LUND UNIVERSITY

CORPORATE GOVERNANCE THROUGH THE CREATION OF A MANAGERIAL CLASS*

Docent **Sven-Olof Collin**
Ek. Mag. **Anna Stafsudd**

Department of Business Administration
Lund University
PO Box 7080
S-220 07 Lund, Sweden

Phone: +46 46 222 94 87, +46 708 204 777
Fax: +46 46 222 42 37
E-mail: Sven-Olof.Collin@fek.lu.se

Abstract

The aim of the paper is to broaden the field of corporate governance from the behaviour of managers and structures influencing the behaviour, to the creation of the managerial class. This is accomplished through the use of theories from the organisational level, explaining selection of managers, and including the macro level concept of hegemony, supporting the enforcement of preference similarity within the class of managers.

A draft (990622), presented at the EGOS conference at Warwick, 1999.

Please, be indulgent, but let us know of your criticism

* The work this paper represents was funded by The Bank of Sweden Tercentenary Foundation.

0. INTRODUCTION

Some of the literature within the field of corporate governance, especially the agency theory, assumes that incentive systems have the capacity to influence the managers of the corporation towards more or less proper shareholder maximisation behaviour. Inspired by Simon, March and Cyert, transaction cost economics have noticed that the other structures and process within and surrounding the corporation have an influence upon the managers behaviour since they restricts the opportunities of action, that is, behavioural control through controlling the premises of the managers actions. Less noticed is the very opportunity to enforce the shareholder value maximisation principle in corporations through the creation of a class of people that comprise this ideology of maximisation. This is not influencing the agents behaviour through the construction of an incentive system, or influencing the agents behaviour through the construction of restrictions upon the behaviour, but to influence the agent through constructing the very agent, the manager. In short, to create a class of managers.

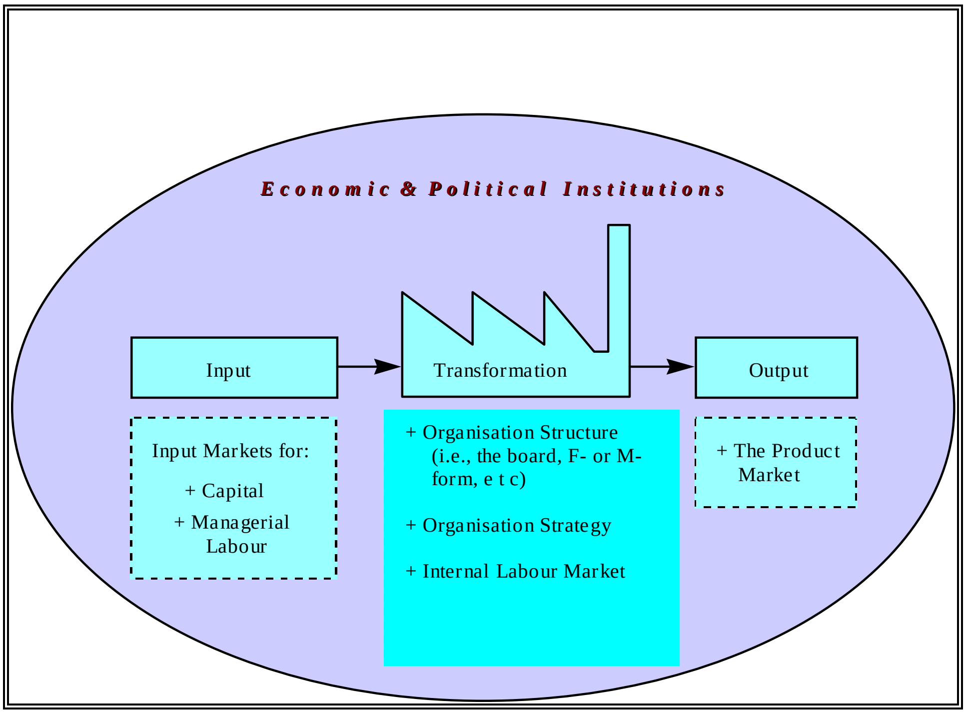
The aim of the paper is to start to broaden the literature of corporate governance through making one stumbling attempt to create hypotheses about how managers are created. This will be accomplished with the use of theories concerning managerial carriers through the corporate selection system. Thus, we will try to explain the creation of a class, using concepts developed at the level of the organisation level, that is, at a micro level. As will be apparent, the outcome of this mission is, however, that we can show that a micro level perspective is not sufficient. We will try to prove that a theory of class formation has to include a macro concept, and we propose hegemony in this paper.

