

# **NETWORKS OF FINANCIAL POWER IN ICELAND**

## **THE LABOUR MOVEMENT PARADOX**

**A Thesis submitted for the degree of Ph.D.**

*by*

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## **DECLARATIONS**

This work has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

Signed

Date

*In Memory of*  
*my parents, my daughter and my brother,*  
*who have all contributed in their own way to this thesis.*

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## ABSTRACT

The study aims to explore co-operation between employers and the labour movement in the financial sector in Iceland, especially in the private pension fund industry. The thesis objective is to assess the consequences of this co-operation and the paradox it poses for the labour movement, in that it renders them strong and weak. Another main objective of the thesis is to give an insight into the current power structure in Iceland.

The study uses social network analysis and the concept of interlocking directorships to guide the research and the analysis. The data is predominantly *relational data*. That is, the data collected are contacts, ties and connections, which relate one actor to another and so can not be reduced to the properties of the individual actors themselves. Relational data emphasis upon the investigation of the structure of social action and structures are built from relations, such as interlocking directorships, kinship patterns, corporate and community structure.

The evidence shows that there exists a strong ‘ruling élite’ in Iceland, which has its basis in the large corporations and financial institutions, has potential control over the corporate community and plays a major role in shaping the social and political climate. The ‘ruling élite’ is socially and economically cohesive, which is manifested in common stock ownership and most visibly in the complex pattern of interlocking directorships that unites the corporate community and creates a dense communication network. This has contributed to economic concentration and centralisation. The findings indicate that through co-operation with employers in the private pension fund industry, the labour movement has been incorporated into this external power structure, through a vast and complicated network of personal, financial and interlocking directorships. That is the main paradox of the labour movement: it has become weak for its members and strong for the ‘ruling élite’.

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## LIST OF ABBREVIATIONS

ANT	ACTOR NETWORK THEORY
ASÍ	FEDERATION OF ICELANDIC LABOUR UNIONS
BHMR	ASSOCIATION OF UNIVERSITY GRADUATES
BSRB	FEDERATION OF STATE AND MUNICIPAL EMPLOYEES
CIP	CITIZENS' PARTY
CP	COMMUNIST PARTY
FFSÍ	FEDERATION OF OFFICERS AT SEA
FÍB	ASSOCIATION OF ICELANDIC TRAWLER OWNERS
GDP	GROSS DOMESTIC PRODUCT
IP	INDEPENDENCE PARTY
ISK	ICELANDIC KRONA
ÍS	FISH EXPORT COMPANY WITH CONNECTION TO THE CO-OPERATIVE MOVEMENT
KÍ	FEDERATION OF TEACHERS
LL	NATIONAL ASSOCIATION OF PENSION FUNDS
LÍV	TRADE UNION OF COMMERCIAL EMPLOYEES AND CLERKS
LRWP	LIBERAL RIGHT WING PARTY
NPP	NATIONAL PRESERVATION PARTY
OTM	OPEN OFFER MARKET
PA	PEOPLE'S ALLIANCE
PP	PROGRESSIVE PARTY
SAL	ASSOCIATION OF GENERAL PENSION FUNDS
SDP	SOCIAL DEMOCRATIC PARTY
SH	FISH EXPORT COMPANY WITH CONNECTION TO THE PRIVATE SECTOR

SÍB	FEDERATION OF BANK EMPLOYERS
SÍF	FISH EXPORT COMPANY
SÍS	CO-OPERATIVE MOVEMENT
ULL	UNION OF LIBERALS AND LEFTISTS
USP	UNITED SOCIALIST PARTY
VÍS	INSURANCE COMPANY
VSÍ	FEDERATION OF ICELANDIC EMPLOYERS
VMS	ASSOCIATION OF CO-OPERATIVE EMPLOYERS
WA	WOMEN'S ALLIANCE

## **CHAPTER 1: INTRODUCTION**

### **The Labour Movement Paradox**

Since 1980 union membership and influence have risen in Iceland whilst they have fallen elsewhere. Union membership levels fell in most developed countries during the 1980s—a trend that has continued into the 1990s. In the United States, union membership decreased from 22 per cent to 16 per cent of the workforce between 1980 and 1990. Declines were even more pronounced in countries like Austria, Holland, Italy, New Zealand, Portugal, Spain and the United Kingdom, where union density rates dropped more than ten per cent of the workforce over the same period. In contrast, only Finland, Iceland and Sweden experienced rising membership levels that were, however, small in relation to those of the 1970s (Wood and Harcourt, 1998). Furthermore, union influence in many of these countries has receded in the political sphere as well, with the election of more conservative parties to government. As a result, labour federations are not as involved with business federations and governments in the joint design and implementation of social and economic policies affecting inflation, income inequality, unemployment, and economic growth (Henley and Tsakalotos, 1992). In Sweden, for example, labour no longer directly participates in the running of government agencies and boards (Ahrne and Clement, 1992).

The labour movement in Iceland is a strong social organisation. It draws its strength from high level of unionisation, around 80-90 per cent, but a closed shop arrangement prevails in all industrial sectors. Hence the rises in membership since 1980 as more people have entered the labour market. It has class-based confederate structures and predominant industrial basis of unions. Finally, it has exceptional financial strength due to funding from fees, sickness funds and unemployment funds and it has joint control with employers over the pension fund industries, which are the largest and the fastest growing funds in the country.



In Iceland, as in many other countries, conservative governments have been in power most of the 1980s and 1990s, and a “left wing” government was in power for less than three years in this period. Still labour influence has increased enormously in this period, which is in contrast with what has been happening in many other countries. Among other things, this is mirrored in the fact that trade union leaders are very active on government committees and boards. Moreover, the labour federations have during this period worked very closely with employers/business federations and the government in designing and implementing social and economic policies. This co-operation has been successful in lowering inflation and sustaining economic growth. Apart from that, however, there have been lean results for the ordinary member of the labour movement. The Icelandic labour market is characterised by low wages, long working hours and high taxes. Furthermore, since 1990 there has been increasing unemployment, increasing income inequality and households are burdened with increasing debts<sup>1</sup>. This development started with a ‘national agreement’, which imposed wage restriction, between the Federation of Labour (ASÍ) and the Federation of Employers (VSÍ) in early 1990. Finally, the welfare state for ordinary people is rapidly declining<sup>2</sup> whilst a “welfare state for business” has been booming with the government granting privilege, such as fishing quotas and exclusive licences, to certain companies and lowering taxation on companies<sup>3</sup>.

Furthermore, during this period it became evident that ASÍ and VSÍ were developing a close co-operation, not only in designing and implementing social and economic policies, but in other spheres as well. This co-operation materialised in 1989 when a privately owned bank was established, which the pension funds, the labour movement and shareholders/employers in the largest private companies own and control. The bank, Íslandsbanki (the Bank of Iceland), is now the second largest (and the only private) bank in Iceland. Its backbone is the private pension funds and the labour

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<sup>1</sup> See chapter 2 (pp. 26-27)

<sup>2</sup> See chapter 2 (p. 28)

<sup>3</sup> Corporation taxes have decreased from 39 per cent down to 33 per cent during the 1990’s.

movement funds. The pension funds that are the largest investors in the country are also increasingly investing in the largest private companies in Iceland, which in turn are investing in other companies. This might lead to concentration of ownership and control. Moreover, with more companies entering the stock exchange in order to attract investors, demand for profitability has risen. Ways to increase profit include keeping wages down and making people redundant.

It was in this context that I started my study in late 1990. My aim was to explore what I choose to call the labour movement paradox that is I saw the labour movement as a very strong organisation in terms of membership and it is financially strong. Yearly turnover of the labour movement from fees, sickness funds and so forth, were estimated in 1989 to be between ISK 2.000-2.500 billion (£ 25 million) and assets ISK 8-10 billion (£ 80-100 million) (pension funds not included). For comparison, in 1989 the labour movement assets were estimated to be three times more then the assets of the 3 private banks, which then existed (these 3 banks are now combined into the one bank that the labour movement, the pension funds and the private companies control). Moreover, it has to be noted that the labour movement does not have to pay tax, declare their assets and are not under any public control, so it is difficult find out what exactly their assets are, and so their total could well be under estimated. I also saw the labour movement as an influential organisation, which worked closely with employers and the government in designing and implementing social and economic policies. However, in spite of its strength and influence, it is producing very lean results for its members and in that, sense appears to be weak. This is what I saw as the paradox.

For almost three years, before starting my study, I worked partly as a researcher for different trade unions in Iceland. During that process, I felt I gained some insight into the working process of the labour movement and its unions. It became clear to me that the Federation of Labour (ASÍ) exercises strong influence / control over its affiliated unions. The individual trade union needed to have ASÍ opinion on most of their work,

reports and so forth and their policy-making appeared to follow strong guidelines from ASÍ. For example, we had to take our research reports to ASÍ for approval before they could be published. If a report was found to be 'too critical' of a union, we were 'kindly' asked to rewrite it and if that was not done to the liking of the union and ASÍ it just wasn't published. However, if a report produced 'good' results for a union, the mass media was informed and the results published. This spelled out two things for me; ASÍ is more centralised than its structure implies and they are very keen to keep up the image that they are serving their members well. Furthermore, during this time I learned that the leadership of ASÍ, which consists of trade union leaders from all the largest unions within ASÍ, is on very friendly terms, as it seems, with leaders of the Federation of Employers (VSÍ). For example, I was told, in confidence, that it was not uncommon for the president of ASÍ along with few other trade union leaders to be invited to the home of the VSÍ director for a dinner, especially around the time when collective bargaining negotiations were on-going. These factors along with the fact that the bank, Íslandsbanki (see above) had been established, convinced me that the explanation for what I call the labour movements paradox was to be found in employers and union co-operation and possible in the internal structure of ASÍ.

Hence I started my study by reviewing a large body of literature on trade unions, trade unionism, collective bargaining, corporatism and political exchange ( for example, Allen,1954; Bain,1983; Brown (ed), 1981; Crouch,1982; Crouch and Heller (eds), 1983; Ferner et al.(eds), 1992; Goldthorpe, 1984; Hyman,1975; Hyman, 1983; Hyman,1989; Poole, 1981; Poole, 1986; Regini, 1984). This, however, did not provide me with enough answers I felt, even though some of the literature pointed me in the direction I finally took. Firstly, the literature informed me that I would need some historical perspective in my analysis in order to explain the paradox. Moreover, it is clear that the forces, which bear upon any, given national system of industrial relations are many and various and have to be seen in context. Poole pointed out:

The strategies espoused by particular labour movements are shaped by choices and linked with distinctive orientations (especially instrumental and radical) and with the wider cultural and ideological environment in which they are formed. But these choices are subject, in turn, to a series of constraints of which, at the broadest level of analysis, those of economic and political structure, technology and, to some extent, the distribution of power in the larger society are most relevant. They are also interrelated with patterns of labour market segmentation and institutional structures. But above all, the power and strategies of employers, management and the state are crucial in influencing outcomes. (Poole, M. 1986:66-67).

Secondly, therefore, the literature set up a question: Has the Icelandic labour movement been integrated into the capitalist system. Does the answer lie in 'Accommodation to external power – the explanation of so many aspects of the internal dynamics of trade unionism' (Hyman, 1989:116). This, along with data that I had collected and was analysing, changed the direction of my study into broader analysis: from concentrating on trade unionism as such, into exploring some aspects of the Icelandic power structure, such as control over institutions which is the source of power within a social system, whilst at the same time trying to find explanation for the labour movement paradox (see chapter 4). The establishment of Íslandsbanki was my point of departure for investigating the co-operation between the labour movement and employers, which in turn pointed me in the direction of the private pension fund industry and made me realise the economic importance of that institution. That is, the pension funds constitute the most important source of long-term finance in the country, and play a crucial role in the ongoing development of the financial market. These pension funds also have a major role to play in the revitalisation of Icelandic industry and are therefore of great importance for the economy as whole. Who controls this sources of finance is of great importance, as the pension funds investment can affect who controls corporations in Iceland and can in turn affect the power structure in the society.

Consequently, the main question this research is intended to address is: Can the explanation for the labour movement's paradox lie in the network of linkages that exist

between the employers and the trade unions, especially through their co-operation and control of Íslandsbanki and the pension fund industry in Iceland?

The main research objectives of this study are:

1) To assess whether co-operation between the labour movement leaders and employers in Íslandsbanki and the pension fund industry has contributed to a) economic concentration and b) low wage policies and unemployment. 2) To explore the paradox this poses for the labour movement, in that it renders them strong and weak. 3) Finally, the main contribution of this study is to give an insight into the current power structure by analysing the structure of economic power in Iceland.

### **Where has the paradox come from?**

In his doctoral dissertation Modernisation and Social Stratification in Iceland (1982) Stefán Ólafsson's main goal was to examine and empirically test some myths or views of Icelandic society. These myths are predominantly variants of two basic themes: firstly, the idea that the Icelandic social structure is fundamentally unique, and secondly, the belief that contemporary society is exceptionally egalitarian in many respects. Based on his findings the themes considered are seriously questioned or discarded.

Ólafsson's study finds that contemporary Iceland has modernised to a very high level, sharing most of the basic structural features of advanced capitalist societies and has a similar structure of inequality. However, his emphasis is on "family resemblance" between Iceland and the leading capitalist countries of the world rather than on the historically specific characteristics of contemporary Icelandic society. For instance, he does not specify what the basic characteristics of traditional society in Iceland were and how they might have affected the process of modernisation. Consequently, Ólafsson fails to take into consideration possible forces behind that process of modernisation when, for example, he discusses the development of the democratic

political system and the emergence of interest-based organisations and parties. Accordingly, he seems to assume that the development of interest organisations and political parties in Iceland followed similar routes as in other Nordic countries, with the main difference being that in Iceland the Independence Party (IP), which is a conservative party, has become the largest party and has been in power most of the period since 1944. During this period in the Scandinavian countries, social democratic parties have mainly been in power. However, Ólafsson does not attempt to explore the mechanisms through which this political domination was achieved nor how the IP has been able to maintain its power. He largely concludes that the IP is the largest and most influential party in Iceland, in charge of major forces in the media and with close links to the Federation of Employers (VSI) which gives them abundant power to serve their interests, since the left wing parties are weak.

Hence, Ólafsson's conclusion when he is explaining the labour movement's paradox:

The paradox of a strong and relatively militant labour movement, which has not succeeded particularly well, now appears in a new light. The great industrial power of labour is not matched with political power since the ASÍ/BSRB are *not linked to a strong political party which has been influential in governments*, as has been the case with the Labour parties of Scandinavia and Britain. Governments which have been characterised as leftist and union oriented have been exceptional in Iceland (1982:406, emphasis added).

It is my contention that the opposite is true: that the paradox of the labour movement is *a consequence of its connections to a strong political party* which has strong influence not only in Parliament but also in the state's bureaucracy as well as within all the main business organisations. Moreover, I am suggesting that this 'situation' contribute towards understanding the strong and prolonged power position of the IP and the relatively weak power positions of the left wing parties.

It is interesting to note that Ólafsson is fully aware of the labour movement's connections to the IP, as well as the coalition central committee pattern in ASÍ.

However, he seems to ignore the possible consequences of that, possibly because of the 'traditional' assumption that labour movements have connections with left wing parties. When he discusses the relations of the IP and SDP (the Social Democratic Party) to interest organisations, he points out:

The IP has very close relations with employers' most influential organisations. The foremost of these are the Federation of Employers (VSÍ) and the industrial organisations, in fishing, fish processing, manufacturing and commerce. The IP has also made significant inroads into the labour unions. Approximately one in every four delegates to the ASÍ convention in 1976 was a supporter of the IP. In 1980, a publicly proclaimed supporter of the IP was elected to become vice-president of the ASÍ. The IP is most influential in the Union of Shop and Clerical Workers (LÍV) which is one of the largest union federations (1982:387).

The ASÍ has referred to itself as an industrial movement independent of political parties. In effect, the political parties have quite viciously fought for influence within the labour movement. In these competitions, the SDP has not fared particularly well, even though the presidency of ASÍ has frequently been held by supporters of the SDP, often through co-operation with the IP against the PA. The SDP now ranks third after the PA and IP in influence within unions (1982:400).

From this one can see that Ólafsson is aware of the ASÍ connections to the IP. Furthermore, he claims that co-operation between the IP (the Independence Party) and SDP (the Social Democratic Party) against the PA (People's Alliance) exists within the ASÍ, but the SDP and PA both claim to be Labour Parties. Hence, Ólafsson implies that the SDP in Iceland is more to the right than to the left as is the norm in Scandinavia, but he does not attempt to explain this.

Ívar Jónsson (1991) in his doctoral dissertation Hegemonic Politics and Accumulation Strategies in Iceland 1944-1990, among other things, gives a very detailed quantitative analysis of the balance of power in Iceland. In summary, he analyses the different power positions of the parties, the employers' federation and the labour movement, in terms of staff members measured in person years in 1987. He explores connections between members of parliament with interest organisations, their relations to the media, how long and often parties have been in government etc, mostly using

statistical analysis. In the same way, he explores the development of the welfare state, wage formation etc. and analyses the data in the theoretical context of regimes of accumulation (see Duijn 1983; Freeman, Clark and Soete, 1982).

Jónsson arrives at a similar conclusion to Ólafsson, namely that the right wing parties and the capital owning class has a hegemonic power position in Icelandic politics.

Jónsson claims:

The welfare state has also not been a stabilising force as the growth of the public sector has been slow compared with e.g. the Nordic countries. This is due to the weak power position of the labour movement and the left wing parties (1991:361).

In other words, Jónsson assumes a direct connection between the labour movement and the left wing parties, without considering other factors. He does not analyse, any more than Ólafsson did, what possible forces might have led to this situation in Icelandic politics. Instead, he suggests that social mobility and the high level of affluence are factors in explaining the weakness of the labour movement and the left wing parties.

The main conclusion to be drawn from these two studies as regards the labour movement paradox is labour's "helplessness" against the extremely strong power positions of the capital owning class and the right wing party.

No Icelandic study so far, has aimed specifically at explaining the labour movement paradox. Probably this is because it is mainly in the last two decades that this paradox has become obvious. Most Icelandic studies that have investigated the labour movement have been from a historical and or political point of view and have mainly focused on the trade unions in the period 1916-1944. At that time the trade unions and the left wing parties clearly represented new kinds of political demands in Iceland, which were conditioned by the industrial revolution and the changes from a rural agricultural society to an urban one. My concern is, with the period from the 1960s,



starting with the election of the longest lasting political coalition ever in Iceland. Indeed, I suggest that the long ‘lifetime’ of the IP - SDP coalition (1959-1971) is an important factor in explaining the labour movement paradox (see below).

Finally, Ólafur R. Grímsson’s doctoral dissertation Political Power in Iceland prior to the Period of Class Politics (1970) and several other publications of his are of importance for this study. Grímsson analysed the political development in Iceland from the beginning of the nineteenth century as well as providing some predictions about future trends. He concentrated on the development of the power structure by employing theories of élitism and pluralism as the basic theoretical framework. The main conclusion Grímsson arrives at in 1976 is that the power structure can, almost to the present day, be described as élitist. Pluralist traits are said to have emerged in the second and third decades in this century, which coincide with the time when the trade unions were evolving. However, in the period 1930 -1950/60 Grímsson suggests that those traits disappeared:

The power of the élite, composed of interlocked institutional positions, both formal and personal in nature, embodying all the major political spheres and the most significant economic and cultural institutions, seems to be during this period similar in scope and magnitude to that which characterised the highly élitist power structure of the 19th century (1976:21).

For the period 1950/60-1975, Grímsson suggest that pluralist traits became more pronounced mainly due to increasing professionalisation of some of the significant sectors, but that the Icelandic system still retains many of its former élite features. Finally, Grímsson maintains that there are strong indications that a “full-scale pluralism” may be expected to develop during the remainder of this century.

Instead of single centre of power there will be multiple centres of power, none of which will be wholly sovereign (Grímsson, 1976:25).

Grímsson’s studies, which give a good account of the power structure in Iceland until 1975 are of great value for my argument and accordingly will be used to build the historical context (see chapter 2). It is suggested here that Grímsson offers important

insights into the mechanisms through which the IP has achieved its political dominance. These will be discussed below. Although he did not investigate the labour movement as such, his studies give an insight into the nature of Icelandic society. Hence, they contribute towards an understanding of the labour movement's paradox, as one cannot treat the unions as 'formal organisations' wrenched from their social context. As Hyman points out:

[to do so would be] to ignore the impact of the envisioning institutions of power with which trade unions constantly interact. Neglecting the significance of broader structural determinants, it is then only too easy to attribute failings in democracy to the personal characteristics of members or leaders: 'apathy' on the one hand, 'corruption' or 'careerism' on the other (Hyman 1975:69).

Grímsson's predictions of future development, however, seem to have been based on rather weak grounds. An alternative to Grímsson is that a 'full-scale pluralism' has not developed in Iceland; rather, the fundamental characteristics of the Icelandic power system have remained intact. Furthermore, the bases of the élite have changed through concentration and centralisation of capital and a new exclusive power élite created, which has its roots in the 'new' capital business class with cultural and electoral support of the middle class and workers? The core of the business class consists of those who participate in the strategic control of the enterprises, which form the monopoly sector of the Icelandic economy. This study will try to answer these questions.

The above explanations of Ólafsson, Jónsson and Grímsson contribute towards understanding the paradox of the Icelandic labour movement. They have shown the political dominance of the right wing party and pointed out its strong connections to the business class. However, the mechanisms through which this political domination can be achieved and maintained were not considered. Hence, in order to explain the situation more convincingly it is argued here, one needs to consider two over-arching sets of connections in Icelandic society: kinship ties and political ties.

### **Kinship ties**

Iceland has a very small population (only 270.000 people; around 100.000 at the turn of the century) and is characterised by close family and kinship ties throughout all levels of the society like most other societies. The small size of the population is, however, of great importance as it makes personal contacts relatively easy. These create a network of very intimate personal relationships and can therefore easily affect decision-making. This has marked the relationships between classes at all levels of society and has contributed to the view held by many Icelanders that Icelandic society is very egalitarian in many respects. Furthermore, it has been quite common for the same people to own or sit on boards of companies or banks, be an MP, political party leader or government minister and be a leader of a trade union. This has also made formation of linkages between different levels of society relatively easy. The power structure in Iceland still is highly élitist, and is characterised by the presence of kinship clusters and families operating within the largest political parties. These ties have provided strong linkages between the richer families that own the largest companies in Iceland, the political parties, the state apparatus, and the employer's federations as well as into the trade unions.

### **Political ties**

The political system is a multiparty system (now five parties), a great majority of the party branches are small which indicates that the local leaders are on personal terms with party members and the central leadership of the party can maintain close communication with the party members.

Almost all governments in Iceland have been coalition governments. The implications of this are twofold; 1) policy issues that the political parties put forward before elections to gain votes, tend to slide into the background or be traded off in the coalition bargaining process in order to participate in the government. This means that

the people in Iceland can only indicate in elections their preference for a certain government but not affect it directly as the decision is made in the coalition bargaining. In other words, Icelandic elections in many ways resemble an oligopolistic market situation in which voters simply indicate their preference for a particular set of party leaders, while the power of decision-making is with the party-based élite. The nature of the Icelandic coalition system thus deprives the electorate of the power to select a particular government.

2) The division between right and left wing parties has become unclear and blurred.

The Alþingi (Parliament) is not only an arena for elected representatives. It also embodies many of the most influential leaders of interest organisations who bring additional resources to play in the parliamentary coalition system. Of crucial importance is that in the Icelandic political system the power of the parties is not confined to ministries and parliament (Grímsson, 1977). Through a complicated patronage machinery network coalitions are formed throughout the system, through state boards, the state banks, the investment funds, the state broadcasting system, local councils and interest organisations like trade unions, co-operative societies and large private enterprises. These are often responsible for the everyday running of the respective organisations and for hiring personnel. Political and personal appointments are therefore easily influenced, have been, and still are very common indeed. The dominant élitism in the Icelandic system has thus created the primary basis for the development of the multi-level coalition network. In general, the main institutions have been controlled by a small group of people within whom the party leaders formed the hard core. Furthermore, the party-based élite has been highly influential in the economic and cultural sectors. For example, managers and the board of directors of the state banks are in practice party appointed, and the educational system is almost entirely State controlled. The Radio and Television Council, which has a significant role in planning of programs and in controlling their content, is elected by the parties in the parliament. It is a measure of the importance which the parties attribute to this

zone of influence that during most of the 1960s the Council was almost exclusively composed of MPs, three of whom were also editors of their party newspapers (Grímsson, 1976).

Grímsson suggests that when such network coalitions are produced at different levels of the system it can help to maintain the cabinet coalition in power through a network of linkages. Patronage is thus one of the major bonds that bind the cabinet coalition to other levels of the system. "It is among the chief strands in the Icelandic multi-level coalition network.... In many respects, it can benefit the parties more than the implementation of various policy items. It can produce gains on all levels of the system and constitute a significant political investment; today's patronage can be a future resource"(Grímsson, 1977, p.52). The duration of each coalition is important as the longer they last the more opportunities there are to create links throughout the system. It is thus clear that a party, which over time has controlled the recruitment to ministries and state institutions and furthered the growth of various enterprises through state funds etc., becomes in the future a much stronger coalition partner than a party which has been out of office for a long time.

The IP - SDP coalition 1959-1971 is the longest lasting coalition ever in Iceland. It is a clear example of a cabinet coalition over time producing a multi-level conglomeration of coalition networks, which again is a factor in explaining why they stayed in power so long. They were able to bring together the leadership of most of the major social and economic interests at work in Icelandic society. The IP's relationship with the employers' associations and the combined IP-SDP trade union strength created a network of interests which enabled the coalition to bring most levels of the system into an effective decision making mechanism which allowed the comparatively smooth formation and implementation of policy to take place. The leadership of most veto groups was in one way or another represented in the ruling circles of the coalition (Grímsson, 1977). Some of the coalition networks that were established during this

time have lasted up to the present date and have had a pronounced effect on Icelandic society. For example, co-operation between the labour movement, the state and employers started to develop in that period and a coalition network pattern can be seen in ASÍ. The ASÍ's twenty-one member central committee is now composed of members of all the major political parties (proportionally). The leadership (a president and two vice presidents) is also divided between the major political parties. Thus the labour movement is connected to all major political parties not just those of the left, as the above explanations of Ólafsson and Jónsson have suggested, and as such, they always have a representative in parliament. This coalition network in ASÍ was created in the late 1960s when the IP-SDP coalition was in power. Two factors mainly contributed to this. First, the Trade Union of Commercial Employees and Clerks (LÍV), which is now the second biggest union in ASÍ and controlled by supporters of the IP, was granted affiliation to ASÍ by the Labour Court in 1962 thereby enormously increasing the power of the IP in the labour movement. Second, the left parties in ASÍ were not united. This is of a prime importance, because with the increased influence of IP supporters in ASÍ the conflict potential between employers, the state and the trade unions was reduced. The process that started then and has been developing since is viewed here as an essential element in explaining the labour movement paradox. This process is seen here as a consequence of the political network formation in ASÍ and as such marks the beginning of a new co-operation between the employers and trade union leaders.

In other words, it is claimed here, that the small size of the population and the strong kinship ties, the élite power structure and the nature of the coalition governments in Iceland, have shaped and developed the collective bargaining mechanisms/processes of the labour movement. Hence, those factors have to be taken into consideration in order to explain the Icelandic labour movement paradox. Accordingly, I argue that it is vital to explore the network of linkages and forces in which the labour movement in Iceland is situated. So, I intend to analyse the social relationships and the linkages that

the representatives of the labour movement, the employers and the state exercise, in order to understand the dynamics and hence the paradox of the labour movement in Iceland. The focal point will be on networks such as social networks, financial networks and networks of shareholding. I intend, therefore, to use a social network approach, but the basic assumption of the network approach is that people are viewed as interacting with others and some of those in their turn interact with yet again others.

The thesis will start by giving historical context for the study and then explore the development of network theorising, which is the theoretical framework applied in this study. After that follows description of data collection and methods used. The next four chapters are based on the analysis from the empirical data collected. Beginning by examining the private pension fund industry to show how their macro-economic importance has increased rapidly but it follows that those who control the funds can influence the economic administration in Iceland. This will involve exploring linkages and co-operation between the labour movement leaders and the employers, as well as the stability or consistency of these networks of relations. Private financial institutions are then explored but the private pension funds are the backbone of these institutions. Connections between the finance sector and the pension funds are examined. Furthermore, shareholding and interlocking directorships among private companies on the stock exchange has to be analysed in order to assess whether concentration of ownership and control is taking place. Linkages between those companies, the pension funds and financial institutions are investigated along with connections to the government. Finally, kinship ties are explored.

## **Outline of the research**

### ***Chapter 2 – Contextual background of Iceland***

The purpose of this chapter is to give a contextual background for the study. The first section gives the setting of the study and describes briefly the main industries in Iceland. It then traces the economic and labour market development in Iceland from

1960 up to current date. The political party system and main actors in the labour market are discussed. The second section of the chapter gives an historical overview of the period 1904-1960. The aim here is to give an insight into the nature of the Icelandic society, which is characterised by tiny population and close personal relationships throughout all levels of the society. Finally, to point out that the power structure has been highly elitist and committees are very important features of the society.

### ***Chapter 3 – Network theories***

This chapter is concerned with the network approach, which is a developing line in organisational research, as can be seen in the ever increasing use of the concept 'network' in different publications, where it is used to describe a variety of situations. The basic assumption of the network approach is that people are viewed as interacting with others and some of those in their turn interact with yet again others. Within the growing body of research and literature on the subject of 'network analysis', a clear trend is showing towards theorising and conceptualising. Network analysis is developing from being 'purely structural' into the recognition that 'networks' is 'ongoing' processes. Therefore, a network can not be separated from its environment and as such its 'boundaries' per se, can not be pointed out. The chapter will briefly explore the early development of social network analysis, then network analysis in organisational studies (intra organisational networks - sociotechnical systems theory /inter organisational networks - interlocking directorships), network as model of co-ordination and networks as associations. Finally, a major section of the chapter will discuss in some detail Actor-Network Theory (ANT) with its own language and concepts. For the purpose of this study I will mainly apply social network analysis with the emphasis on inter organisational networks or interlocking directorships approach as I am investigating linkages between different networks. In the conclusion,



ANT will be applied to the main elements of the study to see if that can add anything to our analysis.

#### ***Chapter 4 – Methodology and data collection***

This chapter gives an insight into the research process of this study, the data collection, sampling procedure and methods. The prime research approach is qualitative and the data collected is predominantly relational data. Documentary sources, such as published and unpublished material from the labour movement and from other sources, interviews/ unstructured ‘conversation’, reports, Icelandic newspaper articles and family histories are the main source of evidence. The chapter describes in some details the methods of manually mapping out and drawing networks. The chapter provides an important link between the issues covered in chapters 2 and 3 and the analysis that follows in the next four chapters.

#### ***Chapter 5 – The pension fund industry in Iceland***

The pension funds constitute the most important source of long-term finance in the country, and play a crucial role in the ongoing development of the financial market. These pension funds also have a major role to play in the revitalisation of Icelandic industry and are therefore of a great importance for the economy as whole. One consequence of the expansion of private pension schemes is that their macro-economic importance has increased rapidly. Those who control the funds can, therefore, influence the economic administration in Iceland. Who controls this source of finance and what the implications of that control are will be the main issue discussed in this chapter. The structure of the private pension funds is examined along with another aspect of the private pension structure - the management structure. This involves exploring linkages and co-operation between the labour movement leaders and the employers, as well as the stability or consistency of these networks of relations. This chapter shows that decision-making and control over the pension funds is becoming

concentrated in the hands of a few people who can accordingly exert a large influence on the investment policy of the funds. Furthermore, it will be shown that in the absence of a legal framework for the pension industry those who control the funds can change and bend rules and regulations according to their own 'needs' and the funds are increasingly being invested in companies shares.

### ***Chapter 6 – Financial institutions***

The main argument of this chapter is that the banking industry is once again undergoing transformation and becoming concentrated and centralised. It is argued here that accumulation and concentration of funds within the pension fund industry, deregulation of the financial market, the establishment of a stock exchange market and co-operation between the labour movement and private employers, is the key factor for explaining these changes. This chapter begins with an overview of the development of the banking industry 1960 - 1998. Then follows a section on the People's Bank where the original role of the labour movement within the banking industry will be explored. The section on Íslandsbanki aims to show that the inner circle of ASÍ has an active role within the bank industry. That is, the labour movement and private employers have a strong representation and co-operation in the bank industry as well as in the pension fund industry. Then the development of the stock exchange market will be briefly explored, as the stock exchange is the key for creating a network of shareholding within and between sectors of industries and thus contributing to a concentration of 'intercorporate control'. Finally, the insurance sector is examined.

### ***Chapter 7 – Shareholding and control in private companies in Iceland***

The purpose of this chapter is to explore the present structure of shareholding in the largest private companies in Iceland, in order to map patterns of ownership and control. The aim is to investigate whether a concentration of corporate ownership and control in Icelandic industries has emerged with the establishment of the stock

exchange market and with increasing shareholding of pension funds in industry. That is, if the growth of institutional shareholding, which has been steadily increasing since the establishment of the stock exchange, had led to the development of a system of 'finance capital'. The stock exchange and the financial intermediaries are the central mechanisms in the system of finance capital. Furthermore, the stock exchange is the key for creating a network of shareholding within and between sectors of industries and thus contributing to a concentration of "intercorporate control. The network of intercorporate and principal common shareholdings is explored to map patterns of ownership and control. First, the main historical trends of corporate control and finance capital are reviewed. Secondly, intercorporate and principal individual shareholding *within* the major industries in Iceland is explored, in order to assess if there is a concentration of ownership and control within those industries. Thirdly, shareholding *between* the industries are examined to establish if there exists a coherent and resolute group of companies which is through shareholding connected to all the major industries, both financial and non-financial. Lastly, those companies that appear to be at the apex of the corporate network structure will be examined, so it can be verified if economic concentration is taking place in Iceland. The main outcome of this chapter shows that there is a growing concentration of ownership and control within and between main industries in Iceland, and there is a group of interlinked companies who have in recent years been enlarging their share.

### ***Chapter 8 - Interlocking directorships and control in private companies in Iceland***

This chapter explores interlocking directorships and kinship ties between private companies on the stock exchange in Iceland, in order to understand the control structure. Only primary interlocks, which reveal stronger connections, are examined. The main aim is to examine if the potential for control created through intercorporate/shareholding relationships, by the interlinked group is reinforced by interlocking directorships. In other words, when relations in the capital exchange network are involved in the attempt to exercise strategic control, they are frequently

reinforced through a director link between the companies. Hence, a strong interlinking between the network of capital/shareholding relations and the network of interlocking directorship implies a stronger and cohesive control structure. The chapter starts with a brief discussion of the significance of interlocks. The network of interlocking directorships in companies on the stock exchange is analysed to demonstrate if there are more interlocks from some companies than others; in particular, if there exists a 'controlling' centre among the companies. Connections from that centre to companies outside the stock exchange, to financial institutions, the pension fund industry and the Federation of Employers will then be examined. The aim is to see if the fusion of companies at board level has led to the emergence of an 'inner circle' of company directors, who function as finance capitalists who play a major part in the coordination and cohesion of the economy. Finally kinship ties between the inner circle of company owners/directors and linkages to the government are explored. This chapter shows that the Icelandic corporate community is tightly interlinked through interlocking directorships and there exists an inner circle of company directors, which represents the 'new ruling élite'.

### ***Chapter 9 – Conclusion: Revisiting the paradox***

This final chapter draws the chapters together and discusses the main outcome and the conclusion of the study. There is a short section, which aims to integrate few elements from the study using Actor Network Theory to examine if ANT adds anything to the explanation of the paradox. Finally, possible directions for future research are considered.

## **CHAPTER 2: CONTEXTUAL BACKGROUND OF ICELAND**

### **Introduction**

The purpose of this chapter is to give a contextual background for the study. The first section will give the setting of the study and describe briefly Iceland's main industries. It then traces the economic and labour market development in Iceland from 1960 up to current date. A discussion on the political party system will follow along with brief description of the coalition government pattern. The latter half of the first section identifies the main actors in the labour market. It concentrates on the development of the labour movement, its structure, collective bargaining and membership. The second section of the chapter gives an historical overview of the period 1904-1960. The aim here is to give an insight into the nature of Icelandic society, which is characterised by a tiny population and close personal relationships throughout all levels of the society. As this study is concerned with financial power the focus is on the growth of an institutionalised credit system that developed parallel with the emergence of capitalism in Iceland and was at the same time an essential precondition for capitalism to grow. The aim of this is to show that the financial institutions in Iceland have not operated as 'independent' financial institutions. That is, for a long period, a ruling elite dominated them and the economic sector served the political one. Finally, to point out that the power structure has been highly elitist and committees are very important features of the society.

### **Size and population**

Iceland is the second largest island in Europe, nearly half the size of Great Britain and one-third larger than Ireland. It lies on the northernmost edge of the Atlantic Ocean, just under the Arctic Circle. With a very small population of 270,000 people, it is the most sparsely populated country in Europe. It has only 2.5 inhabitants per km<sup>2</sup>, compared to Denmark with 119, Britain with 235 and Germany with 254 inhabitants

per km<sup>2</sup>. Almost four-fifths of the country is uninhabited and the settlement is largely limited to a narrow coastal belt. Around two-thirds of the Icelandic population live in the Southwest part of the country; this includes the capital city, Reykjavík, with over 100,000 inhabitants.

### **Industries**

Accordingly, the Icelandic labour market is very small. Currently the labour force is estimated at approximately 150,000. Around 67,000 women are active on the labour market, which is about 46 per cent of the labour force. Most companies are very small, with around 70 per cent of them having only two employees or less. Only 5 per cent of the companies have more than 10 employees and around two per cent have 60 employees or more (Snævarr, S. 1993). Traditionally the economy has been based on fisheries and agriculture, however, in recent decades greater diversification into manufacturing, processing and service industries has occurred. For instance, in 1910, 47.6 per cent of the labour force was engaged in agriculture and 15.4 per cent in the fishing industry. Whilst in 1994 the agricultural sector employed 5 per cent of the total work force and 11.3 per cent are employed in both fishing and fish processing. In 1993, exports of manufactured goods and services amounted to the equivalent of 32.9 per cent of Iceland's GDP.

The Icelandic economy is primarily based on the use of renewable resources, the most important being the coastal fishing banks, hydro-electric and geothermal power. All the hydroelectric power plants as well as the interregional power lines are owned and operated by the State. The State owns and runs some medium sized manufacturing enterprises: a fertiliser plant, a cement plant and a rock wool plant. It jointly owns a ferro-silicon plant on the west coast of Iceland with Elkem A/S of Norway and the Sumitomo Corporation of Japan and a diatomite plant in the north of Iceland with Celite Inc. of the US. Finally the State owns and operates the two state banks, the Telephone Company, the Mail Service Company, the largest television and radio

station and has the monopoly to sell alcohol and tobacco. The State is thus clearly an important agent on the Icelandic labour market as an owner and employer. This could change, however, in the next few years, as the government is starting to privatise some of its companies. The only major foreign-owned organisation directly employing people in Iceland is Swiss Alusuisse AG which own and operates the largest manufacturing facility: an 88,000 ton aluminium smelter.

### **Economic and labour market development from 1960**

While the size of Iceland's economy is small in absolute terms, the per capita GDP is among the highest in the world. For instance, according to a survey by the World Bank (1995) Iceland is the seventh most prosperous country in the world. Iceland is at a comparable level of economic development with the other Nordic societies, which have been among the most developed in the Western world, as judged by figures of GDP per capita. For most of the years since 1960, Iceland has had a higher GDP per capita than Finland, and in some years it has been in second or third place in the Nordic community (Ólafsson, 1993). On average, the real increase in GDP per capita in Iceland was 2.4% during the period 1960 - 1986, while the OECD average was 2.7%. During the 1990's, there was a slight recession and economic growth declined in 1992 and 1993. However, in 1994 and 1995 economic growth was 2.5 per cent, 4 per cent in 1996 and 5 per cent in 1997 (Morgunblaðið, 13 March 1997; OECD Economic survey, 1998). Hence, there have clearly been reasonable means of improving living standards in Iceland in the period since 1960, and they have indeed risen considerably. However, a similar ranking based on GDP per capita does not necessarily mean that the average level of wages is the same in any two countries. Differences in real income can be considerable due to factors such as cost of living, taxation, workload and benefits such as health care, education etc. In Iceland, the general cost of living is somewhat higher than in neighbouring countries, primarily due to the cost of importing many resources used, and to steep import duties on some products.

### ***Working hours***

The Icelandic labour market is characterised by long working days and low wages. Iceland seems to resemble Third World countries more than the Nordic and large western countries in terms of weekly hours at work. For example, over the period 1978 - 1986 working hours per week were on the average 51.0 in Iceland, 53.8 in the Republic of Korea, 48.6 in Singapore, 46.8 in Guatemala and 46.3 in Mexico. While over the same period, working hours were on the average 42.6 in the U.K., 40.1 in the USA, 39.6 in France, 37.9 in Sweden, 32.8 in Denmark and 32.6 in Finland (Sources: ILO, table 12A and the Economic Institute 1988a in Jónsson, Í. 1991). In 1993, average full time working hours for women in Iceland were 44 hours per week and 53 hours for men, and figures for 1997 are very similar. There is, however, a difference between industries, for instance, men employed in agriculture and in the fishing industry worked on average 60.9 hours per week in 1997, whilst men in manufacturing and service industries worked on average 48.7 and 45.4 hours per week respectively. (Morgunblaðið, 26 July 1998).

### ***Wages***

Wages are also relatively low in Iceland by Nordic and North European standards. For example, the wages in manufacturing during the period 1977 - 1987 have been, on average, much lower in Iceland than in the other Nordic countries. The average male wage was e.g. 71.7% of that of Swedish males and the Icelandic females wage was 65.3% of the Swedish female wage. During the 1980s, the formation of wages in Iceland was increasingly dominated by market forces rather than through trade union agreements. Consequently, the difference between disposable income per capita and rates of pay has been increasing and wage earners have been gaining less of the GDP than before (Jónsson, Í. 1991). The trade unions are increasingly unable to secure the income of the lowest paid groups relative to the development of disposable income per capita.



It is interesting to note that the Committee on Labour Market Statistics (Kjararannsóknarnefnd) stopped calculating the index of wage rates in 1987 as it came to the conclusion that it did not reflect wage distribution anymore. The ideological function of stopping these calculations is to conceal the increasing irrelevance of the trade unions in wage formation (Jónsson, Í. 1991:248).

During 1991-1994 wage restraint was in force due to 'national agreement' in 1990 between the Federation of Labour (ASÍ) and the Federation of Employers (VSÍ) and real disposable income fell considerably, but wages have increased very slightly over the period 1995-1998. Jónsson (1991) furthermore, has shown that income distribution is becoming increasingly unequal in Iceland. The share of those with low income in Iceland decreased from 9.6% of the total income in 1975 to 8.6% in 1986. In Norway, it decreased from 9.8% in 1970 to 8.4% in 1986 and the figures for Sweden have changed from 11.3% in 1972 to 10.6% in 1986. Whilst those with high income in Iceland had 37.3% of the total income in 1975, but increased it to 44.7% in 1986. The figures for Norway are 40.9% and 42.0% and for Sweden 40.5% and 38.1% respectively. Inequality in income distribution thus increased greatly in Iceland during the 1970s and 1980s compared with Norway and Sweden. Moreover, Einarsson (1987) has shown in his research "Patterns of Societal Development in Iceland", that the 'capitalist class proper' i.e. those with 10 or more employees, is smaller in Iceland than in typical core countries. Whilst the working class is proportionally larger than in core countries, actually making up well over 50 per cent of the work force in 1980. Accepting his view, one can conclude that inequality in income distribution in Iceland is even more than the above figures indicate. One of the consequences of this low wage policy in Iceland has been an increasing burden of household debt for workers. During the period 1992-1996 household debt in Iceland rose by 46 per cent whilst disposable income increased only by 12 per cent. The debt represented 30.4 per cent of household assets in 1995 whilst in the UK and in France, in 1995, household debt represented 16.3 per cent and 14.3 per cent respectively of the household assets (OECD Economic survey, 1998). Moreover, as figures on household assets in Iceland

include assets in pension funds<sup>1</sup>, the situation might be even worse, as a recent OECD survey suggests:

As a good portion of financial wealth is controlled by pension funds and cannot easily be used to repay debt, households may be even more stretched than this comparison suggests (OECD Economic survey, 1998:16-17).

This is reflected in the fact that many more homes and small businesses in Iceland have become bankrupt during the 1990's. For example, during the period 1982-1990, on average, around 400 individuals per year became bankrupt, whilst in 1994 and 1995 this had risen to 722 and 871 individuals respectively.

