1967:368, 402).

With the core-periphery distinction we can also compare the positions of social categories—ethnicity, class, and gender—in the elite. Does the elite's social organization amplify or reduce the disparities in representation we noticed earlier? Considering first the positioning of ethnic groups, in 1976 'Brits' not only predominated numerically; they were also slightly over-represented in the network's core, where 83 per cent had British backgrounds while 10 per cent was French Canadian and 1 per cent was Jewish. By 1996, despite a declining presence overall (to 64 per cent), Brits were still over-represented at the core (74 per cent), while those of French background accounted for only 11 per cent. Among the non-charter ethnic groups, corporate directors of Jewish background made definite inroads into the elite's core. In 1976 seven of ten Jewish members of the elite were positioned on the outer margin and only one was in the core. By 1996 four of the 17 Jewish members were in the core and seven were in the inner margin.

Class position had some bearing on centrality in the interpersonal network. The centrality of retired executives increased over the two decades, as their numbers more than doubled. By 1996, 41.4 per cent of the *éminences grises* were in the core, compared to 28.6 per cent two decades earlier. There was also a tendency toward

greater differentiation in centrality for certain categories of corporate capitalists. In 1976 chairs of Top corporations were slightly less likely to be positioned in the core than were lower-level executives. By 1996 chairs were especially central (46.4 per cent in the core) and lower-level executives peripheral (15.6 per cent in the core).

As for gender, in neither year does it appear that women's marginal position in the world of corporate business was exacerbated by marginality in the network. The patriarchal character of the corporate elite has mainly to do with the exclusion of women from major corporate boards and from positions of capitalist authority. Although relatively few women directed multiple major corporations, they were less likely than men to be on the margins of the network. In 1976, two of three elite women were actually in the core group while the third was positioned on the inner margin. In 1996, ten of the 39 women were in the core and 14 were on the inner margin. It may be that the few women who direct large corporations gain visibility in elite interpersonal networks and, with greater visibility, attract more invitations onto corporate directorates. They become, in the words of one recruiter, members of '"a cast of usual suspects" who are in high demand but rarely in the position to take on any additional roles' (Hughes, 2000:9).

If gender in itself had little bearing on one's position in the interpersonal network, membership in exclusive clubs was another matter. Table 2.5 shows the average number of memberships in seven key clubs, for directors positioned at the centre and on the margins of the interpersonal network. The clubs include the six organizations that Porter and Clement distinguished (based in Montreal, Toronto, or Ottawa), plus the Vancouver Club. In both years we find that the more centrally positioned directors belong to more clubs. But as the 'eta^2' statistic shows, the relationship is not a strong one.[19] Although in these aligned networks economic and cultural forms of elite power intermingle—people at the core of the corporate-interlock network tend to meet each other in the same exclusive clubs—there are many instances in which directors on the margins of the corporate-interlock network are central in the club co-membership network, and vice versa.[20] In this way, the network of elite clubs provides an additional field for the formation of solidarity, away from the narrow economic horizons of the boardroom, and involving a cross-section of corporate directors, some more central in the world of economic power than others. This is part of the stitching-together of leading capitalists and their

TABLE 2.5
Number of Club Memberships for Directors in the Network Core and Margins

	Mean number of memberships in seven key clubs	
Network position	*1976*	*1996*
Core	1.541	0.827
Inner margin	1.377	0.793
Outer margin	0.875	0.350
Grand mean	1.188	0.606
Eta^2	0.061	0.056

advisors, but with the extensive decline in club membership, the fraying of the fabric that elite clubs provides is undeniable.