The paper is organised as follows. Section 1 argues that the manager, and not only the behaviour of the manager, is an integral part of corporate governance. Section 2 argues that the managers can constitute a class although they are not important owners of the corporations, since the very basis of classes, i.e., property, is not ownership of shares, but relationships supported by society, in which the corporation is an integral part. Section 3. reveals some data about Swedish top managers, indicating some signs of equalities within the sample of top managers. The rest of the paper is devoted to an explanation of these indications, to how we can use organisational and societal concepts in order to explain the creation of a managerial class. Section 4. start the explanation through distinguishing between three models of human control, where the selection system is indicated as being the strongest factor in explaining class formation. Section 5. introduce the first building block, the similarity-attraction idea, arguing that people tend to select those people that are similar to themselves, thus reproducing themselves down the corporate ladder. However, that reproduction is without any direction towards shareholder maximisation. Section 6 introduce vacancy chain and internal labour market in order to strengthen the line of selection. We have to conclude, however, that it is impossible to theoretically show the creation of a class solely through these micro processes, without including a macro concept. This macro concept, hegemony, is introduced in section 7. because it is capable of creating preference similarity within the class. Section 8 contains the conclusions among the most important is that the micro processes within the corporation are supportive in the class formation, but macro processes has to be included in order to create a coherent conception of a managerial class.

1. The Manager: A Disregarded Object in Corporate Governance

The corporation is a mean for risk diversification, risk allocation and for the allocation of control rights. This institution has enormous influence upon the economy and the everyday life of all persons employed in firms belonging to it. The very functioning of this institution, that is, factors influencing its workings, making its constitution and shaping its influence upon the firms it owns, is at the heart of corporate governance (Tricker, 1993). These factors can be structured according to the very transformation process of the firm, that is, viewing the corporation as an organisational form embracing the firm in which output is created through the input factors being transformed by the organisation (Fig 1.).

Figure 1. Corporate Governance



The input factors of importance are those related to stakeholders who occupy influential positions in the firm, namely, the owners and the management. Thus, the stock which supplies credit capital and risk capital, and the managerial labour market which provides a flow of managerial labour, are the most important input markets for the corporation when it concerns how its future development are determined. In the transformation process, the most important factors are those that concern the managers. Inside the organisation, the management of managers is carried out by means of organisational structure and the internal managerial labour market. On the output side, the product market disciplines the corporation. The degree of competitiveness determines to what extent a corporation can exploit the market by changing prices and set limit to the amount that the market can finance the slack in the organisation and provide the owners with excess profit. Finally, all these governance mechanisms are embedded in economic and political institutions that could differ from industry to industry, and from country to country. This implies that all these mechanisms are not equally relevant or accessible to every actor in every corporation.

The typology of corporate governance mechanisms as presented in the integrated model, has the advantage of neither excluding the internal processes of the corporation nor the external processes. But most important here is that it recognise managerial labour and consequently the manager. Of course, that is not remarkable if one observe all the literature available on incentive systems (for example, the whole agency theory literature [Jensen & Meckling, 1976; Ricketts, 1994]), and one could argue that corporate governance ultimately focuses on the behaviour of the manager. What is remarkable when glancing through the literature on corporate governance is that while control of behaviour through incentive systems is widely acknowledged as important, the very agent of the behaviour, the manager, is left with little attention. Much research and writing energy has been devoted to studying the structures and processes surrounding managers (for example, the whole literature of transaction cost economics [Williamson, 1996]), but little attention has been paid to the issue of how managers are created. The aim of this paper is to start to broaden corporate governance through making one stumbling attempt to create hypotheses about the creation of managers belonging to the class of managers.

2. CLASS AND PROPERTY

Economic elite's, such as the top managers of large firms or the créme de la créme of the business society, has been studied before. Useem (1984), Scott (1985) and Giddens (1980) are examples on class studies of the managerial elite. What is distinctive about them is that they notice the problem with founding a theory of class on property. Classical political economy, i.e., Smith and Marx, regarded class as positions within the production system, represented by property, e.g., the Marxian distinction between the rulers, those with property, and the forthcoming revolutionary class, those lacking property, the proletariat. It could appear that property is without any importance today. Many powerful persons exists today that control enormous amounts of capital, of equipment, and are superior numerous people, but they lack any significant ownership rights conceived of in the popular sense. Thus, ownership of shares and the concept of property cannot be placed on an equal footing. This confusion of property has led to intense debate in class studies and in the long lasted debate about the separation of ownership from control (Collin, 1995).

This paper is not the place for solving the problem within class studies. It can be noted, however, that if the concept of property should be used in class studies, it cannot be regarded as a thing, which can be accumulated. Instead, property has to be regarded as a relationship. It is a relation between one party, commonly termed ‘the owner’, and the other parties of society, implying a capacity to act and to restrict others to the same action (Collin, 1995). Ownership of a car implies that the owner have certain rights to use the car and to exclude others from the same use. But the jurisdiction over the car the so called ‘owner or the car’ have is defined by the state and by traditions. You can drive it on a road, but you are not allowed to put it on fire, at least not in Sweden.