### ***Taxation***

It appears that Iceland is unique among the Nordic countries as regards the main character of the taxation system (Ólafsson, 1993). Direct taxes play a much smaller part in the Icelandic system than they do in the other countries. In addition, direct taxes are considerably less progressive in Iceland. The most striking difference between Iceland and the other OECD countries is the great emphasis on indirect taxation, i.e. taxes on goods and services. Those taxes in Iceland were 57.1% in 1988. This figure is far above other OECD countries and only peripheral European countries crossed the 40% limit, i.e. Portugal with 48.1% and Greece with 45.4%. The unweighted average of OECD Europe was 31.8% (Jónsson, Í. 1991). However, indirect taxes fall with proportionately greater weight on lower income groups. The structure of taxation has been very stable in Iceland since the 1960s, with the main shift in emphasis being increased taxation of income and profits, mainly the income of individuals. Taxation on income was 35.2 per cent in 1988 and reached its peak in 1997 with 41.98 per cent. Property taxation has increased in importance, while employers' contributions to social security has decreased and is among the lowest in the Nordic countries. The fundamental change in taxation policies in Iceland is the diminishing emphasis on taxes on specific goods and services (i.e. cars, computers and what can be considered

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<sup>1</sup> Assets in pension funds have grown extensively during the 1990s, (see chapter 5).

as luxury goods) and increased emphasis on general taxes on goods (i.e. food and clothes) and services. For instance, in 1965, 45.0% of total taxation was due to taxes on specific goods and services, but this had dropped to 17.1% in 1988. (Jónsson, Í. 1991). In this respect, the Icelandic taxation system appears thus to be considerably less redistributive than in Scandinavia (i.e. Denmark, Norway and Sweden). At the same time, corporation taxes have decreased from 39 per cent down to 33 per cent during the 1990's.

### ***Welfare***

Iceland appears to put less emphasis on state-provided welfare than other countries in the Nordic community. It spends less on welfare, and the public programs are more restricted in some cases (more waiting-days, less eligibility, more user-financing etc), and lower benefits levels in cases of sickness, unemployment, and injury (Ólafsson, 1993). Iceland compares most favourably in the area of health care. However, during the 1990's the government has cut down this sector considerably. Finally, it compares reasonably well in educational expenditures, but it deviates greatly in expenditures on social security, especially on family benefits and related services and on pensions.

In short, the labour movement in Iceland has not succeeded in increasing or even preserving wage levels for its members, although GDP per capita has been high. Furthermore, the welfare state has lagged greatly behind the other Nordic countries since the 1960s, when it was at a comparable level (Ólafsson, 1982). The standard of living has been generally high in Iceland, which people have maintained by working long hours, and the unemployment rate has been exceptionally low at less than 1 per cent on average. However, the unemployment rate has gone up considerably in the 1990's and has been on average 4-5.5 per cent in recent years.

On the other hand, there seems to have developed in Iceland, what has been referred to as a welfare system for business firms (Jónsson; 1991, Ólafsson; 1982).

This primarily involves the use of the state to further the interest of employers. It involves an elaborated system of state protectionism in which the main character of economic management is one-sidedly oriented to employer interests. Thus the state frequently takes in effect responsibility for securing profits in various industries, most clearly in the fishing sector and agriculture. The state shapes its policies towards that end, from taxation, through devaluation policy, incomes policy, monetary and fiscal policy to the means tested distribution of grants to individual firms (Ólafsson, 1982:407).

As Scott has observed, the political dominance of a capitalist class consists in the state operating in such a way as to maintain the conditions of that class's economic dominance (Scott, 1991a: 139). Those conditions seem to be fulfilled in Iceland.

The main explanation for this situation so far has been offered by Stefán Ólafsson (1982). He indicates that this is likely to be related to some characteristics of the Icelandic political system especially the lack of labour's effective political representation both in parliament and in the state apparatus. He says: 'the answer lies in Labour's frustrated political power, against employers organisations and political parties which combine greater advantages of all the major dimensions of power: industrial, political and cultural' (p.379). Others have offered similar explanations, for example, Ívar Jónsson (1991). What they are referring to is that in the past decades governments in other Nordic countries have been predominately led by social democratic actors and opposed by centre and right actors. However, in Iceland the situation has been very different as is shown below.

### **The political party system in Iceland**

In the 19<sup>th</sup> century and in the 2 first decades of the twentieth, the struggle for independence from Denmark dominated Icelandic politics. No proper formal parties existed in parliament (Alþingi) in the 19<sup>th</sup> century only political alignments, which Grímsson (1970) prefers to call issue-groups. Since then Iceland has developed a multi-party system like the other Nordic countries, but in contrast to Britain's essentially two party system. Iceland has deviated from the Scandinavian norm in the

sense that the large Social democratic parties, which have been by far the strongest parties in these countries, have dominated Nordic politics. Whilst the Independence party (IP) which is a conservative party in Iceland has enjoyed almost as strong an electoral position as the Social Democrats in Norway and Sweden.

Iceland became a sovereign state in 1918, the 1910-1930 periods can be considered as a transition period, in which the existing party system was established, and class politics replaced politics of independence. Two of the present parties were founded in 1916. Firstly, the Social Democratic Party (SDP) but its founding was induced by 'the increasing emergence of trade unions after the turn of the century and the influence of socialist ideas, stemming especially from Denmark' (Grímsson, 1977:4). The SDP was the political arm of the Labour movement and it was organisationally tied to the Icelandic Federation of Labour (ASÍ) which was founded at the same time. The Federation and the Party had a joint central committee and national convention until 1942 when the formal ties between the SDP and ASÍ were severed (Kristjánsson, 1977). The smallness of the SDP is one of the significant features that distinguish the Icelandic party system from its Scandinavian counterparts. One reason for this being that they suffered many splits in the party when the more radical or left wing members left to join or form other parties. The SDP never was a 'pure' socialist party. This is exemplified by its 1916 platform where they mix socialist and liberal ideas.

We want to fight forcefully to prevent division of people into rich people and proletariat, as has developed in most civilised countries, from developing in Iceland... We do not want to prohibit or prevent industrious and daring men from becoming wealthy, because we want to give the individual full freedom to do whatever he wants, so long as he does not harm others. The rights of each individual are limited by the rights of other individuals..." (Kristjánsson, 1978:4).

The other party founded in 1916, is the Progressive Party (PP) which was almost exclusively a party of farmers and had close ties with the Co-operative movement. It is

a centre party in Iceland and has enjoyed a stronger popular support than centre parties in Scandinavia.

In 1929, the Conservative Party (founded in 1924) and the Liberal Party (founded in 1926) united and formed the existing Independence Party (IP). The IP has maintained very strong formal and informal connections with employers' federations since its foundation, like the British and Scandinavian Conservatives. Its program included 'demands for laissez-faire economy, law and order, and friendly co-operation between all classes, since class hatred is fatal to all societies; protest against state limits on commerce, against a Soviet type of social ownership, and against the power of the Co-operative Federation' (Guðmundsson, 1979: 141). The IP's slogan has been from the beginning 'Class with Class' and Kristjánsson (1977) concluded that the party's claim in the name of nationalism, class harmony and that it represents the interests of all classes, is likely to have served to strengthen the party.

When the Communist Party (CP) was founded in 1930 after a split in the Social Democratic Party, all four major actors which have dominated Icelandic politics since had emerged. But in 1938 the SDP split again and a part of its left wing founded the United Socialist Party (USP) with the communists. The SDP suffered a further split in 1956 when a left wing group joined with the USP in forming the People's Alliance (PA). The PA remained an electoral alliance until 1968, when it was transformed into an organised party with internal structure similar to the other parties and the formal dissolution of USP took place. Thus the IP, PP, SDP, and first the USP and then its successor PA have made the coalition situation in the Icelandic legislature generally a four-actor game. (Grímsson, 1977)

It was not until 1953 that a fifth actor entered parliament, the National Preservation Party (NPP) which was inspired by strong nationalism in its opposition to NATO membership and the US base in Iceland. It enjoyed some electoral success that same

year and held two seats in parliament. After a defeat in the next election, it joined PA in 1963. In 1969, another fifth actor appeared on the scene, a small left wing party the Union of Liberals and Leftists (ULL). This party was created by a split in PA connected to its transformation into an organised party. This splinter group formed ULL co-jointly with 'people who were protesting against the strong grips which the political parties in Iceland had on many aspects of social and economic life, such as cultural and financial institutions, appointments of officials and so on' (Grímsson, 1977:8). Its main aim was to call for a unification of the left forces, 'to be a forerunner to a future party that would, like the Labour parties in Scandinavia and Britain, embrace most of the social democratic and co-operative forces' (p.8). It also criticised the other main parties for corruption and concentration of power and opposed the Icelandic membership of NATO and the US bases (Jónsson, 1991). It won a victory in 1971 elections and gained five MP's, but in the 1978 elections, it lost its seats altogether.

Again in 1983 the SDP split, and a new party was established, the Socialist Alliance (SA). That party continued the ULL's attacks on the power structure of the 'old parties'. "However it criticised more strongly the concentration of power in the labour movement and it was more market orientated than the ULL in its ideology" (Jónsson, 1991: 230). This party was dissolved when its leader died. Finally the Women's Alliance (WA) was established 1983, with the aim to realise the particular interests of women and to increase women's power in the Icelandic society. So on the whole, the main splits that have occurred in the party system have been on the left wing, while a more peaceful development has characterised the non-socialist wing of Icelandic politics. 'Attempts to challenge the IP on the right wing have been few and unsuccessful. A splinter group from the PP formed the Farmers' Party in the thirties; the party contested only two elections. In 1974 a splinter group from the PP - especially from its youth movement- joined the ULL. Nevertheless, overall the non-socialist parties have been relatively united and

stable' (Harðarson 1980:12-13). Increasing instability has though occurred on the right wing in the 1980's. The Citizens Party (CIP) was established in 1987 by a splinter group from the IP and in 1989 the CIP split as 2 of its MP's and their followers established the Liberal Right Wing Party (LRWP) (Harðarson and Kristinsson, 1988). The situation in Iceland has thus been very different from other Nordic countries where governments have predominately been led by social democratic actors and opposed by centre and right actors. The IP and the PP occupying respectively the right and the centre of the social economic continuum have been the largest parties and the dominant coalition leaders, and it has been the left that has suffered splits and minority positions, not the bourgeois parties.

Finally, the main characteristic of Icelandic political parties is the fact that the great majority of the party branches are very small, with maybe only a few dozen members, thus providing for an *effective personal network*. In fact, the organisational reality of the small local branches is simply a network of personal relationships, which bear the party name with respect to particular activities, but does not lead an independent, formalised existence. But branches which have a larger membership body, especially those in the capital and the largest towns, lead a more formal existence, undertaking their responsibilities in a more regular manner in formal meetings of the branch etc. In addition to the party branches, the Icelandic parties are all endowed with institutional support from various interest organisations or other bodies. Side by side with the formal branches exists a network of institutional bases of various kinds (co-operative societies, trade unions, large private enterprises, issue movements, etc.) which are de facto linked to the party organisation. Because of the smallness and the general ineffectiveness of the party branches, these other institutional bases are in many ways more important for the all-around operation and general effectiveness of the party than the party organisation proper (Grímsson, 1978). In other words, there are often no clear distinctions between the political parties and their interest organisations.



### *The coalition pattern*

An important aspect of the political system in Iceland is the coalition pattern. During the period 1944 -1998, or from the independence of Iceland, the parliament has generally consisted of four parliamentary parties that performed actor's roles in coalition bargaining and formation, apart from the last decade when the Women's Party gained seats in parliament 1983, but they have never been a part of government coalition. As the dynamic force of the Icelandic political system became the politics of class and social economic dimensions instead of the independence struggle, patterns of coalition behaviour were simultaneously established as core characteristics. Grímsson argues:

During the succeeding decade's formation, maintenance and dissolution of coalitions at all levels of the system have been the continuous preoccupations of all significant political actors. The legislature, the Alþingi, has produced multiparty cabinets which through the disciplined and centralised parties have tended to act as master coalitions for patterns of alliances within various extra-parliamentary institutions Grímsson (1977:1)

Grímsson (1977) has shown that a network of ties from the cabinet actors to other levels of the system where network coalitions are produced - or mirror coalitions as he calls it - is not only a fundamental feature of the Icelandic power structure, but also affects all the important coalition stages, for example, formation, maintenance, decision-making, dissolution and so on. This is reinforced by the elitist power structure that has prevailed for most of the era of modern Icelandic politics. Grímsson concludes:

The desire to preserve the unity and the power of their respective party characterises both the members of Alþingi and the personnel of extraparliamentary party apparatus. This dominance of party loyalty on all levels of the system serves to strengthen the position of the leadership and simultaneously helps to further the influence exerted by cabinet coalitions on the other areas of coalition behaviour in Icelandic politics. The actions of the leaders on Alþingi and cabinet levels provide a prototype for influential party personnel on other levels: on state boards and councils, in trade unions and other interest organisations and even in some town and commune councils. The discipline and the intraparty unity of the individual parties help to maintain the master-mirror coalition relationship that characterises the Icelandic multilevel system (Grímsson, 1977:10-11).

Within a multi-level coalition system like this, it is clearly of importance to note which interest resources each of the actors brings to the coalition game, as different parliamentary coalitions are based on different interest combinations. For example: the IP includes the leadership of the employers associations - fishing entrepreneurs, industrialists, wholesalers, shopkeepers and some important trade unions, like Verslunarmannafélag Reykjavíkur (the trade union of commercial employees and clerks, LÍV). The PP has the strongest ties to the Co-operative Movement, its enterprises and the agricultural associations. Whilst the SDP and the PA are connected to the labour movement. Different combinations of coalitions are thus likely to have different outcome for different groups in the society. Table 2.1 below shows the combinations of coalition governments in Iceland 1944-1998.

**Table 2.1: Coalition Governments in Iceland 1944 - 1998**

Governments	P M	Years in power	Life time In months	Left / centre / right
IP – SDP – USP	IP	1944 - 1947	26	C
SDP – IP – PP	SDP	1947 - 1949	33	R
IP	IP	1949 -	3	R
IP - PP	PP	1950 - 1953	41	R
IP - PP	IP	1953 - 1956	34	R
PA – SDP – PP	PP	1956 - 1958	29	L
SDP	SDP	1958 -	11	?
IP - SDP	IP	1959 - 1971	144	R
PA - PP - ULL	PP	1971 - 1974	36	L
IP - PP	IP	1974 - 1978	48	R
SDP - PP - PA	PP	1978 - 1979	13	L
SDP	SDP	1979 -	3	?
PP - IP - PA	IP	1980 - 1983	40	C
PP - IP	PP	1983 - 1987	49	R
IP - PP - SDP	IP	1987 - 1988	14	R
PP - SDP - PA	PP	1988 - 1989	16	(L)
PP- SDP-PA-CIP	PP	1989 - 1991	17	(L)
IP - SDP	IP	1991 - 1995	48	R
IP - PP	IP	1995 - ?		R

Source: Grímsson, 1977; Author.

Table 2.1 shows that the IP and the PP have been by far the biggest coalition leaders in the period 1944 - 1998, with the IP (right wing) being in government 44 out of 54 years and having held the premiership for 34 of those. While the PP (centre) have been

in government for 34 out of 54 years and held the premiership for 17. Collectively these two parties have thus held the premiership for 51 years, the SDP for 3 years and the PA never. This indicates a very stable party vote for these parties throughout this period and indeed most of the time that has been so. For example, in parliamentary elections over the period 1942 to 1967 the IP averaged 40 per cent of the vote, the PP 26 per cent, the PA (and its predecessor) 17 per cent whilst the smallest of the four was always the SDP, with 15 per cent of the vote on average. During the 1970's and the 1980's, however, the four-party system suffered instability both internally (see above) as well as in electoral support when new actors, like the Women's Alliance (WA), entered parliament. The WA won 5.5 per cent of the national vote in 1983 and 10.1 per cent in 1987, but in the 1990's the WA support has declined considerably and the four 'old' parties appears to be regaining their vote. It is worth noting that it is not always the 'winners' of an election that get to hold the premiership, there are exceptions such as the 1978 –1979 government, when there was an SDP - PP - PA coalition, with the PP holding the Prime Minister chair. In the 1978 election, the PP lost 17% of its votes and five MP's (after having been a part of a very unpopular government 1974-1978). This loss actually made the PP the smallest party in parliament after having been the second biggest or the biggest party over half a century. Still in the coalition bargaining it gained the premiership, but this is exceptional in the circumstances. The most common explanation for this has been that the PP just 'played their cards right'. While it is more likely that the explanation could lie in the extra-parliamentary or interest resources they brought into the government. This also indicates the game that takes place in the coalition bargaining and shows how little in reality voters in Iceland can affect what government is in power. They can only give their preferences. The stability in party votes and parliamentary seats has

Provided the party leaders with considerable freedom for manoeuvre in coalition bargaining. As the parties in election campaigns very rarely indicate their coalition preferences and parliamentary resources are not highly affected by the results from one election to another, the post-election bargaining process is given an even greater importance. The elections have generally not produced

significant changes in the resource basis of the coalition game. Their function is more to mark the beginning of a new game (Grímsson, 1977:22).

Finally, the political system has gradually become more pluralistic in nature and the earlier system of power relations - where the four major parties dominated most spheres in society – has shown increasing signs of disintegration (Harðarson and Kristinsson, 1988, Kristjánsson, 1994). Previously, the road to nearly all positions of power passed through the parties. However, from around the 1970, with less state intervention in the economy the parties lost some of their power to use party patronage in the same way as before (see second section of this chapter).

### **Actors in the Labour Market**

The major organised forces on the labour market today are the labour movement, the employers' associations, the state, and the communities. The Federation of Labour (ASÍ) is by far the largest labour union in Iceland. It includes as many as 206 unions with 68,000 members. The Federation of State and Municipal Employees (BSRB) has about 15,500 members and the Association of University Graduates (BHMR) around 4,200 members. Other federations, for example, the Federation of Officers at Sea (FFSÍ), the Federation of Bank Employees (SÍB) and the Federation of Teachers (KÍ), all have less than 4,000 members. It was estimated that in the year 1990, the organised labour movement consisted of over 100,000 members in around 350 unions, while the working force was around 140-150,000. However, it should be pointed out that people working part-time are very often not counted as full members of a union, and are therefore not included in official numbers of membership, so 100,000 members is a low estimate. (Afmælisrit ASÍ, 1991).

On the opposite side of the bargaining table are firstly the Federation of Employers (VSÍ) that includes 16 branch associations, 7 associations which cover more than one

branch of industry, and 68 direct membership firms, with a total of 3100 members. VSÍ was established in 1934; however, other employers' federations in some of the main industries had been founded earlier.<sup>2</sup> According to Einarsson (1987) and Gíslason (1990) it was the economic situation during the 1930s and the growing strength of the labour unions that specifically influenced the formation of employers' central organisation. The Association of Co-operative Employers (VMS) was, however, established as late as 1951. It represents 64 firms, both co-operative and several limited liability companies related to the co-operative movement. Finally, there are the state and the local governments, which employ 30 per cent of all employees.

### *The development of ASÍ*

The Federation of Icelandic Labour Unions (ASÍ) was established on 12 March 1916 by seven unions in the Southwest part of the country. ASÍ represented the interest group side of the federation, as it was in a formal union with the Social Democratic Party (SDP), which was its political arm in that period. ASÍ and the SDP can be clearly distinguished based on differences in function and stated purpose, but their organisational structure was the same.

In 1940-1942 the formal union of the Social Democratic party and the Federation of Labour ASÍ were dissolved. The SDP strength within the labour unions had weakened as the influence of communists and working class conservatives (who supported the Independence Party) among union members increased. Communist and working conservatives alike posed the demand for separation of organisational ties between the labour movement and political parties, and in the end, the SDP was forced to agree. This formal separation is of a crucial importance, because from that time on supporters of other political parties could become members of a trade union in ASÍ and hence influence its strategy. Nevertheless, informal ties between labour unions and political

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<sup>2</sup> The Association of Icelandic Trawler Owners in 1916, Iceland Chamber of Commerce in 1917 and the Federation of Icelandic Manufacturers in 1932.

parties continued to exist, although they were indirect in contrast to the previous organisational identity between the ASÍ and SDP, and there was a great overlap between leadership positions of the labour unions and the political parties. (Einarsson, 1970. Kristjánsson, 1978).

In the period after 1942, ASÍ became established as a powerful interest organisation, collective bargaining was instituted and their influence on public policy became considerable. At the same time, followers of the IP gained a strong foothold within ASÍ but the socialist party influence declined. Since the 1960s, the composition of the central committee has reflected the strength of each political party within the unions. Hence each party has been represented in the coalition central committee but their influence has varied from one time to another. Since the mid-1980s, the leadership of ASÍ has been collectively in the hands of the PA, the IP and the SDP.

The main consequence of the formation of a coalition central committee since the 1960s have been increased formal consultation by the government and parliament with the labour unions. Distinguishing it from earlier periods in which the state-union relationship were less formal and most often conducted by the intermediation of political parties, which formed the main links between the state and the labour unions. Representatives of labour unions are included in many government committees, and legislative proposals particularly in the fields of labour and welfare issues, are routinely sent to ASÍ for comments and criticism. (Kristjánsson, S. 1978). Furthermore, this period saw an increased co-operation between the Federation of labour (ASÍ) and the Federation of Employers (VSÍ). For example, in 1963 they founded the Committee on Labour Market Statistics. On the board of this committee employers have three representatives and labour the same. Usually, these people also sit on the central board of ASÍ and VSÍ. Since this period employers and labour leaders have worked together closely on different councils and government committees and have increasingly established their own committees to work on different matters. This

change in the pattern of relationship has occurred along with continuing changes in relations between political parties and labour unions. Increasing specialisation of leadership has evolved in which it has become rather unusual for the same person to occupy the position of top leadership in both political party and labour union. In most labour unions an informal understanding prevails in which members of different political parties co-operate in protecting the status quo. Elections for the labour union steering committees, in which competing political parties challenge each other, rarely take place, but it was very common in earlier periods. The central committee of ASÍ is now composed of twenty-one members of all major political parties. (Skýrsla forseta ASÍ, 1990).

Finally, it has to be emphasised that throughout the history of ASÍ it has been very common for trade union leaders to take on multidimensional roles, which links them into different networks. The following illustrations of such networks are taken from the early years of the labour movement in Iceland. Héðinn Valdimarsson was the director of the provisional state monopolised foreign trade of Iceland from 1917- 1925, which was for some time the largest company in Iceland and, amongst other things, monopolised all trade in tobacco and petroleum. When that company ceased to exist in 1925, he founded and directed the Icelandic tobacco Trade Company and in 1927, the BP Oil company in Iceland, which he managed until his death in 1948. This made him a wealthy man. Between 1922 and 1941 Héðinn spent 15 years as the chairman of the manual trade union Dagsbrún, which has been a leading force within ASÍ. He was also the vice president of ASÍ and SDP, which was one and the same organisation until 1940. Finally, he was a local councillor in Reykjavík between 1922 and 1929 and an MP over the period 1926 - 1938 for the SDP. He became a leading founder of the United Socialist Party in 1938 after he had been dismissed from the SDP and was MP for the USP 1938 - 1942. His dismissal from the SDP mirrors the conflict or schism that was between the right and left wings in the SDP and ASÍ at that time, which led to formal separation of the SDP and ASÍ. Then was Jón Baldvinsson who was the

president of ASÍ and the leader of the SDP 1916 - 1938, MP for the SDP 1921 - 1938 and a bank manager in the Fisheries Bank 1930 -1938 or until he died. Those two examples indicate that the same people could at the same time have different 'organisational hats' by being capitalists, employers, bank managers and politicians as well as being trade union leaders and were therefore linked throughout all levels of the society into different networks through their different roles. This pattern of multidimensional roles has been very common in Iceland up to the present date and it is suggested here, that this is of importance for understanding, for example, how co-operation between networks develops

### ***The labour movement structure***

ASÍ represents workers through out whole industries, like fishing, fish processing, dock labourers and other transport workers, as well as workers in construction and manufacturing. General unions of unskilled manual workers constituted the majority of unions affiliated to ASÍ. Around 10 per cent of unionists in Iceland are in craft unions, representing skilled trades, whilst about 85 per cent are in industrial unions representing different occupational grades across industries. Five per cent are in professional associations. For comparison, in Sweden the craftsmen are only about 5 per cent of unionists, while the relative size of industrial unions is the same as in Iceland, but about 10 per cent are classified as being in 'mixed unions' (Korpi, W. 1976. p. 64). The organisational structure of the labour movement in Iceland has thus been characterised as being primarily of the industrial kind as against occupational or general unions (Ólafsson, S. 1982). Of the union structures reviewed by Hugh Clegg (1976), the Swedish one seems to resemble the Icelandic one to a large extent. The white-collar workers in Sweden are organised in separate federations as they are in Iceland, the TCO being the biggest, yet some of the LO unions do also recruit white-collar workers. The Icelandic white-collar unions are mainly organised into four distinct federations: BSRB which covers the public sector and was established 1942; LÍV represents mainly unskilled employees in the private sector, established 1957 and



is affiliated to ASÍ; SÍB covers employees in banking and finally the professionals' association BHM, established 1958.

The Icelandic labour movement consists of two major blocks of union confederations, which is ASÍ with approximately 70 % of unionists within its ranks, and BSRB in the public sector with the majority of public employees or around 19 % of unionists. ASÍ and BSRB have increased their co-operation to some extent, especially since 1976, when BSRB acquired the partial right to strike in support of pay claims. The structure of the labour movement in Iceland is therefore, rather neat, the major federations correspond broadly to the sectional division i.e. public, private and fishing. In addition, the main union representation is comprehensively structured along some of the main class groups, like unskilled workers, craftsmen, deckhands, clerical and sales workers, general civil servants, bank employees, officers at sea, and professionals in public employment. (Ólafsson, S. 1982.)

### ***Collective bargaining***

The extent of bargaining i.e. the proportion of employees covered by collective bargaining agreements is wide-ranging in Iceland. Still there are, and have been, some significant groups whose earnings are determined by means other than 'pure' collective bargaining. Fishermen and civil servants (until 1978), are the most notable ones. ASÍ, which represents about two-thirds of trade unionists, has an active and important role in the collective bargaining process. The confederation harmonises the strategies of its member unions and it usually negotiates with the central employers' organisation (VSÍ) on issues that concern all the unions equally. This includes pay systems, basic rate increases, form of price indexing, basic working hours, holidays, shop stewards, accidents and sickness benefits, and other rights. This leads to a 'framework agreement' which forms the basis for formal agreements on a national level between the industrial and white-collar federations and relevant employers' federations. Lastly, at the local level the member unions negotiate on more specific issues that the

'framework agreements' do not cover, as well as other aspects of local and work place relevance only. (Danielsson, P. 1977, Ólafsson, S. 1982). The policy of ASÍ is to concentrate the bargaining power of individual unions by facing employers and government with a united front through ASÍ and at the same time harmonise the conditions and rewards of unionists. (Resolution on pay and conditions, from the 33rd congress of ASÍ in Skýrsla forseta 1976). Thus, there evolved a three-tier bargaining system, apparently similar to the system, which prevails in Sweden, and some of the other Nordic countries (Korpi, W. 1978, Johnston, T. L. 1962). According to the legislation on unions and industrial conflict 1938, individual unions bargain on behalf of their members, and therefore the members have to ratify all agreements at the local level by a vote. In Scandinavia, on the other hand, the framework agreement often specifies a ceiling for local bargaining, the ratification of agreements takes place at confederate rather than union level, and the vote is binding for member unions. Therefore, it appears to be less scope for Scandinavian unions to bargain special benefits and opt out of confederate agreements. However, since the early 1980s the trend has been in the same direction in Iceland that is the growing role of collective federations. On the whole, it can be said, that the extent of collective bargaining is very large in Iceland, and the central agreements are very comprehensive in their coverage of employment and rewards aspects. The minimum standards that are put down in the final agreements are effectively implemented. Even though local unions are the legal bargaining agents, the role of their federations is decisive, and central control through the ASÍ and BSRB is now very powerful, again much like in Sweden, Norway, Austria and the Netherlands. (Korpi, W. and Shalev, M. 1979:178-79).

### ***Membership***

Membership increased rapidly during the first decades of the labour unions' existence. In 1920, about one-fifth of the manual workers had joined unions, by 1930 it was 25 per cent and in 1950, it had reached about 80 per cent. The highest degree of unionisation is among manual workers affiliated to ASÍ (above 90 per cent) and the

non-managerial grade in the public sector is almost fully unionised. Unionisation of white-collar or salaried employees in the private sector is lower. It was estimated to be in the region of 50 per cent in the mid-eighties (Einarsson, 1987:117). Three factors appear to have stimulated this development. First, in 1938 legislation (law no 80/1938) was passed which recognised the labour unions as legitimate bargaining agents. Second the establishment of The Federation of State and Municipal Employees in 1942. Finally, a closed shop arrangement prevails in all industrial relation sectors in Iceland. In the private sector, it is negotiated in collective bargaining between the trade unions and employers. In the public sector, it is a legal arrangement. This arrangement provides the unions with twofold strength; firstly, members are automatically enrolled when they take up employment and they cannot choose which trade union they join. Thus the unions do not have to compete for members, as they are allocated to them; therefore, it follows that the high membership of the trade unions and of the whole labour movement does not necessarily reflect the unions' performance for their members. On the other hand, it does give the trade union leaders considerable freedom in taking decisions on behalf of the members without risking losing them. Secondly, each member has to pay at least one per cent of his/her wages to the union, a practice that has provided the trade unions with considerable funds. The closed shop arrangement has become so institutionalised in Iceland, that the members very rarely question this. Finally, the high level of unionisation (among the highest in the western world), the class-based confederate structures, along with the predominant industrial basis of unions, provides for a very mature organisational form of labour movement (Flanders and Clegg, 1954). In that respect, one could say that the Icelandic labour movement is potentially a very powerful social formation, as regards its structure, membership and financial strength.

## **Economic and historical development from early this century to 1960**

The economic system of Iceland until the last decade of the 19th century was based on the domination of the farming occupations over alternative systems of productions, in particular the fisheries, which were mainly part-time and seasonal. In fact, a division of labour between farming and fishing did not exist. Landownership was heavily concentrated and political and juridical power rested with the landowners. For most of the period prior to 1918 parliament (Alþingi) was manned by a homogeneous group as regards class interests and served as a forum reserved for landowners and the Crown's officials (Gíslason, I. V. 1990: 66). In other words a ruling class of landowners existed who had the power to effectively hinder any social or technical change which threatened to upset the social balance (see Gíslason, 1990 and Magnússon, 1985 for detailed discussion). Hence the road to capitalist production relations started relatively late compared to other countries and conditions for capitalist development were mainly created by external forces, that is by actions of the Danish state and liberalisation of external trade but trade was monopolised by the Danes until 1855.

Denmark was on the road to capitalism and the Crown wanted Iceland to follow suit. After 1870, the expansion of domestic markets, commercial activities and urban areas became markedly prominent in Iceland and was associated with the rise of a native class of merchants and entrepreneurs, frequently with the same person holding both titles (Magnússon, M. S. 1985:43). The development of trade meant that elements of competition began to show, especially concerning fish-products that were eagerly sought after by the merchants. This competition together with the expansion of rowing-boat fishing and the change in the processing from stockfish to the more labour intensive salt fish increased possibilities for villages to form and survive (Gíslason, I. V. 1990:82). That is the merchants increasingly needed labour and workers started to have the opportunity to break away from the landowners and settle and form villages and have an 'independent' life. At the end of the century the operation of decked sail

vessels took off, demand for capital increased considerably and the foundation for capitalist production relations was laid. Parallel with the emergence of capitalism in Iceland an institutionalised credit system developed and was at the same time an essential precondition for capitalism to grow.

The development of financial institutions in Iceland started with the establishment of a Saving-Bank in Reykjavík (Sparisjóður Reykjavíkur) in 1872. Its main purpose was to invest money but not to serve as a loan fund. However, the need for a financial institution that provided credit and loans led to the establishment of the National Bank of Iceland (Landsbanki Íslands) in 1886. This bank operated as a combination of a commercial bank and a saving-bank and in 1887 the Saving-Bank in Reykjavík merged with the National Bank (Snævarr, 1993:393) which increased its capital considerably. In its first years, the National Bank of Iceland mainly provided loans to the farmers, who were in great need of capital. However, fishing was growing fast as an industry on its own and needed capital too. When Tryggvi Gunnarsson, who was a spokesperson for the fishing industry, became the bank director in 1893 loans for investments in decked sail vessels rose considerably (Magnússon. M, 1985:176). This led to a boom within the fishing industry that is indicated by the growth of the fishing fleet. In Reykjavík alone, the number rose from 13 vessels in 1893 to 18 in 1895 and 30 vessels in 1897, this created the need for other facilities like harbours and so forth. This marks a starting process of a leading industrial branch in Icelandic economic history and paved the way for other industries.

At the same time people were increasingly moving into the towns, for example, the population in Reykjavík grew by 70 per cent in the period 1890-1900. This called for an increase in trade and industry, a clear division of labour was created in Iceland and more capital was needed. What, among other things, contributed to the need for more capital were workers' demands to be paid in cash instead of 'in kind' as was the common practice until early this century. The National Bank of Iceland could not cope

with the growing demand for capital and was as well under criticism from the bank manager political opponents that to get a loan one had to be on the same side in politics as its manager. Moreover, domestic businessmen were increasingly aware of the difficulties involved extending their credit facilities. Thus in 1898 an idea was put forward to establish a private bank in Iceland with foreign capital (see Ísleifsson, 1992 and Björnsson, 1981). In 1899, a proposal came from Denmark to establish a joint-stock bank, which would have a joint stock of ISK 6 million (comparative amount in English currency not known) and Icelanders would have the primary right to buy shares. This was a considerable amount of money in the Icelandic economy of the time. For example, in the period 1896 - 1900 the value of exports were around ISK 7 millions on average whilst imports were around ISK 6 millions. The bank would be a central bank with an exclusive right to issue bank notes in Iceland for 90 years and would take over the National bank. This led to a debate in Alþingi (parliament) between the two political groups who then existed, the Home Rule group and the Independence group and an agreement was not reached. However, in 1902 a bill was passed in the Alþingi that the Bank of Iceland (Íslandsbanki) would be established with three major changes from the first proposal. The joint-stock would be ISK 2 millions, the right to issue bank-notes on the basis of the gold standard would be for 30 years and the National Bank would operate independently. It was the rule rather than an exception that central banks in other countries at that time were privately owned, like the National Bank of Denmark was a private bank until 1936 and the Bank of England 1946. Nevertheless, it was unusual for a foreign bank like the Bank of Iceland, to operate as central bank (Snævarr, 1993).

### ***1904-1930***

The Bank of Iceland was formally founded in 1904 with main shareholders from Denmark, Norway and England. However, as will be shown, it was most of the time almost totally under the control of Icelanders. It was to be the first and only private bank in Iceland until 1953. The Bank of Iceland, the whole time it operated, was a

centre of conflicting views in the parliament, the fundamental issues being its right to act as a central bank and the profit it paid to its foreign shareholders. The bank enjoyed a reasonably good financial standing most of the time it operated, even if it suffered losses when some of its major customers went bankrupt in 1914 and 1929. The Alþingi interfered in many ways with the bank's activities by passing bills that changed its working environment and finally led to its closure in 1930. For example, in 1921, a bill passed which gave the government the right to appoint two out of the three banks managers and in 1928 the National Bank became the central bank and obtained state-guarantee. Ólafur Björnsson (1981) argues that the bank-legislation from 1928 played a key-role in the closure of the Bank of Iceland as it gave the National Bank power over the affairs of the Bank of Iceland, and it misused its power. He concluded:

The closure of the Bank of Iceland was a mistake, probably the largest financial mistake in this country since the Icelanders gained full authority over their financial affairs, which was when the home rule government was established in 1904 (1981:91).

The Bank of Iceland thus closed in 1930 and its shares depreciated. Its debts to foreign creditors changed to new shares in a new bank, the Fisheries Bank of Iceland hf. This new bank took over the assets of the Bank of Iceland but the state treasury became the largest single shareholder. This meant, in reality that the state owned and controlled the bank, though formally it was a joint-stock company. In 1957, it legally changed into a state-bank. The government (the PP in close co-operation with the nationalist part of the Socialist Democratic Party) which came to power in 1927 established by law another bank in 1929, the Agricultural Bank. The main purpose of that bank, as can be seen from its name, was to provide loans to the agricultural sector.

Behind the political decision that led to the closure of the Bank of Iceland was a clearly marked state-bank policy (Snævarr, 1993:398) which has to be explained in the context of the fast changing environment in Iceland at that time. Ó, Ásgeirsson (1988)

suggested political polarisation and debates at this time are better understood by viewing it from the standpoint of the “progressionists or industrialisers” and the “preservationists” rather than from classical right- and left wing definitions. By adopting this standpoint, the historical development can better be explained.

During the first two decades of the century, a strong determination for progress emerged in Iceland. A technical revolution in the fishing industry was taking place and the country’s badly developed farming system was under harsh criticism from supporters of the fishing industry. Spokesmen for investment by foreign business interests and for large-scale projects (industrialisers) were predominant in public discussions and that was reflected in the loan policy of the Bank of Iceland. The bank provided much needed credit to merchants (mainly merchants that also had fish curing and exports as part of their operations), shipowners and for industry and building. For example, in 1920 60 per cent of all loans went to commerce and around half of that to merchants who were engaged in fish export, 20 per cent to the fishing industry (merchants dominated vessel ownership), 9 per cent to building and industry but only 2 per cent to farming (Ísleifsson, S. 1992:255). According to Gíslason (1990:96) the merchants who also dealt in fish export could reinvest their profits and expand their operation. Many of them later invested in trawlers and sometimes in other (minor) industry and became the first real capitalists in Iceland. The Bank of Iceland was the prerequisite for Icelandic wholesale firms established early in the century (Kjartansson, H.S. 1978) and extremely important for the solidification of the trawler industry. The descendants of owners of these firms are among the leading capitalist in Iceland today. The bank thus had a major impact on the capitalist development that was emerging in Iceland at this time. With its establishment, great amounts of foreign capital came into the country that affected the economy and speeded up industrial development. In other words, the Bank of Iceland created favourable and necessary pre-conditions for industry and capitalism to grow in Iceland. As the National Bank neither had the means nor the connections to get hold of that kind of a foreign capital,



this process might otherwise have been delayed (see for example, Björnsson, Ó. 1981). In view of this and the fact that demand for capital was steadily increasing the decision to close down the bank might seem odd.

However, conservative groups wanted to preserve the older way of life. These were so-called preservationists that were most prominent in the PP (Progressive Party) and the co-operative movement but also among social democrats. They wanted Iceland to be a country of small-scale farmers and artisans with relatively small numbers in the trade unionist classes (Ásgeirsson, Ó.1988: 149). Then, in the 1920s, farmers' representatives began a vigorous campaign against all other industries, constantly referring to the theory that urbanisation led to physical and moral degeneration. However, at the same time, they were also influenced by a belief in progress and wanted to ensure a similar development in agriculture as in the fishing industry. Ásgeirsson, Ó. (1988) has explained this contradiction by pointing out that farmers were not really against progress, rather they were defending their own interests as the labour force was steadily moving from rural to urban areas. The representatives for the farmers claimed that the Bank of Iceland undermined the agricultural sector with its loan policy and thus the old economic way of life. Hence, when the preservationist point of view ruled completely, between 1927 and 1930, the 1928 bank-legislation passed and then the state gained total control over the financial sector.

Of importance for this study is the fact that in all the political parties (the Icelandic political party system was forming at this time, see above), except perhaps the Communist Party, there was a constant disagreement between industrialisers and preservationists. That is, most parties split in their attitudes on the basic development of the country. Hence both right- and left wing politicians worked towards creating an industrialised society with preservationists opposed to them (Ásgeirsson, Ó. 1988:150-152). Moreover, the attitudes of individual politicians and as well some leading employers were often contradictory, as they supported progress and industry in urban

areas whilst at the same time rural values had strong hold on them. An example of that is Jón Ólafsson a leading capitalist and shipowner (industrialiser), MP for the IP 1926-37, and a municipal council in Reykjavík 1918-34. Jón Ólafsson used his influence as an MP in Alþingi to support the rural areas to preserve the old economic way of life rather than supporting residents in Reykjavík. Whilst paradoxically, at the same time, his own fishing company was an important factor in undermining this old way of life. It should be noted here that he was appointed bank manager in the Fisheries Bank 1930-37 (see figure 2.4 below) by the PP government in 1927-1932, which was the main campaigner for preservationists' point of view, most likely because of his support for rural areas. Thus the 'contradictory values' which was common at this time according to Ó, Ásgeirsson (1988) worked to reduce conflict between parties and individuals. It is argued here that this created a certain understanding between the political parties that again had the effect of blurring the division between classical right- and left-wing politics and reinforced coalition-building between different political parties. Whilst the bargaining and negotiating traits of Icelandic politics became more pronounced after the turn of the century, these traits have carried on and are still strong in Icelandic politics.

Coalition building was not a new thing in Icelandic politics in the 1920s as has been argued by Grímsson (1976, 1977). In the late 18th and very early 19th century it became 'an important prerequisite for the exercise of legislative power and later also administrative power' (Grímsson 1976:18) between the then ruling élite. Kinship structures and other social networks played the essential role for a coalition building. The dominant élitism in the Icelandic system has thus created the primary basis for the development of the multilevel coalition network. As Grímsson puts it:

Despite the conflicting views on fundamental issues and rival ambitions, there was a sufficient amount of common non-political characteristics and relationships, e.g. through the kinship structure and other social networks, to prevent the élite from splitting into a multitude of hostile cliques. All the members co-operated with each other on great many political issues and activities, both within the *Althingi* and elsewhere in the system. The political

groups were also in a considerable state of flux: the members moved easily into new conglomerations, opponents often becoming partners in a new front on the independence issues (1976:18).

The banks became very important in this process in Iceland as for a long time they were the only means to get access to capital. As Schwartz says 'Bank leadership in essence decides whether companies and industries will be nurtured with new investment or starved by disinvestment' (Schwartz 1987: 49). As has been shown, the leadership of the Bank of Iceland decided what industries "deserved investment". However, as the political sector dominated the economic one, the bank was forced to close down when competing forces came into power.

### ***1930-1960***

In 1930, the banking system became fixed into three state-owned banks: The National Bank, the Fisheries Bank and the Agricultural Bank. All had state guarantee. The only other bank to appear on the scene during this period was the Industrial Bank in 1953. It was a joint-stock company and established by few influential business persons in industry. As it was very small, it did not have a lot of influence in this period. The National Bank was the most influential, as it was both a commercial and a central bank and decided interest rates. It was not until 1957 that an independent central bank department within the National Bank was founded and in 1961 the Central Bank. The financial system became much centralised during the whole period 1930-1960 and under a total control of the state and the political parties. This had a major effect on the Icelandic economy for 30 years and created conditions for patronage and all kinds of horse trading, with the banks at the centre. J, Ásgeirsson (1988) points out:

It has sometimes been said that Iceland's extensive economic progress in this century has occurred *in spite* of government economic policies. During the period 1931-1960, the principal factor of these policies was literally a deterrent on economic progress. For three decades successive governments sought to maintain a fixed rate of exchange by means of severe trade restrictions. Yet these measures did not prevent the accumulation of an external trade deficit and foreign debts (p.359).