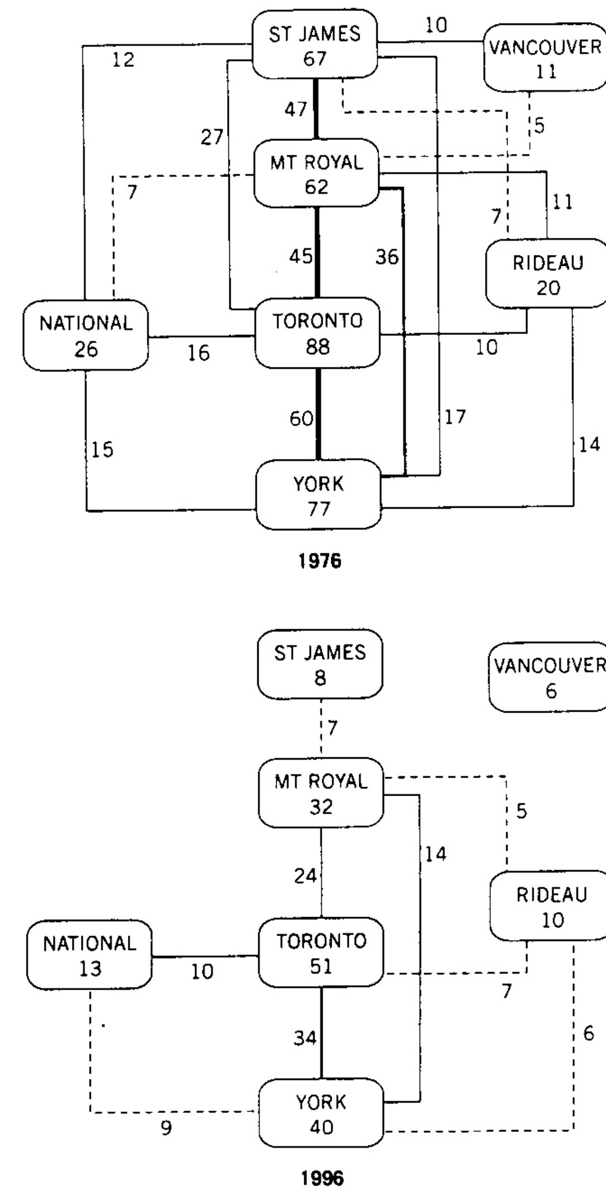
Notwithstanding the falling rates of participation, elite clubs comprise a parallel network worthy of some further investigation. In 1976 a substantial 29 per cent of the elite belonged to *two or more* of the seven key clubs, and these heavy participants were heavily interconnected. The probability of any pair of them belonging to *two or more* common clubs was 0.40. Viewed inter-organizationally, the corporate elite carried many ties across the seven clubs, as Figure 2.3 shows. Elite membership among four clubs located in Montreal (Mt Royal and St James) and Toronto (Toronto and York) was heavily intertwined. For instance, 88 members of the elite belonged to the Toronto Club and 77 to the York, the latter setting a lower limit on the number of overlapping memberships between the two. Fully 60 of those 77 actually belonged to both clubs. Indeed, in 1976 five members of the corporate elite each belonged to five of the seven clubs, and another 15 belonged to four. In the network of club memberships, this group of 20 formed a tightly interwoven core. For example, Royal Bank Chair W. Earle McLaughlin's memberships in five clubs meant that he shared four memberships with 15 others in the group of 20, and three with the other four in the group.

By 1996 only 15 per cent of the corporate elite belonged to two or more of the seven clubs. The likelihood of any pair of them belonging to two or more common elite clubs was 0.46. Defection from the St James Club was especially dramatic, and consistent with Newman's (1998:90) claim that it has recently 'found new life catering to a lower rank of entrepreneurs'. Elite memberships in the Toronto, York, and Mt Royal Clubs still showed substantial overlaps, but with lower rates of participation: only two directors belonged to five of the seven clubs and only six belonged to four clubs. The three most prominent club members were Allan R. Taylor and William I. Turner, Jr (each of whom belonged to the same five clubs) and Cedric E. Ritchie (whose four club memberships overlapped exactly with Taylor and Turner's).[21] The overlapping club memberships of Taylor, Ritchie, and Turner suggest a remnant of the old boys' network. But this clique did not extend any further into corporate-elite ranks. Even more dramatically than the network of corporate directorships, the network of club memberships had thinned in the intervening two decades, supporting Newman's claim that

> the classic men's dining clubs have become relics of another age. Like the Old Establishment's adherents whom they fed, housed and cosseted, these institutions depended on exclusivity for their justification. Now that the Establishment is open to anybody, regardless of their pedigree or school tie, the clubs that perpetuated those notions have lost their reason for existence. To be clubbable means precisely nothing (1998:95–6).

With the decline of elite clubs as informal venues for business community formation *came a further softening of stratification* within the elite, even though, as Table 2.6 shows, the patterns of differential club participation persisted in attenuated form. By 1996 men participated in the world of clubs far more than women—but

FIGURE 2.3
Overlapping Memberships Among Seven Elite Clubs, 1976 and 1996



Values on lines and line thicknesses (broken to heavy) indicate the number of corporate-elite members belonging to both clubs; values within boxes indicate the number of corporate-elite members belonging to a given club.