During the 1800’s the concept of Property could appear as implying a physical thing, a machine, a factory, a ship. But before this era of concrete property, the feudal society had its property, being mainly granted by the king to the aristocracy and built on strong traditions. Today property, to have some reasonable meaning, have to return to this old notion of being granted by society and held by an individual or a group, i.e., to retain its character of being relational. Large organisations, governed by advanced administrative techniques and by a top management team, educated in universities, selected by the organisations carrier systems, and indoctrinated by the capitalistic ethos, with owners that are funds collecting their money from individuals saving their pension money. All this exclude the old conception of property being in the hands of some overweighed capitalist with a hat, controlling every piece of the production process. Of course, they exist, but mainly in the small and medium-sized firms, and their influence can fairly well be assumed to be rather small compared to the large organisations and their leading staffs. Thus, property in this sense approach what Giddens has termed 'market capacity' : "…all forms of relevant attributes which individuals may bring to the bargaining encounter." (Giddens 1980:103), where relevance is defined within the governance structures of modern capitalism, and not solely according to financial means or ownership rights.

The class studies, while trying to deal with this abstract character of property, should not be confined with facts of mobility, demonstrating that the upper class have fairly low mobility due to them being able to put their kids in good schools and to foster them through childhood to have opportunities to reach the top management levels, or that the class have social arenas as integrating mechanisms, such as the socialising activities in clubs and theatres. They have to take into account that the managerial class is not solely produced through families and education, but that the corporation and its structures and processes are formative elements in the production of the managerial class. The corporation defines much of today's property, building a structure of influence through the administrative hierarchy and its informal organisation. Thus, the corporation has to be treated as a mechanism for the production of a managerial class where people are selected, learned about proper behaviour and given incentives to right actions.

To summarise, the corporation is an integral part of the property system of today's capitalism, defining the structure of power, and producing the class of managers. Thus, class studies could benefit from a micro perspective on the class structuration. One aim of the paper is to show how the selection system (i.e., the system promoting individuals within an organisation) are conducive in the creation of a managerial class. The outcome of this mission is, however, that we can show that a micro perspective is not sufficient. We show in section 6. that it is impossible to theoretically show the creation of a class solely through these micro processes, without including a macro concept, introduced in section 7. which is capable of creating preference similarity within the class. So the major conclusion of the paper is that the micro processes within the corporation are supportive in the class formation, but macro processes has to be included in order to create a coherent conception of a managerial class.

3. SWEDISH TOP MANAGERS 1994

If managers constitute a class of people, then persons belonging to the groups could be expected to have certain commonalties. Thus, one has to show empirically the existence of commonalties. Another reason for empirical data is that they, through the theoretical analysis, can indicate what factors that are active in creating the managerial class. In this section we will present some data about the top managers of corporations listed on the Stockholm stock exchange 1994. They were surveyed at the end of 1994 for a different purpose, and we direct those interested in the method and the data set to Collin & Stafsudd (1998). The managers constitute the very top of the Swedish business elite, and therefore they can indicate what constitute this class of people.

We found that the top managers of Sweden were on the average 50 years old, mainly Swedish men, they were predominantly raised in upper class homes, and had business school or university level education. Thus, there appears to be rather strong selective force present before they arrive to the corporation. Immigrants, women, lower class persons, and those not educated at universities and business schools are selected away. One can find explanations to these selective forces, but this paper is not the proper place since the focus is solely on the corporation and its participation in the creation of the managerial class.

Looking at the corporate variables measured in the survey, one find that a top manager has very often changed hierarchical position, less often changed organisation, and even less often changed functional track. Thus, it appears that frequent changes in hierarchical positions instead of great leaps, are conducive for promotion. The persons do not change organisations so often, thus restricted in experiences of different organisational cultures and industries, and even more restricted in diverse functional experience. This indicates that managers are picked according to organisational lines, i.e., that there are internal labour markets with tournaments and with functional specialisation.

The top managers had on average been 3 years in their first position and they were on average 30 years old when they assumed the first management position. Lacking any comparison it is hard to tell what these data indicates. Since this was for approximately 25 and 20 years ago, it can be presumed that the time at first position was fairly short and that they early assumed responsibility over other persons.

The Swedish manager appear to have been exposed to strong selective forces before they entered the corporation, and in the corporation they have been signalling strong ambitions through early promotion to management positions and then being frequent promoted, and being focused on their functional trait and partly to its corporation. These persons constitute the products of the corporate manager production line. We have now to try to understand the mechanism that leads to these ‘products’.