In general, the main institutions of the Icelandic system have been controlled by a small group of people within which the political party leaders formed the hard core. During the period 1930-1960 that situation intensified even more. The party-based 'élite' exercised control over all the major political institutions, and was highly influential in the economic and cultural sector. The managers and the board of directors of the banks were in practice party appointed and the loan policy of the banks reflected that. Hence, it was very important for political parties and interest organisations to have a representative on the board of the banks to further their interests. One implication of this is that managers and boards of directors were appointed without consideration to relevant experience or education for the position. In other words, political and personal connections, that is, the social network they were tied into, counted more than, for example, education or expertise. Hence, decision-making within the banks did not always follow professional lines. The boards of the various funds, which became established during this period, were also selected by bodies in which party leaders exerted the strongest influence (Grímsson, 1976:20). Bank managers played an important role in those funds due to the resources they controlled, as well as in different government committees that became established during this period. The authorities had taken over from the market, the government directed all imports and determined all prices as well as issuing orders on the quantities of individual commodities that could be purchased by anyone. The government committees were extremely powerful and through them, the whole economy became totally centralised. Jakob F. Ásgeirsson describes the committees and their roles in this way:

Government committees were established to allocate foreign exchange licence, and import and investment permits. These committees were organised along political lines. All the parties were represented, but parties in power always held the majority in the committees. Rules for import and investment licences were vaguely phrased with each applicant actually being judged by the strength of his political and personal contacts. It should be added that loyalty to friends has traditionally been considered among the greatest of virtues and blood relations have long been a major factor in Icelandic society. Hence, it was of great

importance for those having to apply for a permit of some kind to government committees to be certain of the personal or political goodwill of their members or other influential people (1988:361)

Wellman points out that in a system with limited resources, interest groups compete for access to them. “In hierarchical networks with asymmetric ties, members must use collaborative or complementary ties to gain access to these same resources. Clustering within a network organises these ties into more or less bounded coalitions and factions” (Wellman, 1988:46). Hence, the government committees created linkages to all the political parties and smoothed co-operation, not only between the political parties but also between the parties and their members. After 1930, the numbers of government committees increased enormously and have increased steadily ever since. For example, in 1985 there were 600 government committees in Iceland whilst they were 371 in 1970, 465 in 1975 and 548 in 1980. For comparison, government committees in Denmark were 732 in 1980 when they reached the maximum and were down to 515 in 1985 and 387 in 1990 (Kristinsson, G.H. 1994:102). Considering the fact that Denmark has twenty times more people, Iceland clearly has an exceptionally high number of government committees. Grímsson (1977) suggests that when such network coalitions are produced at different levels of the system it can help to maintain the cabinet coalition in power through a network of linkages to interest resources. This is taken further here and it is suggested that government committees and other network coalitions that are founded throughout Icelandic society have become the foundation of coalition building in Icelandic politics. That is, the committees have become networks of networks, with a) ties between individuals in the committees and b) ties between network clusters, which are ties between the committees and from them to all levels of society. Hence, they tie together individuals at all level of the system, reduce conflict and increase co-operation. As such, they are an important ‘tool’ for keeping social order. Furthermore, it is quite likely that all these committees give the impression, rightly or wrongly, of a democracy in action. At the same time, it is argued here that these committees and others that are formed in Iceland at all levels of society have had

the unintended consequences of undermining the power of the political parties. This has again affected the dynamics of Icelandic society, which is mirrored to a certain extent in the development of the financial institutions (see chapters 5 and 6). Wellman and others argue:

Competition for resources may lead to change in social structure. Coalitions and factions shift in time, and network realignments can have broad systematic consequences (Nicholas, 1965 in Wellman, B et al 1988).

The absolute control of the authorities over all levels of the system, during this period created an unhealthy environment for business. To operate a business firm with profit no longer required the goodwill of customers, but rather the favour of the authorities.

Gradually, a sort of profession of political middlemen was formed, i.e. people who utilised their party influence and positions to make a profit by acting as intermediaries between the foreign exchange authorities and those wishing to obtain import licences. ...One must not, however, exaggerate the corruption. Direct bribing was on the whole not practised, while, as mentioned before, political connections, and, to a lesser extent, friendship and family ties were continually brought to bear upon the system (Ásgeirsson, J. F. 1988:363).

A system of patronage thus thrived during the period 1930-1960 and became a particular type of 'market' (Scott, 1982:55). Patronage became one of the major bonds between the cabinet coalition and other levels of the system and reinforced the government committees. It is suggested here that this system of patronage was an important condition for network coalition construction at this time. As the political sector dominated the banks, they became the centres of this 'market'. Their role as distributors of cheap money was extremely powerful. Interest rates were kept very low in this period; inflation was high and false exchange rates prevailed. Demand for capital was thus very high as, in reality; this meant that those who were fortunate enough to get a loan only had to pay a part of it back. One of the major roles of the politicians became to grant licences. Granting access to the banks was the most important one. The bank sector became like closed secret societies, no one really knowing what was going on (Halldórsson, J.O. 1985:96). The bank's loan policy gave priority to the fishing industry and the agricultural sector. Major firms in those sectors

were closely linked to the party leadership of the IP and the PP. These two parties were in power most of the time during this period. The period 1930-1960 thus became characterised first by competition and then by co-operation between the co-operative movement (SÍS) and private merchants' /employers for capital and import licences.<sup>3</sup> The implication of this development is that businesses connected into strong personal and political networks thrived whilst others suffered.

The co-operative movement is a clear example of a business firm in this period with strong networks behind it. This is mirrored in its share of the country's total imports, which rose from 10 per cent in 1933 to 25-30 per cent in 1939. The political leaders/businessmen in this period were thus capable of decision making and co-ordination, which are critical in determining the areas of development and underdevelopment in the economy. Mizruchi argues that these actions can become 'congealed into social and economic structures which constrain future choices inside and outside the economy. Most significantly, these actions often delimit and/or determine the political options available to government, and hence become a major force in the development of government policy' (Mizruchi, 1987:14). This was the case in Iceland.

During most of this period Icelandic economists and political leaders generally considered trade restrictions as inevitable under adverse economic conditions. Restrictions often seem to be a less painful cure for the time being than realistic measures, which would have included a correction of the exchange rate as a first step. The drawbacks of devaluation were clear enough, but the damaging effects of the alternative measures only appeared over a long period of time. Moreover, it was by no means obvious that these could be traced back to the "cure" itself. ...As devaluation was ruled out, it became unavoidable to resort to rationing of foreign exchange and introduce import controls in order to avoid exhaustion in the foreign exchange reserves. Trade restrictions survived so long in Iceland because they were considered to be an absolute necessity, and not a matter of choice or a party policy (Ásgeirsson, J. F. 1988:360).

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<sup>3</sup> Factors that contributed to a co-operation between those opposite interest groups are discussed below in section on bank management below.

Most bank managers, like other influential persons in Iceland during this period, had multidimensional roles that interlocked them into every sector of the system and some of them were very powerful (see bank management below). All major firms in the country had close linkages to the political party leadership and/or to the bank managers, either by ownership or directorship e.g. in the co-operative movement. The managers and directors of these firms were in some cases leading party figures, sometimes on a national level. For example, Ólafur Thors, the leader of the IP 1934-1961 who was in government for 16 years between 1939-1963, eleven years as prime minister, was the sole owner of “Kveldúlfur” the largest fishing and trawler company in the country at that time. Moreover, Vilhjálmur Þór was a manager of both the National Bank and the Central Bank and a director and manager of the co-operative movement (SÍS) (see figure 2.2 below). Often there was no distinct line in practice between the responsibilities that these power figures held in the respective interest organisations or firms and in their formal party organisations. In fact, they could simply put on different organisational hats and thus tied together a complex network of influence. This, along with the government committees, made the formation of linkages between different levels of the society relatively easy. A multidimensional/interlocking co-ordination of the political and the economical spheres thus existed. The multidimensional roles or interlocking that were so common among influential persons during this period, clearly created opportunities to use power obtained in one sphere to have influence in another sphere. Gíslason reports an incident concerning the Bank of Iceland that is instructive in this context:

FÍB often experienced difficulties in upholding unity among trawler owners during wage disputes. Sometime repressive actions were tried. In 1923, for example, one of the managers of the bank Íslandsbanki threatened a trawler owner with financial reprisal if he did not follow suit. That this could be done is explained by the fact that a large part of the capital invested in trawlers and all working capital was borrowed from that bank. It therefore had considerable interest in the outcome of wage disputes (Gíslason, 1990:166-67).

FÍB (the Association of Icelandic Trawler Owners) was, according to Gíslason, founded in 1916 for the purpose of trying to gain control over production cost, on the



one hand in the form of wages, on the other in relation to state economic policies. It also provided internal service to its members and already in 1916; a lawyer was employed as a consultant (1990:170). That lawyer was Eggert Claessen who was a manager in the Bank of Iceland 1921-1930 (see figure 2.1 below). It is argued here that the interlocking between FÍB and the bank, created by Eggert, is an important factor in explaining this incident but Gíslason does not mention this connection. FÍB was the forerunner of the Federation of Icelandic Employers (VSÍ) that was founded in 1934. Eggert Claessen was the managing director of VSÍ 1934-1950.

The fundamental characteristic of the Icelandic system of power, that is its élitism, remained intact in this period, whilst the bases of the élite changed. For example, during this period class politics had taken over from the independence struggle, the class leaders had taken seats in parliament and in the Government by the end of the second decade. However, they seem to have been integrated rather quickly into the system, and the first labour movement leader to be a bank manager was Jón Baldvinsson. He became a manager in the Fisheries Bank 1930-1938 and was the president/leader of ASÍ and SDP from its establishment 1916 until he died in 1938.

The leaders of the parties were moulded by the system into an élite which dominated the power structure in a way that basically resembled the 19th century situation (p. 22) That is,..The leaders of the parties, like the 19th century élite, resembled Hunter's description of revolving clustering of leaders who linked with each other on matters of policy and political action, relating every sector of the system to other sectors through various coalition formations at different levels: in the *Althingi*, in the Government, in some pressure groups, in local government, in banks, and in various funds (Grímsson 1976:21).

That is to say, élite members - those descending from the old élite but now class oriented, and those who established their power through the new class associations - merged into a relatively cohesive leadership and completely replaced the former set of élite personnel. The bank industry from its establishment in 1886 until 1960 was thus under the control of a 'ruling élite', first the old land-owning élite and then a class coalition élite. The bases of the élite are explored below.

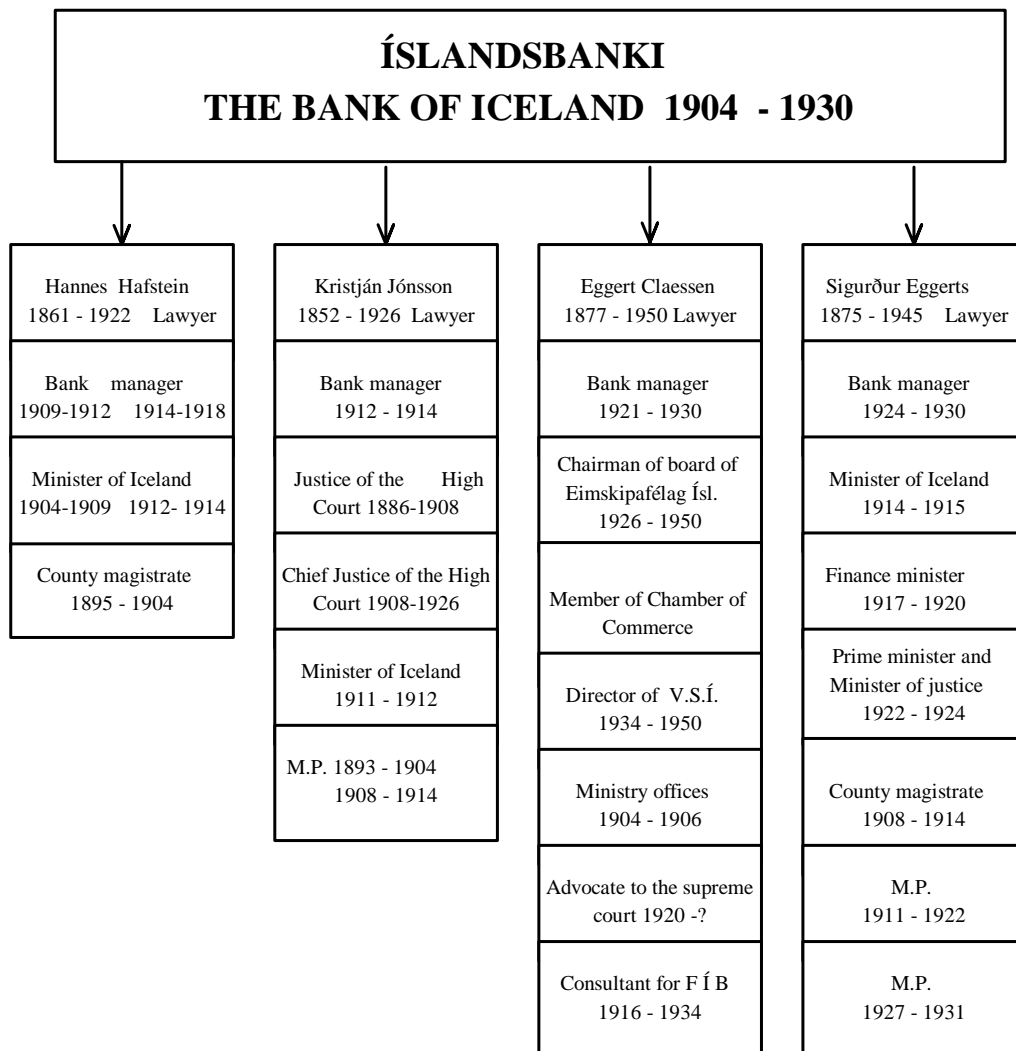
### ***The bank management 1886-1960***

The National Bank had only one bank manager until 1910, after that there were usually two or three. The Bank of Iceland was a foreign bank with three managers. Two were Icelanders and one Danish. The highest authority was with the board of directors that had four Icelanders and three Scandinavians. Icelanders thus were the majority and in reality they had almost, total control as the three foreign directors lived abroad and very seldom came even to important board meetings. The chairman of the board of directors was the Minister of Iceland. Later it became the rule that a minister, usually the finance minister, had the highest position of authority over all the banks.

Grímsson (1976) found in his study on the power structure in Iceland, that the élite personnel can be divided into two sections “which resemble the distinction drawn by Lasswell and Kaplan between the élite and the mid-élite or Miller’s differentiation between the key and top influentials” (p.26). The primary section includes those who served for a long time in the Alþingi and the administration and held top positions in one or more of the other major institutional sectors. This was a nucleus of members that through interlocking tied together decision-making process in various spheres. Cohesiveness was created by kinship ties and the educational process. The lower section includes the personnel who qualified for the élite tables but who operated in fewer spheres. They most commonly held only one institutional position and were not as prevalent in the secondary spheres as the members of the primary section (p.25-26). By adopting Grímsson’s division of the élite personnel, and applying it to the bank personnel, it becomes clear that during this period most of the bank managers and board of directors were members of the primary section. Figures 2.1, 2.2, 2.3 and 2.4. show examples of the bank managers’ multidimensional roles, which give an indication of the spheres they were interlocking. Hence, the influence they could have was large. For example, Hannes Hafstein (see figure 2.1) was the first Minister of Iceland and succeeded the National Governor in 1904, when the home rule

government was established. He was the most powerful man in the country at that time. The only Minister of Iceland 1904-1909 and 1912-1914. He was the chairman of the Bank of Iceland from 1904 and a manager in that bank 1909-1912 and 1914-1918. With the great constitutional alterations that were taking place at this time, government administration needed to be established. Three ministry offices were founded and Hannes Hafstein hired the personnel, all from his kinship group. Furthermore, Hannes Hafstein himself belonged to the same kinship group as

**Figure 2.1: Bank Managers and Multidimensional Roles**



*Source: Author*

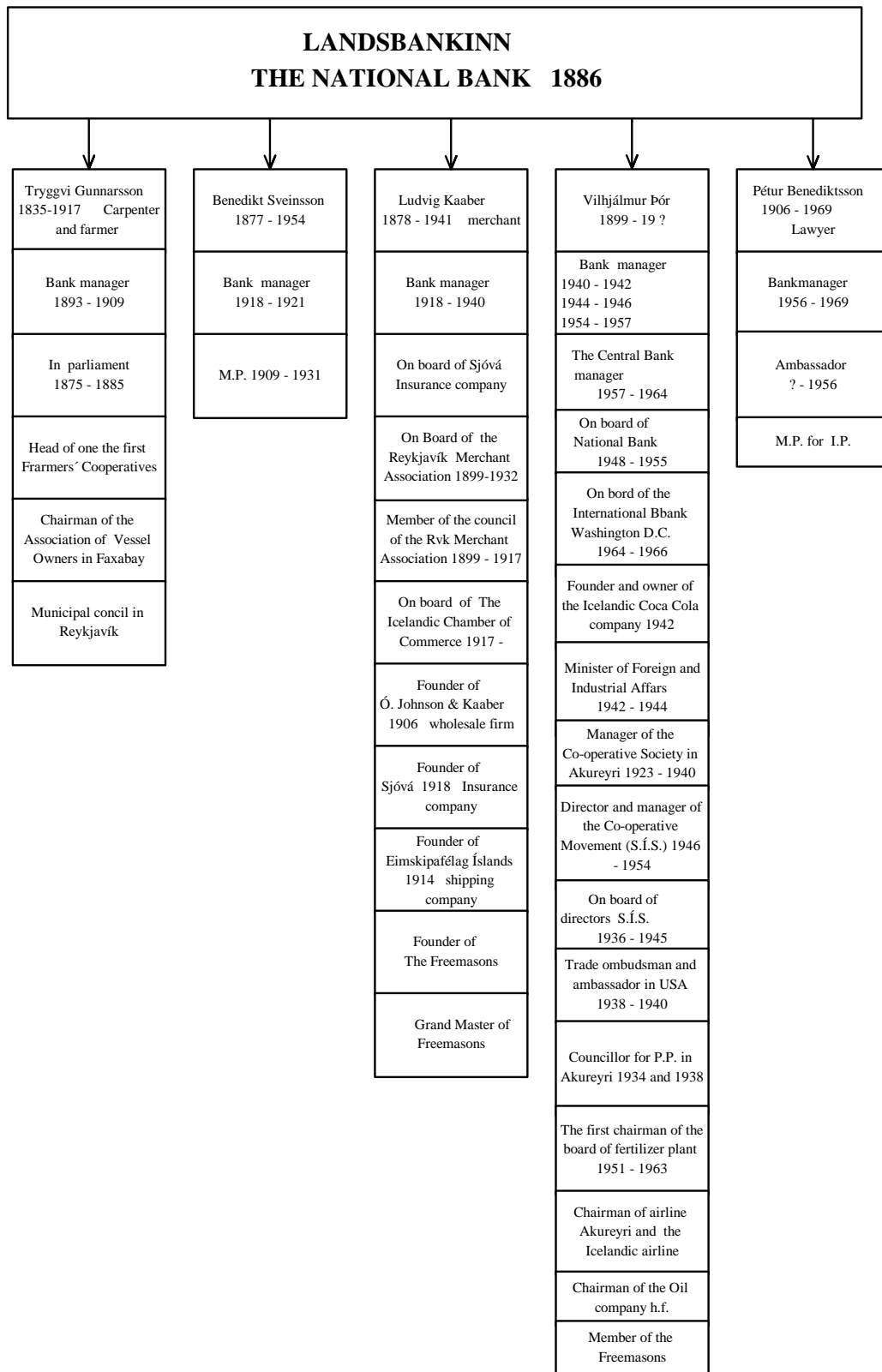
the top administrative officials that ruled before the constitutional change. Hence, there was no real change in the internal power structure despite the constitutional alteration (Grímsson, 1976:28). This group was very influential in the banks. Eggert Claessen and Kristján Jónsson (see figure 2.1) were both members of this group. Eggert and Hannes were second cousins and Hannes was an uncle of Eggert's wife. (Eggert was one of the personnel appointed by Hannes to work in the ministry offices.) Kristján's son and Hannes' daughter were married. Helgi Briem, a second cousin to Hannes and his father Páll Briem (not shown on figure 2.1.) were both managers in the Bank of Iceland in this period. Finally, Tryggvi Gunnarsson, a manager in the National Bank 1893-1909, (figure 2.2) was Hannes' uncle. As can be seen from figure 2.1 the bank managers interlocked into politics, administration and the court of law and were all educated lawyers. Hannes Hafstein and his kinship group can be seen as the remainder of the 'old land-owning élite' and they more or less controlled all spheres of Icelandic politics and the economy during the first decades of this period. The network of kinship was clearly an important factor for recruitment to the élite.

With the arrival of class politics, plurality of kinship relations increased and there was a growing absence of kinship ties among the élite members. However, when class parties were establishing their control, the power structure was characterised by the presence of kinship clusters that operated within the two largest parties (Grímsson, 1976), that is the IP and PP, which ruled most of the time during the period 1930-1960. Within the IP the Thors family became the power nucleus; they were leading capitalists and owned one of the major firms in the fishing industry in the country at that time. The Thors family was connected to Hannes Hafstein, but he was the father-in-law of one of the Thors brothers. The leadership of the Thors family was maintained into the 1960s, when the Benediktsson brothers came to the forefront. One of them, Pétur Benediktsson, was a manager in the National Bank 1956-1969 (figure 2.2) and was the son-in-law of the Thors leader. His brother Bjarni Benediktsson took over as the leader of IP and became the Prime Minister when Ólafur Thors retired. The third

brother Sveinn Benediktsson was a shipowner and very influential within the fishing industry sector. His sons are among the most influential capitalists (see chapter 8) in Iceland today (1998) and one of them is on the board of directors of Íslandsbanki h.f. (See chapter 6). The father of the Benediktsson's brothers was Benedikt Sveinsson a manager in the National Bank 1918-1921. The power nucleus of the IP was thus well connected into the National Bank. They also had linkages into the Fisheries Bank, where Jón Ólafsson shipowner was a manager 1930-1937 (figure 2.3). He was a business partner with Thor Jensen the head of the Thors family.

In figure, 2.2 there are two more examples of bank managers that are thought to be instructive in this context. Firstly, Ludvig Kaaber a wholesale merchant and a manager in the National Bank 1918-1940. He was among the founders of many companies, which thrived during the period 1930-1960 and was on the board of the Chamber of Commerce and the Merchant Association. He also founded the Freemasons in Iceland in 1919 and was the Grand Master until his death. The Freemasons became a very important organisation for Icelandic capitalists and some of the most powerful persons in this period were members. For example, Sveinn Björnsson, governor of Iceland and the first president of Iceland 1941-1952, was one of the founders and Ásgeir Ásgeirsson president of Iceland 1952-1968 was a member. Both became Grand Masters in the Freemason brotherhood. Pétur Pétursson claims that membership in Freemasons and Odd Fellows was important for the rising Icelandic bourgeoisie as a forum for tension solving and articulation of common identity (1983:161) and Ingólfur V. Gíslason argues that membership in those organisations is higher for capitalists than employers as a whole (1990:200). It is suggested here that the Freemasons played a central role, during this period, in creating co-operation between opposite parties like the IP and PP by fostering "solidarity, trust and loyalty" among its members, which according to our observation mainly were members of these two parties. Therefore, the Freemasons can be seen as important for network building at this time. Thus, according to Thompson,

**Figure 2.2: Bank Managers and Multidimensional Roles**

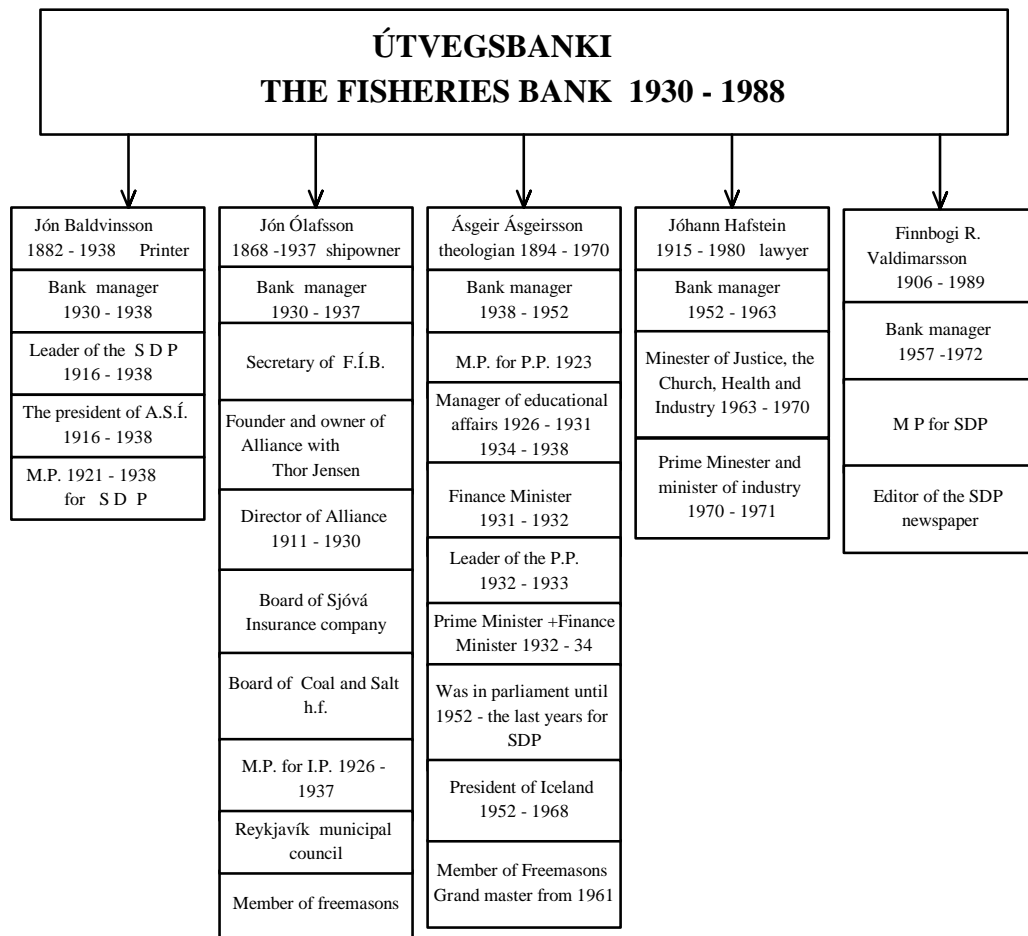


Source: Author

'co-operation is both a fragile and a vital relationship for networks, in which trust plays a central organising role' (1993:58). Moreover, it has been observed during this study, that members of Freemasons seem to have been very influential in the whole bank industry, as bank managers, on boards of directors and as personnel. For example, in the National Bank alone during the period 1918-1960, seven bank managers out of eleven were Freemasons and the first two managers of the Central Bank were Freemasons. All government committees that granted licences, directed import or export etc, were led by a member of Freemasons. Finally, during the period 1927-1987, Freemasons were in the government for fifty years, and for thirty-six years as Finance Ministers (Þormóðsson, Ú. 1980). It should be noted here that the Finance Minister has the highest position of authority over the banks. Hence, it can be concluded that the Freemasons organisation provided a unifying forum within the financial sector and cemented and eased relationships during this period. Consequently, it is argued here that the Freemasons were an important factor in creating co-operation between the private merchant/ employers and the co-operative movement and in centralising the economy.

The other example to be seen in figure 2.2 is Vilhjálmur Þór. He was a manager of the National Bank 1940-42, 1944-46 and 1954-57, the manager of the Central Bank from 1957-1964, manager of the co-operative society in Akureyri (the second largest town in Iceland) from 1923-40 and director and manager of the co-operative movement in 1946-54, and Minister of foreign and industrial affairs in 1942-44 and chairman of many companies. Vilhjálmur Þór had no formal education and started his career as an errand boy for the co-operative society in Akureyri. He was a senior figure in the Freemasons and a close personal friend of Sveinn Björnsson, the president of Iceland. Ludvig Kaaber and Vilhjálmur Þór interlocked into many spheres of the society and created linkages to private employers and the co-operative movement. They were certainly members of the ruling élite and very influential during this period.

**Figure 2.3: Bank Managers and Multidimensional Roles**



*Source: Author*

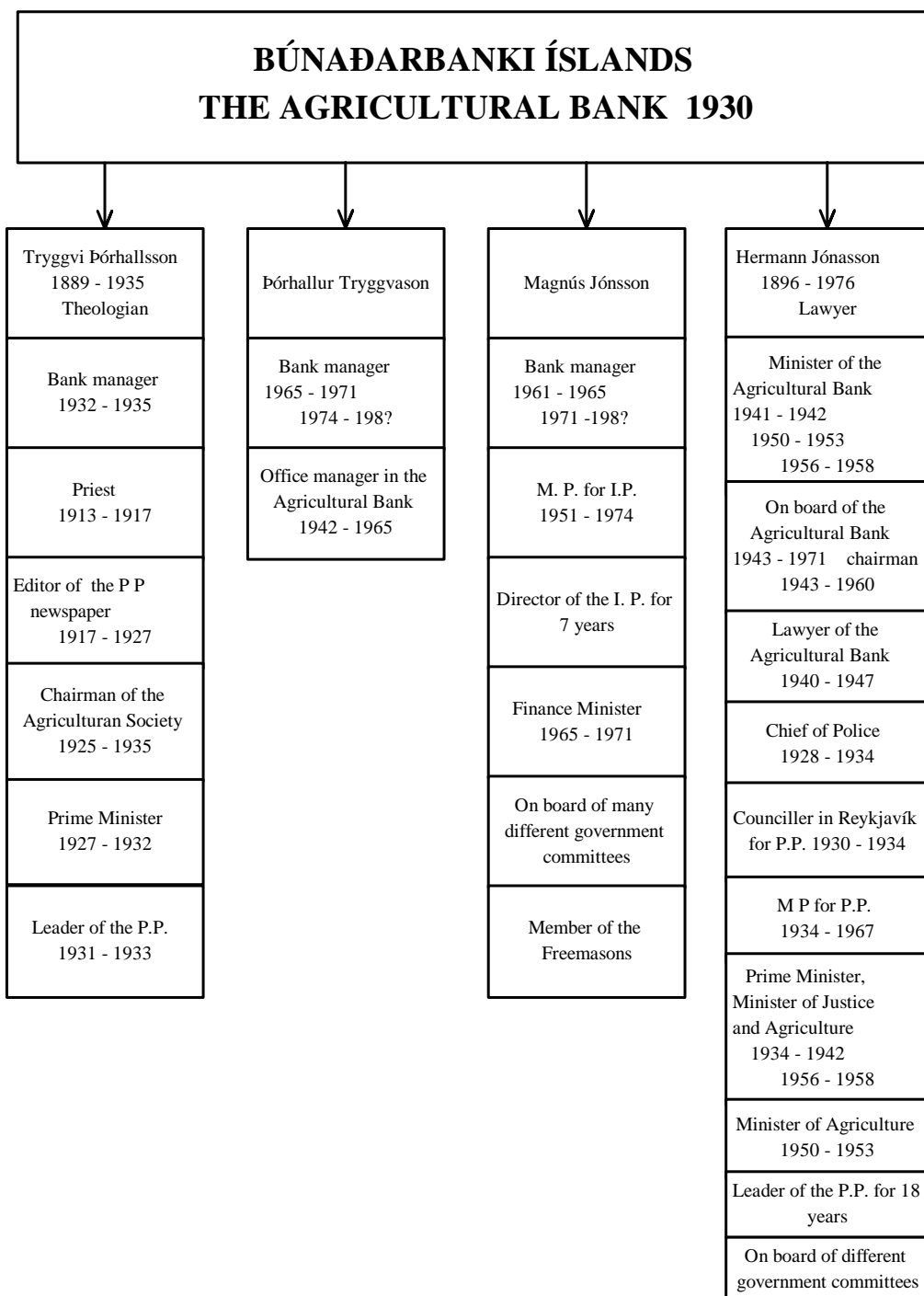
Figure 2.3 contains example of managers in the Fisheries Bank that took over the Bank of Iceland. What is of interest for this study is the fact that the labour movement has a representative in this bank. Jón Baldvinsson the first president of ASÍ and the first labour movement leader to become a bank manager (1930-38). He was discussed above. According to Kjartan Jónasson (1986:43), Jón Baldvinsson was appointed a bank manager by the government of the PP, which was in power 1927-32. Instead the PP was guaranteed the support of the Social Democratic Party (SDP), but Jón Baldvinsson was the leader of the SDP. This underlines the negotiating trait and the coalition nature of Icelandic politics. Another manager in figure 2.3 is also closely connected to ASÍ. Finnbogi R. Valdimarsson was appointed bank manager in 1957 by



the government. Hannibal Valdimarsson was a minister in this government (1956-58) and the president of ASÍ 1954-1971, but he was also the brother of Finnbogi. In the period 1960-1971, Finnbogi R. Valdimarsson played an important role as an intermediary between ASÍ and the government then in power, during collective agreement bargaining. Finally, Ásgeir Ásgeirsson the president of Iceland (see above) was a manager in the Fisheries Bank 1938-1952. He was as well Tryggvi Þórhallsson's (figure 2.4) brother in law and succeeded him as the leader of the Progressive Party. Tryggvi Þórhallsson was a Prime Minister in the government 1927-32 (see above) and a manager in the Agricultural Bank in 1932-35. Tryggvi's son Þórhallur became a manager in that same bank from 1965. The PP was thus marked by kinship relations like the IP although not to the same extent. The main leader of the party during 1934-1964 was Hermann Jónasson. He left his constituency to his son in the late 1960s, who subsequently obtained a place in the party leadership (Grímsson, Ó. 1976). Hermann is shown on figure 2.4. Although he was never a manager of the Agricultural Bank, he was very influential in it; on the board of directors 1943-71; lawyer of the bank 1940-47 and a minister of the bank 1941-42, 1950-53 and 1956-58. He was a Prime Minister 1934-1942 and 1956-58 and the chief of the police force 1928-34. It should be noted that these are only few examples of many of the interlocking bank managers in Iceland in this period.

The examples in figures 2.1-2.4 reveal that bank managers in all the banks during this period had multidimensional roles that linked them into various spheres of society. Most of them qualify as élite members of the primary section according to Grímsson's division (1976) and they had linkages to the parliament, the administration, private companies, the co-operative movement and VSÍ and ASÍ. In fact, there was often no distinct line between the responsibilities they had in each sphere, they only had different organisational hats. Consequently, they were influential in almost every sector of the society and very powerful. Hence, from the evidence here it can be concluded that a

**Figure 2.4: Bank Managers and Multidimensional Roles**



*Source: Author*

‘ruling élite’ controlled the bank industry in this period and the bases of the élite on the bank boards reflected the power structure in the society. Moreover, kinship ties were

clearly of importance and almost all of the bank managers in figure 2.1.-2.4 were related in one way or another, if not by blood ties then by marriage or through business. The nucleus of the two largest political parties and those who became the leading entrepreneurial capitalists in this time were also related to the bank managers. During this period virtually all the major companies, all the banks and the political parties can be connected through kinterlocks at very low kinship distance. Furthermore, this web of kinship operates as channels of communications between people and enterprises and so allows other transactions to proceed more smoothly (J. Scott and C. Griff. 1984). Thus there was an extensive network of high authority persons or 'inner circle', which resulted from the economic transformation in this period. It is suggested here that the bond of kinship reinforced the pattern of interlocking and concentration in this period as well as being an important factor in explaining why the economic sector served the political one. Finally, the Freemasons brotherhood was an important forum for creating solidarity and co-operation during this period.

## **Conclusion**

The purpose of this chapter is to provide a contextual background and setting for this study. A brief description of economic development along with developments in the labour market and the welfare state since the 1960s was provided. The main aim was to show that the labour movement in Iceland has not succeeded in increasing or even preserving wage levels or the welfare state for its members, although GDP per capita has been high. Then followed a description of the main actors that this study is concerned with that is the Federation of Labour, the Federation of Employers and the political parties. The second section of the chapter described economic and historical development from the early years of this century until the 1960s. The aim was to give an insight into the nature of Icelandic society, which is characterised by a tiny population and close personal relationships throughout all levels of the society. Furthermore, to point out that the power structure has been highly elitist and

committees are very important features of the society. That is, the committees have become networks of networks, with a) ties between individuals in the committees and b) ties between network clusters, which are ties between the committees and from them to all levels of society. Hence, they tie together individuals at all levels of the system, reduce conflict, increase co-operation and are as such an important 'tool' for keeping social order. Moreover, these committees give the impression of a democracy in action. However, they can also have different consequences as the co-operation and coalition in one sphere, which is encouraged through the committees, can create the ground for new arenas of co-operation in other spheres, and affect and even change the structure of the system. The main argument of this study is exactly that. Through co-operation and coalition in the pension fund industry, the labour movement and employers have created new co-operation in the bank industry and in the financial market. Hence they have changed the structure of the system which in turn has 'unintended' consequences for the ordinary member of the labour movement. Chapters 5,6,7 and 8 will explore this claim starting with the pension fund industry. First, however, the literature and development of network theories will be reviewed but the focus of this study is on networks.

## **CHAPTER 3: NETWORK THEORIES**

### **Introduction**

Network approach is a developing line in organisational research, as can be seen in the ever increasing use of the concept 'network' in different publications, where it is used to describe a variety of situations (see for example, Boissevain and Mitchell, 1973; Scott and Griff, 1984; Stokman et. al., 1985; and Thompson et. al., 1991). However, the concept of 'networks' is not new within the discipline of social science, and has been used since the early part of this century to analyse the phenomena on 'social organisations'. The basic assumption of the network approach is that people are viewed as interacting with others and some of those in their turn interact with yet again others, '...and that the whole network of relations so formed is in a state of flux' (Boissevain and Mitchell, 1973:viii). So network approach conceives of social structure as patterns of specifiable relations joining social units, this includes both individuals and collectives such as organisations and states (Marsden, P; 1990).

Two main lines of network analysis or approach may be distinguished: 'network analysis' as a method or a tool of practitioners of scientific management and engineers; and 'social network analysis' that anthropologists, sociologists and social psychologists have mainly developed. Both approaches have coexisted in relative isolation, and almost unnoticed under the cover of systems approach, but their time seems to have come. Notwithstanding the relevance of 'network analysis' for a further development of the network approach to the study of organisations, this tradition has had considerably less impact than the social perspective on the application of network approach in organisational studies. Hence, this chapter will follow the development of the latter tradition that is 'social network analysis'.

It should be pointed out that the theoretical underpinning of network analysis has not been very strong and has prompted Scott (1991: 38) to claim: 'social network analysis is a particular set of methods and not a specific body of theory'. He argues:

It is undoubtedly the case that social network analysis embodies a particular theoretical orientation towards the structure of the social world and that it is, therefore, linked with structural theories of action. But it seems unlikely that any one substantive theory should be regarded as embodying the essence of social network analysis.

But within the growing body of research and literature on the subject of 'network analysis' a clear trend is showing towards theorising and conceptualising. Network analysis is developing from being 'purely structural' into the recognition that 'networks' are 'ongoing' processes. Therefore, a network can not be separated from its environment and as such its 'boundaries' per se, can not be pointed out. There is an explicit refusal of rigid social/technical, system/environment, and micro/macro boundaries. (See, in particular, Callon, 1986b, 1990, 1990; Latour, 1983, 1987, 1988a, 1988b, 1997; Law, 1991, 1992, 1997). In other words, network analysis is moving from traditional diagnostic approaches, mapping or drawing a picture of a network, and then trying to interpret the 'meaning' of that picture - towards a way of attempting to trace the development of the organising processes that build up a network, with a recognition of the social and technical character of this process. It is emphasised that 'networks' are constructs that hold together only as long as the correct conditions prevail, (Latour, 1986, 1987) and if the actors that create and maintain those networks fail to do so, the network cease to exist. Those trends will be our main concern in this chapter.

The early development of social network analysis will be briefly explored, then network analysis in organisational studies (intra organisational networks - sociotechnical systems theory /inter organisational networks - interlocking directorships), network as model of co-ordination and networks as associations.

Finally, Actor-Network Theory (ANT) with its own language and concepts will be discussed in some detail.

### **The development of social network analysis**

Social network analysis<sup>1</sup> has its origins in the social psychology of groups and its subsequent development in sociological and anthropological studies of factories and communities. Three main groups of academics can be identified who worked on the subject of social network in the 1930s, and so constitute the starting point for social network analysis.

- The 'sociometric' analysts, who used 'sociograms' and methods of graph theory (see below)
- The Harvard researchers, who explored patterns of interpersonal relations and the formation of 'cliques'.
- The Manchester anthropologists who built on both of these strands to investigate the structure of 'community' relations in tribal and village societies (Scott, 1991)

These developments will be reviewed here very briefly to bring out their significance.

One of the first attempts to systematise the concept of networks (in analysis of social organisation) into an analytical diagram was undertaken by Moreno, in his 1934 book 'Who shall survive'. He explored the possibilities of using psychotherapeutic methods to uncover the structure of friendship choices. He and his colleagues explored the way in which people's group relations served both as limitations and opportunities for their actions and therefore their personal psychological development, by using methods like questionnaires, experimentation and controlled observation. Moreno's aim was to investigate how psychological well being is related to the structural features of what he called 'social configurations'.

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<sup>1</sup> See very useful and detailed discussion in Scott, J (1991)

These configurations are formed from the concrete patterns of interpersonal choice, attraction, repulsion, friendship and other relations in which people were involved, and they are the basis upon which large-scale 'social aggregates' such as the economy and the state are sustained and reproduced over time (Scott, J. 1991:9).

Those configurations had for Moreno definite and discernible structures and he devised a '*sociogram*' as a way of representing or mapping those structures, where individuals were represented by 'points' and their social relationship to one another by 'lines'.

The network is related to the currents which run through it as a glass is related to the water which fills it except that the network is moulded by the currents and the glass is not shaped by the water...A certain constancy in the organisation of a community is the condition of free and independent life of its members. The mechanism which makes this constancy possible in a community is its networks and the psychological currents which flow through them...The networks also have an architectonic function in the community. By the virtue of this they are the controlling factors of its development. The older and the more mature the society is, the more the entire network system becomes a controlling super-organisation (Moreno, 1934:446-449).

Moreno argued that the construction of sociograms allowed researchers to identify leaders and isolated individuals and to visualise channels where information could flow from one individual to another and through which they could influence each other, which is to map chains of connections. This idea was a breakthrough and was followed by others such as Lewin (1936, 1951), Heider (1946), Cartwright, and Harary (1956), who attempted to apply mathematics to the structure of group relations.

These mathematical ideas made possible a crucial breakthrough in the theory of group dynamics and consisted of moving from the concept of *cognitive* balance in individual minds to that of *interpersonal* balance in groups (Scott, J.1991). In the work of Cartwright and Harary (1956) the idea of representing groups as collections of points connected by lines - the basic insight of Moreno - is outlined. They argued that the resulting sociogram or 'graph' represented the network of actual interpersonal relations among group members and could be analysed using mathematical ideas of *graph theory*. Graph theory has nothing to do with the graphs of variables familiar



from school mathematics. Rather, a graph is simply a set of lines connecting points, and graph theory consists of a body of mathematical axioms and formulae, which describe the properties of the patterns formed by the lines. For Cartwright and Harary, the points in the graph represented individuals and the lines showed their relationship with one another. Furthermore, the lines in a graph can be given signs (+ or -) to indicate whether they refer to 'positive' or 'negative' relations, and they can be given arrow heads to indicate the 'direction' of the relationships. This construction allowed them to analyse group structure from the standpoint of each of its members simultaneously, but not simply from the standpoint of a particular focal individual. It was, therefore, a major move forward in a strictly *sociological* direction (Scott, J. 1991).

Simultaneously, researchers at Harvard University were investigating informal relations in large-scale systems and had discovered that such systems had cohesive sub-groupings. This paralleled the theoretically orientated work within the sociometric tradition, which involved effort to uncover ways of decomposing networks into their constituent sub-groups. Burrell and Morgan (1979) argue that Radcliffe-Brown a British anthropologist and through him Durkheim were the major influences on this theoretical tradition of research.

One of the major projects which the Harvard group worked on was the Hawthorne studies, which were at an electrical factory in Chicago (see e.g. Rose, 1975) and focused the attention of researchers on the role of social factors within the work place and what has been called the 'informal' organisation; and a study of the new England community of 'Yankee City'. The Hawthorne studies have had a massive impact upon subsequent developments in industrial psychology and sociology, particularly in relation to the human relations' movement. Furthermore, they are of principal significance as they constituted an important landmark in the application of the system approach to organisational situations (Burrell and Morgan, 1979). The findings of

those studies suggested that people are integrated into communities through 'informal' and 'personal' relations of family and clique membership, that is not simply through 'formal' relations of the economy and political system. Thus any person may be a member of several different cliques, and 'such overlapping in clique membership spreads out into a network of interrelations which integrate almost the entire population of a community in a single vast system of clique relations' (Warner and Lunt, 1941:111, in Scott, 1991:21). This is as Scott (1991) has pointed out 'undoubtedly one of the earliest, if not *the* earliest use of network terminology to describe the structuring of whole societies into sub-groups' (p. 21).