TABLE 2.6
Mean Number of Memberships in Seven Elite Clubs

	1976	1996
Men	1.19	0.65
Women	0.00	0.14
British	1.31	0.72
French	0.74	0.45
Jewish	0.44	0.41
Other ethnic backgrounds	0.84	0.40
Major shareholder	1.21	0.67
CEO or president	1.52	0.51
Lower exec in Top firm	1.28	0.42
Chair in Top firm	1.84	0.88
Exec in other firm	1.00	0.56
Éminence grise	1.71	1.12
Legal advisor	0.73	0.62
Other advisor	0.55	0.48
Grand mean	1.19	0.61

some women were club members, whereas none were in 1976. And while the 'Brits' continued to predominate, differences had narrowed among the ethnic groups.[22] Even more striking was the attenuation of differences among class segments. In 1976 the clubs were key meeting points for presidents, CEOs, and chairs of top companies as well as *éminences grises*. By 1996 top executives were no longer much involved. Even among board chairs and *éminences grises*—the elite segments with more discretionary time and a stock of status accruing to their seniority—extensive club membership was a minority practice. The clubs had lost their centrality within the corporate elite and with it much of their exclusionary clout as enforcers of invidious distinction.

To summarize these trends in social organization, after the mid-1970s there was a definite loosening and opening-out of the interpersonal network. These transitions were the result of decreasing corporate board size and falling rates of participation on multiple corporate boards and in elite clubs, which gave a lower profile to the institutions that had been central to the corporate elite—the bank boards and private clubs. At the same time, the elite manifested a growing Eurocentric cosmopolitanism, some chinks in its patriarchal armour, and an (unsurprising) increase in educational and professional credentials. Yet there were also continuities. Among the long-established patterns that persisted was the predominance of active, functioning capitalists, including major shareholders, within the elite; of 'Brits' among the elite's *éminences grises*; and of men among club members. In these patterns we can find traces of the strategic, operational, and allocative power discussed in Chapter 1, but no clear sense of its structuring. This will be the focus of the next two chapters. First, however, the structural transitions described above need to be

placed within the context of cultural transitions that partly account for the weakening of old boys' ties.

Corporate Governance and Moral Reform

The field of corporate culture is, of course, vast. Under that rubric we could well investigate the rise in the 1980s and 1990s of several influential discourses—for example, 'integrated risk management', 'strategic flexibility', or 'dynamic efficiency' (Nottingham, 1996; Bettis and Hitt, 1995)—each with implications for the business strategies, social identities, and moral fibre of the corporate elite. Some discourses will have no more than an 'arbitrary' and ephemeral character; failing to gain an institutional basis in business practice, these are soon forgotten. But others function more along the lines of what Gramsci called 'organic' ideologies. These are cultural emergents—new cognitive, motivational, and moral frameworks for corporate business—that help to shape and define corporate capital's organizational terrain.

Such is the case with the discourse of good 'corporate governance', which gained currency in the 1990s, both in academe and in corporate business. Academics from business schools were heavily involved, often as consultants, in 'promoting' good governance practices (*Corporate Decision-Making in Canada*, 1995). Academics and corporate capitalists came together in groups like the Institute of Corporate Directors (ICD) 'to ensure that directors [were] well-prepared to deal effectively with the responsibilities of their positions, and . . . informed about the ever-changing demands of corporate governance'.[23]

To the extent that this discourse of corporate governance now informs the practices of corporate power, it offers a relatively open window on the self-understanding of the top tier of the capitalist class with regard to the direction of large corporations. Looking through that window, we can see a good deal. But to understand what is going on under the rubric of 'corporate governance', we need to read the discourse symptomatically, to situate corporate governance in a structural context of globalization, heightened competition, financial instability, and neoliberal policy. The corporate-governance initiative can be viewed as a practical response to challenges that big business has faced in an era of globalization. The consequences of governance reform for the structure of finance capital will be taken up in Chapter 4. Here let us consider the initiative's implications for overall elite organization.