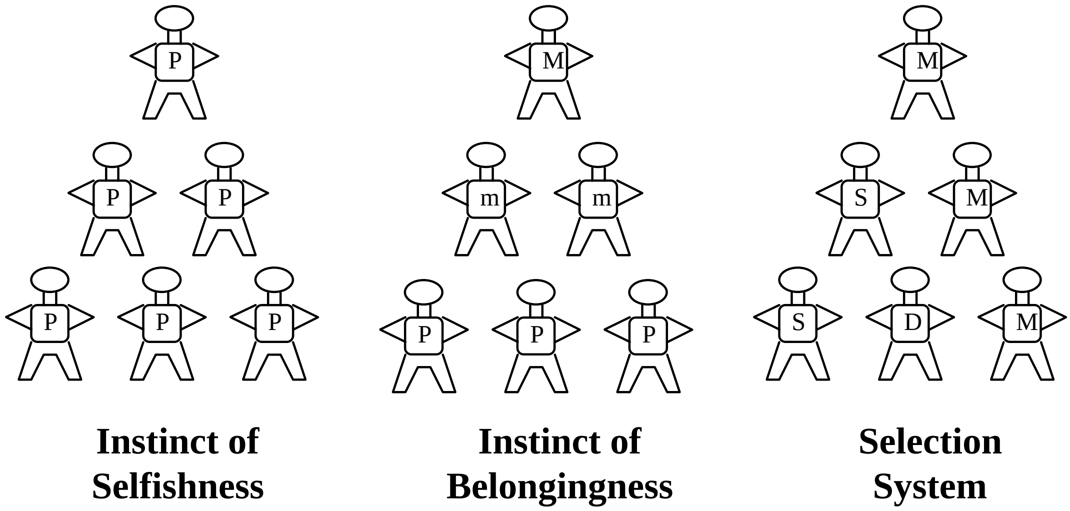
4. Governance is Control of Behaviour: Three Models of Human Control

Governance concern control of human behaviour, with the aim of producing desirable actions that lead to desirable results. This control can be levelled through stimulating an agent to proper behaviour, through influencing the actor, or through selecting agents with relevant characteristics. These three methods of governance are used in the corporations and thus, they influence the creation of the managerial class and its member's behaviour.

These three methods have their correspondence in the literature on managerial control, where we find three main and extreme models explaining the creation of the managerial class. Two of them are based on a postulate of basic human instincts, the economist view of selfish instincts, and the social psychologist view of the instinct of socialisation. The third view of selection has its roots in ideas that nowadays belong to socio-biologists, which we here will call the Darwinist view. This view disregards instincts but focus on the very system that selects managers.

FIGURE 2.

THREE MODELS FOR THE CREATION OF THE MANAGERIAL CLASS



The economist assumes that there is a human nature, a standard set of instincts, to which the individual's need for utility maximising belongs (Ricketts, 1994). The individual is selfish, which means that the utility is defined by, and only by, him alone. Place a person in different situations, and whatever the situation may be, he will always attempt to maximise his utility. Therefore, there has to be incentive schemes to direct this 'utility machine' towards the desirable behaviour that will maximise the profit or whatever goals the organisation may have. The individual is quite unaffected by his life in an organisation. Socialisation, that is, the internalisation of norms that can influence the individual's preferences, cannot occur. This does not rule out the possibility that an individual may act in accordance to some organisational rules, but the compliance is a calculated measure which sees incentives for following the rules as revenues, and sanctions for not following the rules as costs. Thus, changing the incentive system is to change the behaviour of the managers. When this model of human behaviour is applied to the creation of management it implies that all individuals prior to taking up management positions are created as individuals, and their behaviour after becoming managers is solely influenced by the incentive system prevalent in the organisation. In figure 2 this proposition has been represented by character P, which stands for similar Persons, both at the bottom and at the top of the schema. These individuals act differently only because they are motivated by different incentive systems. In this context, class is thus a collection of persons with equivalent behaviour caused by the individuals being subject to the same incentive system.

The socio-psychological view on the creation of management assumes another basic human instinct, the instinct of socialisation or, to put it less formally, the sense of belonging (Perrow, 1986). Each individual enters an organisation with his or her specific preferences and values but once absorbed by the organisation, all individuals share a sense of belonging, especially towards the group of people within the organisation that the person aspires to be a member off. An individual's strive for acceptance in a group involves her acceptance of the group's values. Over time, she unconsciously internalises the norms and values of the group. The group transmits its norms and values through a sanction system that serves to inform the individual about proper behaviour. The sanction system is different to the incentive system because the sanction system guides the behaviour and its power diminishes over time. The incentive system stimulates behaviour, that is, it signals that if you perform A you will get B. But the sanction system guides the behaviour, that is, it signals that unless you do A we will do B to you. It should be noted that the difference is not about the nature of rewards or sanctions, the former being mainly monetary and the latter taking the form of social punishments. Rather, the difference is between stimulating and guiding behaviour. An incentive system has to be active all the times in order to stimulate proper behaviour, but a sanction system can reduce its efforts over time since the individual internalises gradually the norms and values of the group and then acts of her own free will accordingly. The process of socialisation is represented in figure 2. An individual entering the organisation is shown by letter P, representing a Person. On learning the proper behaviour and being promoted to the position of junior manager, her status is shown by small letter m, representing a manager. Finally, as she masters the rules and ascends to the top of the ladder of promotions as a senior manager, her position is shown by capital letter M, which represents a Manager that is fully equipped with proper norms and values. Class is thus a collection of persons that through slow inclusion into a group of people have transformed into similar persons.