Finally, in Britain a line of research developed also influenced by the work of Radcliffe-Brown. It emphasised the analysis of conflict and contradiction in social systems, instead of integration and cohesion, as was the emphasis in the Harvard studies. It was a group of social anthropologists based at Manchester University - most notably John Barnes, Clyde Mitchell, Elisabeth Bott and Max Gluckman - who applied those ideas both to the study of African tribal societies and also to rural and small town Britain (see Scott, J. 1991 for an overview). Their work with its emphasis on seeing structures as 'networks' of relations, combined the formal techniques of network analysis with substantive sociological concepts and proved an impressive mixture, which brought it close to the emerging framework of 'conflict theory' in sociology (Scott, 1991). One of the pioneering works in this line of research was Barnes's (1954) study of a Norwegian fishing community. Although it was a small village community, Bremnes was not an isolated locale structured exclusively through the kinship relations of its members. It was an integral part of a complex and socially differentiated national society, but it had its own economic, political and other institutions, which were only imperfectly co-ordinated into an integrated system. Barnes was strongly drawn to the part played by kinship, friendship and neighbouring in the production of community integration. These primordial relations were not directly tied to territorial locales or to formal economic or political structures. Instead, they formed a distinct and relatively

integrated sphere of informal, interpersonal relations. Barnes claimed that 'the whole of social life' could be seen as 'a set of points some of which are joined by lines' to form a 'total network' of relations. The informal sphere of interpersonal relations was to be seen as one part, a 'partial network' of this total network (Barnes, 1954:43). Barnes' approach had a considerable influence on the work of Bott, and their various papers (Barnes, 1954; Bott, 1955, 1956) received a broad welcome among anthropologists, the concept of the social network seeming to meet a need for appropriate concepts to use in understanding complex societies (Scott, J. 1991).

But it was Clyde Mitchell's work (1969), which can be said to have established the basis for a systematic framework of social network analysis, building on the work of Nadel (1957). Mitchell turned to the mathematics of graph theory that had emerged from the early sociometric concerns and he set out a body of sociological concepts, which, he believed, could adequately grasp the structural properties of social organisation. For instance, 'density' which he sees as the completeness of the network - the extent to which all possible relations are actually present; and 'reachability' which refers to how easy it is for all people to contact one another through a limited number of steps - how easy it is, for example, for ideas, resources or gossip to be diffused through the network (See Mitchell, 1969 and Scott, 1991). Mitchell's codification of social network analysis in 1969 generalised Barnes's conception of the sphere of interpersonal relations into that of the 'personal order'. For Mitchell (1969:10) the personal order is the pattern of 'personal links individuals have with a set of people, and the links those people have in turn among themselves' and these patterns were the sphere of network analysis. Such interpersonal networks, he claimed, were built from two ideal types of action: communication, which involves the transfer of information between individuals, the establishment of social norms and the creation of a degree of consensus; and 'instrumental' or purposive type of action, which involves the transfer of material goods and services between people (Mitchell, 1969: 36-9). Any action will combine elements of both of these types and so any social

networks will embody both a flow of information and a transfer of resources and services. Mitchell further conceptualised the 'total network' of a society as 'the general ever-ramifying, ever-reticulating set of linkages that stretches within and beyond the confines of any community or organisation' (Mitchell, 1969:12). He goes on to argue that in actual research it is always necessary to select particular aspects of the total network for attention, and conceptualises these aspects as 'partial network'. Therefore, for Mitchell and most of the other Manchester researchers the main focus of attention should be on individually anchored 'partial networks' where individuals are identified and direct and indirect links to others are traced. The other way was to define partial network by the 'content' or the meaning of the relations involved: for example, political ties, kinship, friendship and work. Mitchell recognised the importance of this but saw this also as needing to be anchored around particular individuals (Scott, J. 1991).

Institutionalized roles and statuses are the framework within which interpersonal networks are constructed, but they exist only in and through the reproduction of interpersonal networks. But Mitchell and the Manchester tradition equivocated about whether the institutional structure of roles is itself a part of network analysis or is separate from it. While some of the Manchester school saw the institutional role structure as a network of relations, which exists alongside the interpersonal network, Mitchell often distinguished *networks* of interpersonal relations from *structures* of institutional relations. Mitchell's discussion, therefore, tended towards a 'residual' definition of the social network: network analysis concerns only the interpersonal sphere that is left behind after formal economic, political and other roles are extracted (Whitten and Wolfe, 1973). This proved to be highly significant for the subsequent development of social network analysis in Britain (Scott, J. 1991:32-33).

The arguments of Mitchell and his colleagues were extremely influential in Britain (see for instance, Frankenberg, 1966), but as Scott (1991:33) points out: 'their very success meant that social network analysis came to be identified with the specific ideas of the Manchester anthropologists. That is to say, network analysis was seen to be concerned specifically with informal, interpersonal relations of a 'communal' type and the method seen as specifically concerned with investigation of ego-centred networks.

As a result, the crucial breakthrough to the study of the global properties of social networks in all fields of social life was not made in Britain'. That breakthrough did not happen until well into 1960s and then in Harvard, when a well-developed methodology of social network analysis started to occur. The key elements in this breakthrough were two parallel mathematical innovations (see Berkowitz, 1982). Firstly, the development of algebraic models of groups using set theory to model kinship and other relations in the spirit of Lévi-Strauss. Secondly, the development of multidimensional scaling, which was a technique for translating relationships into social 'distances' and for mapping them in a social space (Scott, 1991). The new Harvard group thus developed as mathematically orientated structural analysts, mainly concerned with the modelling of social structures of all kinds. 'There was no single theoretical focus to their work, the unifying idea being simply that of using algebraic ideas to model deep and surface structure relations. It was network analysis as a *method* that united them' (Scott, 1991:34). It was, however, Granovetter's article (1973) which popularised this viewpoint in American sociology and helped to stimulate many other studies. This breakthrough moved network analysis away from its 'residual' focus on purely interpersonal relation and led to interests in phenomena such as the relationships between technology and social structure, and corporate interlocks, which will be discussed in the next section.

The network approach that has been discussed so far has mainly been concerned with the particular patterns of direct and indirect contacts which people are able to maintain with one another. It has been concerned with such factors as the abilities of people to join with one another in cohesive groupings and their abilities to influence the actions of those particular others to whom they are connected. For the most part it approaches the subject from a psychological standpoint and is concerned with the study of the behaviour of individuals within organisations or certain set of social structures. That is, it tends to treat organisations as closed system and can therefore, be classified under the closed system approach. Furthermore, the focus is on mapping already existing

'realities' and is thus 'purely structural' in nature, which is the traditional network approach.

### **Network analysis in organisational studies**

Studies grouped under the heading of 'intraorganisational networks' have focused on relations between 'exogenous' variables (e.g., size, age, technology, etc.) and structural, 'endogenous' variables representing different aspects of social interaction 'within' the organisations. The 'concepts and techniques' of the network approach are used to operationalise structural variables, in terms of interpersonal relationships or informal, emergent structures. Whilst, studies that are grouped under 'interorganisational networks' are mainly concerned with relations between the organisation and its environment: survival, adaptation and problem of control, whether of the organisation over the environment or vice versa. In general, these studies adopt a *social perspective* of network analysis that is they define networks in terms of lines connecting individuals.

### ***Intraorganisational networks/socio-technical system theory***

Since the 1950s an important line of research in organisation studies has been concerned with the relation between technologies and social arrangements in the workplace (For a review of this tradition and, in particular, the evolution of the socio-technical approach, see Trist (1981)). The socio-technical perspective on organisations is associated with the research programme developed by the Tavistock Institute of Human Relations, founded in London in 1946. That was the period of reconstruction in post-war Europe, and the main emphasis was on productivity, efficiency and technological development of industrial enterprises. Such an emphasis was, however, balanced by a concern with socio-psychological aspects of work and a broad notion of mental health. It has to be pointed out that elements of socio-technical systems theory were built into the structure of the Hawthorne studies for analysing work situations.

However, these important insights were largely neglected in favour of objectivist studies of job satisfaction, leadership style, group dynamics and other factors of interest to the human relations movement (Burrell and Morgan, 1979). Hence, it was not until the 1950s that the socio-technical system approach came into being.

Members of the Tavistock Institute to characterise the interaction of social and technological factors in industrial production systems first used the term 'socio-technical system'. It derived largely from a study conducted by Trist and Bamforth in 1951, which aimed at examining the effects of the introduction of the long-wall method of coal mining in certain British mines. Burrell and Morgan, (1979:146-147) point out:

The study, which was heavily informed by a psycho-analytical perspective focusing upon the importance of group relationships, led the researchers to view the work situation in terms of the interrelations between social and technological factors. The working group was regarded not just a technical system or social system, but as an interdependent socio-technical system.... The study was of importance in recognising that socio-psychological factors were built into the nature of work technology, and that the work organisation also had social and psychological properties of its own which were independent of technology.

This demonstrates how social network theory with its socio-psychological perspective was linked with technology to explore intraorganisational issues. The concept of socio-technical system was, however, formulated within the context of a study which was underwritten by the assumptions of an equilibrium model, like the Hawthorne studies. That is, the individual becomes an equilibrating system, influenced by the various elements which comprise the situation within and outside work and behaviour at work is understood in terms of attempts to maintain or restore an equilibrium position. External factors are thus generally considered only insofar as they cause disequilibrium and the focus is almost exclusively upon the internal relationships which characterise the system. In other words, the concept of socio-technical system was to start with very much within the *closed* system approach as it was characterised

by the notion of equilibrium, which places severe constraints upon the openness of the system. By 1958, however, the concept had been incorporated into a much wider *open* socio-technical approach for the study of organisations. Rice's (1958) analysis of an Indian textile firm provides an illustration of this. The industrial enterprise is viewed as a socio-technical system, which must satisfy the financial conditions of the industry of which it is part. The social, technological and economic dimensions of the organisation are all seen as interdependent but with values of their own. Each system, or subsystem is regarded as having a 'primary task - the task which is created to perform' (Rice, 1958:32). As Burrell and Morgan put it

The organisation is thus viewed as a unitary system under the umbrella of a common task. The social system is viewed as a positive force contributing to task achievement. Technology is viewed as a force which imposes constraints upon possible modes of organisation, but within which choice is possible. The important variable, therefore, is organisational design. The design of an appropriate mode of work organisation which satisfies the demand of technology and the needs of employees is seen as the key to producing a harmonious and effective organisation (Burrell and Morgan, 1979:156).

The notion of the socio-technical system, which had its major impact within the field of job design since the middle 1960s, was further elaborated by various members of the Tavistock Institute. For example, Emery and Trist made an explicit attempt theoretically to account for the matching of both the social and the technical, whilst the notion of 'system' as an organising concept for the study of the organisation as a whole became an increasing preoccupation (Malavé, J. 1992).

The influential notion of 'open systems' became popularised in 1950 with a paper published in *Science* by Ludwig von Bertalanffy on 'the theory of open systems in physics and biology'. Open systems are different from closed systems, in that they are characterised by an exchange with their environment. They engage in transactions with their environment, like 'importing' and 'exporting' and changing themselves in the process. 'The concept of an open system is thus essentially processual. Whilst a closed system *must* eventually obtain an equilibrium state, an open system will not'



(Burrell and Morgan, 1979:59). For Emery and Trist this notion of open systems provided the basic framework to develop the insights and observations drawn from the fieldwork: the famous projects in the British coal mining industry (Trist, 1981). In fact, their paper of 1960 (Emery & Trist, 1981) begins with a claim for 'open system' thinking in organisation theory. The transition from a closed to an open system as the basic model in a theory of organisations had strategic importance in defining the role of technology:

...the technological component, in converting inputs into outputs, plays a major role in determining the self-regulating properties of an enterprise. It functions as one of the major boundary conditions of the social system of the enterprise in thus mediating between the ends of an enterprise and the external environment. Because of this the materials, machines and territory that go to making up the technological component are usually defined, in any modern society, as 'belonging' to an enterprise and excluded from similar control by other enterprises. They represent, as it were, an 'internalised environment'... The technological component has been found to play a key mediating role and hence it follows that the open system concept must be referred to the socio-technical system, not simply to the social system of an enterprise (p.325).

In other work by members of the Tavistock Institute, more and more attention is given to the relationship between the organisation and its environment. For example, Rice (1963) regards the environment of the enterprise as consisting of its total political, social and economic surroundings; for a part of an enterprise the environment is regarded as including the other parts and the whole (Rice, 1963:15). In 1965, Emery and Trist published their well-known article, 'The Causal Texture of Organisational Environments'. 'This study shifted the focus of open system theory away from a specific concern for what Dill (1958) has described as the 'task environment' towards a more general concern for the 'appreciation' of the social environment as a quasi-independent domain. The turbulence of the world environment as a whole and its implications for the future have come to be seen as important contextual influences upon organisational activities' (Burrell and Morgan, 1979:157). The socio-technical approach has therefore developed from placing emphasis on 'purely'

intraorganisational variables and treating organisations as closed systems, into a more open systems approach, which takes into consideration the relationship between the organisation and its environment. Furthermore, one of the most important contributions of the socio-technical approach is its role in pointing out the importance and implication of technology for the study of organisations.

Open systems theory has undoubtedly had a major impact upon approaches to the study of organisations, particularly with regard to the emphasis which is now placed upon understanding the influence and nature of environment and in studying organisations as processes rather than as structures. However, most researches within the theoretical perspective of an open systems approach have tended to emphasise structure at the expense of process and are thus 'purely structural' in nature. One of the obstacles to such a possibility of being able to study organisations as processes rather than as structures, are the rigid boundaries between social/technical, system/environment and micro/macro. Actor Network Theory (ANT) which is discussed later in this chapter offers insight into how these obstacles might be overcome.

### ***Inter-organisational networks/interlocking directorships***

An important area of research applies the network concept to the study of *interorganisational* arrangements: See, for example, a comparative study of ten countries by Stokman, Ziegler and Scott, 1985; John Scott and Griff, 1984; Scott, J. 1986; Scott, J. (ed), 1990; Mizruchi, 1982, of American enterprises and Mizruchi, M and Schwartz, M (eds) 1987. Research of this kind has mostly been concerned with 'economic power' and as such has been 'criticised for equating positions with power, for resorting uncritically to some kind of conspiracy theory, and for being politically motivated - as if the latter were not true of all social research' (Stokman, Ziegler and Scott, 1985:1).

Studies of interlocking directorships among corporate enterprises are not new, but most of the studies carried out before the 1970s did make little use of the formal techniques of social network analysis (Scott, 1991). That is to say, those studies took a strictly quantitative approach by simply counting the numbers of directorships and interlocks among companies.

In general, a social network consists of points representing individuals connected by lines. In the study of interlocks, the lines connect companies through individuals who occupy positions on the boards of directors of those companies. In other words, interlock is the social relation that is created between two companies, when the same individual is a member of the board of directors in both companies. Such an individual is termed a multiple director (Scott, 1985). Interlock is thus one link in a chain of connections that is called a network of interlocking directorships, and the greater the number of interlocks the more complex the network becomes. Interlocks can be divided into three: primary, induced and secondary. For example, when a director of a bank becomes a member of the boards of two companies, the connection between each company and the bank are primary interlocks, whilst the connection between the two companies is an induced interlock. Primary interlocks thus reveal stronger connections with long-term implications, than those of induced interlocks do. Secondary interlock, however, is totally unconnected with primary interlocks and exists because a person with a base outside the companies being investigated (for example, a politician) sits on two or more boards as an outside director (Scott et al, 1984:26).<sup>2</sup> The question of what interlocking directorships signify must thus arise. Scott (1985: 5) argues:

The minimum inference which can be made about *any* interlock is that it is intrinsically meaningful as a channel of communication and that the network of interlocks constitutes a web of communication through which general business information and opinion can be transmitted (Mills, 1956, pp. 122ff). The mere fact of sitting on two boards opens up possibilities of communications which

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<sup>2</sup> The definition of a primary interlock was introduced in Sweezy (1939, p. 162). However, Sweezy uses the term secondary interlock in a broader sense to encompass what have been termed induced interlocks. (Scott et al, 1984:31)

might not otherwise be present. This is indeed a *minimum* inference: it is possible to say little a priori about the quality and the quantity of information which is communicated or about what else the interlock might signify. It is clearly necessary to go beyond the minimum inference and treat interlocks as indicators on the basis of which it might be possible to infer the existence of significant social relations between enterprises and people.

That is, interlocks are most usefully treated as indicators of social relations, and for example, Helmers et al., (1975) have suggested that interlocks may be regarded as signs of possible power relations, but the researcher would have to 'dig' beyond the mere fact that interlocks exists in order to demonstrate the actual existence of such relations. In other words, the researcher has to explore the 'meaning' of the interlock, for example, is the interlock established because of kinship connection, ownership, shareholding or financial connections, expertise experience and so on.

Though studies of interlocking take for granted the notion of organisations as bounded entities provided by the system approach, a distinctive feature should be highlighted. That is, the emphasis is on the study of the network itself, its constitution and properties (for example, its stability and its relation to individuals' careers). The 'sample' of organisations is a consequence of the configuration of the network, i.e., the organisations are selected according to their participation in the network. And, by excluding isolated cases, the resulting network represents the connections between the largest and most powerful companies (Malavé, 1992).

For illustrative purposes, let's refer to a study of interlocking directorates in the Netherlands, during the period 1960-1980, by Stokman, Van der Knoop and Wasseur (1988). An important feature of this work is its longitudinal character. This permits the appreciation of the network's evolution and stability, e. g., permanence of lines, broken and reconstituted interlocks, etc. 'Considerable possibilities for studying, for example, the network's 'architectonic' function might be revealed by following such a strategy. For instance, the financial character of the connections might provide a clue

to understanding the 'work' of the network: the processes through which particular configurations come about, change or endure' (Malavé, 1992:114). As the authors recognised in their reference to 'the first major network study of interlocks in the Netherlands', done in 1975:

All analyses indicated that the network of interlocks derived its structure mainly from the interlocks of financial companies and institutions, particularly from those of commercial banks and insurance companies. This interpretation was confirmed by a very strong positive correlation between financial participations and interlocking directorships ... and the disintegration of the network between production companies after the elimination of persons with one or more positions in financial companies (Stokman, Van der Knoop & Wasseur, 1988:185).

However, this recognition of the relevance of financial connections did not lead to an inquiry into the organising process through which those changes occurred. Rather, the network became a way of recording the changes (Malavé, 1992). Thus network analysis provides a great descriptive power; it enables the researcher to appreciate unexpected or none-to-obvious relations, and the resulting analysis gains in depth and reduction of 'naivety'. There is also implicit in it a methodological advantage in terms of level of analysis: a network approach avoids both the constraints of the micro and the 'far-reaching' conclusions of the macro approaches. Finally, a certain institutional background appears also as providing meaning to the network as a figure. 'The application of the concept network in organisation studies at *'interorganisational level'* does provide a useful analytical tool to avoid simplistic conclusions: a suggestive refinement of the picture provided by the system approach, in which the 'interpenetrations' become more visible' (Malavé, 1992:115). Studies of 'interlocking' can thus, especially if they are longitudinal in character, provide some insight into the organising process through which change occurs (see also discussion in chapter 8 on the significance of interlocking directorships). However, in order to grasp the full picture of the organising process that builds up a network, the 'interlocking' approach has to be complemented with approach that recognises the social and technical character of this process.

### **Networks as a model of co-ordination**

Thompson, et al. (1991), point out that the concept of network has been deployed to differentiate and promote a form of organisational relationship that differs markedly from established patterns of corporate governance, that is the market and hierarchical forms of relationship. They define the models in terms of what they take to be the characteristic mechanism of each one: prices within markets, administrative orders within hierarchies and trust and co-operation within networks. Therefore, the network model has to rely upon social reciprocity and mutual trust, in contrast to impersonal contract and economic interest in the market model and formal rules and administrative power in the hierarchical model. Powell (1991: 271-72) put it like this:

Networks are 'lighter on their feet' than hierarchies. In network modes of resource allocation, transactions occur neither through discrete exchanges nor by administrative fiat, but through networks of individuals engaged in reciprocal, preferential, mutually supportive actions. Networks can be complex: they involve neither the explicit criteria of the market, nor the familiar paternalism of the hierarchy. A basic assumption of network relationships is that one party is dependent on resources controlled by another, and that there are gains to be had by the pooling of resources. In essence, the parties to a network agree to forego the right to pursue their interests at the expense of others.

The main aim of Thompson, et al. (1991) is to try to answer questions like: how is social life co-ordinated, if indeed it is? What do we mean by co-ordination anyway? The authors do not claim that they are building up a theory nor do they claim that those models can 'explain everything in one grand intellectual sweep' (p.6). Rather they view those 'models of co-ordination' as partial in the sense that each of them is only likely to highlight a part of the overall coordinative effort and outcome, and as such should their differences and limits be recognised. In other words, social analysis of co-ordination would usually involve bringing the models into comparative framework or employing them in combination, as any analysis of a particular model usually involves elements of another model as well. For example, 'network' can become transformed or

institutionalised into structures or a part of a structure and thus can not as such be separated from the internal or hierarchical structure within an organisation. And indeed, Knoke and Kuklinksi (1991) have argued that it is possible to think of market and hierarchy as just two examples of the more general category of networks.

Thus networks could be considered as the most general category of coordination; the market is a network of competing price- and information-emitting firms and their customers; while hierarchy is also a network of bureaucratically administered order-giving and receiving departments (Thompson et al., 1991: 18).

Co-ordination implies the bringing into a relationship of otherwise disparate activities or events.

By co-ordinating a set of items something can be achieved which otherwise would not be. It is the positive performative consequence of co-ordination that makes it such an attractive social practice and objective. Various agents and agencies can be 'ordered', 'balanced', 'brought into equilibrium' and the like, by the act of coordination. Without co-ordination these agents and agencies might all have different and potentially conflicting objectives resulting in chaos and inefficiency (Thompson et al., 1991: 3).

Thompson et al. argue that the question of how to achieve co-ordination in the best possible way can be explored by applying one or all of those three different approaches or models, as each of them embodies its own distinctive approach to how social co-ordination is achieved, and can lead to a different understanding of the manner in which co-ordination might be secured.

It should be pointed out that the concept of network as it seems to be used in this book of readings, refers more or less to networks as certain (stable) forms of organisation but not as (ongoing) processes, and in that sense is closer to the 'traditional' view of the network approach. In that sense the concept of network as 'model of co-ordination' could prove to be flawed, when analysing how networks work, since it seems to lack understanding of the need to inquire into the organising process. And, the 'model' would become a tool for 'mapping' an already existing 'reality' instead of a way to

understand how this 'reality' is constructed, which should be the focus of analysis if one is to understand how co-ordination is achieved.

### **Network as associations**

One of the main arguments within the 'new network approach' is 'society is not what holds us together, it is what is held together' (Latour, 1986: 276). In other words, there is not a 'pre-existing' society; rather the nature of society is negotiable and revisable matter. Latour (1987) proposed two basic approaches or models to the study of science, which are very relevant for network analysis. He refers to those two approaches as a 'diffusion model' and a 'translation model'<sup>3</sup>, and according to him, conclusions drawn from a study of science could be very different depending on which model was used. The diffusion model conceives of science as 'decided' or 'ready made' knowledge, but the translation model as knowledge being 'undecided' or 'in the making'.

In many respects these two models represent the 'old' and the 'new' approaches in network analysis. On the one hand the 'diffusion model' with the 'traditional network approach' which conceives of organisation as 'ready made' stable entity and has a clear distinction between organisation/environment, micro/macro, and social/technical. On the other hand the 'translation model' with the 'new' approach in network analysis which conceives of organisations as on-going processes, 'in the making' and refuses rigid boundaries between micro/macro, organisation/environment and social/technical.

Latour puts it like this:

Among all the features that differ in the two models, one is especially important, that is society. In the diffusion model society is made of groups which have interests; these groups resist, accept or ignore both facts and machines, which have their own inertia. In consequence, we have science and technique on the one hand, and a society on the other. In the translation model, however, no such

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<sup>3</sup> The translation model can be seen as an early version of Actor-Network Theory (ANT) which is discussed in detail below. That discussion includes illustrations of some of the concepts used here like: translation, enrolment and black box.



distinction exists since there are only heterogeneous chains of associations that, from time to time, create obligatory passage points.... Analysts who use groups endowed with interests in order to explain how an idea spreads, a theory is accepted, or a machine rejected, are not aware that the very groups, the very interests that they use as *causes* in their explanations are the *consequence* of an artificial extraction and purification of a handful of links from these ideas, theories or machines (1987: 141).

So within the diffusion model, the distinction between society/science, micro/macro or organisation/environment is often taken as a starting point of inquiry, even though the distinction itself is precisely what the inquiry is about. Whilst in the translation model such distinctions are taken to be the outcome of the processes within a 'network/association' and can thus not be used to explain anything as they are consequences not causes. In other words, society is a consequence of an action and interaction of different associations, human and non-human, that is to say, it is held together by many different allies, to use Latour's term. By applying the translation model, the study of society has to move from the study of the 'social' as it is usually conceived, to a study of method of association: to seek to analyse the way people are associated together and pay attention to the material and extrasomatic resources that link people, and which may last longer than any given interaction (Latour, 1986: 264). It is clear that associations between people have been expanded and extended through other allies like words, rituals, wood or iron, and that sociological, technoscientific, and economic analysis are permanently interwoven in a 'seamless web' (Hughes, 1986; Callon and Latour, 1981).

Explicit in this approach is that one has to analyse the micro-elements to understand what makes the macro-elements. In a key article 'Unscrewing the big Leviathan' Callon and Latour (1981) conceive of micro-macro relations in dynamic terms, where they describe the process not simply as one in which forms of social integration become replaced by new forms on the basis of social learning, but rather a process by which micro-actors successfully grow to macro-size. Their argument is elaborated

below as the notion of growing from micro to macro with the possible correlation between power and macro-level is of importance for this study.

Callon and Latour do not distinguish between 'individuals' and 'institutions', but they claim:

*There are of course macro-actors and micro-actors but the difference between them is brought about by power relations and the constructions of networks, that will elude analysis if we presume a priori that macro-actors are bigger than or superior to micro-actors (p. 280).*

Callon and Latour thus consider the macro-order to consist of macro-actors who have successfully 'translated' other actors 'wills' or 'interests' into a single will/interest for which they speak. 'Translating interests' means at once offering new interpretations of these interests and channelling people in different directions' (Latour, 1987: 117). 'In order to grow we must enrol other wills by translating what they want and by reifying this translation in such a way that none of them can desire anything else any longer' (Callon and Latour, 1981: 296). This enrolment of other actors allows them to act like a single will, which is, however, extremely powerful because of the forces on which it can rely. Callon and Latour's definition of (macro) actor is as follows:

What is an actor? Any element which bends space around itself, makes other elements dependent upon itself and translates their will into a language of its own... By stating what belongs to the past, and of what the future consists, by defining what comes before and what comes after, by building up balance sheets, by drawing up chronologies, it imposes its own space and time. It defines space and its organization, sizes and their measures, values and standards, the stakes and the rules of the game - the very existence of the game itself (Callon and Latour, 1981:286).

They further point out that human actors are able to rely not only on symbolic relations but also on more 'durable' materials, which allows the human society to produce macro-actors. This 'durable' material can be things like laws, written contracts, money in different forms, organisations and techniques.

Callon and Latour argue that to be able to examine micro-actors and macro-actors we have to direct our attention not to the social but towards the processes 'by which an actor creates lasting asymmetries' (p.286). That, among these processes, some lead to associations which are sometimes called 'social' and others 'technical' should not concern us, 'only the differences between what can be put in black boxes and what remain open for future negotiations are now relevant for us' (p. 286) if we want to explore how a micro-actor grows to be a macro-actor.

By associating materials of different durability, a set of practices is placed in a hierarchy in such a way that some become stable and need no longer to be considered. Only thus can one 'grow'. In order to build a Leviathan it is necessary to enrol a *little more* than relationships, alliances and friendships. An actor grows with the number of relations he or she can put, as we say, in black boxes. A black box contains that which no longer needs to be reconsidered, those things whose contents have become a matter of indifference. The more elements one can place in black boxes - modes of thoughts, habits, forces and objects - the broader the construction one can raise. (Callon and Latour, 1981: 284-285).

A macro-actor is thus a micro-actor seated on a black box, that becomes stronger to the extent that he or she can firmly associate a larger number of elements and of course, dissociate as quickly as possible, elements enrolled by other actors. 'a force capable of associating so many other forces that it act like a 'single man'.(Callon and Latour, 1981: 299). The strength thus lies in the power to break off and bind together, in other words, to gather sufficient resources in one place to be able to convince others and control their behaviour.

This line of thinking is an attempt to get away from the structural/ system network analysis which was discussed in the previous section - and move towards a way of seeking to trace the development of the *organising processes* that build up a network or structure, with a recognition of the social and technical character of this process. The process of developing this line of thinking has brought people together, from different disciplines, to produce what has become known as actor-network theory or

ANT. ANT, which is discussed in the next section, can therefore be seen as a consequence or result of a networking/organising process that has enrolled humans and non-humans, for example, computers and texts and is 'still in the making' or an on-going process.

### **Actor-network theory (ANT)**

Actor-Network Theory provides an array of concepts, techniques and principles with which to examine the construction of relationships between 'science' and 'society'/ the social and the technical. It aims to capture the intricate work by which scientific/technological knowledge-claims or practices are constructed, and to examine the processes by which these practices become indispensable (or not) within the worlds they occupy, through which they circulate and which they constitute (Singleton, V. 1993). ANT attempts to offer a perspective, complete with its own language, for analysing the co-evolution of society, technological artefacts and knowledge of nature (Callon, 1986b) and focuses on describing rather than explaining the activities of scientists and technologists. The main early proponents of this approach are Michel Callon (1986a, 1986b, 1987), Bruno Latour (1987, 1988a, 1988b) and John Law (1986, 1997) and for them, scientists and technologists are competent sociologists and social theorists whose work involves building networks. That is, they engage in a complex network-building process, which involves the enrolment of others. The process of network-building involves simplifying and juxtaposing a diversity of heterogeneous entities into a system of associations and the black-boxing of entities, as an infinitely complex world is transformed into a manageable, structured actor-network. During the activity of network building, not only scientific and technological artefacts are defined. Simultaneously the social world in which the knowledge-claims and artefacts will circulate is defined. Nature and society are the twin products of network building (Callon and Latour, 1981).

Over the last decade or so, academics in different disciplines have shown increasing interest in this approach. One significant manifestation of this growing interest is the fact that an Actor Network Resource has been established on the Internet. The following quotation is from the Editorial Principles of the Actor Network Resource and reflects the fact that ANT is expanding into different research fields.

Actor-Network: Not a Unity, Not an Orthodoxy: Like any other approach to social analysis, the texts influenced by actor-network theory represent and develop a range of concerns and tools. This means that though it is possible to identify certain preoccupations and concerns common to these texts, there is no orthodoxy, no one 'right way' of developing the approach. It also means that actor-network is not a single orthodoxy, a fully consistent body of writing with its holy scriptures. Indeed, the most creative texts are often those that change and rework its preoccupations and its tools - or which combine them in one way or another with those of other approaches with which it is in dialogue. (Actor Network Resource. Centre for Social Theory and Technology, Keele University. Internet Document: <http://www.keele.ac.uk/depts/stt/stt/ant/>)

According to Latour (1997) ANT has been often misunderstood and hence much abused. There is an irony here, given that ANT is supposed not to be a fixed term, an orthodoxy, as the quotation above shows. In a recent paper (1997) Latour aims to explain and lift some of the 'misunderstandings' that have arisen, some of them due to common usage of the word 'network' itself and the connotations they imply. Latour claims that one such 'mistake' is to give ANT a common *technical* meaning in the sense of sewage, or train, or subway, or telephone 'network'. 'Nothing is more intensely connected, more distant, more compulsory and more strategically organised than a computer network. Such is not however the basic metaphor of an actor-network. A technical network in the engineer's sense is only one of the possible *final* and *stabilised* state of an actor-network' (1997:1). Another misunderstanding has to do with the notion of social networks. Latour argues that ANT,

has very little to do with the study of social networks. These studies, no matter how interesting, concern themselves with the **social** relations of **individual human** actors - their frequency, distribution, homogeneity, proximity. It was devised as a reaction to the often too global concepts like those of institutions,

organisations, states and nations, adding to them more realistic and smaller set of associations. Although ANT shares this distrust for such vague all encompassing sociological terms it aims at describing also the very nature of societies. But to do so it does not limit itself to human individual actors but extend the word actor - or actant - to **non-human, non-individual** entities. Whereas social network adds information on the relations of humans in a social and natural world, which is left, untouched by the analysis, ANT aims at accounting for the very essence of societies and natures. It does not wish to add social networks to social theory but to rebuild social theory out of networks. It is as much ontology or metaphysics, as a sociology (Mol and Law, 1994). Social networks will of course be included in the description but they will have no privilege or prominence (1997:2).

Exponents of ANT would regard the network approaches/perspectives discussed in the previous section - social network analysis, intraorganisational networks, interorganisational networks and networks as a model of co-ordination - as sharing the same theoretical flaw. That is, each seeks to identify a *stable* feature of social structure with a clear distinction between social/technical, organisation/environment, society/science, micro/ macro and often takes as a starting point of inquiry these same distinctions and structure. Instead of, as ANT suggest, starting from on-going processes or 'networks' and showing how they might become transformed into relatively 'closed structures' which again might explain how the distinctions have come into being. ANT theorists are deeply sceptical of supposed *stable* social structures and argue instead that modern societies cannot be described without recognising them as having 'a fibrous, thread-like, wiry, stringy, ropy, capillary character that is never captured by the notions of levels, layers, territories, spheres, categories, structure, systems. It [ANT] aims at explaining the **effects** accounted for by those traditional words without having to buy the ontology, topology and politics that goes with them' (Latour, 1997). There are simply no macro-structure constraining events, suggests Latour, but a constantly open-ended struggle between a multitude of actors. That is, social structure is a precarious outcome, rather than a firm given, and moreover the outcome is as much 'technical' as it is 'social' in its construction. When Latour, for example, turns to ask what differentiates human societies from those of other primates, he does not give the conventional answer of the human capacity for

language. Rather, he argues (along with Shirley Strum), that the differentiating factor which limits baboon society to small-scale, face-to-face, impermanent interaction, while human beings construct more stable societies with histories and geographies, is the human use of technologies. Without technologies - writing, walls, prisons, weapons, and so on - society would have to be constructed with our naked bodies and voices alone, and these, Latour suggests would simply be insufficient (Strum and Latour, 1987).

The following pages will explore the different concepts and principles that ANT employs: actor-network and actor-world; intermediaries; translation; translation centres/ centres of calculation; phases of translation; power; convergence and irreversibility; simplification and punctualisation. These provide the means to trace how a given element becomes strategic through the number of connections it commands and how it will lose its importance when losing its connections. 'The whole metaphor of scales going from the individual, to the nation state, through family, extended kin, groups, institutions etc. is replaced by a metaphor of connections. A network is never **bigger** than another one; it is simply **longer** or more intensely connected' (Latour, 1997:4).

### *Actor-network and actor-world*

Callon (1986b) developed the notions of actor-network and actor-world to make it possible to abandon the constricting framework of sociological analysis, as he puts it, with its pre-established social categories and its rigid social/natural divide (p.34). He emphasises the heterogeneity of the world and claims, that to be able to describe heterogeneous associations and the dynamics of their transformation or consolidation, the notion of actor-network is very useful. Callon (1991) argues:

All groups, actors and intermediaries describe a network, they identify and define other groups, actors and intermediaries, together with the relationships that bring those together. When such descriptions include an imputation of authorship, then actors emerge in the stopping places, asymmetries, or folds

(Deleuze, 1989). But the network of intermediaries accepted by an actor after negotiation and transformation is in turn transformed by that actor. It is converted into scenario, carrying the signature of its author, looking for actors ready to play its roles. For this reason I speak of actor-networks: for an actor is also a network (p.142).

So the actor-network is reducible neither to an actor alone nor to a network. As a network it is composed of a series of heterogeneous elements, human and non-human, that has been linked to one another for a period of time.

'The terms actor-world and actor-network draw attention to two different aspects of the same phenomenon. The term actor-world emphasises the way in which these worlds, built around the entities that create them, are both unified and self-sufficient. The term actor-network emphasises that they have a structure and that this structure is susceptible to change' (Callon, 1986b: 33).

### ***Intermediaries***

Drawing on economics and sociology, Callon suggest that economists teach us that interaction involves the circulation of intermediaries and sociologists teach that actors can only be defined in terms of their relationship. Callon argues that these are two parts of the same puzzle and puts it like this: '*actors define one another in interaction - in the intermediaries that they put into circulation*' (1991: 135). According to Callon (1991) there are four main categories of intermediary:

- **Literary inscriptions** or texts, such as books, reports, advertisements, notes etc., which are inscribed and circulated through media (e.g. paper, tapes etc.).
- **Technical artefacts** like machines, computers, robots etc., which are non-human entities that together perform certain tasks.
- **Human beings**, their knowledge, and skills they generate and reproduce.
- **Money** in all its different forms.



Each of these intermediaries can be seen as both forming/composing and describing/giving order to networks, as long as they are put into circulation by actors whom they also define (that is both as individuals and in their relationship with each other); the intermediaries give 'shape, existence and consistency to social links' (Callon, 1991: 140). He also points out that in practice, most networks are a combination of different intermediaries or 'hybrids' so 'pure' intermediaries are rare. Thus, it is essential to 'decode' and learn to read the many intermediaries that we encounter.

*The social can be read in the inscriptions that mark the intermediaries...Sociology is simply an extension of the science of inscriptions. Now it should broaden its scope to include not only actors but the intermediaries through which they speak (Callon 1991: 140)*

In Callon's terms, an 'actor' is any entity able to associate humans, non-humans, texts and money, which is synonymous with his definition of intermediaries. So the division between 'intermediaries' and 'actors', Callon (1991: 141) insists, is purely empirical or practical matter. Of course, this means that actors can be 'hybrid' as well (not 'pure').

they may but need not be collectivities. They may take the form of companies, associations between humans, and associations between non-humans (1991: 140).

So the question that arises is why keep a division between actors and intermediaries? Callon claims that it has to do with authorship.

All interactions involve a method for imputing intermediaries to authors. Indeed, authorship is often inscribed in the intermediaries themselves. Scientific articles are signed and technical objects are trademarked. Incorporated skills are attributed to the body or to the subject. Thus ... *an actor is an intermediary that puts other intermediaries into circulation ... an actor is an author* (1991: 140-141).

Actors and intermediaries are thus the two basic elements that build up a network according to ANT and it should not be overlooked that the theory of actor-network assumes that there is no overall structure: 'there is always a multiplicity of actor-networks each trying to impose its own structure on potentially unreliable entities and

thereby borrow their forces and treat them as its own' (Law, 1986: 70-71). But to be able to understand what makes those networks durable, we need to consider the elementary relationship between the actors in 'the process of translation' which is similar to the 'model of translation' (Latour, 1986,1987) that was discussed above.<sup>4</sup>

### ***Translation***

First, one needs to understand what Callon (1986a) and Latour (1987) call *translation*, which is the means by which one entity gives a role to others. The enrolment of others as allies in the building of a network involves persuading others that they share a common interest or problem. This involves, interpreting or constructing the interests of others in such a way as to obtain congruence with the agent's own interests: 'at once offering new interpretations of these interests and channelling people in different directions' (Latour, 1987:117) and in the process the translator becomes the spokesperson of the other.

Putative agents attempt to determine a set of actors, both human (whether individual or collective) and non-human, and define a series of negotiable hypotheses on the identity, relationships and goals of the different actors (Callon. 1986b). This involves the attribution of an identity, interests, a role to play, a course of action to follow, a mechanism of operation and so on, to various actors.

Translation builds an actor-world from entities. It attaches characteristics to them and establishes more or less stable relationships between them. Translation is a definition of roles, a distribution of roles and the delineation of a scenario. It speaks for others but in its own language. It is an initial definition. But... no translation can be taken for granted for it does not occur without resistance. Successful translation depends upon the capacity of the actor-world to define and enrol entities, which might challenge these definitions and enrolments (Callon 1986b: 25-26).

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<sup>4</sup>It should be pointed out that authors like Michel Callon (1980, 1986a, 1986b), Bruno Latour (1987) and John Law(1992) have contributed a lot to the discussion of translation, which is the underlying notion in the 'new network approach' or ANT.

In other words, the success of translation depends upon the strategies by which an actor-world renders itself *indispensable*. 'To translate, then, is to oblige an entity to consent to detour. This is done by choosing from a spectrum of methods that ranges from seduction to pure violence by way of simple bargaining.... The translation thus maps out a geography of necessary points of passage for those elements who wish to continue to exist and develop' (Callon 1986b: 26-27). Callon further points out that while translation determines where the *points of obligatory passage* will be located; this does not exhaust the action. The translator-spokesperson and the translator-strategist are bringing about movement. 'Thus the third component of translation is displacement, in a literal sense' (1986b: 27). That refers to the ways in which enrollers organise and structure movement of materials, resources and information. This is necessary, as some link has to be made to oblige entities to accept certain spokespersons and certain points of passage. *Displacement* involves actions such as the organisation of meetings, conferences, the setting up of research centres, and the carrying out of experiments. Perhaps most importantly 'Entities are converted into inscriptions: reports, memoranda, documents, survey results, scientific papers. These are sent out and received back, acted upon and reacted to' (Callon 1986b: 27) and there is also movements of materials and money. This is because 'Translation cannot be effective, i.e. lead to stable constructions, if it is not anchored to such movements, to physical and social displacements' (Latour, 1986a, Law, 1986a in Callon, 1986b). The organisation, structure and movement of entities by the actor-world are thus achieved through displacement.

This aspect of translation is especially important, as the actor-world has to act on the enrolled entities from a distance. One of the prime modes by which the disruptive potential of distance is combated is that of the 'immutable mobile' (Latour, 1987). The immutable mobile is some form of text - graphs, figures, formulae, writing - which can be moved, remain stable, and is combinable with other such texts. It facilitates the capacity of particular entities to centralise and monopolise such meanings at 'centres

of calculation', such as laboratories, where these materials, traces and so on can be tied together. Hence, the actor-world accumulates resources and materials which in turn render that world durable (Singleton, V. 1993).

### ***Translation centres/centres of calculation***

Finally, Callon (1986b) refers to the locations at which translation strategies are evolved and where attempts are made to organise and structure the movements as *translation centres*. That is where 'attempts are made to control the diverse elements that make up the actor-network and calculations about the return from different strategies are made. Locations which are able to turn themselves into spokespeople for other entities and, in some sense, profit from this asymmetry' (Callon 1986b: xvii). Whilst Latour conceptualises it as, the *centre of calculation* (1987, 1990)<sup>5</sup>.

### ***Phases of translation***

Callon (1986a) has introduced four main phases/moments/strategies in the process of translation, which provides a framework for describing phases in network formation. 'This endeavour consists of four moments, which can in reality overlap. These moments constitute the different phases of a general process called translation, during which the identity of actors, the possibility of interaction and the margins of manoeuvre are negotiated and delimited' (p: 203).<sup>6</sup>

**-Problematism:** which involves defining and exploring a problem or an opportunity. That is, defining the nature and problems of other actors in such a way as to present the agent as the solution to the 'problem'. Problematism is thus a specific form of translation. The agent seeks to enrol other actors into a network by presenting a problem of the latter in terms of a solution belonging to the former. Alternatively, by

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<sup>5</sup> See also Robert Cooper (1992), for an analysis of organisations or modes of organising, which draws on ANT and in particular the analysis of centres of calculations developed by Bruno Latour.

<sup>6</sup> See Callon (1986a) for full and detailed discussion on the four phases in the process of translation.

equating two problems, different actors can also become bound together in solving that 'common' problem (Bloomfield and Best, 1992). Ultimately, through problematisation, the enrolling agent attempts to become indispensable, an *obligatory passage point* in the network of relationships being established, through which the others must pass in the attainment of their interests and thus, in doing so, help further the interests of the agent (Callon, 1986a, 1986b; Latour 1987).

- **Interessement:** a series of processes where those who have relevant solutions try to persuade others to take on roles that have been proposed for them, and collaborate in pursuing their favoured solution.

-**Enrolment:** a set of strategies to define, distribute and co-ordinate roles.

-**Mobilisation:** methods to ensure that 'spokespeople' for collectivities or organisations are able to represent those collectivities, and are not betrayed by the latter, that is to ensure commitment (p. 203-220).

Latour (1987), however, puts it like this: 'translation is the interpretation given by the fact-builders of their interests and that of the people they enrol' (p. 108). The main phases he identifies are two:

-**To enrol others** so that they participate in the construction of the fact.

-**To control their behaviour** in order to make their action predictable.

The results of such renderings are a slow movement from one place to another. The main advantage of such a slow mobilisation is that particular issues (like that of the science budget or of the one-car model) are now *solidly tied* to much larger ones (the survival of the country, the future of cars), so well tied indeed that threatening the former is tantamount to threatening the latter. Subtly woven and carefully thrown, this very fine net can be very useful at keeping groups in its meshes (p.117).

The quandary of how to control those that are enrolled (Latour, 1987) is settled in the process of translation; that is translation is a process before it becomes a result and can change over time. 'In summary, to translate is to speak for, to be indispensable, and to displace' (Callon, 1986b: 28).