In Canada the movement for corporate governance was, until 1993, limited to marginal campaigns by individual shareholders contesting the entrenched power of senior management. Then, in the wake of a series of financial scandals that culminated in the collapse of Confederation Life, the Toronto Stock Exchange (TSE) initiated a task force on corporate governance. Chaired by Peter Dey, an investment banker and former chair of the Ontario Securities Commission, the task force brought together a diverse collection of capitalists and intellectuals, in an extensive process of outreach and consultation (Thain, 1995:76–86).

The task force's main recommendations, adopted by the TSE in 1995, comprise 14 guidelines, enumerated in paragraph 825–774 of the *Toronto Stock Exchange*

Company Manual. Companies listed on the TSE are supposed to follow these guidelines, and are required annually to disclose their compliance, justifying any departures. For our purposes, the most relevant guidelines may be summarized as follows (numbers in parentheses correspond to the enumerated points in the TSE *Company Manual*):

1. That boards become *more active in stewardship of the corporation*, including strategic planning, risk assessment, succession planning and communications (#1).
2. That boards be *constituted with a majority of 'unrelated directors'*: independent of management and of any interest or relationship which could interfere with directors' ability to pursue the best interests of the corporation, 'other than interests and relationships arising from shareholding' (#2).
3. That boards appoint *a nominating committee made up of outside directors*, a majority of whom are unrelated directors. This committee or another appropriate one should assess the effectiveness of the board and the contributions of individual directors. Boards should also adopt measures to orient and train new directors. In general, with the exception of the executive committee, board committees should be made up of outside directors, a majority of whom are unrelated directors (#4, 5, 6, 9).
4. That every board examine its size and where appropriate, *reduce the number of directors to facilitate 'more effective decision-making'* (#7).
5. That boards have in place structures and procedures to function independently of management. Structurally, this means either *appointing a non-executive chair or a 'lead director'* or a committee charged with ensuring board autonomy. Procedurally, it may mean convening regular board meetings without management present (#12).

These reforms, which resembled contemporaneous initiatives in the US and UK, aimed to make the boards of publicly listed firms *more active and effective centres of governance*—independent of management, relatively uninfluenced by interests other than shareholders, small enough to function efficiently, and composed of well-oriented, high-performance directors.

The concern for improved corporate governance expresses a bundle of interests, both instrumental and normative. Good governance means efficiency, reliability, shareholder value, and profitability, but it also signals an upgrading of corporate ethics—a concern for the democratic rights of shareholders, for sincerity and transparency in accounting practices, for open recruitment and diversity on corporate boards, for effective, rational decision-making. These emergent norms can be seen as a project of moral and intellectual reform within the corporate elite, an attempt by business leaders to build consensus around a new paradigm. As Robert Brown, a member of the TSE's Committee on Corporate Governance, declared:

> It is important, both to the corporate community and to society in general, that business achieve a higher degree of credibility. To do this, business must put its own house in order, starting with fundamental ethics and corporate governance issues and flowing on to responding more actively and publicly to the concerns of our society (Brown, 1994:41).

It is the emphasis on 'credibility' and 'ethics' that signifies a concern beyond the instrumental value of profit—a program of moral reform. In any bourgeois hegemonic project, ethical reach must not contradict accumulation needs, 'for though hegemony is ethical-political, it must also be economic, must necessarily be based on the decisive function exercised by the leading group in the decisive nucleus of economic activity' (Gramsci, 1971:161). Thus corporate governance reforms are closely attuned to the *heightened competition* that has accompanied recent globalization. The reforms do double-duty as ethical-political initiatives and as means to improve competitiveness while lowering both the risk of failure and the cost of capital.

It was, of course, heightened competition alongside diminishing profit rates on productive capital that led institutions like Confederation Life to make the speculative investments that eventually collapsed when the bubble burst in the early 1990s. In this sense, the corporate governance movement is rooted in the problem of capitalist crisis, which from capital's own viewpoint appears not as a systemic tendency but as a micro-economic problem of 'risk management'.[24] It is worthwhile to probe the content of this new morality, as a window on the changing culture of corporate capital and as a partial interpretation of the changes we have observed in elite social organization. Its core values validate (1) a meritocratic professionalism that also promotes a cosmopolitan ethos; (2) an emphasis on effective, democratic decision-making; and, underwriting both of these, (3) the priority of shareholder value.