The Darwinist view on the creation of management propounds that a different set of individuals enters an organisation in which further selection is carried out through a selection system, for example, the tournament model (Rosenbaum, 1979, 1989). What constitutes their difference is a mutation mechanism whose function is to differentiate between different sets of individuals, equivalent to the mechanism in the Darwinist system of evolution that sets species apart. Different individuals compete for promotion and the prevalent system of selection in the organisation will pick those individuals who are most fit for the issues at hand. There is no stimulation or guidance of behaviour. In figure 2 the working of the selection system is represented with three individuals, one is a dummy (D), one is at best fit for special assignments (S), and one is suited for managerial jobs (M). The selection system first sorts out the dummy, then it deals with the person with special competence and, finally, guides the only individual capable of surviving in the system to reach the top, i.e., the one with managerial talents. It should be noted that in a perfect Darwinian system there is no incentive or socialisation mechanisms. All individuals arrive at the competition arena on equal footing, some lose and some survive in the quest to reach higher positions in the organisation. The outcome of this challenge is beyond the control of those taking part in the tournament but is set by the selection rules, which they cannot manipulate to their advantage. Class is thus those individuals that have been selected through a selection system for certain task.

These three models emphasise three different features in the creation of a managerial class. The model based on the instinct of selfishness shows how deviant behaviour is aligned through incentives. The model based on the instinct of belongingness shows how individuals are modelled as managers. And finally, the selection model shows how the most successful candidates for managerial positions survive in the competition.

In an empirical context, one could expect to find the selection system model most relevant when considering situations of inclusion and exclusion of individuals from the managerial class, the model for the instinct of belongingness most relevant when the individual's formation into a manager is scrutinised, and that the model for the instinct of selfishness deals with the fine-tuning of individual's behaviour in the managerial class.

These three models are, however, not equally important when looking for the factors explaining the creation of the class. Logically it appear that the selection system is the most important factor since it influences directly and indirectly the organisation and the creation of the managerial class. The selection system influences the organisation and its members in a three-fold way. It influence the organisation directly through selecting those with proper behaviour that fulfil the requirements of the selection system, be it frequent lateral movements, early promotion to managerial positions, or whatever characteristics that are conducive in the selection system at hand. Secondly, through selecting those individuals it creates a pool of rising managers. This pool of managers constitute a social system in which managers and would-be managers socialise, i.e., internalise rules and norms of conduct. Thus, the selection system influences the managerial behaviour indirectly through the instinct of belongingness. Thirdly, the selection system signals what characteristics that are preferred, which can be apprehended by the would-be managers and the rising managers. They can then calculatively accommodate to these demands. Thus, through the instinct of selfishness, the selection system can indirectly influence the behaviour of the managers.

The selection system seems to be the dominating force of the creation of the managerial class. Thus, an inquiry into the micro processes of class creation starts with the functioning of the selection system.

5. CREATIVE FACTOR 1: SIMILARITY

We start within the selection model, arguing that one basic behavioural law of humans, and therefore of their systems of selection, is that one person prefer a person similar to him or her selves, thus promoting those similar to themselves. With a person of character X on the top, one would according to this hypothesis expect a promotion of a person with similar characteristics, i.e., X.

The tendency towards similarity has been termed by Tsui and O'Reilly (1989) as 'the similarity-attraction paradigm.' One can suppose that human groups and organisations generally have a tendency to become homogeneous and to regard heterogeneity as disturbing (Jackson et al, 1991). One explanation of this general tendency of similarity-attraction is contained in self-categorisation theory (Turner, 1987), arguing that individuals shape their self-identity through categorisation and that in the pursuit of high self-esteem they prefer individuals who are similar to them in terms of these categorises. Another explanation of similarity-attraction is that individuals minimise their transaction costs in relationships through interacting with similar individuals, thus reducing the efforts necessary for gaining understanding. This is expressed by Kanter (1977, p. 58) for example as follows: "Social certainty, at least, could compensate for some of the other sources of uncertainty in the tasks of management."

