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INTRODUCTION

1.1 STARTING POINT AND PROBLEM FORMULATION

Inter-corporate networks have been on the research agenda for decades.[1] In particular, interlocking directorates, i.e., companies that "interlock" their boards by common directors, became a favorite topic: on the one hand, they were easy to track and information about them was easy to collect and on the other hand they evoked several theories about organizational and directorial co-operation. Research about interlocks experienced an upsurge after the measures and methods for analyzing social networks became more sophisticated. In particular, the patterns and performance implications of interlocking directorates sparked an interest in social networks in boardrooms.

An economy with many corporate linkages such as Germany's offers an excellent research object for these purposes. Characterized by densely knit networks of mutual investments and common board members, Germany's economy has even been labeled "co-operative capitalism" in comparison to the Anglo-Saxon "competitive capitalism" [WB96, p. 205]. Researchers in recent times showed a growing interest in the transitions that the German economy experienced as a result of changes in its laws and the business environment. Some researchers contributing to this body of literature posited that Germany's corporate governance practices were converging with those of the Anglo-Saxon countries.

Indeed, the most latest research documented that German companies disentangled ownership networks and reduced interlocking directorates, at least quantitatively if not structurally, i.e., major financial institutions kept their crucial central network roles (Chapter 2). These studies, how- ever, tended to focus on cross-sectional studies rather than longitudinal panels. It would thus be of interest to learn how German interlocking evolved over time during a period of economic transformation.

Recent research indicates changes in German interlocking patterns.

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1 For literature reviews, see Oliver [Oli90], Nohria and Garcia-Pont [NGP91], Mizruchi and Galaskiewicz [MG93], and Grandori and Soda [GS95].

Performance implications of interlocks remain to be studied.

Another research stream examined the performance effects of interlocking. Although there are some North American studies on this topic, very few studies have examined the implications of German interlocks. We believe that insights into the relationship between structural traits and economic outcomes may explain the constant, relatively robust architecture of German interlocks.

In the following, we briefly outline our key research objectives and present the structure of this work.

1.2   RESEARCH OBJECTIVES

Four research questions are addressed in this work.

This work is primarily concerned with finding and describing the interlocking behavior of German companies and studying the relationship between structural interlocking positions and corporate performance. In addressing these issues, we formulate four research questions, which derive from the literature reviews in the corresponding chapters:

1. To what extent are companies replacing broken interlocking ties with identical linkages to the same partner (Chapter 5)?

2. What are the underlying patterns of interlocking (Chapters 5, 6, 7)?

3. Are ownership and interlocking networks related to each other (Chapter 7)?

4. Is there a relationship between interlocking directorates and corporate performance (Chapters 6, 9)?

We follow a modular structure in this work, which is depicted next.

1.3   STRUCTURE OF THE WORK

The modular composition splits this work into three main parts.

The structure of this work, framed by the introduction (Chapter 1) and the summary (Chapter 10), is split into three main parts with 8 modular chapters (Figure 1):

I. Introducing Interlocking Directorates

II. Finding Network Patterns
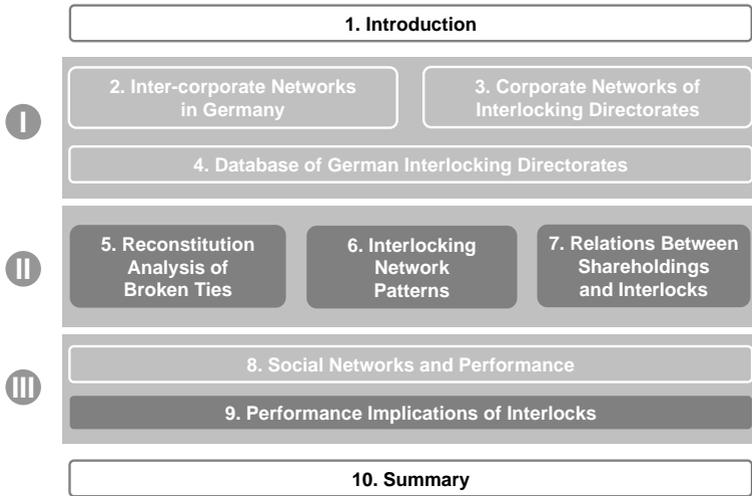
III. Analyzing Performance Implications.

Figure 1: Structure of the work

The first main part consists of three chapters. We lay out the historical background and recent developments of German inter-corporate networks in Chapter 2, then we depict interlocking directorates as a special case of inter-corporate networks, and describe the framework of possible interlocking configurations in Germany (Chapter 3). Finally, we describe the sample database and the data interpretation procedure of this work in detail (Chapter 4).

Part I starts with an introduction to interlocking directorates and our database.

The second main part concerns network patterns. After analyzing the replacement behavior of broken interlocking ties between 1996 and 2006 (Chapter 5), we analyze interlocking patterns over a decade by means of an actor-oriented modeling approach for network panel data (Chapter 6). Chapter 7 deals with the inter-relation between ownership and interlocking structures by correlating both networks at six points in time.

The last main part is primarily devoted to examining the performance implications of interlocking directorates. We decided to focus on the structural social positioning of companies in interlocking networks. Therefore, we first explain the basic analysis measures of social networks and provide a literature review about studies on social network positioning and performance (Chapter 8). In Chapter 9, we portray the theoretical foundation of our analysis and then apply a regression analysis to determine whether social positioning is related to corporate market performance, while controlling for other parameters.

Parts II and III are concerned with interlocking patterns and performance implications, respectively.

In our summary (Chapter 10), we conclude our findings and provide a view on future areas of research.

With the next chapter we start the first main part of this work. It illustrates the historical background and recent developments of interlocking directorates in Germany.