Meritocracy

Consistent with the findings from our network analysis, new governance norms are intended to *open up recruitment* so that the selection of corporate board members is based on merit. Since the mid-1990s the business press has often discussed the elimination of cronyism and the old boys' network.[25] The turn from cronyism to merit and professionalism has implied a reconstitution of corporate boards. By the mid-1990s, the 'Rio Algom model'—according to which a board consists of all outside directors plus the CEO—had become the standard and boards were 'beginning to pride themselves on their independence' from management (Noakes, 1997:20). In its July 2000 follow-up report, the Dey committee noted that recruitment of directors must emphasize the universalist criterion of demonstrated competence over particularist attributes such as contacts in the 'old boys' network'. The report strongly favoured 'diversity' in the composition of boards, and suggested looking among former senior public servants and 'qualified women in management' for new directors with the potential to 'broaden the pool'. Through merit-based selection processes conducted with an eye to diversity, Canadian corporations can position themselves 'to participate in a globalized business environment' (*The State of Governance in Canada*, 2000:3). In this way, the 'merit' norm incorporates a cos-

mopolitan commitment to 'world standards' and implicitly denigrates localist practices. On this issue as on others, the moral commitment to improved corporate governance blends with the emerging demands of accumulation. Behind this embrace of globalism is the push towards heightened international competition, and the fear of 'not making the grade'.[26]

Effective, democratic decision-making

New governance norms also emphasize improvements in performance as a result of democratic decision-making. In this instance, governance reforms are intended to *open up free and full discussion*—to stimulate the mutual learning that occurs under conditions of social symmetry rather than hierarchy.[27] Within the new governance framework, regular meetings of outside directors only, without management, make it possible to pursue 'problems' that would not be revealed if the CEO were in attendance. Autonomy from management enables board members to undertake the *reasoned discussion* necessary to meet the competition from other cognitively well-resourced boards.[28]

Effective board-level decision-making is also facilitated by the downsizing of corporate boards. Matthew Barrett, CEO of the Bank of Montreal and a leader in corporate governance reforms since 1991, has pondered the significance of shrinking the Bank's board from 54 to 17 and removing most insiders. At its peak the Bank's board was larger than some provincial legislatures. 'One doesn't have to be an expert in group dynamics to know it is virtually impossible to hold an in-depth discussion with 54 people in the room' (Barrett, 1999:D5). The new 'leaner, meaner' board (Barrett's description) includes only two insiders, and thus in his estimation promotes more effective, rational communication. Since insiders are unlikely to disagree with the CEO in front of outside directors, it is best to 'avoid wasting scarce board seats on insiders' (1999:D5). Again, reform is seen as eliminating distortions in the communicative practices of corporate directorates. To promote effectiveness, outside board members are favoured over internal management for their broader perspectives, which ultimately improve competitiveness.

Relatedly, corporate governance committees now enjoy increased power within directorates, while executive committees have been on the wane. The latter, inventions of the post-war era of incrementally increasing board size, created two classes of directors, with major decisions reserved for the executive committee. As the *Financial Post* explained in its series on the 'newly empowered individual director' ('Under the gun...', 1996:6): 'with the new focus on corporate governance, everyone is more equal.' Part of moral reform, then, is a move toward *democratization*. Decision-making within the board is to be inclusive—rather than centralized within a small committee of insiders—and decisions are to be determined by the quality of the argument.

Shareholder value

Underwriting the entire project of moral reform is a concern for '*shareholder value*'. On one level this term is ideological code for capital's unquenchable thirst for surplus value, and in particular for the self-expansion of financial capital in the form

of corporate share prices and dividends—a process of dubious sustainability (Lazonick and O'Sullivan, 2000). On another level, however—more relevant to the bourgeoisie—'shareholder value' carries a heavy moral connotation of fairness and collective welfare. Within the discourse of corporate governance, shareholders *deserve* to have their investments properly valorized; furthermore, with the sharpening of international competition, the vitality of the national economy *depends* on this happening. As Jog and Hofstatter observe,

> the shareholder revolution seems to be gathering momentum. These days, it is rare to read an annual report that doesn't, at least rhetorically, refer to the importance of creating shareholder value. Some institutional investors are claiming that they are increasingly attracted to companies that indicate their focus is creating shareholder value (1998:24).