As a consequence of similarity attraction, the opposite, dissimilarity repulsion exaggerate the effect of homogenisation. Dissimilarity and turnover have been hypothesised to be correlated as well, studies such as those of McCain, O'Reilly and Pfeffer (1983), Wagner et al. (1984) and Wiersema and Bird (1993) being confirmative of this, whereas Wiersema and Bantel's (1993) study, for example, is disconfirmative.

However, an important theoretical question concerns individual characteristics that tend to trigger turnover. Wagner et al. (1984) found that similarity in date of entry and age correlated positively with turnover. This is a cohort aspect of turnover that could be thought to apply to any type of organisation. The overriding problem is, however, to identify those dimensions that are relevant when cohort similarity creates cohesion. Generally, there is a problem of finding the factors that are active in the similarity-attraction promotion.

One problem with the similarity-attraction hypothesis in the context of class formation is that it has no direction towards the promotion of persons that enhance the value of shareholders, thus contributing to the governance of the corporation. If we assume that persons are only partly selected due to similarity, but are also being selected according to some ability measures and some signals of ability created by the organisations, such as number of promotions (Collin & Stafsudd, 1998), then only one-third of the selections are being made on similarity, thus leaving room for non-similar individuals. And of those selected, there is nothing inherent in the similarity-attraction-paradigm that points towards promotion of those managers that have the values of creating shareholder value. So even if the similarity-attraction hypothesis is conducive in creating a managerial class, there is nothing in this factor that by itself adds to corporate governance.

To summarise, human groups have a tendency towards homogeneity due to the shaping of self-identity and ease of understanding. The factor is highly imperfect since it is only one of several factors in the selection system, and it contains no direction towards the creation of a class of managers that enhance the value of the corporation, thus supporting corporate governance. Consequently, we have to add more factors to the explanation.

6. Creative Factor 2: Organisationally Restricted Supply

There has to be a direction in the selection system, fostering the supply of people that are similar to the ones that contribute to the governance of the corporation in the interest of the share holders. If we assume that top managers are more highly devoted to share holder maximisation, then we have to find a mechanism that reproduce itself down the hierarchical ladder. One mechanism offering this is the combined force of vacancy-chains (Doeringer & Piore, 1971) and internal labour markets within an organisation (Cappelli and Cascio, 1991; Doeringer, 1986). If there is a vacancy on the top, it will be filled by a person similar to the selector. If the corporation utilise an internal managerial labour market, the promotion of the person creates a position at a lower level that will be open for internal candidates. This is filled by a person from lower levels of the hierarchy, and selected by a selector previously selected by an upper echelons person. Thus, the characteristics of the upper echelon person is reproduced down the ladder due to the combined effects of the internal labour market, the vacancy-chain and the similarity-attraction force.

This is a possible explanation to the effect of homo-social reproduction found in organisations (Kanter, 1977). It has, however, two weaknesses. First, it assumes the existence of an internal managerial labour market. It is true that the Swedish top managers have had a tendency to not change their organisation frequently. But they have changed organisations, thus moving between different internal labour markets, and thereby reducing the impact of the internal labour market. Secondly, the same critique as levelled against the first hypothesis is relevant, that the hypothesis has to rely on a very high probability of the similarity-attraction being effective.

Absent internal labour markets, there will be no vacancy-chain transmitting the homogenisation effect down the ladder. And if there will be a non-perfect social selection, due to the utilisation of other selection criteria's such as organisational structure signals and ability, a non-similar person will be selected. This person will turn into a selector at the new position, thus reproducing his or her characteristics when facing a selection decision. One can conclude that an explanation based on vacancy-chains and internal labour markets add to the construction of a managerial class, but that it is probably not a very significant force. Maybe t is less significant today when anecdotal stories are told that internal recruitment is less frequent. Accordingly, there are limits to what the selection system can do. In order to assure a higher probability of gaining the managers conducive for shareholder maximisation, one has to add some mechanism that can deal with those selected despite their dissimilar character. Our suggestion is that preference homogenisation through exploiting the instinct of belongingness could be such a factor.

7. Creative Factor 3: Similarity through Hegemony

Leaving the Darwinistic system of selection and entering the instinct of belongingness offers an opportunity to introduce a mechanism of class consciousness that could be conducive in reproducing the managerial class. Since managers are mobile, one needs a concept that can be of at least interorganisational character. Culture is one concept that through the aggregate of business groups or industry can contain interorganisational norms and preference socialisation. A better concept is one that are not restricted to spheres of influence in the economy, but that can create preference similarity in every part of the economy. One alternative offers Gramschi's rather loose concept of hegemony, implying the gradual built up of a set of values and norms, i.e., ideology, preferably through intellectuals and media, that becomes a legitimated stock, regarded as being superior and more attractive.