The basic operation of translation is triangular as it involves a translator, something that is translated and a medium 'in which that translation is inscribed' (Callon, 1991: 143). And the medium/the material into which it is inscribed has to be defined like money, texts, round-table discussions, public declarations, technical objects, etc. - the possibilities are endless. This is how Callon (1986a) puts it:

To translate is to displace...but to translate is also to express in one's own language what others say they want, why they act in the way they do and how they associate with each other: it is to establish oneself as a spokesman. At the end of the process, if it is successful, only voices speaking in unison will be heard (p. 223).

[Thus;] Translation is the mechanism by which the social and natural worlds progressively take form. The result is a situation in which certain entities control others. Understanding what sociologists generally call power relationships means describing the way in which actors are defined, associated and simultaneously obliged to remain faithful to their alliances. The repertoire of translation is not only designed to give symmetrical and tolerant description of a complex process, which constantly mixes together a variety of social and natural entities. It also permits an explanation of how a few obtain the right to express and to represent the many silent actors of the social and natural worlds they have mobilized (p. 224).

It should be clear that the 'process of translation' is what both Callon and Latour emphasise as the main process in forming, stabilising and destabilising networks and is thus of great explanatory value if one is to analyse the 'dynamic' of any network. And according to them it can explain how one grows from being micro-actor to macro-actor (as was discussed above) as well as how one obtains the 'right' to control others and speak on their behalf.

However, it has to be pointed out that the processes of translation and problematisation are not unidirectional. Law and Callon (1982) suggest that the relations and transactions between the actors in a network shape those actors by, for example, securing their neutrality, redefining the formulated interests of existing actors so that they perceive their interests in terms of the "solution" presented, or even creating new

actors from existing entities. That is, they emphasise that this is a process of mutual shaping.

From this perspective, then all institutions/organisations are ordered networks of heterogeneous materials whose resistance has been overcome. Analysis of ordering struggle is central to ANT. Thus 'translation' implies transformation and the possibility of equivalence, the possibility that one thing (i.e. actor) may stand for another (i.e. a network) because that is how one obtains the 'right' to control others and be a spokesperson for them. Or following Latour's (1986) terms 'convincing' people to act in a predetermined way is an outcome of a process of accumulation of resources and efforts which makes it possible to channel them through certain specified points. So organisational power does not emanate from the leader/s at the centre in a diffused mode, but is the result of subordinates' translative action. Hence the analysis is shifted away from the problem of subordinate resistance to the problem of compliance (Grint, 1991).

### ***Power***

ANT is therefore about power - power as a concealed or misrepresented *effect* rather than power as a *cause*. While it is concerned with practices or mechanics of power, it concentrates on the interpretative practices of humans in association with non-humans and tells empirical stories about processes of translation (Law, 1992). Power is composed here and now by enrolling many actors in a given political and social scheme, and is not something that can be stored up and given to the powerful by a pre-existing society. Latour (1986:264-265) argues: 'when you simply *have* power - *in potentia* - nothing happens and you are powerless; when you *exert* power - *in actu* - *others* are performing the action and not you'. For Latour, 'power is not something one can possess - indeed it must be treated as a consequence rather than as a cause of action' 'Power is the illusion people get when they are obeyed'. Power is 'made of the wills of all the others' (1986). 'Domination is an effect not a cause' (1991).

In other words, by looking at and exploring the mechanism or practices that prevails within a network or organisation one should be able to analyse the dynamic forces of construction. To show/explain how certain institutional/structural forms arise as a solution to a certain demand, for example, the need for order or control, and at the same time explore where effective 'power' lies. Law (1991a: 186-187) argues that it is:

Impossible to understand power ... without exploring and coming to terms with the heterogeneity of what we like to call 'the social'. ...Indeed, I cannot imagine what a purely social relationship would look like: arguably, there is no such thing. This, then, is why I take technology - and, to be sure, other material arrangements including bodies and texts - to be so very important if we have a concern with power.

### ***Convergence and irreversibility***

The notion of '*convergence*' measures the extent to which the process of translation and its circulation of intermediaries lead to agreement and it has two dimensions 'alignment and co-ordination'. A *strongly aligned* network is where translations are successful, and a *weakly aligned* network where those conditions are not met. Co-ordination on the other hand refers to the imputation of authorship (which as noted above 'makes' the division between actors and intermediaries). Those imputations, Callon argues, 'are shaped by more or less explicit and stable rules or conventions that have been produced in past interaction' (1991: 146). He divides them into three.

- Rules about the *identity* of actors, which can vary from written laws to customs.
- Rules and conventions about *imputing intermediaries* to particular actors.
- Conventions about who may *speak* on behalf of whom.

The operation, and to some extent the development and interpretation of these rules, depends on groups that Antoine Hennion calls mediators which work to focus attention on certain targets. They may be human (lawyers, notaries, barristers, industrial property offers), texts, or technical objects (Callon, 1991: 157).



These rules or conventions can either embody general definitions like ‘what is to count as citizen’, or be limited and only locally valid like ‘collective agreements in specific industrial sector’. But the distinction is only relative as local convention can for instance spread and become general and vice versa. Thus, Callon speaks of *weak co-ordination* when a network has no specific local rules and *strong co-ordination* when network is shaped by local *and* general rules. So the higher degree of alignment and co-ordination the more convergent the network is, and the scope for translation is relatively restricted and behaviour within the network becomes relatively predictable.

‘*Irreversibility*’ refers to a situation where new or alternative translations are blocked within a network. Callon suggests:

the more numerous and heterogeneous the interrelationships the greater the degree of network co-ordination and the greater the probability of successful resistance to alternative translations (1991: 150).

Thus a network that has a high degree of irreversibility is a network that has become heavy with norms, or in other words, it has been normalised by standardising and constraining intermediaries and actors.

A network whose interfaces have all been standardised transforms its actors into docile agents and its intermediaries into stimuli, which automatically evoke certain kinds of responses. The rules of co-ordination then become constraining norms which create and control deviance: the past engages the future (Callon, 1991. 151).

### ***Simplification and punctualisation***

There are two more concepts that need to be outlined here. *Simplification* is the inevitable result of translation, which is necessary to construct the actor-network and actor-world. Callon (1986b: 28-29) argues:

Simplification is the first element necessary in the organisation of an actor-world: indeed it is an inevitable result of translation. In theory, reality is infinite. In practice, as a result of the translations that it brings about, an actor-world is limited to a series of discrete entities whose characteristics or attributes are well

defined. The notion of simplification is used to account for the reduction of an infinitely complex world by means of translation.

An actor network as has been described here can in turn be simplified into a point and *punctualised*, that is converted into a single point or node in another network and plays there the role of actors or intermediaries. In other words, ANT points out that networks are not always visible - we are not aware all the time of the network that lies behind and make up an actor or organisation. When that happens, the network has been 'punctualised'. If a network acts as a single unit, then it disappears, to be replaced by the action itself and the 'simple' actor of that action. In addition, since punctualisation is an effect, the way in which the effect is generated is also effaced; it is neither visible nor relevant. For example, a well-managed bank, a working television set or trade union federation that has been 'simplified' to a function of collective bargaining - comes, for a time, to mask the networks that produce it (Law, 1992). This is an important feature of the networks of the social that has to be taken in to an account when mechanics of power and power relations are explored.

When a network is strongly convergent and irreversibilised, it can be assimilated to a black box whose behaviour is known and predicted independently of its context. It may then link itself to one or more 'external' actor-networks with which it exchanges intermediaries. Under such circumstances it is *punctualised* in these other networks (Callon, 1987)... The principle, then, is general: networks of punctualised networks may themselves be folded up into points. And, as such points are clustered together, so one moves from the micro-social to the macro-social. But convergence and irreversibility may also decrease (Callon 1991: 152-153).

In other words, entities are 'black-boxed', reducing an infinitely complex world to a manageable one. Each simplified entity in the actor-world is another network, each black-box is a network in its own right. However, the simplifications are only maintained as long as other entities do not reject the reality that they represent as a simplification. That is, as long as the black box is unopened. This is a crucial concept in ANT. The opening of black boxes is the way in. Once a black box is closed, its

contents are not open to analysis, they are forgotten and invisible. The processes of translation are hidden within the black box.

An entity, firm, technical device, or social group is assigned to a black-box and the actor-world may thus be seen as a bundle of black-boxes (Callon, 1986b: 34)

The actor-network can, in turn, be ‘simply’ defined as the structure of the actor-world. Finally, it has to be stressed that the whole actor-world is unreliable and can break down if all the entities do not play their part. The actor-world can thus be weakened or strengthened as a consequence of the actions of the entities that constitute it. The following table 3.1 gives an overview of the key components of ANT.

**Table 3.1:*****The Key Components of ANT***

<i>Category</i>	<i>Definitions</i>
Actor-network	Is composed of a series of heterogeneous elements, human and non-human, that have been linked to one another for a period of time and have been successfully translated or enrolled by an actor that is thereby able to borrow their force and speak or act on their behalf or with their support. Can be ‘simply’ defined as the structure of the actor-world.
Actor-world	The world of entities generated by an actor-network. Can be seen as a bundle of black- boxes.
Intermediaries	Can be seen as both forming/composing and describing/giving order to networks. Give shape, existence and consistency to social links. <ul style="list-style-type: none"> <li>• Literary inscriptions or texts Books, reports, notes, tapes etc.</li> <li>• Technical artefacts Machines, computers, robots etc.</li> <li>• Human beings Their knowledge and skills.</li> <li>• Money In all its different forms.</li> </ul>
Translation	The methods by which an actor enrolls others as allies in the building of a network. These methods involve: a) the definition of roles, their distribution, and the delineation of a scenario; b) the strategies in which an actor-world renders itself indispensable to others by creating a geography of obligatory passage points; c) the displacement, that refers to the ways in which enrollers organise and structure movement of materials, resources and information.
Translation centres/centres of calculation	Locations at which translation strategies are evolved, attempts are made to control the diverse elements that make up the actor-network and calculations about the return from different strategies are made.
Phases of translation	Four moments which can in reality overlap. These moments constitute the different phases of a general process called translation, during which the identity of actors, the possibility of interaction and the margins of manoeuvre are negotiated and delimited. <ul style="list-style-type: none"> <li>• Problematization Involves defining and exploring a problem or an opportunity. That is, defining the nature and problems of other actors in such a way as to present the agent as the solution to the ‘problem’. A form of control that involves imposing an itinerary upon others by making oneself indispensable to them.</li> </ul>

<ul style="list-style-type: none"> <li>• Interessement</li> <li>• Enrolment</li> <li>• Mobilisation</li> </ul>	<p>A series of processes where those who have relevant solutions try to persuade others to take on roles that have been proposed for them, and collaborate in pursuing their favoured solution.</p> <p>A set of strategies to define, distribute and co-ordinate roles. Roles are not fixed and pre-established, and neither are they necessarily successfully imposed upon others.</p> <p>Methods to ensure that ‘spokespeople’ for collectivities or organisations are able to represent those collectivities, and are not betrayed by the latter, that is to ensure commitment.</p>
Power	Is a consequence or effect but not a cause for action. Power is composed here and now by enrolling many actors in a given political and social scheme and can not be stored up.
Convergence	Measures the extent to which the process of translation and its circulation of intermediaries leads to agreement.
Irreversibility	Refers to a situation where new or alternative translations are blocked within a network
Simplification	Is the first element necessary in the organisation of an actor-world and is the inevitable result of translation which is necessary to construct the actor-network and actor-world. It is used to account for the reduction of an infinitely complex world by means of translation.
Punctualisation	Is an effect, an actor-network that has been concerted into a single point or node in another network and play there the role of actors or intermediaries. A simplified entity that is nevertheless also a network in its own right.
Black-box	A way of talking of the simplified points that are linked together in an actor-network. Each simplified entity in the actor-world is another network; each black-box is a network in its own right.

## Conclusion

This chapter has given an overview of the development in network theorising. It started by exploring early development of social network analysis, which conceives of social structure as patterns of relations joining social units that include individual, organisations and states. Social network, therefore, consists of points representing individuals connected by lines. This basis assumption is the one that this thesis builds upon and is the underlying theory in this study. The chapter went on to examine intra and *inter* organisational network, which are most commonly used in organisational studies. The main concept in *inter* organisational network is interlocking directorships. In the study of interlocks, the lines connect companies through individuals who occupy positions on the boards of directors of those companies. In other words, interlock is the social relation that is created between two companies, when the same individual is a member of the board of directors in both companies. Interlock is thus one link in a chain of connections that is called a network of interlocking directorships, and the greater the number of interlocks the more complex the network becomes. The study applies this approach along with the social network approach. In other words, the theoretical approach is that individuals are linked together and form a social network and individuals connect organisations and this creates social structure. This is what has been referred to in this chapter as the traditional approach of network analysis.

The second half of the chapter was devoted to the ‘new network approach’ ANT, which claims that the ‘traditional’ approaches of network analysis discussed in this chapter share certain limitations. There are four main limitations of the ‘traditional’ theories according to ANT. First, they are static, rather than dynamic, that is they conceive of organisation as a ‘ready made’ stable entity instead of conceiving them as on-going processes, ‘in the making’, therefore they would be of limited use in exploring how changes occurred but would rather become a way of recording the change. Second, they are closed not open; they have a clear boundary distinction between human/non-human, social/technical, organisation/environment and micro/macro and tend to take those

distinctions as starting point of inquiry instead of exploring how the distinction came about. In contrast, ANT takes such distinctions as the outcome of the processes within a 'network/association' and therefore they can not be used to explain anything, as they are consequences not causes. Third, they focus on organisations rather than being societal. In other words, the 'traditional' approach tends to emphasise structure at the expense of process and are therefore 'structural' in nature and have a clear distinction between society and organisations. ANT sees organisation as an achievement, a process, a consequence, a precarious effect generated by local processes of patterning, social orchestration, ordering and resistance between different forces in society. Hence, society is also a consequence of an action and interaction of different associations, human and non-human and society and organisations can not be separated as they are permanently interwoven in a 'seamless' web'. Fourth, as the 'traditional' approaches have a clear separation between the social and technical, they are not able to fully recognise the importance of interaction between the technical and social and therefore social interaction becomes removed from the tools, material and so on.

In short, it is suggested here that Actor-Network Theory with its emphases on translation process, *might* be of value as an analytical framework for this study which aims to explore the mechanics/dynamics that have lead to the formation of the vast and complicated actor-world/actor-network that the Icelandic labour movement is a part of. The aim is to analyse the power effect these networks bring into existence and explore the paradox this poses for the labour movement, in that it renders them strong and weak. The ANT sees the network as an achievement, effect or a consequence from interaction between materials (i.e. money, laws and written contracts) and strategies of the network. The notion of translation could have an explanatory value for the purpose of this study, as it is useful in exploring and providing explanation on how resistance is overcome and how/why entities enrols in networks. In other words, why entities (human and non-human) become compliant. ANT might therefore throw light on why some 'situations' have come to prevail in a society and others not, that is 'suppressed alternatives' to use

Barrington Moore's term (1978: 376). Finally, it has to be pointed out the ANT can be bounded but the setting of boundaries is always an arbitrary imposition, since no absolute beginnings or ends can be assumed, as everything is 'in making'. Any boundary, in terms of 'time' or 'space', would result from the need to tell a 'story'. The ANT will therefore be applied to the main elements of the study in the concluding chapter to see if it can add anything to our analysis.



## **CHAPTER 4: METHODOLOGY AND DATA COLLECTION**

### **Introduction**

Here I want to explain in broad terms the approach of the study, from a principal and practical point of view. This chapter provides an overview of the research design, methods and analysis, it covers the reasons for their selection and some of the problems experienced. The chapter starts with brief discussion on data and the sampling procedure. It then describes the methodology used. Brief discussion on historical analysis comes after that. Then follows in some detail an outline of the process of collecting data, mapping, and drawing up linkages or 'network'. The data collection for two types of relational connections among companies, shareholding connections and interlocking directorships is described along with method used to analyse the data. Finally, there is a brief section on interviews and problems.

The overall design of the research is a 'before' and 'after' Íslandsbanki was established in 1989. That is from the early 1960s when the financial sector was deregulated until 1989 and then the period after that until 1997-1998. There is also a historical dimension to the research spanning the period from early this century until 1960.

### **Data and sampling procedure**

The data I have collected and used for this study is predominantly *relational data* (Scott, 1991). That is, the data I have collected are contacts, ties and connections, which relate one actor to another and so can not be reduced to the properties of the individual actors themselves. Relational data emphasis upon the investigation of the structure of social action and structures are built from relations, such as interlocking directorships, kinship patterns, corporate and community structure. According to Scott: 'Relations are not the properties of agents, but of system of agents; these relations

connect pairs of agents into larger relational systems. The methods appropriate to relational data are those of *network analysis*, whereby the relations are treated as expressing the linkages which run between agents' (1991:3). The choice of sampling for this research was initially easy as the original research question was: Can the explanation for the labour movement's paradox lie in the network of linkages that exist between the employers and the trade unions, especially through their co-operation and control of Íslandsbanki and the pension fund industry in Iceland? Therefore, I selected the following organisations and their affiliated members as a starting point of inquiry: Federation of Labour (ASÍ) and its individual trade unions, the individual pension funds, the Association of General Pension Funds (SAL), the National Association of Pension Funds (LL), the Federation of Employers (VSÍ) and Íslandsbanki. When, however, a vast and complicated network started to appear out of my inquiry in these organisations and its members, the sample turned into a form of snowballing (see, for example, Frank, 1978, 1979). In other words, when I had collected information on all the contacts of the sample members, I added these contacts to the sample and discovered their contacts in the same way. This is how I was steered towards broader analysis in this study, which led me to investigate the structure of interlocking directorships and shareholding in the corporate community in Iceland. Clearly, I had to draw some sort of boundaries – although they might be wholly artificial - to close off the sample. Therefore, my definition was that members had to have strong connections to the private pension fund industry and /or Íslandsbanki and for practical reasons I concentrated on companies registered on the stock exchange (see below). Finally, in order to give evidence and show the importance of the pension fund industry for Icelandic economy, statistical data was collected on the pension funds growth, assets, and investments.

## **Methods**

I set about the study with the aim of using documentary sources such as published and unpublished material from the labour movement and from other sources, semi-structured interviews, reports, and Icelandic newspaper articles where possible, as complementary techniques to obtain a database of information, linkages, views and opinions about circumstances and events. As such, I relied heavily upon the use of qualitative research methods for data collection and analysis. In large measure, this reflected the exploratory nature of the research and my initial lack of familiarity with the setting and the subject. I likewise felt it was important to gain as full as possible an understanding of the context of the social processes or networks I was aiming to explore. However, I ended up by using multiple methods and although I relied mostly on qualitative methods, I had to use quantitative methods such as statistical counts of relations. Therefore, the outcome of this study is based on combination of qualitative and quantitative methods. One reason for this is that much of the data I needed was not available and had to be compiled from many different sources and put together to build a picture. Moreover, this reflects the shift in the focus of the study from trade unions as such to broader analysis of the power structure in Iceland. This shift meant that I included analysis of shareholding on the stock exchange over five-year period, analysis of directorships from company records and other documents and family records. Thus, I ended by collecting huge amount of data that was very time consuming and took a long time to analyse, accordingly the time scale for the research expanded. Finally, no computer program was used to aid the research; this I believe now was a mistake. The particular reason for this was that the research was slowly expanding and I was drawing networks and analysing as I went along. When I finally realised the amount of data I was trying to cope with, the research was well on its way and I thought it would be too time consuming for me to start then feeding and using a computer program such as, for example, the NUD\*IST (Non-numerical Unstructured Data Indexing Searching and Theorizing). Computer processing would most certainly have saved me a considerable amount of time and allowed me to analyse the data in more detailed and

possible different ways. Instead of spending hours and hours, which quickly compiled into months, painstakingly arranging and rearranging strips of papers on the floor of my dining room trying to identify those names which appeared more than once. In other words, mapping and counting names, positions and organisation. Then after having identified those people, I had to organise that data to find out what kind of a structure appeared. I finally created enough wall-charts to decorate a flat with, but the result was that a definite structure of relations emerged. Indeed, it may be quite impossible to use conventional manual methods of drawing and constructing a 'sociogram' for a large network. What made it possible in this study is that organisations in Iceland are small in relative terms and have therefore relatively few members.

### **Historical analysis**

A fine line has always been capable of being drawn between history and many of the social disciplines such as sociology, political science and economics. The boundary between such disciplines is, however, necessarily somewhat artificial. In seeking an explanation and understanding of the 'resent' transition in Icelandic society, which this study argues started with the deregulation in the financial sector in the 1960s, the analysis has to be complemented with an historical insight. The emphasis is on the process rather than on here-and-now (see Dunkerley, 1988). Historical analysis is even more important if one is concerned with the analysis of broad societal changes rather than at the more micro level. The period from early this century until 1960 is discussed in the second half of chapter 2 and the main aim is to give the reader insight into the political and economic development and 'social processes' in Iceland at this time, which was characterised by élitist power structure. The rest of the research focuses on development and processes of 'social' and 'financial' networks from the 1960s to current date. Essentially the concern of the study is to identify whether formation and development of social networks between the labour movement and employers has affected and contributed to changes in the financial sector, creating 'new financial

networks of power' and at the same time to detect the current power structure in Iceland. It therefore starts the analysis at micro level by looking at interaction / linkages between actors that form a network, which again connect into another network who in addition have links into yet another network and so forth. The consequences and expansion of this network formation can affect and in turn change the structure of society.

The data I collected for the historical analysis were mainly secondary sources, for example, historical accounts, historian researches, political and sociological studies, autobiographies and biographies on politicians, trade union leaders and the first capitalists, and family histories. I looked at contemporary newspapers and periodicals in the National Archives (Þjóðskjalasafn) and the Reykjavík Archives and I examined documents at The Labour Movement Historical Society. Finally, I got lot of help and useful information from Stefán Hjartarson, a historian who is writing the history of ASÍ, not only concerning this early period but also on the period after 1960. This collection took place in 1991 and 1992 and I was analysing the data as I went along, which again took me into different directions for data collection. The primary reason being that I wasn't too sure what I was looking for at that time which made this part of the research rather unsystematic. This journey into the past was however, I felt, very fruitful as it clarified for me what main issues I wanted to focus on in this study and convinced me that historical perspective was necessary framework for this reasearch.

The analysis of the data collected for this part took longer time then I expected but I was trying to understand the social processes in that period. Many of the historical documents focused on certain events without identifying the actors so often I had to piece together that information. This, however, turned out to be helpful for me as I slowly came to realise that 'multidimensional roles' were extremely common among people with authority positions in Iceland. For example, a different discription of events might mention the bank manager, the lawyer, the minister and so forth and I

would find that in all cases it was the same man. This was of course most obvious among the ruling élite, but multidimensional roles were also very common among trade union leaders in this period. Hence, this people was/is interlocked into many levels of society and into many social networks, which can reduce conflict and increase co-operation. Another thing that I thought important for the study was the increased use by political parties of committees late in this period. These factors set the scene for the main data collection and led me to network theorising.

### **Social networks**

First, I had to establish if a network of social linkages really existed between the labour movement and employers in Íslandsbanki and in the private pension industry. I started by inquiring who were on the boards of those organisations, that is the Federation of Labour (ASÍ) and its individual trade unions, the individual pension funds, the Association of General Pension Funds (SAL), the National Association of Pension Funds (LL), the Federation of Employers (VSÍ) and the bank. Good source for this information for the Federation of Labour was the annual report of the ASÍ president. There I found information on who served on the board of ASÍ and in many cases who served on boards of the affiliated trade unions. The findings showed that the leaders of the largest trade union also served on the ASÍ board, which I found logical. I then went through the annual reports back to the year 1958-60 to explore how long these people had served on the ASÍ board, as stability and consistency is a factor I was concerned with in this context. I found that most of this people had been on the board for a long time, 15-20 and up to 30 years (this was in 1992-93 and in 1998 many are still on the board). In these reports and in some additional documents that I obtained from the Labour Movements Historical Society I also traced key members who appeared to serve most often on government committees over this period, as representatives of trade unions. I investigated as well the board of the People's Bank from its establishment (1970) until it merged with Íslandsbanki in 1989. This involved a painstaking trace back and forth through the reports and other trade union documents

as very little direct information on the People's Bank were available. The names of all individuals on above-mentioned boards were written up and compared so an individual serving on more than one board or committee could be found. The picture that emerged was of an inner circle within the ASÍ. This circle serves as leaders on large trade unions affiliated to ASÍ, on the main board or the steering committee of ASÍ, on all the essential government committees where trade unions have a representative, and some were on the board of the People's Bank.

I then moved on to explore the boards of the pension funds, both individual funds and the Association of General Pension Funds (SAL) and the National Association of Pension Funds (LL). All the boards have equal members from VSÍ and ASÍ. I aimed to inquire into two things, who are on the boards and how long have they served but the private pension funds were established in 1969. It was not straightforward finding the required information. A report from SAL (Starfsskýrsla SAL) published every other year gives information on who sit on the board of SAL and their affiliated pension funds. This report however, was only available as far back as early-1980s so I had to find information from before the early-1980s period from other sources. I pieced them together from sources such as the ASÍ reports mentioned above, which used to have a small section on the pension industry in its first years, the SAL journal that was published on and off and documents from the Federation of Employers (VSÍ). I did this in a similar way as described above, writing down the names, years and so forth and comparing and drawing a line to trace each individual. Most of the members on the board of SAL both from ASÍ and VSÍ had served there for a long time, some from the beginning of the funds. In 1994 the period of service for members ranged from 7-24 years. The analysis showed similar pattern as was described above, that is those who served on the board of SAL, were also on the boards of pension funds affiliated to SAL. Moreover, the people from the ASÍ side turned out to be, in most cases, the same people as was identified the 'inner circle' of ASÍ. In other words, a structure/network of power relations within ASÍ emerged in the form of a relatively few people, who are

through their relations or linkages a part of another network. Finally, key members from this 'inner circle' were found to serve on the board of Íslandsbanki and on the board of other financial institutions such as investments funds.

The other network is from the VSÍ, that is the employers side. The same method as was described above, was used to trace the connections between the VSÍ people serving on Íslandsbanki and the board of SAL and its affiliated pension funds. The only difference is that, in this case, linkages were traced from the pension funds and the bank into committees, companies and so forth. Whilst on the ASÍ part I started with the trade unions and traced linkages into the pension funds and Íslandsbanki. The reason for that is the focus of the research was firmly on the labour movement in the beginning. It was actually this particular process of tracing connections from VSÍ into the broader society which was the turning point for the shift of focus for the study. The linkages connected representatives from the employers side into financial institutions, government committees (where they served along with ASÍ members), the Federation of Employers (its director is on the board of SAL) and into the boards of many of the largest and influential companies in Iceland. Main data sources, apart from those mentioned above, are company reports, newspaper cuttings and annually published report over Icelandic business (Íslenskt Atvinnulíf). When these connections became visible, I started to realise that the structure of relations among companies in Iceland and from them into other institutions might be of relevance for my study.

### **Shareholding**

I decided to investigate two types of relational connections among companies, shareholding connections and interlocking directorships. For practical reasons I concentrated on companies registered on the stock exchange when collecting data on shareholding. Firstly, because Icelandic companies are not very willing to give information about their 'internal' affairs but when they register on the stock exchange



some information is supposed to become more available. Secondly, it set the frame for my sample, however, it has to be pointed out that over the four years period I was collecting the data, the number of companies on the stock exchange grew from 17 to 37. When I set the limit for my collection at the end of 1996, 31 companies were registered and that is my sample.

In spite of the fact that information on shareholders and company board directors should become more easily available when companies are registered, I had enormous problems getting information. I soon learned that if I approached the companies directly I was very likely to get a straight forward refusal. For example, when I went to Íslandsbanki for information or a list over their largest shareholders, I was told I would need to buy a share to see the list. Then I asked if they would give me information on proportional division of shares between the pension funds, trade unions, and private employers, but they refused. The data for this part of the study was, therefore, pieced together from many different sources such as the annually published report over Icelandic business (Íslenskt Atvinnulíf), report from the 'competition and monopoly' committee and annual company reports, when I could get hold of them. Nevertheless, the main source was newspapers cutting from the business section of the daily morning paper (Morgunblaðið). The business section informs on companies on the stock exchange market and often publishes the list of 10-12 largest shareholders, that is, their names and how much they hold as a percentage of each company. Sometimes, the business section publishes, as well, who are on the board of directors in each company. My mother in law got the task of sending me the newspapers, once a week from Iceland over five years period, but without the newspaper I would have had even more difficulties in getting the data I needed.

## **Interlocking directorships**

The data on interlocking directorships derives particularly from newspaper cuttings - from the same source as described above. I also drew information from two Icelandic books, which both discuss interlocking directorships in Iceland but from very different perspectives. The first one is called *Kolkrabbinn* (The Octopus) (Árnason, 1989) and is written in a fictional style, but much information in that book I found to be reliable when I compared it to my findings. The second book is *Innri Hringurinn og Íslensk Fyrirtæki* (Jónsson.F and Jónsson, Í, 1992). This book is the first attempt to build up a database containing information on individuals who are on boards of Icelandic companies. The database proved useful for my study and helped to confirm many of my findings. The book, however, solely, concentrates on individuals and gives no information on other connections between companies such as financial connections. Jónsson et al, collected their data in 1991 whilst my data is collected over the period 1993-1997. Comparison between the two, shows that in 1997 interlocking directorships have become more dense than in 1991, whilst is consistent with my findings on shareholding connections. For example, an individual that I found in 1997 to be interlinking 13 companies, only interlinked 4 companies in 1991 according to Jónsson et al. The individual they found to have most interlinks was from the co-operative movement and interlinked eight companies. Differences in approach to data collection might account for some of the differences in outcome. Jónsson et al. fed into a computer the names of the individuals on the board of directors in all companies that employed 15 people or more, for which they had information. Hence their sample is very much larger than mine and should therefore have 'picked up' more connections than mine. Whilst I concentrated on companies on the stock exchange and use 'snowball sampling' (see above). I would suggest, however, that the differences do not arise from different approach in data collection, rather they reflect the changes that have happened in Icelandic corporate community since 1991. The co-operative movement has lost much of its power and private employers are rapidly gaining power (see chapters 7 and 8).

The method I used to find the structure of interlocking directorships among companies on the stock exchange was similar to tracing the social networks described above. I typed up the names of all individuals on the board of directors, put them on a chart and drew lines from one corporation to another to identify names that appeared more than once, using different colours for different numbers of connections. For instance, an individual with two connections was marked with a light blue colour, with three green colour and so forth. In this way it was easy to see which corporations were most connected and which individuals interlinked most companies. Using a colour code also made it easier to count relations to create tables and figures. Linkages from the 'centre' (see chapter 7 and 8) were traced and analysed in similar manner. Finally, to explore kinship patterns I drew on material from family histories and life stories. I relied heavily on a magazine called 'Heimsmynd' which published the family histories of 'well-known' Icelanders 1989-1991. Through these I tracked down family and marriage connections of the 'multiple directors' in a similar way as I traced other linkages.

### **Interviews**

My sample for interviews focused on key representatives from the labour movement most of whom came from the 'inner circle', this included the president of ASÍ 1980-1992 which has since then been a director in Íslandsbanki and the president 1992-1996, other members of ASÍ were leaders of large trade unions and also on the board of SAL. I interviewed the managers of SAL and LL along with two managers of affiliated pension funds, an economist from ASÍ, the Chambers of Commerce, and the director of VSÍ. Finally, I interviewed the leader of BSRB (The Federation of State and Municipal Employees) and the leader of BHMR (The Association of University Graduates). In total, I interviewed 20 people.

My particular aim for using interviews was to try to find out views and opinions about the ASÍ and VSÍ co-operation in Íslandsbanki and in the pension fund industry. As was noted above I set about with the aim of using semi-structured interviews. I, however, found out very soon that in order to get my informants to speak about this topic, it worked better to have unstructured 'conversations'. Therefore, I developed an interview schedule that was little more than a list of topics to be addressed in the interview. During the interview process, it became clear that I was dealing with a very sensitive subject. People never refused straight out to answer but gave confusing and indirect answers or said they had not formed an opinion regarding the matter. Furthermore, I soon learned that, as when I was taping the 'interview/conversation', people were more on guard; and, when I turned the tape off, they might suddenly start to talk. As each interview usually lasted about an hour, in some cases longer, I started to turn the tape off after about 40-45 minutes and it was very interesting to see how suddenly people had opinions and issues that were not anticipated started to surface, however, confidentiality had to be assured. All information I collected this way were recorded manually in form of field notes. I found also that some were more defensive than others; for example, the ex-president of ASÍ, who had recently started to work as a director in Íslandsbanki. When I interviewed him, he was justifying ASÍ co-operation with VSÍ throughout the interview with the basic argument that the financial sector needed to be more efficient and they were building a foundation for industrial development in the future. He and the director of VSÍ and the managers of SAL and LL all emphasised that Iceland is 'special' because of its small population and therefore it is very difficult to find 'qualified and competent' people to serve on the pension fund and at the same time not having other interests that might be in conflict. However, they also claimed that conflict of interests usually did not occur on the boards of the pension funds for example, regarding investment policy although 'there is a tendency to invest in larger and more reliable companies'(source: interview notes).

Roughly, the interviews reflected three views. Firstly, key leaders of ASÍ and VSÍ, SAL and LL all defended the co-operation and claimed there were no conflict of interests. Secondly, some trade union leaders either said they felt they were sitting on both sides of the table, but could see no conflict of interests, or they didn't have an opinion on the matter. Thirdly, outsiders such as the leaders of BSRB and BHMR both expressed their concern with this co-operation between ASÍ and VSÍ. They said that whilst ASÍ and VSÍ were working in harmony, ASÍ was moving away from other trade union federations and in many cases working against them.

### **Problems**

Overall, the data collection and analysis took me a lot longer than I expected and was more difficult. Because of the sensitivity of the subject, my approach became more indirect than I assumed it would be, for example, the collection of information on shareholding (see above). I tried to get interviews with more of the VSÍ members but all refused, and I would probably not have got the interview with the director if it were not for a coincidence. I had been trying for three weeks to get the interview but the director kept cancelling. One day I was in the office of one of the large trade unions taking another interview. That person asked me who I was planning to interview and I told her about my problem. She immediately said she would see what could be done, rang the director and I got the interview next morning. After that I did not hesitate to use my own personal 'network' to find information and that is how I got hold of many documents which were extremely useful for me, such as annual pension funds reports and other inside information from the labour movement. The only thing I did not manage to get any information about was the merging process of the People's Bank into Íslandsbanki, and basically I got very little information at all over the People's Bank. The Historical Society of the Labour Movement has a box containing documents relating to the People's Bank, when I asked to see it that was no problem,

but when I opened it, it was almost empty and nobody seem to know where the documents were.

## **Conclusion**

This chapter has tried to give an insight into the research process of this study, the data collection, sampling procedure and methods. The prime research approach was qualitative and the data collected was predominantly relational data. Documentary sources, such as published and unpublished material from the labour movement and from other sources, interviews/ unstructured ‘conversation’, reports, Icelandic newspaper articles and family histories are the main source of evidence. The chapter described in some details the methods of manually mapping out and drawing networks. The chapter provides an important link between the issues covered in chapters 2 and 3 and the analysis that follows in the next four chapters.

## **CHAPTER 5: THE PENSION FUND INDUSTRY IN ICELAND**

### **Introduction**

The net cash flow into pension funds is growing faster than those in any other financial institution in Iceland. Thus the pension funds constitute the most important source of long-term finance in the country, and play a crucial role in the ongoing development of the financial market. These pension funds also have a major role to play in the revitalisation of Icelandic industry and are therefore of great importance for the economy as whole. Who controls this source of finance and what the implications of that control are will be the main issues discussed in this chapter. This will involve exploring how linkages and co-operation between the labour movement leaders and the employers have developed through the pension fund industry in Iceland. It will be argued that this co-operation<sup>1</sup> has come about because of rather unusual management structure in the pension fund sector and an absence of an overall legal framework for the industry.

It is intended to show that in the process of looking after the interest of their members, leaders of ASÍ have become locked into a network of relations, which have had an ‘unintended’ consequence for the ordinary members of ASÍ. It will therefore be argued that these interlocking networks of relations help to explain the paradox confronting the labour movement identified in chapter one. Because they have generated, a structure of social relations, which has become a constraint upon future courses of action for the labour movement. As Cowan reminds us: ‘... different social groups, acting in what they perceive to be their own interests, can, because they are embedded

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<sup>1</sup> This co-operation materialised in the founding of Íslandsbanki (the Bank of Iceland) in 1989. That bank is now the second largest and the only private bank in Iceland. It is run co-operatively by the trade unions, the pension funds and employers. This co-operation has given, potentially at least, exceptional financial power both to ASÍ and employers. (See further discussion in chapter six).

in a complex network, produce effects that may be quite different, perhaps even diametrically opposed, to what they intended' (Cowan, 1987: 279).

No overall detailed legislation or regulatory legal framework for pension funds activities, assets or accounts exists in Iceland.<sup>2</sup> The parliament in Iceland has passed legislation for some public pension funds, such as the State pension fund, which among other things protects members' rights. The private funds, on the other hand, work according to rules and regulations that are agreed by the board of each fund. This gives the board considerable freedom for ruling their affairs and almost unlimited control over extensive amounts of money, whilst, at the same time, members of the private pension funds have no legal protection for their earned pension payments. The few individual laws regarding pension funds and members' rights that have been passed through parliament all aim to ensure that people pay into the funds. No law, however, has been passed that *guarantees* even the minimum pension right for its members.<sup>3</sup>

This chapter begins with a short overview of the development of the pension fund industry. Then follow two major sections; the first of these explores the pension funds assets and investment. Its main aim is to point out the importance of the private pension funds for the Icelandic economy. In other words, the consequence of the expansion of the private pension schemes is that their macro-economic importance has increased rapidly. Therefore, it follows that those who control the funds can influence the economic administration in Iceland. In the second section, the structure of the private pension funds will be examined. The purpose here is to see if the private pension industry is becoming centralised and to explore the implications of this, not

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<sup>2</sup> It has to be pointed out that a bill on regulatory legal framework for the pension fund industry is waiting in Parliament and if passed, will take effect in July 1998. This bill, however, is to a large extent based on existing regulation within the private pension industry and will not, in reality, change the boards' freedom for ruling their affairs.

<sup>3</sup> The bill, which might take effect in July 1998, will guarantee that members get a minimum pension right. (That is, members are guaranteed 56 per cent of their monthly wages paid as a pension, if they have paid into the pension fund industry for 40 years or more).



only for the ordinary members of the pension funds but also employers and the economy. Another aspect of the private pension structure - the management structure - is also analysed in this section. This will involve exploring linkages and co-operation between the labour movement leaders and the employers, as well as the stability or consistency of these networks of relations. The aim of this section is to analyse who controls the private pension industry and the implications of that control. The consequence and the implications of this for the ordinary member of the funds is analysed in relation to the power structure in the private pension industry.

### **The development of the pension fund industry**

The beginnings of the pension fund industry in Iceland can be traced back to an agreement in 1904 that guaranteed official public employees some pension, but the first formal pension funds were not established until 1920. In 1936 the Workers' General Insurance legislation (Alþýðutryggingar) was passed. This was an administrative reform and re-organisation of all existing legislation. Accident insurance was greatly improved, sickness funds were made compulsory for about half the nation and the State Social Security Administration and the Pension Fund of Iceland were established. The aim of the fund was to pay old age and disability pension, and contribution was to be compulsory for all citizens age 16-67. This pension fund did not, however, materialise due to a lack of will for a general fund (Skýrsla Verslunarráðs, 1994). Instead the law was changed in 1937 so that companies, institutions and societies could establish and operate their own pension funds. Thus when the General Social Security Act (Almannatryggingar) was passed in 1946, there were 15 pension funds already operating in Iceland. These covered public employees, people working in banks and some of the bigger private companies. The decade 1950 to 1960 saw a large increase in the number of pension funds and, by 1962, around 50 pension funds were operating in Iceland with voluntary participation.

Among them was the Commercial Pension Fund, which is now the largest single pension fund in Iceland, with over 25 thousand members. Its foundations were laid in a collective bargaining agreement between the Trade Union of Commercial and Clerks (LÍV) and the Federation of Icelandic Employers (VSÍ) on the 27th of May 1955. The pension fund started formally on the 1st of February 1956 and participation was voluntary from 1956 until 1st of January 1970. In many ways it has been a model for other pension funds in the private sector in relation to rules and regulations, and it has been a leading investor in shares. For example, in 1990, the Commercial Pension Fund held about 43 per cent of the pension fund's total investment in shares.

The collective agreement in 1955, which laid the foundation of the Commercial Pension Fund, can be seen as a turning point in the history of the Icelandic labour movement for the following reasons:

- a) It was a model for other trade unions in the private sector, which then also sought to negotiate pension funds for their members and thus gain new important rights for them.
- b) By negotiating pension funds in a collective agreement between trade unions and employers, it has led to a management structure in the pension fund industry that is rather unusual compared to other countries. That is, the funds are controlled equally by the trade union leaders and employers and this has led to close co-operation between those two partners, as will be shown later in this chapter.
- c) Finally, through the accumulation of funds in the pension fund industry, the labour movement has gained exceptional (potential) financial power (as will be shown below).

The main concern in this study is those pension funds that were established through collective agreements in the private sector and which are linked to trade unions within ASÍ.

On May 19th 1969, a collective agreement was made between ASÍ and VSÍ that all members of ASÍ trade unions should be members of a pension fund with compulsory contribution starting on the 1st of January 1970. This was considered a great ‘victory’ for ASÍ who gained important pension rights for its 25 thousand new members, which joined the pension industry. As the Trade Union of Commercial Employees and Clerks had been a member of ASÍ since 1962, this agreement covered their members as well and contribution to the Commercial Pension Fund was made compulsory. This collective agreement made the coverage of pension fund industry in Iceland very comprehensive.

Most Icelandic pension funds operate on the system of fund compilation (asset funds). Defined benefits schemes or “collective funds” that are *not* guaranteed by employers are most common, where paid-in premiums will correspond to a fixed pension at the time of retirement. There are also “defined contribution schemes” (so-called “private funds”, where paid-in premiums build up a fund over time and which are comparable to regular savings), and “defined benefit schemes” that are guaranteed by employers. The majority of the latter are to a certain extent pension funds that are financed on a pay-as-you-go basis (flow funds), but no Icelandic pension fund operates purely on that principle alone (the Central Bank Report, 1996). Most of the pension funds founded in 1969 are affiliated to The Association of General Pension Funds (SAL) and are usually referred to as the SAL-funds. Collective funds founded before 1969 are, however, mainly affiliated to The National Association of Pension Funds (LL). All the SAL-funds are linked to trade unions within ASÍ and many of the LL-funds. These funds are of main concern in this study and collectively they control around 80 per cent of the total assets of the whole pension industry in Iceland. See further discussion in the section on the pension funds structure.

At the end of 1980 the number of operating pension funds in Iceland, both private and public, was 96 (The Central Bank Report, 1992). The main reason for this high number

of pension funds is law 9/1974. This stated that all people in employment had to pay into a pension fund, which had to be *linked to their trade union*, and employers had to arrange for a premium to be paid into the fund. In other words, the closed shop arrangement that prevails at all levels of industrial relations in Iceland was extended to cover contributions to pension funds and link them to the unions. This meant that many of the trade unions, however small, created their own pension fund. This gave them access to and partial control over the funds, which in turn made the industry very fragmented, and management costs high.

### **The Pension Funds Assets and Investment**

The primary objective of pension funds is to be able to meet their current and future liabilities. Most do this by trying to maximise the rate of return on investments, which involve an acceptable risk. That is, the nature of the liabilities of the pension funds has to be taken into consideration and should affect the way in which the funds assets are managed.

The pension funds net cash flow is the fastest growing of all the financial institutions in Iceland. Hence they constitute the most important source of long-term finance in the country, both as providers of credit but also as direct investors in Icelandic financial securities and shares. Pension funds, therefore, play a crucial role in the ongoing development of the financial markets in Iceland, and they have a major role to play in the revitalisation of Icelandic industry.

### **Assets**

Domestic savings in the pension fund industry in 1997 constituted between 45 and 50 per cent of the total domestic financial savings in Iceland. In 1980 it was 22.3 per cent of the total (Fjármálatíðindi, 1993). The pension funds also control *at least* between 50 to 60 per cent of the funds available for investment in financial securities and shares in

Iceland today. Their assets have grown very fast during the last decade, by around 450 per cent over the period 1980 - 1992, or from ISK (Icelandic króna) 33 billion (£ 330 million)<sup>4</sup> to ISK 181 billion (£ 1.8 billion) (Fjármálatíðindi, 1993). That represents around 15.3 per cent real growth per year on average for that period. Moreover, at the end of 1996 net assets amounted to ISK 306.5 billion (£ 3 billion), compared with ISK 262.6 billion (£ 2.6 billion) at the same time in 1995. This corresponds to an annual increase of 16.7 per cent or a real increase of 14.3 per cent as measured by the consumer price index (The Central Bank Report, 1996).