Matthew Barrett argues similarly that the most powerful force driving reform has been the rise of activist institutional investors pursuing maximal shareholder value. 'In effect, institutional investors have become the gear mechanism that transmits the demands of the marketplace to the boardroom' (1999:D5). Barrett states the key ethical norm clearly: 'No management has the right to take decisions that could materially affect shareholder value without the board's approval' (1999:D5). What he describes is a scenario in which the board's stewardship of shareholder value grants it control over management. Boards must therefore be *more active, leaner* (thus effective decision-making units) and *independent*.

In a similar vein, the 2000 follow-up to the Dey report concluded that 'the quality of corporate governance in the marketplace is a key factor in establishing efficient capital markets.' (*The State of Governance in Canada*, 2000:4). Efficient capital markets in turn are an important competitive factor in today's global capitalism. Noting that 'the Canadian marketplace has sustained some notorious scandals since the publication of the [Dey] report,' the follow-up suggested that 'these scandals have negatively impacted the international market's perception of Canadian companies and have caused a general increase in the cost of capital for Canadian companies accessing capital outside Canada' (2000:4). Here again, moral reform is carefully aligned with accumulation needs.[29]

Viewed as a project of moral and intellectual reform, the new norms of corporate governance fit closely with a neoliberalized political environment in which state regulation has given way to business self-regulation in a context of intensified competition. Quite apart from the project's *success* in transforming the actualities of corporate power, the new norms of merit, diversity, transparency, democracy, and the like signal a transition in the culture of the corporate elite. Open recruitment of board members eliminates the dead weight of plutocratic cronyism, mobilizes talent, and rewards merit, so that corporations are directed by dynamic, capable individuals. Moves to enhance the board's autonomy from management and to equalize the roles of directors help to create the conditions for free and full discussion, and, it is hoped, optimal decisions. Smaller, leaner boards facilitate the same rational choices. The pursuit of 'world standards' means that the best practices in

governance are adopted in Canada, improving the country's competitive edge. The emphasis on value creation for shareholders furnishes a quantitative norm that gives capital owners their just deserts while revitalizing the national economy. In the new narrative—which is not to be mistaken for reality—as Canadian firms maximize shareholder value they improve their reputation in the international investment community, decreasing the cost of borrowing abroad in a virtuous circle of capital self-expansion.

As we have seen, one of the factors driving these reforms has been the intensified competition that recent globalization has unleashed. Corporate governance is *rooted in new pressures for directors to perform well.* According to Gillies, what lies behind the heightened interest in corporate governance is business's dismal performance throughout the 1990s, combined with high-profile corporate failures and the almost universal adoption of free trade. 'If a firm is not managed as effectively as the world's best firms in its industry, it will not survive' (Gillies, 1997:P8). Cronyism and recruitment via the old boys' network become liabilities. 'Companies must have, and are seeking and getting, the highest quality of directors . . . with experience, independence and time to devote to monitoring the activities of the organization and to assist in setting strategies for the future' (1997:P8).

If heightened competition and the associated risk of financial collapse have been salient structural factors, the most immediate causal agent driving the reform movement has been the rise of active institutional shareholders with an interest in corporate strategy. In 1996 institutional investors held 40 per cent of the equity of publicly traded Canadian companies. According to one account, they were 'no longer willing to wait for others to act' ('Shareholder values', 1996).[30] Traditionally, institutional investors exercised allocative power through their *exit* option, rather than strategic power in the form of *voice*. If unsatisfied with a firm's performance, an institutional investor would simply redeploy its capital elsewhere (Glasberg, 1989). But as share capital has become concentrated under the control of a few major institutional investors, the exit option has become less viable. Selling large blocks of equity onto the open market pushes the price down before the sale is complete. As major institutional investors become locked in to their equity stakes, they turn to the exercise of voice as a profit-maximization strategy, exerting 'steadily increasing pressure' on corporate managers to improve performance and 'working to improve the governance of firms in which they invest' (Morck and Nakamura, 1995:497).[31]

Implications for Elite Social Organization

The new corporate governance regime has important implications for the Canadian corporate network, the most obvious of which has been a reduction in the size of corporate directorates. A progress report on adoption of TSE guidelines, after five years, based on responses from 635 CEOs, found that although only one-fifth of boards met 'occasionally' without management present, two-thirds had either a chair independent of management or an independent lead director, and 77 per cent had a majority of directors unrelated to management. Significantly, the report praised companies for cutting board size down to a more manageable level, leading TSE senior vice-president John Carson to exclaim that the new guidelines 'have helped change the landscape of corporate governance' (McQueen and Kuitenbrouwer, 1999:C5).