To be able to be included in the class of managers one has to show adherence towards these values and norms, i.e., one has to be ideologically similar. This is, however, not a satisfactory explanation. The similarity-attraction paradigm cannot distinguish between those that adhere by heart to the ideas, i.e., those that react according to the instinct of belongingness, and those that adhere because adherence is part of the incentives, i.e., those that react according to the instinct of selfishness. Thus, two kind of managers are included, those that have and those that pretend to have the hegemonic ideology. Those that pretend would then become the promoters of not so perfect managers since their selection criteria's are not influenced by the ideology.

In order to use hegemony as an explanatory concept, one has to assume the existence of the instinct of belongingness, where the ideology is not only present, but that people assume the ideology to be attractive and important. Thus, one has to assume that rising people not only accept the existence of shareholder ideology, but that they internalise them, i.e., make them an integrated part of their personality. In contrast to the idea of self-identity reflection, this is to argue that a person identify itself with a desirable self-identity (Santee and Jackson, 1979; Schlenker and Weigold, 1989). This is the connotation of hegemony in this paper, that of ideas being not only legitimate, but also internalised by coming managers.

Adding the idea of similarity attraction to this imply that a selector does not select a person that is identical to the selector, but that is identical to the selectors desired self-identity. A person from a lower class does not prefer, according to this idea, selection of lower class persons, but tend to select upper class persons since they presumably reflect those characteristics that the manager has learned are the preferred ones and internalised as the belonging to the desired self-identity. Thus, hegemony combined with similarity-attraction leads to fast homogenisation of preferences within the managerial class.

There are certain indications that hegemony have possibilities to exist in Sweden. Almost every top manager is educated in universities or business schools, and many of the university educated managers have an education involving economics, which presumably is the best education when the indoctrination of business values are sought for. We found that the upper class was overrepresented in our sample of top managers. Of course, this could be due to them being selected before the corporation, through the educational system, which indeed is a powerful selection system. But a class bias could be present even in the corporate selection system, where despite the original characteristics of the selecting person, the selecting person tend to select those similar to the upper echelons of society, having the hegemonic ideology.

The reproduction of the ideology is dependent on media, which in Sweden have very good opportunities in producing and reproducing an integral ideology since media is dominated by two newspaper and one weekly magazine, all three clearly oriented towards shareholder value ideas. The very creation of the hegemony, however, has to be left in darkness since it beyond the ambitions of this paper.

Thus, hegemony consist of a reflection of values and behaviour down the organisational ladder, leading to homogenisation through the similarity-attraction as one climbs the ladder.

8. CONCLUSION

The corporate class of managers is formed due to the functioning of the selection system, where the similarity-attraction is a conducive factor. The vacancy-chain combined with the internal labour market increase the probability of selecting managers adhering to the values of shareholder wealth maximisation. Adding this mechanism is, however, not satisfactory since still non-similar managers are subject to being selected. The solution to this deficiency proposed here is the macro concept of hegemony, creating a preference similarity through exploiting the instinct of belongingness. Thus, as a summary, one needs similarity-attraction, to a lesser extent vacancy-chains and internal labour markets, and indeed hegemony in order to create at least a plausible description of the creation of a managerial class.

We have showed that concepts from the organisational level can be utilised in order to explain the creation of a managerial class. But at the same time, we couldn’t solve the theoretical problem of preference similarity without introducing the macro concept of hegemony. This is, indeed, a weakness since hegemony is very hard to observe, and it is a all-encompassing concept, approaching conceptual emptiness, void of any distinctions.

The most important thesis of the paper is that incentive systems creating proper behaviour is not exhaustive when it concern corporate governance, but that the creation of the behavioural agent supplement these controls. Empirically we find some indications on a homogenisation of people in the managerial class, which we explain as a sign of class formation. Since no control systems are perfect, it can fairly well be hypothesised that in every corporate governance system, there are mechanisms utilising the instinct of selfishness and belongingness and a selection system. One avenue of further research is to find out if there are any similarities and dissimilarities in the use of these mechanisms in different governance systems. The Anglo-American system, characterised by competition and individualism could be hypothesised to be relying more on the instinct of selfishness, and the German governance system, characterised by co-operation and collectivism, could be relaying more on the instinct of belongingness. A similar research avenue is to find differences among industries, where highly growing industries, with a lot of mobility, needs more of preference homogenisation, than to fine tune behaviour, as perhaps in the mature business, where a stable ideology has been established since ages.