**Table 5.1: Growth in Pension Funds Assets 1991-1996**

Period	Assets (Icelandic króna)	Assets (£ -approx. )
1991	157.5 billion	1.5 billion
1992	181.2 billion	1.8 billion
1993	208.7 billion	2.0 billion
1994	234.1 billion	2.3 billion
1995	262.6 billion	2.6 billion
1996	306.5 billion	3.0 billion

*Source: The Central Bank Reports 1991-1996*

It is further estimated that the pension funds assets will be around ISK 400 billion (£ 4 billion) in the year 2000. To place these in perspective, in 1992, the yearly turnover of the 100 biggest companies in Iceland was ISK 351 billion (£ 3.5 billion), their own capital was ISK 201 billion (£ 2 billion), and in 1995, the yearly turnover was around 380 billion (£ 3.8 billion). The Icelandic state budget was just over ISK 100 billion (£ 1 billion) in 1992 and the national GDP in 1991 was ISK 373 billion (£ 3.7 billion). Finally, the pension funds control more assets than the banks, saving banks and the securities market in Iceland together. Thus it should be clear that the pension funds in Iceland control an enormous amount of money, given the small size of the society, and their importance for the economy as a whole as well as for the future of all industry in the country cannot be understated.

<sup>4</sup> It is assumed here that one hundred Icelandic króna equals one British pound

It is mostly in recent years that the pension funds have experienced a high annual compound growth rate of, on average, approximately 33 per cent. This growth can be compared with how deposits and issues of securities in depository institutions have developed. In 1980, these constituted 44.3 per cent of domestic financial savings but by 1992, it was down to 34.1 per cent. Meanwhile over the same period the pension funds assets have grown from 22.3 per cent of domestic financial savings to 40.1 per cent and were in 1997 between 45-50 per cent. This comparison illustrates how much and continuously the pension funds assets have grown, since 1980. Furthermore, Morgunblaðið (the daily newspaper) pointed out on 17th of February 1994 that the pension funds assets per person in Iceland were around ISK 750,000 (£ 7,500) and had grown from ISK 470,000 (£ 4,700) since 1988. For comparison, in 1988 the Netherlands pension funds assets per person were ISK 800,000 (£ 8,000) and in England ISK 490,000 (£4,900). Iceland thus came third in 1988 as regards the funds assets per person and their assets have grown extensively since then as has been indicated.

The exceptional growth of the pension fund assets can be explained by three factors:

- First, high real interest rates earned on investment in bonds and bills in recent years.
- Second, the pension funds are relatively young and thus pension payments out of the funds have not reached their maximum.
- Third, the positive net cash inflow into the pension industry has increased a lot. In a collective agreement in 1986 between the trade unions and employers, it was agreed that the premium would be based on total wages including overtime etc, whereas before the premium was based on standard day-work. This change took place in four stages over the period 1987 - 1990 and has increased the premiums by around 30 to 40 per cent.

Although the pension fund sector in Iceland is still relatively fragmented, its level of assets is broadly comparable to other international pension funds on a *per capita* basis,

according to the Enskilda report 1992. By way of illustration, the average size of a pension fund in Iceland was ISK 1.8 billion, which is equivalent to UK £ 18 million (US \$ 30 million) in 1991 and the median size was ISK 500 million equivalent to UK £ 5 million. (US \$ 8.3 million) (Enskilda report, 1992). If the pension industry in Iceland was restructured and merged so that only 10 large pension funds were left, the size of these would average ISK 16 billion, which is equivalent to UK £ 160 million (US \$ 267 million) but that corresponds broadly to the average size of international funds (Enskilda report, 1992: 25).

In 1990, only five of the pension funds managed funds larger than ISK 5 billion (£ 50 million, US \$ 83 million), indicating that the majority of the funds are very small. However, at the end of the 1996 the number of funds managing ISK 5 billion or more had grown to 17 and 7 of those managed funds ranging from ISK 11 billion (£ 110 million) to ISK 46 billion (£ 460 million). This mirrors two things: fast growing assets and increasing mergers within the pension fund industry (see structure below). Furthermore, it is interesting to note that 75 per cent of the pension funds manage only 18 per cent of the total assets, while 25 per cent control 82 per cent. The five largest funds control just over 50 per cent of the total and the 10 largest control around 67 per cent of the total assets. In our terms, here a relatively few persons thus control the majority of the assets.

Before 1980 the pension funds were running into financial problems caused by, amongst other things, the high rate of inflation, which was affecting the real rate of return on some of their investment. This aroused concern that they might not be able to meet their obligations. Today, however, it is estimated that most of the private funds are in a good position to meet their obligations due to the extensive growth in their assets, according to the directors of SAL (the Association of General Pension Funds) and LL (the National Association of Pension Funds)(source: interview notes;

Morgunblaðið 13 August 1998). Whilst it is mainly the State Pension Fund that is in difficulties due to unfunded liabilities.

Notwithstanding such growth, in order to improve further their financial standing and reduce expenditure some of the private funds changed their rules and regulations as regards members' right in the early 1990s, for example the SAL funds. This was done, for example, by letting pensions follow the wage index (which increases more slowly than pay levels) and reducing pensions to a spouse. Last but not least, some of the private pension funds have reduced members' earned pension's rights, in some cases by around 40 per cent. What makes it possible for the pension funds to do this is that no overall legal framework exists for the pension industry and no law guarantees minimum pension right for members. On the other hand, this throws up the question of whether the primary objective of the pension funds is to accumulate funds regardless of members' rights. Even though it can be argued that the good financial standing of a pension fund is in the interests of the members, it seems contradictory to reduce members' rights, in some cases drastically, to improve the financial standing of funds which the managers claim are already good.

### **The pension funds net cash flow**

The pension industry net cash flow is defined as an inflow of cash (e.g. amortisation's, interest received and premiums) when pension payments and operating expenses have been subtracted. The net cash flow has grown enormously since 1980; for example, its real value increased 187 per cent between 1980 and 1992 (Fjármálatíðindi, 1993:70). It is the pension funds own contribution which is the most significant factor as it has grown 304 per cent since 1980 (own contribution = amortisation + interest received + other income - operating expenses). In comparison members contributions have grown 66 per cent since 1980 (members contribution = premiums - pension payment - premiums repaid + transferred pension rights). The division of the net cash flow



between own contribution and members' contribution has thus changed considerably. Whilst it was equal in 1980, the pension funds own contribution had grown to around 70 per cent of the net cash flow in 1992, but members' contribution was down to around 30 per cent (Fjármálatíðindi, 1993). The reason is that the pension funds assets and thus interest received have grown very much and interest rates have been very high in Iceland in recent years. For example, the pension funds own contribution was ISK 15.2 billion (£ 150 million) in 1990, ISK 20 billion (£ 200 million) in 1991 and in 1996 it was over ISK 50 billion (£ 500million). The total disposable net cash flow was ISK 29.4 billion (£ 294 million) in 1991 and had grown to ISK 62.7 billion (£ 627 million) in 1996. See table 5.2

**Table 5.2: Growth in Pension Funds Annual Net Cash Flow 1991-1996**

<i>Period</i>	<i>Cash flow (Icelandic krona)</i>	<i>Cash flow (£ -approx.)</i>
1991	29.4 billion	294 million
1992	33.0 billion	330 million
1993	39.3 billion	393 million
1994	43.8 billion	438 million
1995	46.7 billion	465 million
1996	62.7 billion	627 million

*Source: The Central Bank Reports 1991-1996.*

It is further estimated that in 2000, the real value of disposable funds as measured by cash flow could be around ISK 90 billion (£ 900 million) (Skýrsla LL, 1992). The net cash flow of pension funds is thus the fastest growing of all the financial institutions in Iceland, and it is obvious that for a small economic unit like Iceland it is of a great importance where and how this amount of money is invested.

## **Investment**

Where and how the pension funds have invested their funds has changed considerably over the last decade. The financial market in Iceland has developed rapidly during the past few years. Since the mid-1980s, the financial sector has undergone deregulation

and a process of liberalisation, which has created a wider range of savings and financial investment alternatives. Historically, the bond market has been the most dominant and the Icelandic Treasury has been the main issuer of bonds and bills. For example, in 1991 the Treasury accounted for approximately 39 per cent of the total value of investments available to Icelandic investors (Enskilda Report, 1992). This has been reflected in the pension funds investments over the years. However, one of the turning points for the changed emphasis in investment for the pension funds was the establishment of the stock exchange in 1986, which created opportunities to invest in company shares.

### ***Loan to members***

In the latter part of the 70's and first part of the 80's, a large part of the net cash flow was used as loans to pension fund members. The loans were usually a long-term credit given on more favourable terms than the prevailing market rate. Each pension fund decides its own loan schemes, the size of the total loan stock and the borrowing rate of interest, which has ranged from 0 - 5 per cent below the prevailing market rate. This contributed to the financial problems pension funds were facing early in last decade. The loans became a growing proportion of available investment funds within the pension fund industry until 1984 when they reached between 62 to 64 per cent of the net cash flow. In 1988, that was down to 12 per cent and the pension funds in 1997 provide 10 per cent of net cash flow, on average, as loans to members. The loans are now linked to inflation index and follow more or less the prevailing market rate.

### ***Investment in the public sector***

In the last decade, the pension funds were the main providers of credit for the Icelandic State. In 1986, a new house/mortgage funding system was started which borrowed most of its fund from the pension fund industry. That is, housing sector regulations

were in force, which compelled the pension funds to invest 55 per cent of their annual net cash flow in the state housing funding system. The main implication of this was that only members of a pension fund, which had invested in the house founding system, could get mortgage and only if their premium had been paid to the pension fund. This meant of course that if an individual was not a member of a pension fund or if an individual's employer did not pay the premium, they would not be able to get a mortgage. As this is the only institution in Iceland where a mortgage loan is available this led to an increase in the pension funds membership (SAL-fréttir, 1992)

This system was partly abolished in 1992, and in 1993, the pension funds contractually agreed to invest in the Icelandic housing sector with a fixed amount, corresponding to approximately 25 per cent of the projected cash flow for 1992. In 1994 the housing industry became entirely market financed. The pension funds thus have investment discretion over 100 per cent of their net cash flow', whereas before, 55 per cent went automatically into the housing sector. The disposable fund within the pension industry, which can be invested in other securities such as equities and shares, has accordingly increased enormously. The pension funds, however, still invest a considerable amount of their disposable funds in the housing industry and in government bonds.

### ***Investment in financial institutions***

From 1986, the pension funds have increasingly invested in the private commercial bank and in savings-banks bonds. During the period 1990-1994, they invested annually around ISK 2.8 to 3.2 billion (£ 28 to 32 million) per year. In 1995, however, that amount had grown to ISK 6.8 billion (£ 68 million) (SAL-Fréttir, 1996, nr. 48). In 1986, the Central Bank of Iceland tightened laws regarding the banks' own capital, which meant the banks needed more capital flow in order to keep the bank running. But at the same time, the control over interest rates was liberalised and commercial banks were permitted to determine their own rates. Deregulation, in addition to lower

inflation rate, generally led to higher interest rate in real terms, which meant higher profits for the banks. In view of this and the connections between the pension funds and at least some of the banks<sup>5</sup> it is not surprising that the pension funds started to invest increasingly in bank bonds at that time. For example, in 1992, 45 per cent of all the shares that the private pensions fund industry owned were in Íslandsbanki. Furthermore, it is clear that The People's Bank would not have been able to merge with the other private banks in 1989, which now form Íslandsbanki (see chapter 6), if the pension funds had not helped with the capital (source: interview notes, former economist in ASÍ). It is suggested here that this mirrors the strong co-operation that has been developing between the labour movement, private company owners and employers. At the same time, it could be argued that the pension funds are taking a lot of risk by investing so much in one company, regardless of the possibility that trade union leaders might be securing their seats on the board of Íslandsbanki through this investment, in order to safeguard their members' interests.

In the last years Íslandsbanki has often led the way for the other banks by setting high interest rates, which most certainly has been the one of the main factors in helping the pension funds to build up their assets and improve their financial standing. This, however, conflicts with one of the main goals that were negotiated in the so called 'National Agreement' in 1990 between ASÍ and VSÍ, which was to get and keep down interest rates. As the labour movement was heavily criticised for having failed to get interest rates down, ASÍ formed a committee whose aim was to work towards lower interest rates, because high interest rates were adding a lot of financial burdens on people and homes were facing bankruptcy. This committee, which had no success, consisted of three trade union leaders who are also directors on the board of Íslandsbanki and one director of the larger pension funds. A clear example of potential conflict of interests arises here, as the committee interest is, of course, closely linked to

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<sup>5</sup> The establishment of a comprehensive private pension fund industry was in many ways the pre-condition for the development of private banks in Iceland, and pension funds money has been the backbone of these banks. See further discussion in chapter 6.

the welfare of the bank and the pension funds, or as we have seen, to keep interest rates high to improve the financial standing of the pension funds and hence the bank, whilst also having to safeguard the interest of their members in the labour movement who would benefit from lower interest rates.

So that is, in a nutshell, the labour movement's paradox: the "interest" of the trade unions have become so tightly entwined with employers' interests, mainly through the pension industry, that they cannot be separated. In other words, the leaders of ASÍ have, through the pension industry, become embedded in a network of relations (see management structure below), which have had "unintended consequences". As high interest rates have prevailed in Iceland over the last decade, accumulating funds in the pension industry, many households are on the brink of bankruptcy and living standards have gone down considerably for certain groups of people (for example, the elderly).

In addition, the pension funds have increasingly invested in mutual funds which have played a role in the privatisation programme of the government, both as advisors and arrangers (Compendium of the Icelandic Financial Market Legislation, 1997). They have also invested in private equity funds that mostly invest in risk capital. Among these is Draupnissjóðurinn hf., a limited holding company. It was set up in 1987 with the purpose of supporting the development of an active domestic stock market by buying shares in medium to large size companies, in order to enhance liquidity in the market. In addition, Draupnissjóðurinn hf. participates in the issue of new shares in unlisted companies, thereby increasing their equity and prepares them for listing on the Exchange. The pension funds in 1992 collectively owned 30 per cent. in Draupnissjóðurinn hf., but the Industrial Development Fund was the largest shareholder with 50 per cent. The other equity fund is Þróunarfélagið hf., and the main aim of this fund is to invest in newer companies. The pension funds own 35.3 per cent of this fund, which used to belong to the State but was sold as a part of the current privatisation to the retail market in Iceland. The main purpose of investing in these

funds is so the pension funds can collectively invest and, hence, spread the risk between them. (Source: interview notes, the ex-president of ASÍ, who is also the chairperson of the SAL board). The increasing investment in financial institutions is reflected in the pension funds annual reports. For example, in 1996 the fifth largest fund (Sameinaði Lífeyrissjóðurinn) in the country, had 42.3 per cent of their total investment in shares, in financial institutions and investment funds, and in the 1997 the third largest fund (Framsýn) had invested 57.2 per cent of the total investment in shares in financial institutions. Through their investment, the private pension funds are thus closely integrated into the private banking and investment system.

### *Investment in the private sector*

The financial market in Iceland is underdeveloped compared to financial markets abroad and the share-market is relatively small, though steadily growing. Total value of all shares on the market in 1992 was around ISK 40 billion (£ 400 million) which was less than 25 per cent of the pension funds total assets at that time. In 1996, the total value of shares on the market had grown to ISK 116 billion (£ 1.1 billion) which corresponds to around 38 per cent of pension funds assets that year. The majority of pension funds can now invest in shares. In 1992 they owned 8 percent of all shares on the market at the market value of ISK 3.1 billion (£ 31 million) whilst in 1996 they owned around 12 per cent of all shares at the value of ISK 13.1 billion (£ 130 million).

In 1992 the total pension industry invested in domestic shares for around ISK 836 million (£ 8.4 million), whilst in 1991 they invested for ISK 650 million (£ 6.4 million). This corresponds to 2.6 per cent of the total net cash flow in 1992 and 2.3 per cent in 1991. In 1996, however, their investment in shares was ISK 3.4 billion (£ 34 million) which equals the market value of all the shares the pension funds owned in 1992. This corresponds to 5.4 per cent of the total cash flow in 1996. Furthermore, in 1993 the pension funds shareholding was only 2 per cent of their total assets but had grown to 4.7 per cent of the assets in 1996. This indicates that investment in shares is a

fast growing proposition of the pension funds assets. This becomes even more obvious when the SAL- and LL - funds are examined. Table 5.3 shows how the SAL- and LL-funds holding of domestic shares has grown during the period 1993-1996.

**Table 5.3: The SAL and LL Funds Holding of Shares 1993-1996**

<i>Period</i>	<i>The SAL – funds</i>		<i>The LL - funds</i>	
	<i>Icelandic kr.</i>	<i>£ - approx.</i>	<i>Icelandic kr.</i>	<i>£ - approx.</i>
1993	1.8 billion	18 million	2.2 billion	22 million
1994	2.5 billion	25 million	2.9 billion	29 million
1995	3.2 billion	32 million	3.4 billion	34 million
1996	6.7 billion	67 million	5.6 billion	56 million

*Source: The Central Bank Reports 1993-1996.*

Table 5.3 shows clearly that the private pension fund industry is steadily investing more in shares. Moreover, it draws attention to two things: first, the large increase in share-investment in 1996, for example, the SAL -funds have more than doubled the value of their shareholding in that year and the LL - funds increased around 40 per cent. Second, the SAL-funds share - investment has outrun the LL - funds by ISK 1.1 billion (£ 11 million). The SAL investment in shares has grown from 2.6 per cent of their assets in 1993 to 6.3 per cent in 1996 and many of the individual funds within SAL have between 10-15 per cent of their assets invested in shares. Whilst the LL-funds had 4.8 per cent of their assets invested in shares in 1996. The largest pension fund in the country, the Commercial Pension Fund, holds one-third of those shares at a value of ISK 2.0 billion (£ 20 million) which corresponds to 4.5 per cent of its total assets. This indicates a growing emphasis on investment in shares from the managers of the SAL and LL funds and is reflected in the guidelines that the funds follow.

Pension funds that are affiliated to the SAL and ASÍ generally follow guidelines, set out by SAL, regarding recommended levels of equity and share investment. The guidelines stated in 1991 that a maximum of 10 per cent of *premiums* could be invested in equities and shares and the pension funds could own a maximum of 5 per

cent of shares issued in any company. In 1992, this was changed so that 10 per cent of the net annual *cash flow* could be invested in shares and each pension fund could own a maximum of 10 per cent of shares in any one company. These changes in the pension funds regulations doubled the assets available for investment in shares at that time. In addition, the 1992 guidelines states that the pension funds total domestic shareholding could not be more than 15 per cent of their total net assets and also permit the funds to invest abroad for maximum of 5 per cent of their total net assets. However, in an agreement of the 12th December 1995, between ASÍ and VSÍ, those guidelines have been removed. The only limitation in this agreement, for investing in shares, is that each fund cannot hold domestic shares of more than 50 per cent of its total net *assets*. This extends the scope each pension fund has for share investment greatly and furthermore there appears to be no limit on how much each fund can invest in one company.<sup>6</sup> It is suggested here that this agreement is the driving force behind the large increase in share investment in 1996. Moreover, this reflects not only the growing emphasis on investment in shares but it also significantly underlines how ASÍ and VSÍ co-operation can influence the pension funds investment policy.

In theory, this means the pension funds could buy up the all shares on the market in a relatively few years. They are clearly vital for the growth of the Icelandic economy as well as each branch of industry and could, in the long run, be the largest employers in the country. However, that is not without implications as, for example, the pension fund industry has not decided on a clear policy whether or not the funds should have a representative on the boards of the firms they invest in. This could mean that the control over the funds might be transferred into the hands of private company owners, which again could lead of to further concentration in shareholding, money and power. (See chapters seven and eight). More importantly, the 1995 agreement also removed limitations on investment abroad. Following this, some of the larger funds are now

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<sup>6</sup> The bill, which might come into effect in July 1998, states that each pension fund can own a maximum of 15 per cent of shares issued in any one company.



rapidly increasing their investment abroad and the investment policy of some of those funds is to invest up to 25 per cent of their total net assets abroad<sup>7</sup> (Ársskýrsla Framsýn, 1997; Ársskýrsla Sameinaði Lífeyrissjóðurinn, 1996). For a small economy like Iceland, the consequences could be devastating if huge amounts of capital were to be moved out of the economy over relatively few years.

The funds can only invest in companies that fulfil certain investment criteria such as being listed on the Exchange or the OTM. A limited number of companies have been and are listed on the Exchange. In the middle of 1992, only nine companies had their shares listed on the Exchange most of which were mutual funds and equity funds and in 1994, only 17 companies were listed. In 1997, however, 35 companies were listed. Companies that are listed on the Exchange have to submit to very strong rules and give detailed information on their financial standing. This has prevented companies from being listed either because their financial standing or the information they were willing to report were not good enough. The Exchange was thus restructured in order to create a more efficient market, "the Open Offer Market" (Opni Tilboðsmarkaðurinn, OTM), for all publicly traded securities. The Exchange provides a central trading place for all securities, including shares, and will immediately register all trade taking place, including those undertaken outside the Exchange, in one central trading system (Enskilda report, 1992). The Exchange also provides daily information about traded volume and prices, which is of course very important for those who invest in shares. The Open Offer Market has no fixed rules that oblige companies to give even minimum information on their financial standing which again might make it problematic for investors to decide where to invest in order to minimise the level of risk. However, it might be assumed, especially in a small and tightly knit society like Iceland, that investors who are willing to buy shares in those companies know something about the company and the risk they are taking. As will be shown the

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<sup>7</sup> The bill, which might come into effect in July 1998, sets limitations on investment abroad at 40 per cent of the total assets of each pension fund.

management structure of the pension funds does provide a channel for information of that kind. On the 24th of September 1992 twenty-six companies were registered trading on OTM and on 20th of May 1998 thirty-six companies.

According to a survey by VSÍ (the Federation of Employers) on pension funds shareholding in 1992, they had invested in 56 companies. However, only 35 of them were registered on OTM and the Exchange. Hence there were twenty-one companies that the pension funds had invested in at that time which do not seem to fall under the investment criteria that at least SAL recommends. This implies that the pension fund investment policy in many cases does not follow rules and regulations. One explanation why the pension funds might be taking more risks than necessary could be the personal connections between the pension fund management and employers. That is, investment decisions by the pension funds might be influenced by the attitudes of their members on the board, which may not always be based on purely financial grounds. Furthermore, in the absence of a legal framework it is easy for the pension funds to 'bend' their rules, which means they are likely to be covered from doing anything illegal. There have been some cases where pension funds have invested in non-registered companies in their home area in order to help with financial difficulties and keep the company going. Those investments have not been based on purely financial grounds for the pension fund, but rather on personal connections. However by doing this the pension funds are taking a great risk because if the company goes bankrupt, people would not only lose their jobs, but also their pensions (SAL-fréttir, 1992. nr. 39; Vísbending, 1992. 39 tbl). Linkages between the pension funds investment and their management will be examined more closely below.

It is clear that until recently the pension funds had limited opportunities to invest outside the public sector in private companies, due to restrictions on their investment policy both from the State and internal limits from their management. However, as there are no longer restrictions from the State, internal limits on investment are being

relaxed and private companies are increasingly coming into the market with their shares, this will change this completely. Furthermore, with the enormous increase in the pension funds assets and hence their net cash flow, as we have seen, the pension funds will look for new investment opportunities.

That trend has already started with increasing investment in private companies and, as has been noted above, where the pension funds will invest in the future can make or break any branch of industry in the country. It is therefore very likely that employers will try to influence investment decision-making in the pension fund industry. The existing network of relations between the pension industry, Íslandsbanki and the larger companies clearly opens a channel of communications for that kind of influence. Íslandsbanki has an essential role and its board can be seen as a forum for co-operation between pension funds, industrial companies, insurance companies and other enterprises. Furthermore, enterprises are dependent upon access to capital, and banks occupy a strategic position in the flow of this resource by accumulating surplus wealth (like pension money) and making it available as capital (Scott, et al. 1984) (See chapter six).

The main question in this context has to be: will the pension funds now, and in the future, invest wisely for their members or will the funds end up being used for the benefits of a few individuals or family companies.

### **The structure of the pension funds**

The purpose of this section is to explore whether the private pension industry is becoming centralised and to assess the implications of this. Another aspect of the private pension structure - the management structure- is also analysed in this section. The pension industry in Iceland is still relatively fragmented, but has started to consolidate greatly as more and more pension funds merge. For example, operating

pension funds numbered 96 in 1980, but had reduced to 88 in 1991, 84 in 1992 and 65 in 1997 according to reports from the Central Bank (1992-1996). Table 5.4. shows changes in the number of pension funds in Iceland in the last seven years.

**Table 5.4: The Number of Pension Funds in Iceland 1991-1997**

<i>Year</i>	<i>Collective funds with guarantee</i>	<i>Collective funds (LL) without guarantee</i>	<i>SAL-funds without guarantee</i>	<i>Private funds</i>	<i>Total no. of pension funds</i>
1991	20	29	27	12	88
1992	20	28	26	12	84
1993	19	26	21	12	78
1994	19	26	21	13	79
1995	19	24	20	12	75
1996	19	22	15	10	66
1997	19	22	13	11	65

*Source: The Central Bank Reports 1991-1996.*

Table 5.4. shows that in the period 1991 to 1997, the number of pension funds has gone down by 23, from 88 to 65. Moreover, the decrease in number of pension funds has mainly been among collective funds that are not guaranteed by the employer. One of the first transactions was the merger between the 8th and 12th largest funds in 1992, the Metal and Shipping Pension Fund (Lífeyrissjóður Málm-og Skipasmiða) and the Builders Pension Fund (Lífeyrissjóður Byggingamanna). Furthermore, in 1995 and 1996 five other funds merged with them creating what has become the fifth largest fund in the country in 1997. In the northern part of Iceland there are six pension funds that merged and formed a union in 1993 (Enskilda report, 1992), in 1997 that fund is the seventh largest in the country. Finally, in 1996 six pension funds merged to create the third largest pension fund in the country. All those pension funds are linked to trade unions within ASÍ and are SAL-funds. The trend is thus notably towards fewer, larger and more centrally managed pension funds. This is especially so among the SAL-funds which have decreased in number by over 50 per cent since 1991.

Furthermore, nine out of the total number of 65 pension funds shown in the table above no longer receive premium payments; thus, the number of full-active funds is only 56. Of the 65 (56) pension funds, 54 (46) are 'collective funds' and 11 are 'private funds'. Five of the 'collective funds' are guaranteed by the Treasury, 9 by municipal authorities, two have the guarantee of state-owned banks and three by joint stock companies. However, 35 pension funds are not guaranteed at all by employers or other parties. The ASÍ - SAL pension funds which are the main concern of this study, all fall into that category in that member have no legal guarantee they will ever get their pensions. The implication is that if these funds were to become bankrupt employees would lose their entire pension. Today, 28 years after contribution to pension funds was made compulsory, no law has been passed which protects a member's right to even a minimum pension, and employers and trade unions can collectively force people to belong to and pay their premium into funds without giving them any legal guarantee that they will ever benefit.

The private pension funds are divided into two main federations, which are increasingly co-operating more closely. The National Association of Pension Funds (LL) was founded on September 30, 1964. Most of the collective private funds that were founded before 1969 are affiliated to LL. They all work according to their own individual rules and regulations, which mean that members may have a different right to a pension depending on each pension funds' rules. The funds set their own rules about investment but may follow the recommendation of LL regarding investment policy. However, LL does not recommend limits on equity investment to its members. The pension funds affiliated to LL operate therefore on an individual basis, whilst LL does act as their official representative and a co-ordinator in some sense. The LL funds manage around 42 per cent of the total assets of the pension funds in Iceland. In 1996 LL assets were ISK 128 billion (£ 1.3 billion), whilst the total assets of the pension industry were ISK 306 billion (£ 3.0 billion). The Commercial Pension Fund is by far the largest fund in LL, with assets around ISK 46 billion (£ 460 million).

Following upon the agreement between ASÍ and VSÍ in 1969 a committee of six representatives, 3 from ASÍ and 3 from VSÍ was founded. This was the first committee of many to be established which that consisted of equal representatives from ASÍ and VSÍ and laid the foundation for SAL. This can be seen as marking the beginning of a close co-operation between ASÍ and VSÍ within the pension industry. The committee's task was to design an 'exemplary-regulation' for the pension funds that were founded following the agreement in 1969. All the funds worked according to rules and regulations that were based on this 'exemplary – regulation' and were thus very similar. However, due to the lack of an overall legal framework for the industry, the funds can change their rules and regulations.

The Association of General Pension Funds (SAL) was formally founded on the 12th of June 1973 following a proposal from another committee which was founded in 1970 to look after the interests of the pension funds that were established due to the agreement in 1969. That committee had seven representatives from ASÍ (three of these were the same people as in the first committee) and seven from VSÍ.

SAL includes almost every pension fund that was founded in 1969. The few laws that currently exist regarding the pension fund industry were passed after the founding of SAL following its recommendation. SAL works as a co-ordinator and supervisor for its individual pension funds; it registers all members and their premium payments to the funds, advice on special matters when needed, for example, collection of premium, accountancy and legal matters. SAL is the official representative in matters that concern the pension funds' interests. SAL also issues guidelines concerning levels of equity investments for its members, as well as exerting influence on the investment policy of the pension funds.

If a dispute arises either between pension funds within SAL or between pension funds where one is affiliated to SAL and the other is not, the board of SAL will decide the

matter. The same goes for disputes between a pension fund and individual employees and employers. In 1990, the board of SAL added to its rules clauses that gave them the formal authority to inspect the funds and partly control their investments. SAL has thus acquired inspection role and the pension funds that are affiliated to SAL are under close co-ordination and control of SAL. Hence, they might be looked upon as one pension fund and they are merging rapidly.

The implication of this is that the control over the pension funds gets concentrated in the hands of a few people, which are on the board of SAL. Since there is no formal legal framework for the pension fund industry, the power to set or change rules is thus "given" either to the federations or to an individual pension fund. The board of SAL has the authority to change and set rules which along with its assets gives them great power. The SAL funds manage around 37 per cent of the total assets of the pension funds in Iceland. In 1996, SAL assets were ISK 113 billion (£ 1.1 billion). Two of the largest funds in SAL control ISK 29 billion (£ 290 million) and ISK 25 billion (£ 250 million) respectively.

The pension industry is thus getting more centralised which goes together with other developments within ASÍ where, for example, collective bargaining has been getting more and more centralised (see chapter 2). That is, the collective bargaining process is now more or less in the hands of the board of ASÍ, which negotiates with the board of VSÍ for its individual trade unions. In other words, centres and peripheries are being generated by surveillance and control and the effect of that is power (Law, 1992). Many of these same people from the board of ASÍ are also on the board of SAL. The board of SAL consists of 10 members from ASÍ and 10 from VSÍ, most of who have been on the board for a long time (see management structure).

In recent years co-operation between SAL and LL has increased, which indicates even more centralisation in the pension fund industry. They have co-ordinated some of their

rules and regulations, jointly published booklets on pension funds activities and they have collectively invested in government saving bonds, as well as in securities, shares and equity funds. They also worked together on the proposal for legislation for the pension fund system.

This co-operation, especially regarding investment in bonds and shares seems to go together with the founding of Íslandsbanki in 1989. Two ASÍ members of the SAL board and one ASÍ member of the Commercial pension fund are also on the board of Íslandsbanki, which consists of 7 members on the whole. The executive director of the Commercial pension fund (the largest in the country), is also the chairman of LL. The SAL and LL federations are thus closely connected to Íslandsbanki, which is run in co-operation with the main capitalists and employers in Iceland. One more factor has to be considered when exploring these linkages and their consequences that is the stability or consistency of these networks of relations. To do this it is necessary to examine the management structure.

### ***The management structure***

The management structure in the private pension funds is based on the principle that as the funds were formally started in a collective agreement and thus considered as a part of the "pay package", they should have joint management between the trade union and employers. The Commercial Pension Fund was the first with a management structure of this kind. Employers had the majority on the board from 1956 until 1981. It was justified by their larger payment into the fund. They paid 6 per cent and employees 4 per cent. However, since 1981 the board has consisted of six people, 3 from employers and 3 from the trade union, which makes the control of the fund at least potentially equal. Daily management is in the hands of a professional manager.



Most of the members on the board of the Commercial Pension Fund have been there for a long time (from 9 to 30 years), and no rules exist which limit the period of time each member can serve on the board. The significance is, that as people get to know each other better, linkages and co-operation is reinforced and stabilised and that can influence e.g. decision-making.

Furthermore, a general rule seems to apply to most members on the board of individual pension funds as well as SAL and LL, which is they do have other positions of authority. For example, Guðmundur H. Garðarsson has been on the board of the Commercial pension fund since 1965, nine years as a chairman. He served on the first committees that ASÍ and VSÍ founded regarding the pension industry (see above) and in most other committees founded after that within the industry. He used to be the leader of the Trade Union of Commercial Employees and Clerks, and was on the board of ASÍ and served on different committees for ASÍ. He was an MP for the Independence Party and on the central board of the party. He was on the board of directors in the Commerce Bank and has been on the board of directors in Íslandsbanki since its founding in 1989. He was on the board of directors in the equity fund "Fjárfestingafélagið" from 1973 until 1992, as a chairman 1986–1992, and he is on the board of the Commerce Loan Fund. Finally, he was an executive director and a press agent for the company "Sölumiðstöð Hraðfrystihúsanna" (SH)<sup>8</sup>, which is the headquarters for exporting frozen fish products. This company is owned collectively by shipowners all over the country, many of whom are also shareholders in Íslandsbanki. It should be clear from this that Guðmundur H Garðarsson is linked into the labour movement, the pension funds, and the political and financial system; hence he is connected into many networks of relations. Throughout the history of the Icelandic labour movement, many examples can be found of individuals who have many different "organisational hats", which has meant that the division between the trade union and the employer's role is blurred. This is an important factor for any

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<sup>8</sup> See discussion on private companies in Iceland, including SH, in chapters 7 and 8.

understanding of why traditionally the labour movement has not been revolutionary and why so much "understanding" exists between trade union leaders and employers.

The management structure of the ASÍ individual pension funds is the same as in the Commercial Pension Fund, that is joint management between employers and the trade union, with either 4 or 6 people on the boards split equally between ASÍ and VSÍ. The managers or directors of the smaller pension funds are in many cases only employed part-time by the fund and often linked to the associated union. All major decisions are taken at board level, whilst some of the larger funds have a professional manager who manages the day-to-day portfolio. However, most of the funds require permission from the board for all major investment decisions (Enskilda report, 1992). Again, no rules exist which limit how long each individual can serve on the board. In 1993, the director of VSÍ said, however, that the board of VSÍ was reviewing this matter in order to set some limits, (say 6 to 8 years). (Source: interview notes). Still, in 1998 no change has been made.

Trade union members who serve on the board of an individual pension fund always have a position of authority within their trade union. Usually they are the leaders of the union, and serve on the board of ASÍ and SAL as well. Some of them have served within ASÍ for 25-30 years or more. The general rule seems to be that the leader of a trade union also holds all other main positions of authority that are linked to his/her union. For example, when Ragna Bergmann took over as the leader of a large trade union for women in 1982, she automatically took over all the roles that her forerunner had acquired. She is on the board of its pension fund, which was the fifth largest in the country in 1995. She has been on the board of ASÍ since 1984 and served as the vice-president of ASÍ for 4 years, she is on the board of SAL, was on the board of directors in the People's Bank in its last two years before it merged with Íslandsbanki. Finally, she sits on the board of the holding company of the People's Bank, which is largest single shareholder of Íslandsbanki. This reinforces stability in the trade unions and

pension funds structure as the same individuals hold many positions of authority and tend to serve for a long period of time.

For the management structure of the federation SAL, the same rule applies, joint management between ASÍ and VSÍ with 10 representative each and one professional director. Again, there exist no rules that limit the time they can serve on the board. In 1994 three members from ASÍ had been on the SAL board for 21 years or since SAL was established, one for 17 years, one for 11, one for 9 and four for 7 years. From VSÍ in 1994, four members had been for 21 years, two for 11, three for 9 and one for 5 years. In 1998, most of these persons are still on the board. According to the director of SAL, the members on the SAL board spend the first 30-45 minutes of each meeting discussing wage policy etc. (Source: interview notes). These meetings can thus be seen as helping to increase “understanding” between trade union leaders and employers and there have been ample opportunities for communication over this period. Most of the VSÍ members also serve on the executive board of VSÍ, as well as being owners or managers in the larger companies in Iceland. (See chapter 8 on interlocking directorship for further discussion).

The chairmanship of SAL is with ASÍ every 2 years and then VSÍ the next 2 etc. Since 1983, two of the longest serving members on the SAL board, one from ASÍ and VSÍ, have divided the chairmanship equally among themselves. The one from VSÍ, Gunnar J. Friðriksson, has been on the executive board of SAL and VSÍ and the board of VSÍ since 1970. He served on pension fund committees, is on the board of the holding company of the People’s Bank, as well as being on the board of different companies. The other one was the president of ASÍ 1992-1996, Benedikt Davíðsson, who is on the executive board of SAL as well and has been serving on the board of SAL from its inception in 1973. He is a chairperson on the board of the Builders Pension Fund that now forms a part of the fifth largest fund in the country. He was an essential person in most of the pension funds committees. He was on the board of ASÍ 1958-1962 and

1980-1988 as well as serving on all kinds of committees for ASÍ that involved a close co-operation with VSÍ. He was a leader for the Builders trade union 1954-1957 and a leader for the Builders federation 1966-1990. He was on the central board of the Socialist Party 1959-1968 and then on the central board of the People's Alliance Party. Finally he was on the board of directors in the Industrial Bank 1972-1975, which is now a partner in Íslandsbanki and a chairman on the board of directors in the People's Bank 1978-1987. Hence he is linked into the labour movement, the pension funds, the political system, and the financial system and through all these has close linkages with employers and those who have the capital. This is another typical example of the composition of the boards of ASÍ, SAL, LL and VSÍ. Finally, it should be pointed out that it is mainly men that serve on the boards of SAL. Over the period 1973-1985 there were no women at all on the board of SAL neither from ASÍ or VSÍ. During 1985-1993 one woman from ASÍ served on the board and since 1993, two women from ASÍ have been on the board. On the other hand, VSÍ has only had one woman on the SAL board in the period 1989-1993, since then none.

It is suggested here, that these networks of relations between ASÍ and VSÍ, which have developed through the pension industry, are the key factor in any understanding of the labour movement paradox. This long and steady co-operation between key members of ASÍ and VSÍ has led the labour movement to take part in the establishment of Íslandsbanki, as well as contributing to a certain 'understanding' between leaders of ASÍ and VSÍ. This 'understanding' and co-operation means that ASÍ is restricted in what actions it can take to secure a better living standard for its members as that might affect other interests they are looking after, like in the bank and the pension industry. This can be seen in the fact that ASÍ and VSÍ have for the last decade or so worked closely together to regulate and control the economic administration in Iceland. That is, over the last decade they have been leading in the economic administration of Iceland whilst the political parties influence has declined. Ásmundur Stefánsson the president of ASÍ 1980-1992 who is now one of the executive directors in Íslandsbanki

said 'ASÍ has broken away from political conflict and is now a leading force in the country not the political parties. It is rather the political parties that seek assistance from ASÍ... It is no question that we have managed to regulate many things in the last years'. (Source: interview notes). However, the consequences for the ordinary member of the labour movement have not been as might be expected at least not if compared to Scandinavia. Inequality has increased a lot, more and more households are facing bankruptcy due to high interest rates and low wages, and the welfare state has declined (see chapter 2).

It is further suggested, that the close linkages between the labour movement and employers that have been established and developed through the pension industry and have now materialised with the founding of Íslandsbanki, are likely to affect the investment policy of the pension funds as well as other decision-making, for example, in collective bargaining<sup>9</sup>. As has already been noted, it is only in recent years that the pension funds have invested in shares and all equity investment and other major investment decisions on how and where to invest, are taken at board level. The funds often follow the recommendations of SAL and LL, which accordingly exert a large influence on the investment policy of the pension industry. Evidence presented here found that in 1990, 16 of the 25 largest pension funds in the country had invested in shares. Of the 16 funds, 12 are affiliated to SAL. All the 12 funds have board members who are also on the SAL board, from ASÍ were 14 members (9 from SAL board - 5 stand-in) and from VSÍ were 11 (8 board members - 3 stand-in). Of the 14 ASÍ members, 11 are also on the board of ASÍ and one is a manager of two pension funds. Furthermore, 20 pension funds of the 27 in SAL had invested in shares in 1990. All the 20 funds had a representative from their funds on the SAL board either from ASÍ or

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<sup>9</sup> Over the last 20-25 years ASÍ and VSÍ have started to work very closely together as can be seen from ever increasing number of committees they found together (see chapter 2)

VSÍ, whilst six of the seven that had not invested in shares had no representative on the SAL board. This study found, however, no correlation between the size of the fund and if it had invested in shares. That is, in 1990 when the pension funds were starting to invest in shares, it was not necessarily the larger funds that lead the way for investing in shares. Rather the funds, small or large, which had representative on the board of SAL. This indicates strongly that members on the SAL board influence the investment policy of the pension funds. However, whether that influence is used to support certain companies and their owner, or whether it is in the interests of the pension fund members, is explored in chapters 7 and 8.

## **Conclusion**

In this chapter, it has been shown that the Federation of Labour ASÍ has established and developed linkages and co-operation with the Employers Federation VSÍ through the pension fund industry, which has materialised in the founding of Íslandsbanki. In a collective bargaining agreement between ASÍ and VSÍ in 1969, the pension fund industry in Iceland became comprehensive in scope. The closed shop arrangement that prevails in all levels of industrial relations in Iceland was extended to cover admission to the pension funds and link them to the trade unions. Individuals, therefore, have no way of choosing their own or the best managed pension fund. The pension funds have a joint management between employers and the trade unions.

No overall legal framework for the pension fund industry exists, and the few laws that have been passed through Parliament all aim to ensure that people pay into the funds without giving them any guarantee that they will ever benefit from that. The implication of this is that it can be said that instead of having gained rights when the pension fund industry was established, the people in Iceland have had their rights reduced or suppressed. Which is to be regarded as the “unintended consequences” of

the agreement, as it has to be assumed that it is not a goal for the labour movement to reduce 'human rights'.

Furthermore, the absence of a legal framework has contributed to more 'power' for ASÍ and VSÍ in the sense they can change and bend rules and regulations according to their own 'needs'. The assets of the pension funds and thus the net cash flow has grown enormously in recent years, and with abolition of rules that limited investment and a growing financial market in Iceland, it is clear that the investment policy of the pension funds will change completely. For industries in Iceland, it is of crucial importance where the pension funds will invest in the future and therefore employers will try to influence that decision-making.

This development has encouraged centralisation in the pension fund industry, as decision-making and control is becoming concentrated in the hands of a few people, who will accordingly exert a large influence on the investment policy of the pension funds. The founding of Íslandsbanki is also a part of this development. Whether the consequences of this centralisation and the financial power that flows from it will be used for the benefit of the people that own the funds or to support more concentrated ownership in Icelandic companies is examined in chapters six, seven and eight.

Finally, it is suggested that the close linkages and the co-operation that has developed between ASÍ and VSÍ both in collective bargaining through the years and in the pension fund industry, is the main reason for the labour movements 'paradox', as they have become more and more embedded in a complex network.

## **CHAPTER 6: FINANCIAL INSTITUTIONS**

### **Introduction**

In the period 1930-1960 the bank industry was totally state controlled, but was deregulated in the 1960s, allowing private banks to be established. In 1959 a new coalition government came into power, the Independence Party (IP) and the Social Democratic Party (SDP) and was given the name of "Government of Reconstruction". It was to be the longest lasting coalition ever in Iceland and was in power until 1971. It should be noted here that this was the first time a coalition government had been formed between a conservative party and a trade union party. The IP and SDP had been in government together before, but always with a third party. The government partly abolished trade restrictions and aimed to encourage a market economy by reducing direct state intervention. However, licences for some of the imports into the country still had to be obtained from a committee that consisted of members from the National Bank, the Fisheries Bank and the ministry of Commerce. Export in the fishing industry also remained as monopolistic trade and that was actually not abolished till 1993. All major companies like the electricity and hot water companies, the post and Telecommunication Company, the liquor and tobacco stores etc. were and remain under state control. Finally, the government abolished some restrictions within the financial sector but kept the three state-banks under state-control.