The trends toward decreased board size and increased complements of outside, 'unrelated' directors help account for the sparser interpersonal network we have found in the late 1990s, the decreased presence of non-presidential insiders, and the increased presence of retired corporate capitalists serving as well-connected outside directors. And if extensive cross-directorships render a board 'unable to do more than rubber stamp CEO decisions' (Noakes, 1997:20), the renewed emphasis on active stewardship has deterred members of the elite from 'collecting' directorships. One report from 1996 observes that the number of outside directorships considered appropriate for a CEO has come down dramatically, to a maximum of only three or four ('Hard target . . . ', 1996). Moreover, the overriding concern for shareholder value has led companies like the Royal Bank to require that directors buy a substantial number of shares 'to more closely align the interest of the directors with the company'.[32] No longer trophies, directorships now represent heavy commitments in terms of work and even investment. These pressures have contributed to the decrease in the number of multiple directorships held by members of the elite, weakening the old boys' network.

The reforms have particularly reduced the capacity of big banks to serve as central meeting points for core members of the elite. As they implemented the TSE guidelines in the post-1994 environment, bank boards shrank.[33] Facing the same performance pressures as industrial corporations, banks responded by adopting the leaner-meaner governance framework championed by Matthew Barrett. Banks remain relatively central to the network, but reduced board size and sparser interlocking by leading directors have decreased the size and density of the corporate elite's core, and de-centralized the network as a whole.

Finally, the meritocratic aspect of governance reform helps account for the enhanced presence of women and non-British ethnic groups at the upper levels of corporate power and the diminished importance of clubs in the life of the elite. The elite has become less monocultural and less petrified, less a fixture of socially exclusive corporate boards and private clubs, and more diverse in composition, even if its ethnic and gender profile still contrasts sharply with that of the Canadian population in general.

Conclusions

The changes we have traced in elite social organization and corporate culture have developed in a dialectical relationship of structure and agency. Changes in structure—in the composition of the elite and the density of its social relations—have been guided by a conscious program of moral reform, undertaken in a context of increasing competition, financial deregulation, and growing power on the part of institutional investors. The impetus behind this restructuring is elite agency responding to broad politico-economic developments. The desire to create the con-

ditions for effective capital accumulation has interacted with concerns about legitimation arising from financial scandals and panics (which, incidentally, have shown no sign of abating in the new century). Indeed, corporate governance movements in Canada, the US, and elsewhere have failed to stabilize the juggernaut of corporate capitalism—whose American variant has careened from scandal to financial panic and back again. But if in the heartland of 'shareholder value' the fruits of a capitalism driven by corporate share prices have been massive fraud and the bankruptcy of major corporations like Enron and Worldcom,[34] in Canada the corporate governance movement was nevertheless a significant factor in bringing certain organizational changes to the corporate elite. By the late 1990s we find changes in two important areas:

- A corporate elite whose composition no longer reflected the exclusivity, in terms of ethnicity and gender, typical of the traditional oligarchy. The new corporate elite, though still Eurocentric, was more multicultural and less patriarchal. Educational credentials were more significant than exclusive club memberships, and there was a greater complement of advisors from academic and other fields of expert knowledge.
- A weakening of the interpersonal network that knits leading corporate directors into a business community. Reflecting the slimming-down of directorates (especially bank boards) and the reduction in directorships per director, this weakening made the network's core less of a densely-woven old boys' network. A looser, less centralized network, less representative of corporate insiders, may support new cultural practices of open communication among directors in the pursuit of maximum shareholder value.

In short, a shift has taken place *within the corporate elite*, from oligarchy to democracy. But this shift should not be mistaken for a democratization of economic relations. As we have seen, the reform project has not opened corporate governance to popular-democratic participation. In the representative democracy of corporate capital, one share gets one vote, and non-shareholders are excluded from the electorate. Corporate-governance discourse makes only symbolic concessions to vaguely defined 'stakeholders' such as workers and communities. Yet beyond their impact in tilting priorities in the direction of 'shareholder value', the reforms may have contributed to a new structure of corporate hegemony—a more porous elite social organization, admitting of greater possibilities not only for the ruling class's reach into civil society, but for civil society's reach into the ruling class, and thus for more effective business leadership.