One case indicating a break down of a class of managers would be the break down of the selection system. We have used the selection system as the starting point, and the very bases of the creation of a managerial class. This selection system is characterised by similarity-attraction. But what happens if the selector is another person, void of the organisation, and of the hegemonic standards of the economy? Then the homogenisation towards shareholder wealth maximisation would diminish. One such factor could be the growing importance of recruitment firms. As they get more and more decision capacity, for example, in a case of selecting a top manager, they pick out one single candidate. Then the similarity-attraction mechanism is only working in the recruitment firm. Thus, it is not managers, but consultant's that reproduce managers. It is therefore of outmost importance, if one accept these premises, that recruitment firms are objects in corporate governance research. They constitute an important part of the selection system, and are thus conducive in the creation of the managerial class.

REFERENCES

Cappelli, P. & Cascio, W. F. 1991. 'Why some jobs command wage premiums: a test of career tournament and internal labour market hypotheses.' *Academy of Management Journal*, 34:848-868

Collin, S.-O. 1995. 'The institutional control of the corporation - extending the debate on the separation of ownership from control.' *Corporate Governance: An international review*, 3:118-127.

Collin, S-O & Stafsudd, A. 1998. 'What makes the difference at the top? A Management Selection Model tested on Top Swedish Managers,' to be presented at the Academy of Management conference in Chicago, 1999.

Doeringer, P. B. 1986. 'Internal Labor Markets and Noncompeting groups.' *The American Economic Review*, 76:48-52

Doeringer, P. B. & Piore, M. J. 1971. *Internal Labour Markets and Manpower Analysis*. Lexington, Mass.: Heath Lexington Books.

Giddens, A. 1980. *The Class Structure of the Advanced Societies*, Hutchinson: London.

Gramsci, A. 1971. *Selections from the Prison Notebooks,* NY, USA: International Publishers

Jackson, S. E., J. F. Brett, V. I. Sessa, D. M. Cooper, J. A. Julin and K. Peyronnin 1991. 'Some differences make a difference: Individual dissimilarity and group heterogeneity as correlates of recruitment, promotions, and turnover,' *Journal of Applied Psychology*, 76:675-689.

Jensen, C. M. & Meckling, W. H. 1976. 'Theory of the firm: managerial behaviour, agency costs and ownership structure.' *Journal of Political Economy*, 98:225 - 264.

Kanter, R. M. 1977. *Men and Women of the Corporation*. NY: Basic Books.

McCain, B. E., C. O'Reilly. and J. Pfeffer 1983. 'The Effects of Departmental Demography on Turnover: The Case of a University,' *Academy of Management Journal,* 26:626-641.

Perrow, C. 1986. *Complex Organizations: A Critical Essay*. (third ed.) NY: Random House.

Rosenbaum, J. E. 1979. 'Tournament Mobility: Career patterns in a corporation.' *Administrative Science Quarterly*, 24:220 - 241.

Rosenbaum, J. E. 1989. 'Organization career systems and employee misperceptions.' In Arthur, M.; Hall, D. T. and Lawrence, B. S (Eds.), *Handbook of Career Theory*:329-353. Cambridge:Cambridge University Press.

Santee, R. T. and Jackson, S. E. 1979. 'Commitment to Self-Identification: A Sociopsychological Approach to Personality.' *Human Relations*, 32:141-158.

Schlenker, B. R. and Weigold, M. F. 1989. 'Goals and Self-Identification Process: Constructing Desired Identities.' In Pervin, L. A. (Ed.), *Goal Concepts in Personality and Social Psychology*. pp. 243-290. Hillsdale, N J: Lawrence Erlbaum Associates, Inc.

Scott, J. 1985. *Corporations, Classes and Capitalism*, Hutchinson: London.

Tricker, B. 1993. 'Corporate Governance - the new focus of interest,' *Corporate Governance* 1:1-4.

Tsui, A.S. and C. A. O'Reilly III 1989. 'Beyond Simple Demographic Effects: The Importance of Relational Demography in Superior-Subordinate Dyads,' *Academy of Management Journal*, 32:402-423.

Turner, J. C. 1987. *Rediscovering the Social Group: A Self-categorization Theory*. Oxford:Basil Blackwell.

Useem, M. 1984. *The Inner Circle*. NY:Oxford Univeristy Press.

Wagner, W. G., J. Pfeffer, and C. A. O'Reilly III 1984. 'Organisational Demography and Turnover in Top-Management Groups,' *Administrative Science Quarterly*, 29:74-92.

Wiersema, M. F. & Bantel, K. A. 1992. 'Top Management Team Demography and Corporate Strategic Change.' *Academy of Management Journal*, 35:91-121.

Wiersema, M. F. and A. Bird 1993. 'Organisational Demography in Japanese Firms: Group Heterogeneity, Individual Dissimilarity, and Top Management Team Turnover,' *Academy of Management Journal*, 36:996-1025.

Williamson, O. E. 1996. *The Mechanisms of Governance*. NY: Oxford University Press.