However, to revitalise the economy after 30 years of trade restrictions and state intervention, the government needed the co-operation of all groups in society, especially the labour movement and employers. Creating and increasing, more than ever, the number of government committees and other committees at all levels of society attempted this. With less state intervention in the economy, the parties lost some of their power to use party patronage in the same way as before (see chapter 2). According to Kristjánsson (1994:182) the IP and SDP compensated for that by using its power to appoint their supporters to major influential posts, for example, in



government administration, civil service and in the state banks. The government committees can also be seen as a part of the party patronage (see below).

This government is a clear example of a cabinet coalition over time producing a multilevel conglomeration of coalition networks, which again is a factor in explaining why they stayed in power so long. They were able to bring together the leadership of most of the major social and economic interests at work in Icelandic society. The IP's relationship with the employers associations and the combined IP-SDP trade union strength created a network of interests which enabled the coalition to bring most levels of the system into an effective decision making mechanism which allowed the comparatively smooth formation and implementation of policy to take place. The leadership of most veto groups was in one way or another represented in the ruling circles of the coalition (Grímsson, 1977). Some of the coalition networks that were established during this time have lasted up to the present and have had a pronounced effect on Icelandic society. For example, a new kind of co-operation between the labour movement, the state and employers started to develop due to the creation of a coalition network in the Federation of Labour (ASÍ) in that period (see chapter 2). Consequently, the period from the 1960s laid the foundation for a process that is viewed here as a key element in explaining the labour movement paradox.

The main argument of this chapter is that the bank industry is once again undergoing transformation and becoming concentrated and centralised. It is argued that accumulation and concentration of funds within the pension fund industry, deregulation of the financial market, the establishment of a stock exchange market and co-operation between the labour movement and private employers, are the key factors for explaining these changes. This chapter begins with an overview of the development of the banking industry 1960 - 1998. Then follows a section on the People's Bank where the original role of the labour movement within the banking industry will be explored. The section on Íslandsbanki aims to show that the inner circle of ASÍ has an

active role within the banking industry. That is, the labour movement and private employers have a strong representation and co-operation in the banking industry as well as in the pension fund industry. Then the development of stock exchange market will be briefly explored, as the stock exchange is the key for creating a network of shareholding within and between sectors of industries and thus contributing to a concentration of 'intercorporate control'. Finally, the insurance sector is examined.

### **The banking industry 1960-1998**

In the 1960s, the banking industry underwent transformation. Between 1960-1970, three new banks were founded, all of which are private. The Bank of Commerce in 1960, the Co-operative Bank in 1962 and the People's Bank in 1970. These banks started a few years earlier as saving-banks and changed into commercial banks when the financial sector was freed of some restrictions. The founders of the private banks were leading businessmen / employers in different sectors and, after thirty years of state-monopoly in the bank industry, they realised the importance of having easy access to capital. Scott et al. (1984:172) point out: 'Enterprises are dependent upon access to capital, and banks occupy a strategic position in the flow of this resource'. Hence, the establishment of the banks and the Industrial bank<sup>1</sup> to counterbalance the state-banks that gave priority to the agriculture and the fisheries. Three of the banks - the Bank of Commerce, the Industrial bank and the Co-operative Bank - aimed to support different sectors of business as is mirrored in their names. The labour movement, however, founded the People's Bank, in order to have a lending institution where the funds of the labour movement could be invested and to give 'ordinary people' access to capital. Its original purpose and development is discussed below.

The establishment of a comprehensive pension fund industry as well as the state monopoly over the banks is the essential factor for the development of private banks in

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<sup>1</sup> The Industrial bank was established in 1953 by few influential business people in industry and was a joint-stock company.

Iceland. In other words, the pension funds provided the capital for the operation of the banks and the discrimination of the state banks between different industrial sectors 'forced' different groups to form their own banks. The founding of the pension funds was thus, in many ways, the pre-condition for the establishment of the banks and pension fund money has been the backbone of these banks. Therefore, the banks have grown with the growing funds of the pension fund industry and pension funds are clearly a part of the banking capital.

At least two of the banks had from the beginning very strong connections to some of the private pension funds: the Bank of Commerce with the Commercial Pension Fund (which is now the largest in the country) and the People's Bank to the ASÍ - SAL pension funds (see chapter 5). For example, the Commercial Pension Fund was formally founded on the first of February 1956 and the saving Bank of Commerce on 4 February 1956. Most of the people that founded the Commercial Pension Fund were also founders of the bank and were on the board of directors of both organisations. The connections are mirrored in the first regulation of the Commercial Pension Fund, where it stated that the pension fund money should be invested in the Saving Bank of Commerce (Afmælisrit LÍV, 1986: 24). Moreover, with the steadily growing funds in the pension fund industry all the private banks established even stronger ties between them and the pension funds, and all key members on the board of the pensions funds have been or are on the board of directors of the banks. For example, Benedikt Davíðsson the president of ASÍ (see figure 6.1) and Gunnar J. Friðriksson from VSÍ, served as chairmen of SAL (The Association of General Pension Funds), continuously during the period 1983 -1995. They also were on the board of The People's Bank and the Industrial Bank and Guðmundur H. Garðarsson from LL (The National Association of Pension Funds) was on the board of the Bank of Commerce. These three men are extremely influential within the pension fund industry, the labour movement (ASÍ) and the Federation of Employers (VSÍ) (see chapter 5 for further discussion). The latter two are related to the kinship group discussed in chapter 2. Gunnar J. Friðriksson is

Ludvig Kaaber's son-in-law, who was bank manager and the founder of the Freemasons and Guðmundur H. Garðarsson is married to a granddaughter of Hannes Hafstein bank manager and the first Minister of Iceland. Furthermore, it should be noted that these same three men have been key members (along with a few others) over the last 30-40 years in collective bargaining negotiations between ASÍ, VSÍ and the state. Hence, they created strong links between the pension fund industry, the private banks, the labour movement and the Federation of Employers.

During the period 1960-1985, three state-banks, a central bank, four private banks and around 30 saving banks operated throughout the country. The three state banks were by far the largest however, and consequently wielded most influence in the economic sector. The growing number of financial institutions established the influence of professional bank employees but only to a certain extent. For example, in the late 1960s five of sixty MP's were managers of the large banks whilst now bank managers have disappeared from the parliament (Althingi) (Grímsson, 1976). Despite this, it should be noted here that although it is no longer common for an MP to serve as a bank manager, they often serve on the board of directors of the banks. Furthermore, it seem to be the practise in Icelandic society that ex-prime ministers and others highly influential members of governments take over high positions in the state banks (often regardless of relevant experience or education) when they retire from politics. For example, the chief manager of the Central Bank is Steingrímur Hermannsson, an engineer, ex-prime minister and the leader of the Progressive Party (PP) for years (he is the son of Hermann Jónasson, see figure 2.4. in chapter 2). In 1986-1990, the Central Bank manager was Geir Hallgrímsson a lawyer, mayor in Reykjavík 1959-72, Prime Minister 1974-78 and leader of the IP 1973-83 (he is the son of Hallgrímur Benediktsson, one of the first capitalists in Iceland. This family owns large companies and is a shareholder in many others, see chapter 7 and 8). Party influence thus continues to be strongly felt within the financial sector as well as in the civil service. At present the board of directors of the state banks and of the most significant funds,

institutions and state companies are elected by the political parties in Parliament. Moreover, the private bank and the saving-banks have strong party ties, especially to IP.

The party patronage system that became well established during the period 1930-1960 is still strong within the financial sector (see chapter 2). This is reflected, amongst other things, in the government committees elected in 1985 by parliament. Sixty per cent of these elected committees are the boards of state funds, state companies and institutions, 33 per cent are ruling and supervision committees and 7 per cent are consultation committees. According to Kristinsson (1994:106) the large role parliament plays in choosing the boards of state funds, state companies and state banks show the importance of the patronage system in Icelandic politics. Moreover, Kristinsson (1994:109) points out that in 1991-1992, one third of all government committees have members from different interest groups like ASÍ and VSÍ. He draws the conclusion that one of the roles of these committees is to create solidarity between different groups, which according to Thompson (1994) is a major factor in network building. Furthermore, Kristinsson (1994:110) points out that member of governments committees are paid fees for their service although they usually attend committee meetings during their normal working hours. The fees can come to a considerable amount, as the same people often serve in many committees. According to Kristinsson this has led to some accusation (he does not say from whom) that the committees are mainly founded to increase people's wages, and he argues this might be true considering the meagre results many of the committees produce. It is mainly directors of companies, people from interest organisations, specialists and politicians that serve on these committees and women are particularly underrepresented in the committees. Hence, it is suggested here that the government committees are a part of the patronage system that is still very strong in Iceland. Still, the main argument in this study is that those committees have created co-operation between ASÍ and VSÍ in the financial

sphere and in the collective bargaining process, which again is reflected in the paradox of the labour movement.

In 1985 the Fisheries Bank faced financial difficulties due to the bankruptcy of its largest customer, the shipping company Hafskip h.f., and was forced to close down. The chairperson of the board of directors of the Fisheries Bank 1980-1983 Albert Guðmundsson was a member of the Freemasons, an MP for the IP, a finance minister and industrial minister 1983-1986, private employer and a chairperson of the shipping company Hafskip h.f. During the period that Albert Guðmundsson served for the bank and Hafskip, the debts of the shipping company with the bank increased enormously and finally led to the closure of the bank. This was considered a financial scandal caused by conflict of interest and is one of very few cases to which the media gave attention. This case illustrates that the multidimensional roles that are so common in Iceland can lead to conflict of interests. Still very little attention has been given to that matter or possible consequences which underline that multidimensional role are the norm in Iceland.

The downfall of the Fisheries Bank brought about a new radical transformation in the bank sector. Three of the four private banks - the Bank of Commerce, the Industrial Bank and the People's Bank - joined together and bought the state shares in the Fisheries Bank. In 1989 these banks merged and a new bank was established under the slogan 'Við eigum samleið' (We are going the same way). This bank is owned and controlled by the labour movement, private employers from different sectors and the pension funds. It was given the name Íslandsbanki or the Bank of Iceland, like the first private bank in Iceland (see chapter 2). It will be referred to as Íslandsbanki in this study. It is suggested here that the establishment of Íslandsbanki reflect the co-operation between the labour movement and private employers that has developed through committees, the pension funds and the bank industry. The fourth private bank, the Co-operative Bank, merged with the National Bank, the reason being that the Co-

operative movement had been dissolved due to financial difficulties.<sup>2</sup> That again reflects the increasing strength of private employers in Iceland (see chapters 7 and 8).

Currently (1998), there are four commercial banks operating in Iceland and over 29 saving banks, some of which are very small. Two state-owned commercial banks - the National Bank and the Agricultural Bank - and one private - Íslandsbanki - they engage in all traditional commercial banking activities; the fourth is owned by the saving banks and operates as their clearing institution and liaison in foreign transactions. The Central Bank of Iceland performs all the traditional central banking functions as well as the supervision of all financial institutions, except the insurance companies. It determines its own interest rates and interventions in foreign exchange, and money markets. The Government, however, has the final word on exchange rate policy, although the Central Bank has decisive influence on its formulation through its recommendations and advice (Compendium of the Icelandic Financial Market Legislation, 1997). The State is therefore still the largest actor within the Icelandic bank sector with 56 per cent of the total turnover of banks and saving banks (Skýrsla Samkeppnisráðs, 1994). The only private bank - Íslandsbanki - is the second largest bank in Iceland and has 24 per cent of the turnover. The two state banks and Íslandsbanki thus control 80 per cent of the total turnover within the banking industry and the saving banks which increasingly work together and are becoming more concentrated control 20 per cent. The banks - both the state banks and the private bank - co-operate in many sectors, for example, they run the two existing credit card companies in Iceland together, they have a joint statistical bureau that prints all the account statements and they co-operate on many advisory bodies etc. Finally, the bank managers control the many different state funds, which were originally established to give loan or grants to different industrial sectors. In other words, the state banks and

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<sup>2</sup> There are many companies with connections to the co-operative movement still operating in Iceland (see chapters 7 and 8) but the overall strong influence that the movement had has steadily declined over the last two decades.

Íslandsbanki jointly control the state funds that now mainly invest in shares. The bank industry is, therefore, becoming more concentrated and centralised.

The boards of directors of the Central Bank and the two state banks consist of five people elected by the parliament, which reflects the ties between the political parties and the financial institutions. The board of directors of the saving-banks consists also of five people. The guarantee capital owners elect three members of the board, and the local authorities or regional committees involved nominate two members. If local authorities are the sole guarantee capital owners, the local authorities involved, or their representatives, elect the entire board (Compendium of the Icelandic Financial Market Legislation, 1997:31). The board of directors of Íslandsbanki is discussed below. However, the role of the labour movement within the bank industry will first be explored.

### **The People's Bank**

On November 12, 1970 the People's Bank was founded, and took over the People's saving-bank that had operated since 1967. The bank was under the labour movement's (ASÍ) control. The aim was similar to the founding of the Bank of Commerce, mainly to create a lending institution where the pension funds would invest their money. In 1969, a collective agreement made membership to a pension fund compulsory for ASÍ members and many pension funds were established under joint control of trade union leaders and employers. The labour movement wanted to have some control over the funds' investment and pointed out the need to have a bank which 'ordinary people' could go to for a loan. But during the three decades of state monopoly in the bank industry the ordinary worker had no way of getting a loan.

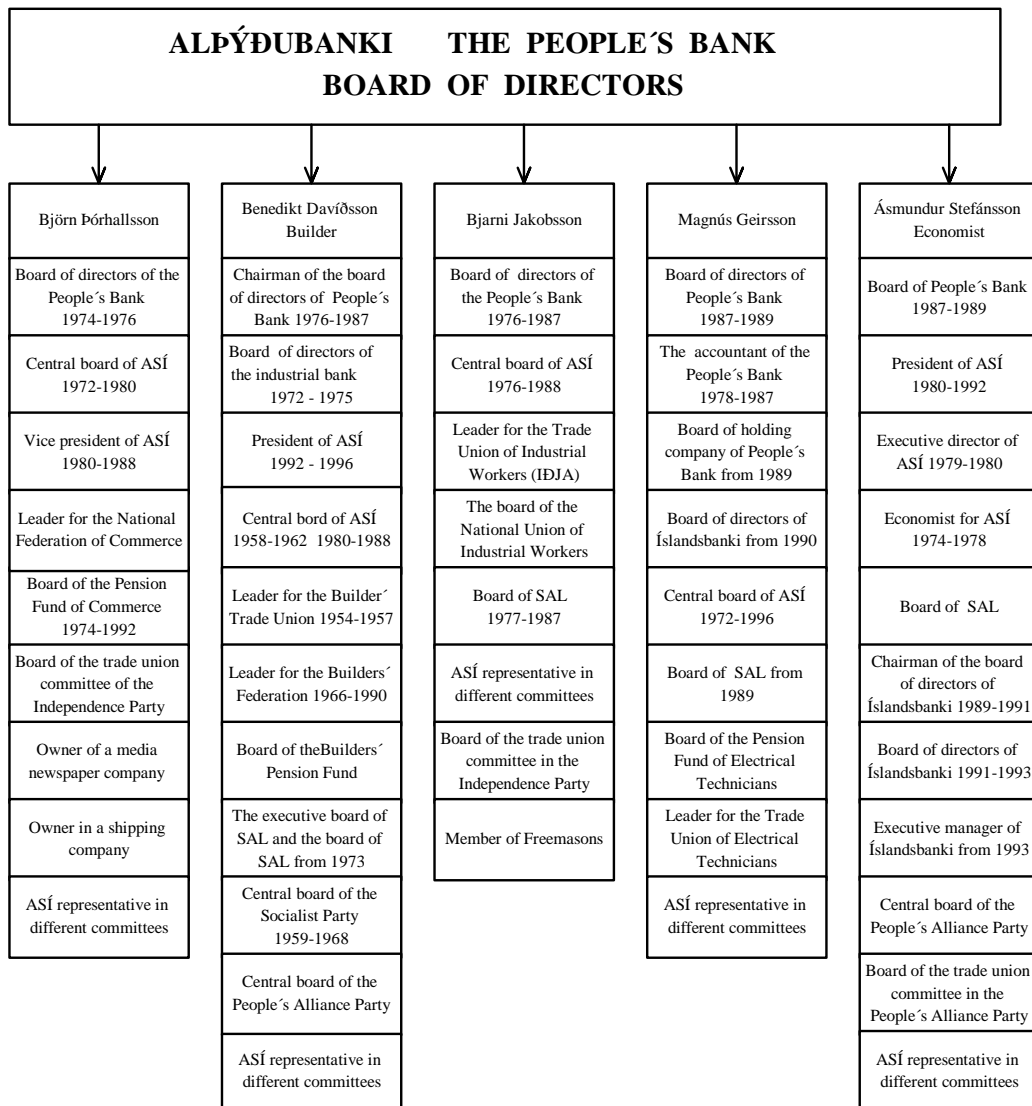
In a letter to the trade unions within ASÍ, dated 1st of September 1970, Hannibal Valdimarsson then the president of the ASÍ, stated that it was of a great importance for the future of workers in Iceland to have and control their own bank as it would give the



labour movement increased power in their struggle for job security and an acceptable standard of living. Moreover, with the labour movement's funds, like sickness, unemployment insurance etc, accumulating, it should be the trade unions' ambition to control the funds *themselves*. Finally he points out 'the People's Bank *is and always will be* the property of *only* the labour movement' (Skýrsla forseta ASÍ, 1969-1972:130-31, my emphasis). The main purpose of the founding of a people's / trade union bank was therefore to increase the labour movements' influence in the control of their funds, strengthening their bargaining power and helping workers to gain access to capital.

The People's Bank was thus very closely connected to ASÍ and the SAL pension funds. That was reflected in its board of directors, which had the highest authority in the bank (Handbók vinnustaðarins, 1989). It consisted of trade union leaders who were also in other high positions in the labour movement. For example, they are usually leader of a large individual trade union and on the board of ASÍ, SAL and individual pension funds, and serve on different committees (see also chapter 5). Consequently, these trade union leaders link into different networks of the society and are very influential. Moreover, through their positions they regularly meet the 'hard core' of employers, in collective bargaining, in the pension funds meetings etc. Most of the trade union leaders have been in high positions over a long period of time, which indicates stability in the network and as such increases opportunities for co-operation. Hence it is suggested here that this 'core' of trade union leaders can be seen as the 'inner circle' of the labour movement that expresses the centralisation of the labour movement, and becomes the dominant element in the control and co-ordination of the labour movements' affairs. Furthermore, since 1989, the People's Bank has been a part of Íslandsbanki (see below) and is thus run in co-operation between trade union leaders, pension fund leaders and employers. That is seen here as the outcome of the social network that the trade union leaders are linked into. Figure 6.1 shows examples of the trade union leaders multidimensional roles.

**Figure 6. 1: The Board of Directors and Multidimensional Roles**



Source: Author

As can be seen in figure 6.1 Ásmundur Stefánsson the president of ASÍ during the period 1980-1992 and Magnús Geirsson, both went on to the board of directors in Íslandsbanki. Magnús Geirsson is still on the board, but the president was appointed an executive manager in Íslandsbanki, when he 'retired' as the president of ASÍ. It should be noted that Ásmundur Stefánsson started to work for ASÍ in 1974 as an economist and then as an executive director 1979-1980. He is the only president of ASÍ who had no experience of being a trade union leader before becoming president and as such has

a very unusual career within the labour movement. With him a new era of co-operation between the labour movement and employers started. The other four people shown in figure 6.1 have been leaders of large trade unions and very influential in ASÍ. For example, Benedikt Davíðsson was the president of ASÍ 1992-1996, has been on the executive board of SAL since 1973 and he was on the board on the Industrial Bank before he went on the board of the People's Bank. Björn Þórhallsson was the vice president of ASÍ 1980-1988. He is an interesting example, as he is both a trade union leader and employer even though it might be thought that such a multidimensional role could lead to conflict of interests. However, he is only one of many similar examples within the labour movement. Bjarni Jakobsson is worth noting for the reason that he is a Freemason, but again membership of the Freemasons is a fairly common occurrence within the labour movement, especially in the Trade Union of Commercial Employees and Clerks.

### **Íslandsbanki h.f.**

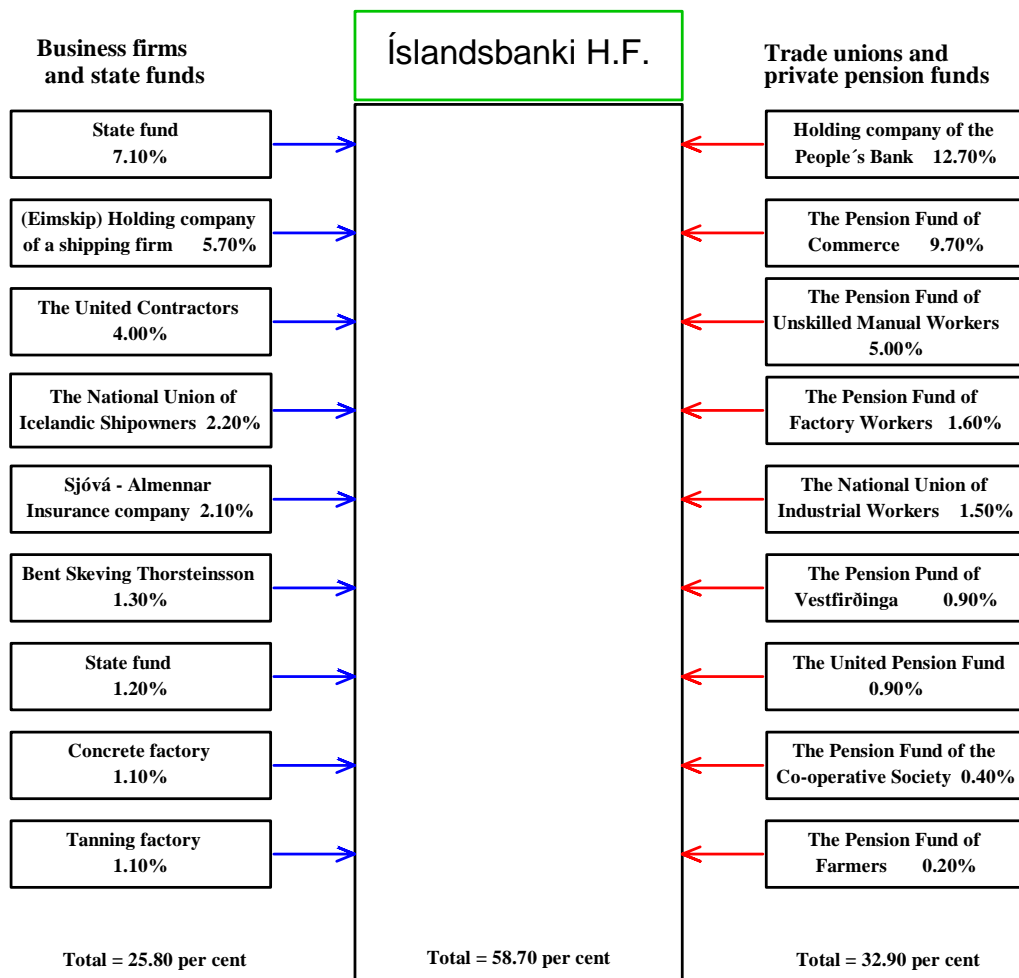
Íslandsbanki, founded 1989 by combining 4 banks, is a limited company with private shareholders, - mostly pension funds, trade unions and private company owners. On its inception, the close linkages and co-operation that had developed through the years between the labour movement and private employers materialised.<sup>3</sup> The following information that can be seen in figure 6.2 is mainly from the 'competition committee' report (Samkeppnisstofnun, 1994). Figure 6.2 shows that out of 58.7 per cent of the shares in Íslandsbanki, private pension funds and trade unions own 32.9 per cent, private employers 17.5 per cent and state funds 8.3 per cent. The labour movement and the pension funds thus clearly invested much capital in Íslandsbanki. Furthermore, as was shown in chapter 5, the pension funds since 1995 have increasingly invested in financial institutions, including large amounts in Íslandsbanki. For example, of the total domestic investment made by the third largest pension fund in the country

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<sup>3</sup> It should be noted that Íslandsbanki refused to give information for this study regarding shareholders, even if they were asked only to give information on proportional division of shares between the pension funds, trade unions and private employers.

(Framsýn) in 1996, 38 per cent was invested in Íslandsbanki. The pension funds are therefore becoming even larger shareholders in the private bank than before.

**Figure 6.2:** *The Main Shareholders in Íslandsbanki 1994*



Source: Samkeppnisstofnun, Skýrsla Samkeppnisráðs 1994

Figure 6.3 informs us that Íslandsbanki has on its board seven directors and six managers. None of those are women. Twelve of those individuals can be labelled as

multiple directors<sup>4</sup> as they are on the board of directors of two or more companies. The one who stands out is Örn Friðriksson, who is also on the board of ASÍ and a leader of a large trade union, but that is not shown on figure 6.3. The other twelve (four are from ASÍ, see below) create 40 primary interlocks<sup>5</sup> from Íslandsbanki to other companies, that can be traced through the colour code in figure 6.3 as one colour stands for each individual. From this, it can be seen that two individuals create many more interlocks than the others. Einar Sveinsson creates interlocks to 9 companies and he is both on the board of directors and a manager in the second largest insurance company in the country (he is a son of one of the Benediktsson brothers that formed the nucleus of the Independence Party, see chapter 2). The other, Sveinn Valfell is one of the richest people in Iceland and links into six companies, he is also both a manager and on the board of directors in one of them.

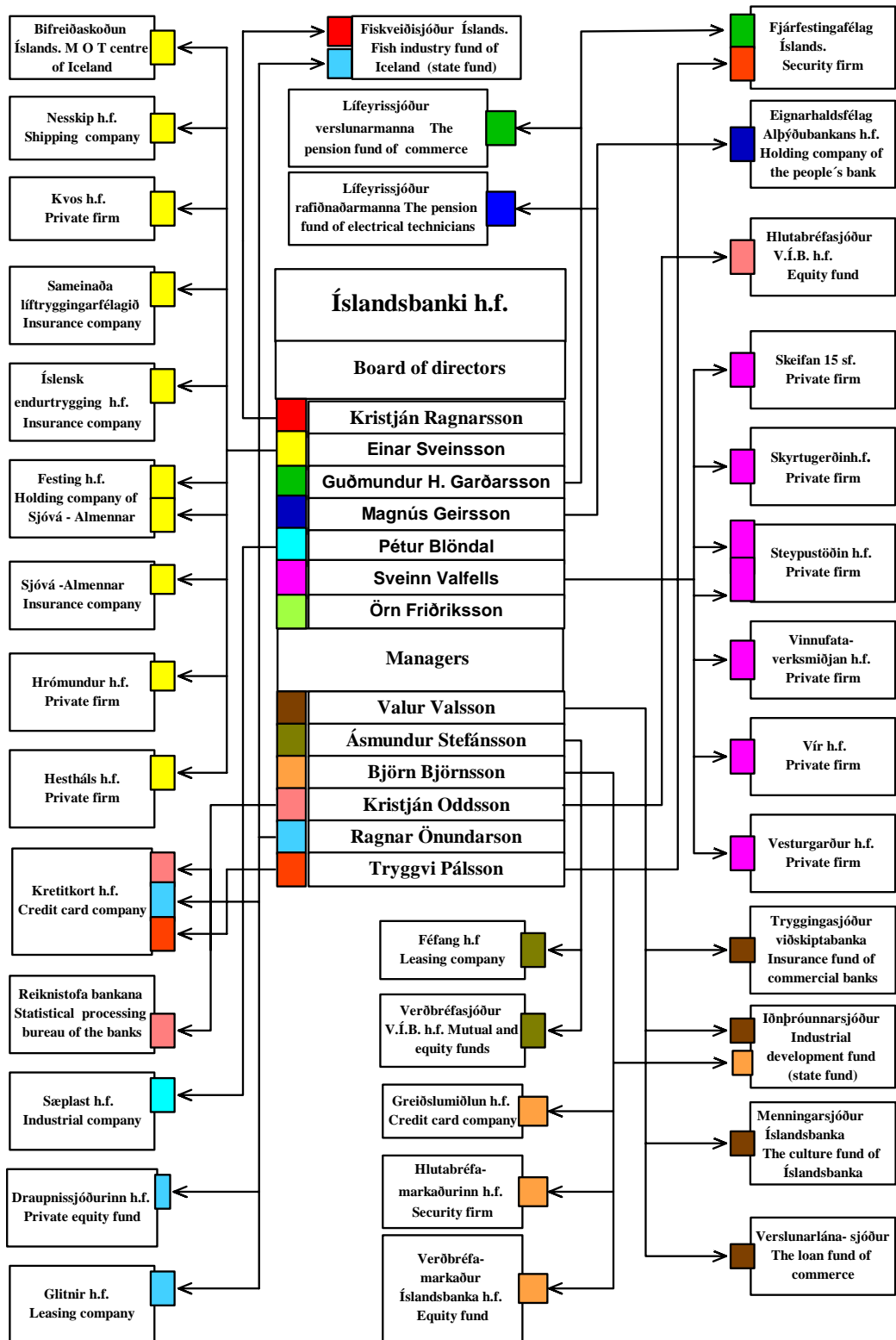
Most of the other ten multiple directors in Íslandsbanki link into other financial firms, such as equity funds, security firm etc. but Íslandsbanki is either the sole or part owner of many of these existing companies in Iceland as can be seen in figure 6.4. It should be noted that these companies are very important as financial intermediaries between the financial market and industry in Iceland, as they are the main buyers and sellers of shares. Furthermore, they illustrate the increased role that financial intermediaries have come to play for enterprises and in the economy as a whole since the mid-1980s. Finally, the pension funds are increasingly investing in those companies in order to spread and reduce the risk of their investment. The implication of this and the increased interlocking between industry and the financial market is discussed in chapters 7 and 8.

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<sup>4</sup> See chapter 8 for further discussion on multiple directors

<sup>5</sup> See chapter 8 for discussion on interlocks

Figure 6.3: Íslandsbanki and Interlocking



Source: Author

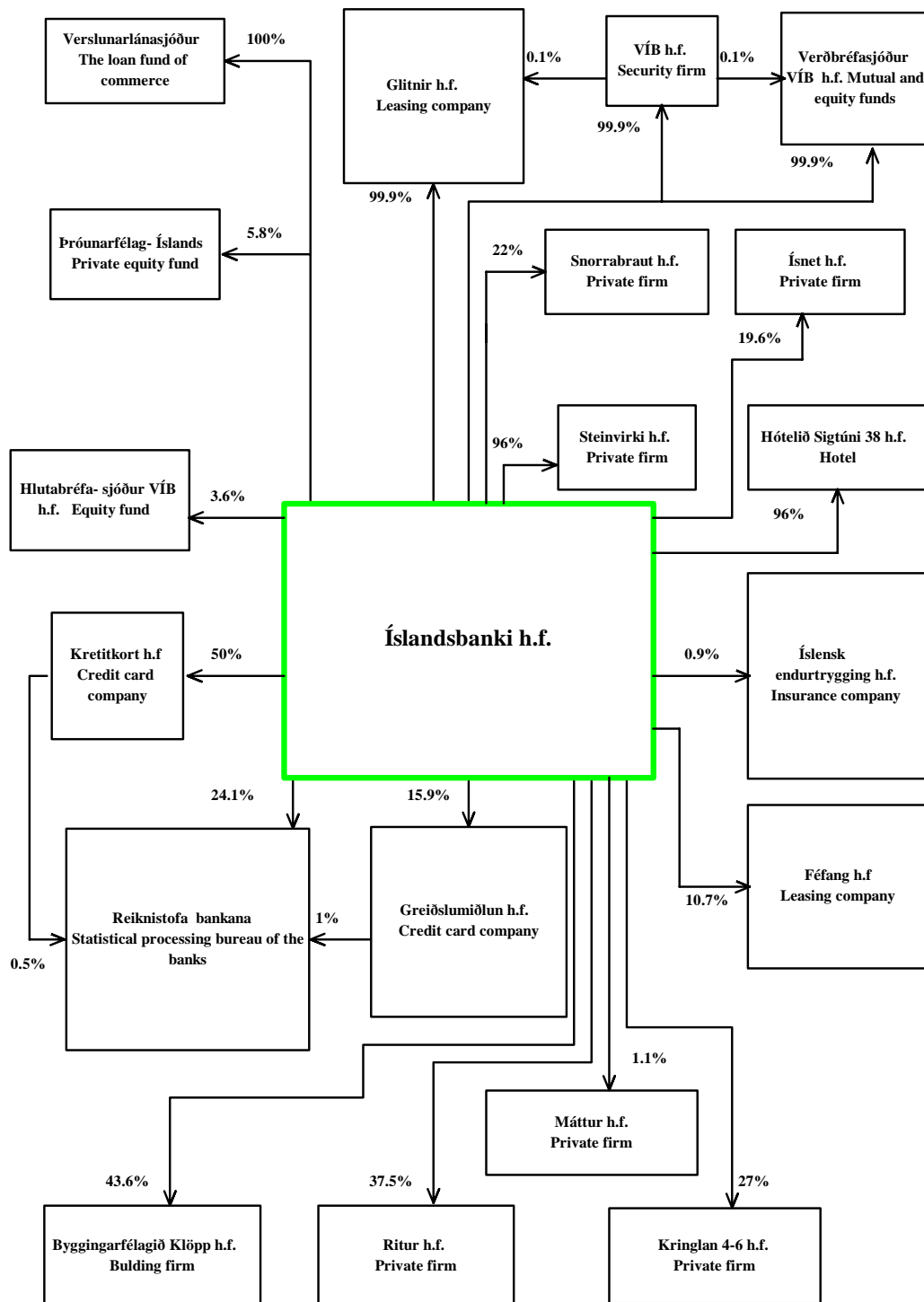
One of the managers in Íslandsbanki is Valur Valsson, who is the chief bank manager and the other five are executive managers. Two of them come from ASÍ and the People's Bank that is Ásmundur Stefánsson ex-president of ASÍ and Björn Björnsson who was the manager of the People's Bank 1988-1989 and an economist for ASÍ from 1981. The other managers are from the Industrial Bank and the Bank of Commerce. The board of directors has three representative from ASÍ and the pension funds, that is Guðmundur H. Garðarsson (see above) from the Pension Fund of Commerce and the Bank of Commerce, Magnús Geirsson from the People's Bank (see above), SAL and ASÍ and Örn Friðriksson from ASÍ. Thus, it looks like ASÍ has been well represented in Íslandsbanki. This implies that the inner circle of ASÍ has an active role within the bank industry as well as in the pension fund industry. Moreover, they are on the board of directors of equity funds, security firms, leasing companies, state funds and credit card companies. Hence, it is suggested here that ASÍ have not only 'potential' financial strength but a real one. However, that strength has not been used for the benefit of its members.

The four other individuals on the board of directors are all representatives of private companies as owner / directors. The labour movement and private employers thus clearly have strong representation and co-operation in the banking industry as well as in the pension fund industry. Consequently, they are powerful and influential in the financial market in Iceland. Moreover, privatisation of the state banks is a topical matter in Iceland.<sup>6</sup> If that happen then it is most likely that the pension funds will be the main investors. The significance is that the labour movement and private employers will be increasingly involved in the financial market and in controlling the economy as a whole.

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<sup>6</sup> In 1997, the Parliament decided to change the two state-banks to limited companies and aims to sell at least 49 per cent of the shares to private shareholders.

Figure 6.4: Íslandsbanki - Shareholding and Connections



Source: Samkeppnisstofnun, Skýrsla Samkeppnisráðs 1994



## **Iceland Stock Exchange and investment funds**

Since the mid-1980s, the financial sector has undergone deregulation and a process of liberalisation that has created a wider range of savings and financial investments alternatives (The Enskilda Report 1992). For instance, in 1986, the control over interest rates was liberalised and commercial banks were permitted to determine their own rates, but the Central Bank determined the rates until then. Moreover, a stock exchange market was established that created conditions for joint-stock companies to develop. Companies that traditionally borrowed from banks and investment credit funds are now increasingly seeking new funds through share and bond issues on the Exchange. In March 1997, the shares of 35 Icelandic companies were listed on the Exchange and share trading has been aided by the operation of closed-end mutual funds, which invest primarily in shares. The Iceland Stock Exchange is thus rapidly evolving into one of the main pillars of the financial market. The stock exchange is the key for creating a network of shareholding within and between sectors of industries and thus contributing to a concentration of “intercorporate control” or “pyramiding”. Zeitlin et. al, put it like this:

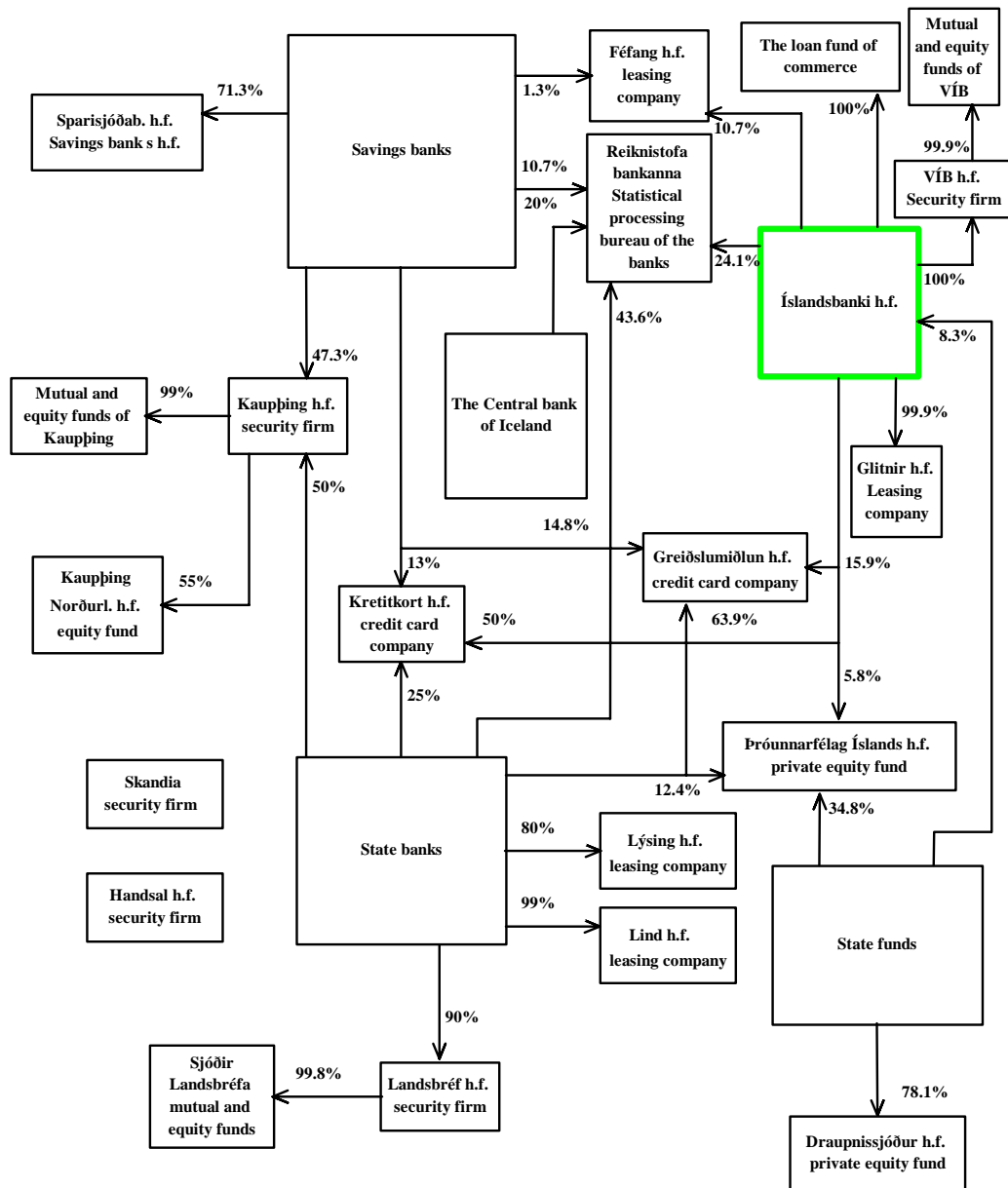
This essentially refers to the consequence of corporations being able to purchase and own shares in each other, thus permitting a series of corporations to be interconnected so that those at the apex of the pyramid are able to control those at the bottom through a combination of majority and minority interests on each level of the pyramid. Such systems make possible the concentration of capital into larger and larger business units.”... “Pyramiding, by utilizing the capital of controlled corporations to bring still other corporations under control, drastically reduces the ownership base (or investment) necessary to exert such control. This is essential to grasp, since the web of intercorporate principal shareholdings may be the method par excellence by which the same individual capitalist or small group of associates expands the propertied realm under its control well beyond that provided even by ordinary minority control (Zeitlin et. al, 1975:93-94)

The establishment of a stock market in Iceland in the mid-1980’s along with deregulation in the financial sector thus created different investment conditions for the pension fund industry as more and more companies sought new funds on the exchange. Its establishment can also be seen as a turning point for increased co-operation within

the financial sector, between the labour movement, the private pension industry and employers, as the interests of these groups become more integrated. Fifteen institutions are currently members of the Exchange, including the Central Bank, all the commercial banks and securities companies and some saving banks. The board of directors of the Stock Exchange consists of seven persons. The Central Bank nominates the Chairman of the board. Other members of the Exchange nominate two persons, one of which becomes the Vice-Chairman. The issuers of listed shares on the Exchange nominate two persons. The pension fund federations SAL and LL (see chapter 5) jointly nominate one person and the Minister of Commerce nominates one person to represent smaller investors (Compendium of the Icelandic Financial Market Legislation, 1997:94).

Following the deregulation, equity funds, mutual funds, security firms, leasing firms and credit card companies also started to appear on the financial market of Iceland, some of them privately owned. By 1995, however, the banks had taken over almost all of these firms, only two security firms are not owned and controlled by the banks (Skýrsla Samkeppnisráðs 1994). Figure 6.5 gives an overview of shareholding and connections between financial companies in Iceland (insurance companies are excluded). From this, it can be seen that the state banks, the saving banks and the private bank are tightly interlocked through mutual shareholding in other financial companies. The bank managers, and sometimes members of the board of directors of the banks, are also connected through personal interlocking, as they tend to meet on the board of those different financial companies.

Figure 6.5: The Financial Market – Shareholding and Connections



Source: Samkeppnisstofnun, Skýrsla Samkeppnisráðs 1994

## **Insurance companies**

The financial industry consists not only of banks and investment funds but also of insurance companies. In 1993, 26 insurance companies were operating in Iceland and two of the largest were leaders' in the market with 64 per cent of the total turnover. The largest, Vátryggingafélag Íslands hf. (VÍS) had 35 per cent of the turnover and is connected to the co-operative movement. Sjóvá -Almennar hf. is the second largest with 29 per cent of the turnover and is a family company. Tryggingamiðstöðin hf. follows with 16 per cent of the turnover. Large companies within the fishing industry, which again are potentially under family control, mainly own it. Trygging hf comes fourth with 6 per cent. The remaining 22 insurance company share 14 per cent of the market and hence they are relatively small. Many of those smaller companies are also partly owned by the larger insurance companies. The insurance market has therefore to be characterised as an oligopoly market. Moreover, since 1993, the two largest of the insurance companies have been increasing their share in the market by buying some of the smaller companies and in 1998; their collective share of the market is around 70 per cent. It thus appears that this sector of the financial market in Iceland is also moving towards centralisation, as insurance companies are becoming fewer and larger. In addition, the banks and the insurance sector are becoming closely interconnected through shareholding and ownership. In 1997, Landsbankinn (the largest state bank) bought 50 per cent of VÍS the largest insurance company and the saving-banks bought a small insurance company. Sjóvá-Almennar hf. the second largest is a shareholder in the private bank - Íslandsbanki and its executive director is on the board of directors of Íslandsbanki.

The ongoing transformation in the Icelandic financial industry can be seen as 'unit concentration' or economic concentration. Consequently, the financial industry in Iceland is moving towards centralisation, like the pension fund industry (see chapter 5) and the structure of collective bargaining within ASÍ (see chapter 2).

However, as Scott et al. argues:

Monopolisation, understood as an increase in the level of economic concentration, has conventionally been measured by the extent to which the economy as a whole or its various sectors are dominated by a small number of units of production. This focus on 'unit concentration' has led to a general disregard of all intercorporate relations except those capital relations, which fuse economic units through merger or amalgamation into unified enterprises. .... The conventional focus on unit concentration must be complemented by an analysis of what may be called 'network concentration' understood as the concentration of control over enterprises through commercial, capital, and personal relations (Scott et al., 1984:32-33).

