INTERLOCKING DIRECTORATES

A board of director interlock is a connection between two firms that is created when a representative of one corporation sits on the board of directors of another. In 2002, for example, Sanford Weill, CEO of Citigroup, sat on the board of AT&T, creating a connection between these firms. The importance of these connections on politics and the economy was recognized early in the twentieth century by the Pujo Committee of the US House of Representatives, which identified interlocks as a vehicle for collusion and improper corporate control, particularly by US banks. The subsequent Clayton Act prohibited interlocks between competitors. Interlocks have been a topic of interest to sociologists since the 1970s, and academic research on the subject has focused on two main questions: why do companies establish interlocks, and what are the consequences of interlocks? Most academic work on interlocks has focused on connections among large US corporations, but there is a growing body of work on interlocks in European and East Asian countries as well.

Research on the question of why companies establish interlocks has been central in two primary approaches: the inter-organizational and intraclass. The inter-organizational perspective suggests that firms use their directorship ties as a means of co-opting significant sources of uncertainty, such as a major supplier or customer (Pfeffer and Salancik 1978). One version of this argument suggests that banks, as sources of capital, offer a continuing source of constraint for a firm and are thus the most important interlock partners (Mintz and Schwartz 1985). Consistent with this claim, banks were at the centre of most national interlock networks through the entire twentieth century, although their centrality in the USA declined sharply after 1980. Viewing the above example through this lens, AT&T may have placed Sanford Weill on its board as a means of placating his home institution, Citigroup, to which AT&T may be indebted.

The intraclass perspective suggests that interlocks represent not ties between companies, but connections between individuals, and that these ties play an important role in the maintenance of a cohesive upper class. Among the factors viewed as important within this perspective are geography, elite schooling, and social club memberships (Kono et al. 1998). In the above example, the AT&T–Citigroup tie would reflect Weill’s personal relations with other AT&T board members, especially AT&T CEO Michael Armstrong, who was also on the board of Citigroup at the time. Although they were originally treated as alternative explanations, these two approaches need not be mutually exclusive. One synthesis of the two perspectives suggests that ties that are established for organizational reasons may have the consequence of creating unity among corporate elites (Mizruchi 1992).

Those who have studied the consequences of interlocks have focused primarily on their role in the diffusion of practices. A series of studies have indicated that interlocks are associated with a wide range of firm behaviours. Davis (1991), for example, showed that firms that were interlocked with companies that had recently adopted 'poison pill' takeover defence plans were likely to adopt such plans themselves. Haunschild (1993) showed that firms whose CEOs sat on the boards of firms that had recently engaged in acquisitions were likely to engage in acquisitions themselves. And Mizruchi (1992) showed that firms’ political contributions and positions on political issues tended to be similar to the firms with which they were interlocked.

Research on director interlocks has not been without criticism. Most concerns about this work have focused on the lack of clarity on exactly what interlocks represent. Few researchers have had direct access to corporate boards, and this has required them to infer meaning from interlock ties, without clear evidence of the ties’ content. In addition, most studies of interlocks have been cross-sectional, and the few longitudinal studies have been limited to either small samples or the very largest corporations. These criticisms point to three potentially fruitful areas of future research. First, sociological understanding of interlocks would benefit from more work that incorporated longitudinal and historical factors into the analysis of why companies establish these connections. Second, ethnographic accounts of board behaviour would deepen our understanding of what interlocks actually represent. Third, although work on interlocks outside North America has increased rapidly in recent years, the field remains heavily focused on the US. An additional research area would be to examine not only international variations, but also the role of cross-national ties.

Although some researchers have begun this
work, more could be done to understand the ways in which interlocks influence international diffusion processes, as well as cross-national control and business unity. The role of the international interlock network in the globalization of the world economy would also be a fruitful area of study.

References and further reading


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