In other words, it is important to complement the analysis that has been done so far in this study by analysing through the concept of 'network concentration' and interlocking directorship what implication concentration of the financial industry has both for their immediate spheres and for the wider structure, with the main aim to assess if there is a growing fusion of interests between banking and industry, or in other words if 'finance capital' has emerged in Iceland. According to Scott et al. (1984:138) 'the concept of 'finance capital'<sup>7</sup> refers to the outcome of two parallel processes: the concentration of both banking and industry, and the coalescence of large-scale capital between these two sectors'. Hilferding (1910) proposed that the monopolisation of banking led to the fusion of bank capital and industrial capital into the new form of finance capital. That is: 'with the rise of the joint-stock company, a large number of companies can be possessed through mere majority ownership, and so the number of capitalists falls. There emerges a small circle of persons in whom the power of monopolized capital is concentrated. These finance capitalists control other people's capital and are united through interlocking directorships (personalunion) between the industrial enterprises and the banks. The banks are the mechanisms through which the fusion of the various spheres of monopolized capital is brought about' (Hilferding, 1910, in Scott, 1979:75). It will thus be investigated in the next two chapters if the concentration of the banks/financial industry in Iceland has led to

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<sup>7</sup> See chapter seven for further discussion of finance capital.

concentration in the industrial sector and if an inner circle of 'finance capitalists' has emerged.

### **Conclusion**

The banking industry developed parallel with the emergence of capitalism in Iceland and was an essential precondition for capitalism to grow. At the same time an economic and social transition was taking place in Icelandic society and political groups /parties split in their attitudes on the basic development of the country. Capital was the condition for any development and the banks were the main resources. Therefore, who controlled the banks was of importance for each group. For the first 2 - 3 decades in this century, the remainder of the "old landowning elite" controlled the banks which is reflected in the fact the members of that kinship group became the first leading capitalists in Iceland. However, increasing conflict between rural and urban area as well as the fact that class politics were taking over from independence politics, led to state monopolisation over the banks in 1930.

During the period 1930-1960 the banking industry and the whole economy was under total control of the state and political parties. This led to a thriving system of patronage. In order to reduce conflict and increase co-operation, especially between the political parties, government committees were continually being formed. These committees were organised along political lines and served as intermediaries between the parties and their supporters or in other words they can be seen as 'tools of social order' in this period. The banks were in the centre of this patronage system due to the resources they controlled. Hence, it was of a great importance for political parties as well as interest groups to have their members on boards of the banks, which again is reflected in the fact that the boards of directors of the state banks, state funds and state companies are still appointed by the political parties in Parliament.

When the 'reconstruction' government of the IP and SDP came into power in November 1959, they lifted some of the restrictions on the financial industry. That led to the establishment of private banks, but their founders had clearly realised the need for easier access to capital during the thirty years of state controlled banks. However, the backbone of these new banks was the establishment of a comprehensive private pension fund scheme, which were controlled jointly between the labour movement and private employers. At the same time the 'reconstruction' government used increasing number of government committees as its main 'tool' for creating co-operation between conflicting groups, like the labour movement and private employers, which, again, helped them to stay in power so long. At 12 years, the 'reconstruction' government is the longest lasting coalition government so far in Iceland.

The main conclusion of this chapter is that through relaxing the state monopoly of the banking industry, deregulating the economy and finally the government committees, the dynamics of Icelandic society changed. The co-operation that this government encouraged between the labour movement and private employers realigned then and created a co-operation between these two actors in the financial sphere mainly through the development of the pension fund industry. This is reflected in the banking industry as the labour movement and employers now control jointly the only private bank in Iceland with the vast funds of the pension fund industry as their backbone. One consequence of this is a concentration in the bank industry. However, this raises the question of whether there has been a concentration in the industrial sector and if an inner circle of 'finance capitalists' among who are essential members of the labour movement has emerged. These issues will be explored in the next two chapters.

## CHAPTER 7: SHAREHOLDING AND CONTROL IN PRIVATE<sup>1</sup> COMPANIES IN ICELAND

### **Introduction**

The purpose of this chapter is to explore the present structure of shareholding in the largest private companies in Iceland, in order to map patterns of ownership and control. The aim is to investigate if a concentration of corporate ownership and control in Icelandic industries has emerged with the establishment of the stock exchange<sup>2</sup> and with increasing shareholding of pension funds in industry<sup>3</sup>. That is, if the growth of institutional shareholding, which has been steadily increasing since the establishment of the stock exchange, had led to the development of a system of ‘finance capital’. ”The model of finance capital stresses the centrality of capital in corporate power and argues that this is expressed in an organisational fusion of enterprises operating in a variety of economic sectors. This results in the formation of large groups of enterprises within which banks and other financial enterprises are able to ensure a degree of co-ordination in corporate affairs” (Scott, J. and Griff, C. 1984). In other words, has there emerged a fusion between the capital involved in the production of goods and services and the capital which circulates through the credit system, like pension funds, insurance companies, saving institutions and banks? These agents have the ability to mobilise money made available to them by their clients, policy holders and contributors and make it available for investment in other enterprises through the stock exchange mechanisms. The stock exchange and the financial intermediaries are thus the central mechanisms in the system of ‘finance capital’. Furthermore, the stock exchange is the key for creating a network of shareholding within and between sectors of industries and thus contributing to a concentration of “intercorporate control”.

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<sup>1</sup> Private companies become public when they are registered on the stock exchange I do not make that distinction although most of the private firms I discuss are floating on the stock exchange.

<sup>2</sup> See chapter 6 on the financial industry

<sup>3</sup> See chapter 5 on the pension fund industry



Therefore, the central concern of research on business organisations must, as Zeitlin (1974) points out, focus at the outset on the complex relationships in which the single corporation is itself involved: the particular pattern of holdings and their evolution within the corporation and the relationship between it and other corporations. In short, the various forms of capital, commercial and personal relations which corporations establish among themselves as a way of enhancing their capacities for action must be explored. Hence, it is necessary to consider in detail the network of intercorporate and principal common shareholdings in order to map patterns of ownership and control.

First, the main historical trends of corporate control and finance capital will be reviewed. Secondly, intercorporate and principal individual shareholding *within* the major industries in Iceland will be explored, in order to assess if there is a concentration of ownership and control within those industries. Thirdly, shareholding *between* the industries are examined in order to establish if there exists a coherent and resolute group of companies which through shareholding is connected into all the major industries, both financial and non-financial. Lastly, those companies that appear to be at the apex of the corporate network structure will be examined, so it can be verified if economic concentration is taking place in Iceland.

### **A review of the main historical trends of corporate control and finance capital**

The large business enterprise is a powerful force in people's lives and has been a persistent subject of study by sociologists and economists. For many years, however, it has been assumed - even by many radical writers - that the control employers can exercise over their workforce no longer rests upon ownership of shares. In consequence, the enterprise has been studied as a system of bureaucratic administration and as an unproblematic 'black box' from which rational market decisions emanate. This has been associated with a widely held belief that the business enterprise is no longer a capitalist enterprise; rather industrial society is a 'managerial' society. Thus, sociology and economics have come to be characterised by an implicit

and taken-for-granted managerialism, countered principally by Marxist theories of bank control. However, ownership, if properly understood, is an important issue for theoreticians and researchers interested in studying markets, work and employment relations.

Managerialism is not a single, monolithic concept, but rather a general view of corporations, which has been advanced by a number of prominent theorists. Berle and Means provided the classic statement of this position in 1932. They argued that a set of changes occurred in the United States in the early 1900s, which altered the relations between private property and corporate control. As corporations became ever larger, the wealthy families who owned most of the firm's stock became less and less able to maintain their majority holdings. Thus "a new market for corporate securities was sought in the man of smaller income, the employee and the local customer" (Berle and Means, 1968:58-59). Consequently, the stockholdings were dispersed. A growing number of companies had no individual or family able to muster the majority of shares necessary for control. As this situation became more common control gradually passed from stockholders to the insiders, which are the managers who ran the daily operations of the firm. Hence, ownership was separated from control. The research agenda of Berle and Means thus established the concept of "management control" as a counterpoint to all forms of "owner control" and in 1961 Florence (1961:187) concluded that there were strong signs of a "managerial evolution" in Britain. Furthermore, in the USA in 1966 Larner (1966:786-7) claimed that 'it would appear that Berle and Means in 1929 were observing a "managerial revolution" in process. Now, thirty years later, that revolution seems close to complete'.

The changes attributed to managerialism point to consequences far beyond the boundaries of particular corporations, or even the economy as a whole. The clearest academic expression of this thesis was that of Bell (1961) which postulated the end of family capitalism alongside the end of ideology, and Galbraith (1967) who claimed

that a managerial 'technostructure' now held sway in all the major business enterprises. Finally, Kerr and his associates (1960) embodied such assumptions in their theory of industrial convergence, which held that the inexorable trend in all industrial societies was toward the establishment of management control, and an economic system which would shape the whole of the social structure in its own image. The nature of industrial technology was such as to require management control of industry and a pluralistic structure of political power. These assumptions became embodied in the mainstream writings of both sociology and economics, though their emphases and conclusions varied. Despite the careful dissection of Burch (1972) and the devastating critique of Zeitlin (1974), the empirical basis of the claims made by Berle and Means have been widely ignored and to date the managerial thesis has survived largely intact with the result that it prevails in many areas of social science.

The most systematic alternatives to managerialism have come from within the Marxist tradition, though these have not generally involved direct confrontation with the arguments of Berle and Means. Management control, in general, has been regarded as irrelevant or unimportant. Those who have rejected the thesis of the separation of ownership from control have argued that newer forms of 'bank control' have supplemented old style capitalist ownership, which have reinforced the dominance of capital over production. The concept of bank control of industry appeared early in the twentieth century in a study by Hilferding (1910) and many of these ideas were later popularised by Lenin (1916). According to Hilferding, the expanding scale of production means that enterprises grow beyond the ability of their individual owners to finance their operations and so have recourse to the stock exchange and the banking system, an assumption shared with the managerialist position. But Hilferding argues that a small circle of 'finance capitalists' who occupy key positions in the financial system are able to exercise virtually all the powers inherent in the capital mobilised. Individual capitalist owners are, indeed, squeezed out of positions of control, but they are replaced not by professional career managers but by the finance capitalists who

embody the system of monopoly capital. Both industry and banking become progressively monopolised through increasing size and through the establishment of cartels, trusts, and *interlocking directorships*, and the two sectors become fused into a single system of 'finance capital'. Through the system of finance capital, enterprises become tied into financial groups, within each of which enterprises from banking, insurance, commerce and manufacturing are brought together and operate as a single unit of capital. As a result, the system of finance capital is structured into a number of competing financial groups, whose interplay determines the overall development of the economy (Scott, J. 1988). Hilferding saw banks as the key institutions in the system of finance capital; both through their lending operations and through their direct share ownership, but number of more recent Marxist writers have taken this further.<sup>4</sup> They have argued that banks act as centres of control within the financial groups and are able to ensure that the activities of the enterprises which they control are guided in the interests of the banks. This position postulates a fundamental conflict of interest between banks and industry with the latter subordinate to the former, and has often involved the claim that the banks themselves remain subject to control by the major capitalist families. The link between ownership and control has not so much been broken as transformed, and now operates through a chain of intermediaries.

Zeitlin's (1974) critique of managerialism drew heavily on this Marxist position, and attempted to outline more fully the mechanisms of bank control. His argument was that the dispersal of share ownership observed by Berle and Means had been replaced by a move back towards share concentration, but that the shareholders in whose hands the shares had become concentrated were not individuals and families but financial intermediaries such as banks, insurance companies and pension funds. Banks, argues Zeitlin, play a key role as trustees and managers of insurance and pension funds, and so come to control large blocks of shares in virtually all large business enterprises. As increasingly shares come into the hands of the banks, so the level of control, which

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<sup>4</sup> See for example: Perlo (1957) and Aaronovitch (1955).

they can exercise over business operations, increases. Where Zeitlin and similar writers such as Kotz (1978) differ from the earlier advocates of bank control is in their recognition that it may often be necessary for two or more banks to co-operate in order to mobilise a controlling block. The system of finance capital, it is argued, involves the coexistence of financial groups subject to bank control and 'independent' enterprises controlled by coalitions of banks. A major problem with this position, however, is an implicit assumption that the distinction between 'management control' and 'minority control' can be used in the way in which Berle and Means originally formulated it. Whereas Berle and Means argued that there was a move from minority to management control, their critics have argued that there has been a move back from management to minority control. The Marxist critics of managerialism as an *empirical* thesis have thus not questioned its *conceptual* basis; that is they have not asked if new concepts may be required to supplement the original schema.

In answer to that, John Scott (1985) proposed an alternative to Marxism and managerialism by introducing two new concepts. These concepts supplement those bequeathed to researchers by Berle and Means and make possible a comparative investigation of ownership and control. "Control through a constellation of interests" and "control by coalitions of aligned interests" are the two concepts Scott introduced and he claims they are the two main forms taken by impersonal possession in the major capitalist economies. The former describes the situation in which a small but diverse group of corporate shareholders owns sufficient shares to exercise minority control, but does not have the capacity or willingness to act in concert which this requires. This group of shareholding interests does not constitute a unified coalition of associates, but neither does it constitute an anonymous mass of small shareholders. The dominant shareholders comprise a diverse constellation of capitalist interests, whose conflicting interests provide the space for some autonomy on the part of directors and top executives. On the other hand, their inability to sustain long-term co-operation does not mean that the members of the constellation are not able to achieve

sufficient co-operation to determine the composition of the board of directors and to supervise its activities (Scott, 1986:54-7). The concept of control through constellation of interests has been operationalized as the situation in which the twenty largest shareholders in an enterprise collectively hold 10 per cent or more of the shares, but where no individual shareholder has sufficient shares to exercise minority control. This contrasts with the concept of minority control which depends upon the existence of a small group of shareholders who are willing and able to determine the composition of the board of directors and, therefore, to shape the decisions which are made by the directors and top management. Control through constellation of interests thus depends upon the existence of large corporate shareholders in competition with one another and is the characteristic form of impersonal possession in the Anglo-American economies of Britain, the USA, Canada, Australia and New Zealand, where share ownership is structured by the hegemonic role of the financial intermediaries. (Scott, 1988a: 445).

For enterprises whose largest shareholders are non-competing coalitions of associates, the category of minority control may sometimes be appropriate. However, where these coalitions are involved in circular chains of mutual shareholding, reinforced by preferential trading, joint ventures and mutual lending arrangements, an alternative concept is required. Such a situation corresponds closely to the 'financial group' depicted in Marxist theories, and the form of impersonal possession which it involves must be clearly distinguished both from control through constellation of interests and from minority control. To designate this situation Scott (1985) proposed the concept of 'aligned interests', where controlling blocks are held by coalitions of industrial and financial associates, each member of which is itself controlled by the remaining members of the coalition. The coalitions, therefore, form co-ordinated groups of enterprises in which there may or may not be a dominant enterprise. In Japan, for example, the dominant form of corporate control involves 'acephalous' coalitions of aligned interests (Scott, 1988a: 445).

In spite of the fact that most of the research carried out during the last decade or so has failed to show any evidence for the managerialist thesis it is still a taken-for-granted assumption in sociology and economics, as well as remaining important for business people in their day-to-day actions. Research, on the other hand, has shown that there has been a general move away from personal forms of ownership towards impersonal forms in all the major capitalist economies. While individuals and families have, in a number of cases, been able to maintain or attain control of large enterprises through their personal shareholding, an increasing proportion of company shares are concentrated amongst corporate shareholders and financial intermediaries. Consequently, chains of intercorporate shareholdings tie enterprises together into a largely depersonalised structure of property ownership. Thus, there is validity in the argument that *personal* ownership has become increasingly separated from corporate control, and simultaneously a system of 'finance capital' prevails in the major capitalist economies. Nevertheless, this claim, according to Scott, must be separated from the argument that the impersonal possession characteristic of financial capital always and necessarily involves the control of banks over industry. Indeed, the most characteristic pattern of impersonal possession is one in which banks play an important but not overwhelming role, though the system of finance capital in Britain and the USA involves the generalised hegemony of 'institutional ' shareholders (Scott, 1988a: 444).

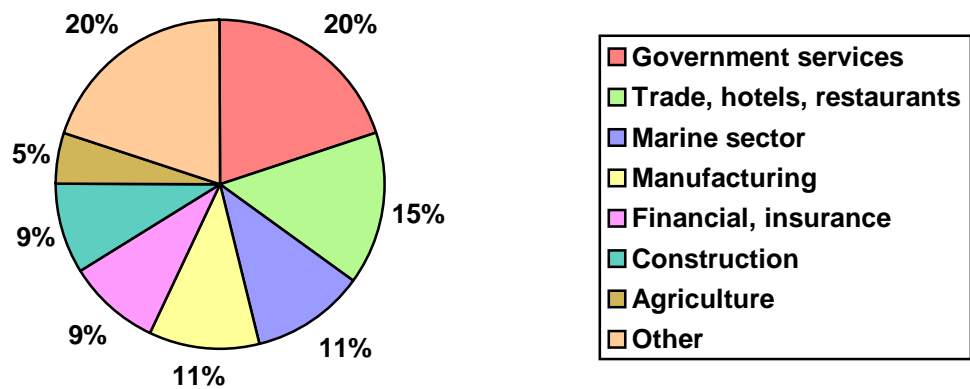
Any comparative account of corporate control must thus recognise that, while there are certain uniformities of technology and business practice in all the major capitalist economies, there are equally important divergences arising from historical experiences and differing cultural and legal system. These national variations shape the constraints that operate on the actions and orientations of business leaders and result in the existence of a number of alternative patterns of capitalist development. For example, the patterns taken by impersonal possession in Britain, the USA and certain other economies is to be seen as the outcome of a specific convergence of national and

international forces in the Anglo-American, English-speaking world. Whilst, in other parts of the world, and under the impact of other forces, different patterns of impersonal possession will be apparent.

### **Icelandic industries**

Traditionally the economy has been based on fisheries and agriculture. However, in recent decades, greater diversification into manufacturing, processing and service industries has occurred. Figure 7.1 shows the breakdown of employment by sectors.

**Figure 7.1:** *Breakdown of Employment by Sectors, 1994*



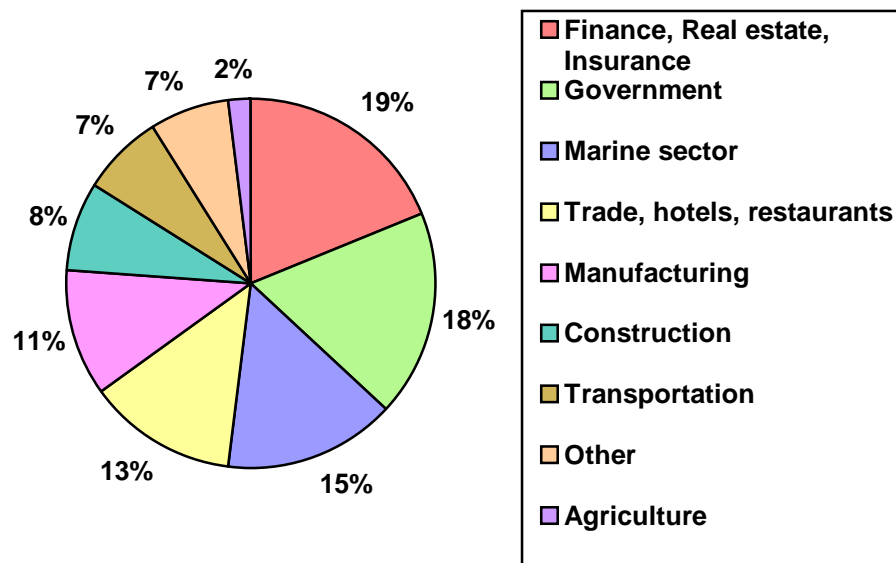
*Source: the Central Bank of Iceland: Monthly Statistic 1994*

Although the private sector is the prime focus of analysis, it must be noted that the State has the power to distribute facilities and grant privilege, directly or indirectly, to certain companies and individuals. Obviously this can affect competition between companies and/or individuals and has indeed done so, as will be shown. It will be argued below that one of the consequences is increased concentration of economic power and control where linkages between the government and companies or individuals play a major role.



In this chapter the analysis will concentrate on private industries/companies that have 60 or more employees; have 50 per cent or more of the total turnover in each industry; are privately owned by Icelanders; contribute most to the GDP (see figure 7.2 below) and are quoted on the stock exchange<sup>5</sup>. The agricultural sector will be excluded from this discussion as it contributes only around two per cent to GDP and employs 5 per cent of the labour force. Due to the importance of the marine sector for the Icelandic economy (see below), the analysis will start by examining concentration and control in that sector. It will then explore industries and services that are connected to the marine sector, like fish export companies and companies manufacturing for the fish industry. Finally, the oil companies, the transport sector and tourism, which is the fastest growing industry in the country, will then be examined.

**Figure 7.2: Contribution of Industries to GDP, 1994**



Source: the Central Bank of Iceland: Monthly Statistic 1994

<sup>5</sup> In 1997, only 35 companies were quoted on the Stock Exchange. Most of them are among the largest in the country.

### **The marine sector**

The marine sector<sup>6</sup>, including both fishing and fish processing, is of fundamental importance to the Icelandic economy. In 1994, it employed on average approximately 13,700 individuals, representing 11.3 per cent of the labour force, contributed 14.3 per cent to GDP and generated 52.4 per cent of the total foreign exchange earnings of the economy. Furthermore, many manufacturing enterprises have been established which serve the fishing industry. Their products include fishing gear, equipment repair and maintenance, packaging for export, plastics etc. It is estimated that the fishing industry and related firms collectively contribute around 40 per cent of the total GDP (Snævarr, S. 1993). Clearly, the marine sector can thus be seen as the backbone of the Icelandic economy, and the growth of the national economy has been led by the fisheries, the only export industry of consequence. This again is mirrored in the fact that economic policy making in Iceland has always aimed to ensure the profit of the fisheries, either by devaluing the currency or by establishing different loan or grant funds that have transferred money from other sectors into the fishing sector. Political and interest group pressures also play an important role in this. However, the relative importance of the marine sector has declined somewhat in recent years. For example, in the early 1960s the export of fish and fish products constituted some 90 per cent of merchandise exports and represented nearly 25 per cent of the labour force, but this share had declined to around 75 per cent and 11 per cent respectively by 1994.

The structure of the marine sector has changed drastically in the last two decades; from being mainly small to medium sized firms it is now more in line with an oligopoly market structure. This has been achieved through several mergers. Two factors contributed to this change: a new quota system (below) and the stock exchange market (see chapter 6)

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<sup>6</sup> The sector is made up of the fisheries on the one hand and crude fish processing on the other. The domestic price of fish is an output price for the fishing and an input price for the processing and exporting firms. Most fishery firms either own or are owned by a processing and exporting firms. The structure is vertical (Sigurjónsson, B.B. 1985:58).

### *The quota system*

With the quota system, some Icelanders were granted the privilege to exploit the major fishing stocks in Icelandic waters. Based on catches in earlier years, the government allocated fishing permits free of charge to individual ships. At first the system was introduced as a temporary measure aimed at limiting the fishing effort of the fleet because the waters of Iceland are over fished, and to promote economically efficient production. Initially, quotas could be leased relatively freely; however they could only be bought or sold *en masse* along with the fishing boat to which they were allotted; they were not divisible (Pálsson, G and Helgason, A. 1996). In 1990, radical alterations were made to the quota system with productive efficiency as the primary goal. "In particular, the system was extended into the distant future, regardless of the future condition of the fishing stocks. Quotas, therefore, became less transient in nature and more akin to permanent property rights. Moreover, quotas became fully transferable and divisible" (Pálsson, G and Helgason, A. 1996: 65). Policy makers and politicians in Iceland strongly deny that quotas are the private property of individuals and point to the first article of the fisheries legislation where it is stated that the fishing stocks in Icelandic waters are the common property of the nation. Nevertheless, the tax authorities have decided that quotas are to be reported as property on tax-forms and that selling of quotas involves a type of income. In addition, the Supreme Court resolved in a case between a fishing company and the minister of finance that accumulated permanent quotas represented private property liable to taxation. Pálsson, G. and Helgason, A. (1996:66) argue:

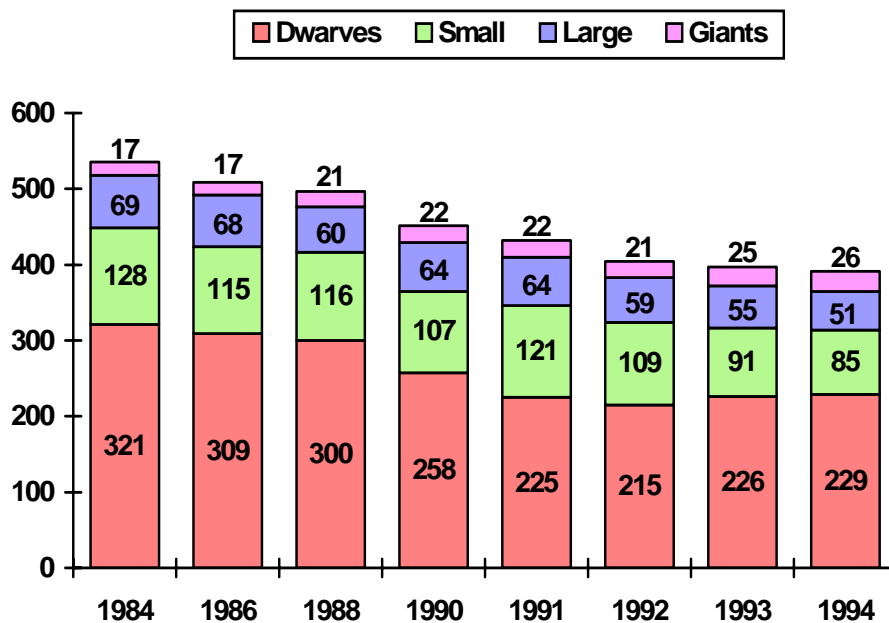
Privatization has thus been sneaked in through the back door, being conspicuously absent from descriptions presented by the authorities to fishers and the general public. This in turn has granted quotas the transitional and somewhat anomalous status of being the public property of the nation, in name, but in effect the private property of boat owners. ...Now, as a large part of the Icelandic commons had been reserved for the privileged use of a few boat owners, Icelanders no longer had comparable rights in fish. Some Icelanders had become more equal than others.

Halldór Jónsson (1990) explored the decision-making that led to the introduction of the quota system in 1984. His conclusion is that neither the political parties nor the parliament in Iceland had formed clear policy in this matter and had very little say in the policy making. The bill, upon which the quota system is based, was constructed by a committee which consisted mainly of members of an interest group within the fishing industry. In other words, that interest group was the essential policy maker in this matter and neither MPs nor ministers, who criticised the bill, seem to have the will or the power to go against the wishes of this interest group. The state thus granted privilege to a certain group by passing a bill, which has had many social implications for the Icelandic community (see below). This underlines the main argument of this thesis, namely that interest groups have become key policy makers in Iceland, a situation which is reinforced through their co-operation with the federation of labour (ASÍ), mainly in the financial sector, and in linkages to the government (see chapter8).

Pálsson and Helgason (1996) examined some of the social consequences of the transferability of fishing rights in the Icelandic coastal waters, focusing on the changing distribution of quotas among boat owners. Their conclusion is that a sizeable increase in the level of inequality in the distribution of quotas has occurred from 1984, and there is a growing concentration of quotas at the top. For example, the group with the largest quota-shares, holding more than 1 per cent of the total quota each, consisted of 17 companies in 1984 with 27.85 per cent of the quota, but in 1994 26 companies owned 49.69 per cent (see figures 7.3 and 7.4). Pálsson and Helgason came to this conclusion by examining the number of quota-holders in relation to the size of their quota shares. They arranged quota-holders into four groups: the “giants”, holding more than 1% of the total quota each, “large” quota-holders having 0.3-1%, “small” quota-holders with 0.1-0.3% and “dwarves” with less than 0.1%. Firstly, they compared the number of quota-holders in each specific group for each consecutive year 1984-1994. Figure 7.3 shows the results of that exercise. What is most striking is the steady decrease in the total number of quota-holders. Also notable is the gradual increase in

the number of giants, concurrent with a decrease in the number of the other three groups (Pálsson and Helgason, 1996:73)

**Figure 7.3:** *Number of Quota-Holders, 1984-1994*



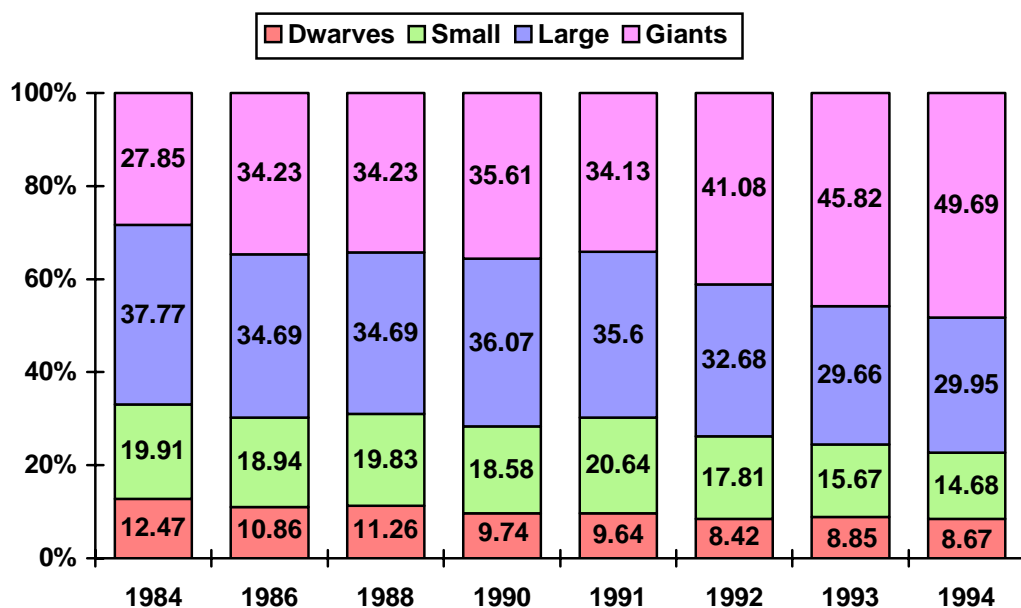
*Source: Pálsson and Helgason, 1996*

Pálsson and Helgason (1996) point out that prior to 1991 distributional changes mainly take the form of a reduction in the number of smaller quota-holders. However, after 1991 the reduction in the number of quota-holders seems to slow down, giving way to an accelerated concentration of quotas in the hands of the larger companies. This can mainly be explained, they claim, by the extensive changes made to the fisheries management legislation in 1990. Firstly, the restrictions on transactions with quota-shares were lifted, making them fully transferable and divisible property rights. Before 1991, boat owners who wanted to sell their quota-shares either had to sell a vessel with its entire quota or to sell the quota and exclude the vessel from further activities in Icelandic waters. After the changes operators could sell part of their quota-share and stay in business with a smaller share. Secondly, the incorporation of approximately

700 small-scale operators of six- to ten-ton boats into the quota system<sup>7</sup> provided a fresh supply of quota-shares that have subsequently been swiftly bought up by larger operators. This resulted in a drastic reduction in the numbers of these smaller quota-holders. Moreover, successive reductions to the annual total allowable catch have forced many of the small-scale operators out of the system, as they do not get enough quotas to make a living.

Additionally, Pálsson and Helgason (1996) examined the distribution of quota-shares within the four groups (see above) in the period 1984-1994. Figure 7.4 shows the result.

**Figure 7.4:** *Quota-Distribution, 1984-1994*



*Source: Pálsson and Helgason, 1996*

Figure 7.4 reveals that whilst the giants have grown in number through the years, as was shown in figure 7.3 above, they have been accumulating quotas to a

<sup>7</sup> Pálsson and Helgason (1996) do not show this in their data.

disproportionate degree. At the same time, the shares of the other three groups have diminished in correspondence with their reduced numbers.

The introduction of the quota system in 1984 therefore has had two major consequences: quotas have become increasingly concentrated in the hands of owners and directors of the largest fishing companies, and small-scale boat owners are being forced out of the system. The social implications of this are enormous for the Icelandic community. For fishers, quotas are the basis of their livelihood; no quota means no work. In many fishing villages almost everyone is dependent on one or two boat owners for work. If these boat owners sell their permanent quota-share or move to another location, they can turn a thriving fishing village into a ghost town. This has forced boat owners lacking quotas to take part in another system - to lease quotas from, and fish for, larger quota holders. Pálsson and Helgason describe the situation in this way:

In some business transactions of this kind, commonly referred to as 'fishing for others', the quota-kings offer to supply small-scale producers with additional quotas on the condition that they deliver the catch to the processing plants of the quota-kings, in return for approximately half of the market value of the catch. A director of one large company prominent in the business of quota-leasing describes his position in the following terms: "our policy...is quite simple: 'You are the fishermen, we are businessmen, we'll supply the quotas and you will do the fishing!'" Thus, the small-scale operators manage to prolong their enterprise throughout the season, but receive only half the normal market value of their landings. To meet the resulting reduction in revenues, operators fishing for others normally cut back the crew's share in the value of the catch, accounting for this by informing the crew that they are participating in the renting of quotas to keep the vessel in operation and subsequently their jobs (1996:78).

Within Icelandic fishing quotas thus represent power, with both becoming concentrated in the hands of the largest fishing companies. Whilst the stated objectives have been to improve efficiency and raise economic growth, and so advance the welfare of all, this has resulted in increased inequality, unemployment, insecurity and reduced wages for the small-scale operators, fishers and their families, all in the name

of productive efficiency. At the same time, quotas are equivalent to shares in the stock exchange for the big quota-holders, where they trade their quotas back and forth to maximise profits from the resource that legally belongs to the nation. The quota system is a good example of the State granting privilege to certain companies and individuals and it will be shown in the next chapter that those who have benefited from this system are individuals/families with strong linkages to the government.

The figures on the distribution of quota clearly indicate that there is an increasing concentration of quota in the largest companies. However, that still leaves the question of whether there is a concentration of shareholding/ownership and control within the fishing industry. A combined concentration of quota holding, share-holding and control within the fishing industry, which is also the main source of national revenue, is a matter of great concern for Icelanders. Voicing these concerns for fishers in general, the editor of the Icelandic fishers' journal (*Víkingur*) put it like this: "Before you know it the whole national fleet will be in the hands of 10 to 15 individuals, who will then also 'own' all the fish in the waters around Iceland. Thus a new aristocracy will have emerged, an aristocracy that decides where fishermen and employees of the fishing plants will live, what they earn and what rights they are to have" (Valdimarsson 1990:5 quoted in Pálsson and Helgason 1996:77).

### ***Shareholding***

To examine the structure of intercorporate and individual shareholding within the fishing industry, the analysis focuses on companies that collectively had around 45-50 per cent of the total turnover within the industry in 1993.<sup>8</sup> In 1993, 260 fishing and fish processing companies were operating. However, as can be seen in figure 7.5

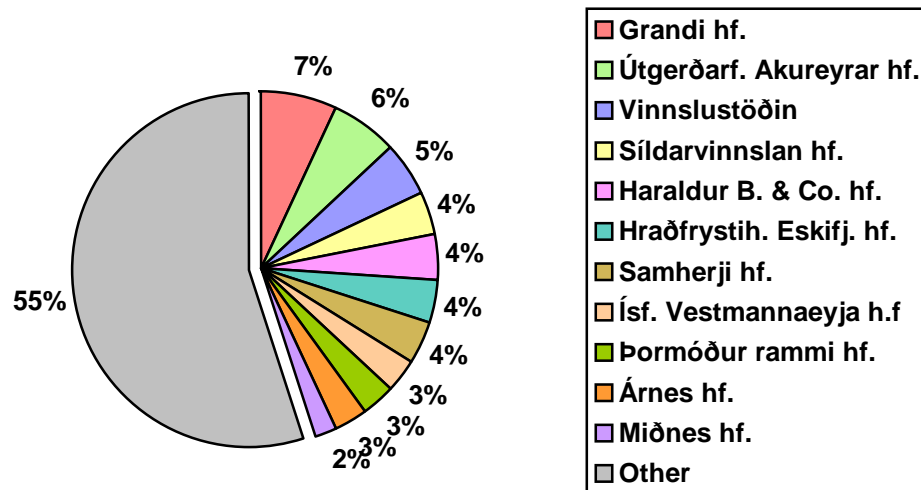
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<sup>8</sup> It is beyond the scope of this thesis to map out an exact structure of shareholding in Icelandic industries. However, for the purpose of investigating if there is a tendency towards concentration of shareholding, the aim was to collect information of individuals or companies holding at least 20 to 40 per cent of shares in each firm either individually or collectively. Finally, it has to be pointed out that in some cases it was quite hard to obtain information on shareholders (see chapter 4 methodology).



below, eleven companies had 45 per cent of the total turnover, which indicates a concentration within the industry.

**Figure 7.5:** *Fish Processing Companies*  
*Division of Turnover in 1993*



Note: hf. stands for limited company

Source: Samkeppnisstofnun, 1994

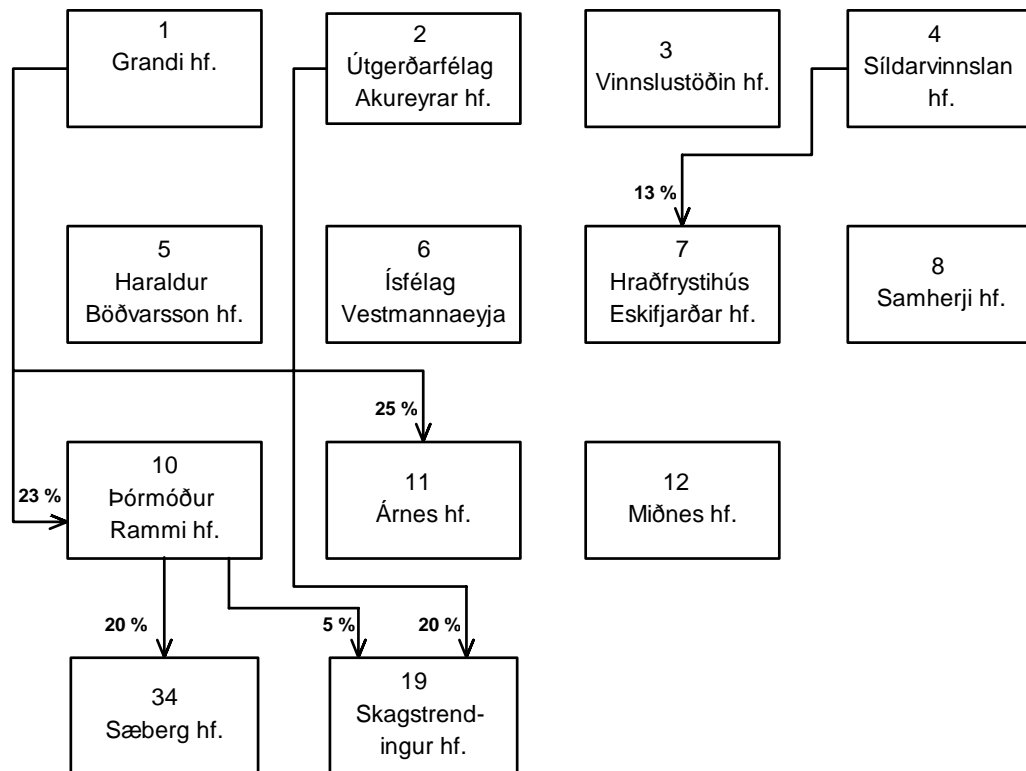
Only two of these eleven companies were linked through intercorporate shareholding within the fishing industry in 1993. Grandi hf., the largest company<sup>9</sup>, owned 18.1 per cent in Þormóður Rammi hf., which is the tenth largest fish company in Iceland. On the other hand in 1996, the picture is quite different as can be seen in figure 7.6 below.

Grandi hf. has increased its shareholding to 23 per cent in Þormóður Rammi hf. and holds 25 per cent in Árnes hf. (the 11th largest). Þormóður Rammi hf. in turn holds 5 per cent in Skagstrendingur hf. (the 19th largest) and 20 per cent in Sæberg hf. (the 34th largest). Útgerðafélag Akureyrar hf., which is the second largest, hold 20 per

<sup>9</sup> Grandi was established in 1985, when two large fishing companies merged. One was a family firm and held 22 per cent in the new company Grandi. The other was owned by Reykjavík city with 78 per cent of the shares. In 1988, Grandi was privatised and four other family firms bought up the shares from Reykjavík city. The firms are Vogun hf, Venus hf, Sjóvá-Almennar hf and Hampiðjan hf.

cent in Skagstrendingur hf. and Síldarvinnslan hf (the 4th largest) has 13 per cent shareholding in Hraðfrystihús Eskifjarðar hf (the 7th largest).

**Figure 7.6: Intercorporate Shareholding within the Fishing Industry**



Source: Author

Moreover, in the period 1993-1996 the two largest companies increased their share in the quota to a far greater extent than any of the others, as can be seen in table 7.1. Grandi hf. held 3.7 per cent of the quota in 1993 and increased it to 6.12 per cent in 1996, and Útgerðarfélag Akureyrar in 1993 had 3.4 per cent and 5.41 per cent in 1996. Others only increased their share slightly and in some cases had fewer quotas in 1996 than in 1993.

**Table 7.1: Quota Shares 1993 – 1996**

	1993 - 94	1994 -95	1995 – 96	Percentage change 1993-96
Grandi	3.7 %	5.06 %	6.12 %	+ 2.42
Útgerðarfélag Akureyrar	3.4 %	4.97 %	5.41 %	+ 2.01
Vinnslustöðin	1.9 %	2.53%	2.18 %	+ 0.28
Síldarvinnslan	1.9 %	1.84%	1.81 %	- 0.09
Haraldur Böðvarsson	2.6 %	2.30 %	2.56 %	- 0.04
Ísfélag Vestmannaeyja	3.0 %	1.58 %	1.36 %	- 1.64
Hraðfrystihús	1.0 %	----	1.50 %	+ 0.50
Eskifjarðar				
Samherji	3.3 %	3.45 %	3.60 %	+ 0.30
Þormóður Rammi	1.2 %	1.27 %	1.34 %	+ 0.14
Árnes	1.3 %	1.41 %	0.75 %	- 0.55
Skagstrendingur	1.8 %	2.25 %	2.23 %	+ 0.43
Sæberg	1.2 %	1.66 %	1.73 %	+ 0.53
	26.30%	26.74%	30.59%	

Source: *Morgunblaðið, 1993-1997; Fiskifrétir 1997*

Furthermore, during 1997-1998 some of those companies merged. Samherji hf., which was the eight largest in 1996, has merged with another company (not shown in figures above) and is now the largest in the country. Haraldur Böðvarsson hf. (the 5th largest) and Miðnes hf. (the 12th largest) have merged and now form the second largest fish company in the country. Finally, Þormóður Rammi hf. (the 10th largest) and Sæberg hf. (no 34) along with five other fish companies (not shown above) merged in 1997. Grandi hf. and Útgerðafélag Akureyrar hf which were in first and second place in 1996, are the 4th and the 5th largest in 1998. The distribution of quota shares has changed accordingly, and 34.1 per cent of the total quota is in the hands of the ten largest companies in 1997, compared to 30.59 per cent being held by twelve companies in 1996.

The conclusions must be that concentration through intercorporate shareholding is rapidly increasing within the Icelandic fishing industry, reinforced by the need for increased quota-holding, and the largest companies are getting larger all the time, both through merger and shareholding. However, it could be argued that this concentration

does in fact mask a more egalitarian distribution of access and ownership, as the larger companies are owned by a large number of shareholders. To examine this it is necessary to explore whether the same individual or corporation own shares in many of the companies, and also the distribution of shareholding within the larger companies. Only then can we locate the actual centres of corporate control within the fishing industry in Iceland. As Zeitlin argues:

Confining our attention to the single corporation may, in fact, limit our ability to see the pattern of power relationships of which this corporation is merely one element; and it may restrict our understanding of the potential for control represented by a specific bloc of shares in a particular corporation. An individual or group's capacity for control increases correspondingly, depending upon how many other large corporations (including banks and other financial institutions) in which it has a dominant, if not controlling position. The very same quantitative proportion of stock may have a qualitatively different significance, depending on the system of intercorporate relationships in which the corporation is implicated. (Zeitlin, 1974:1091)

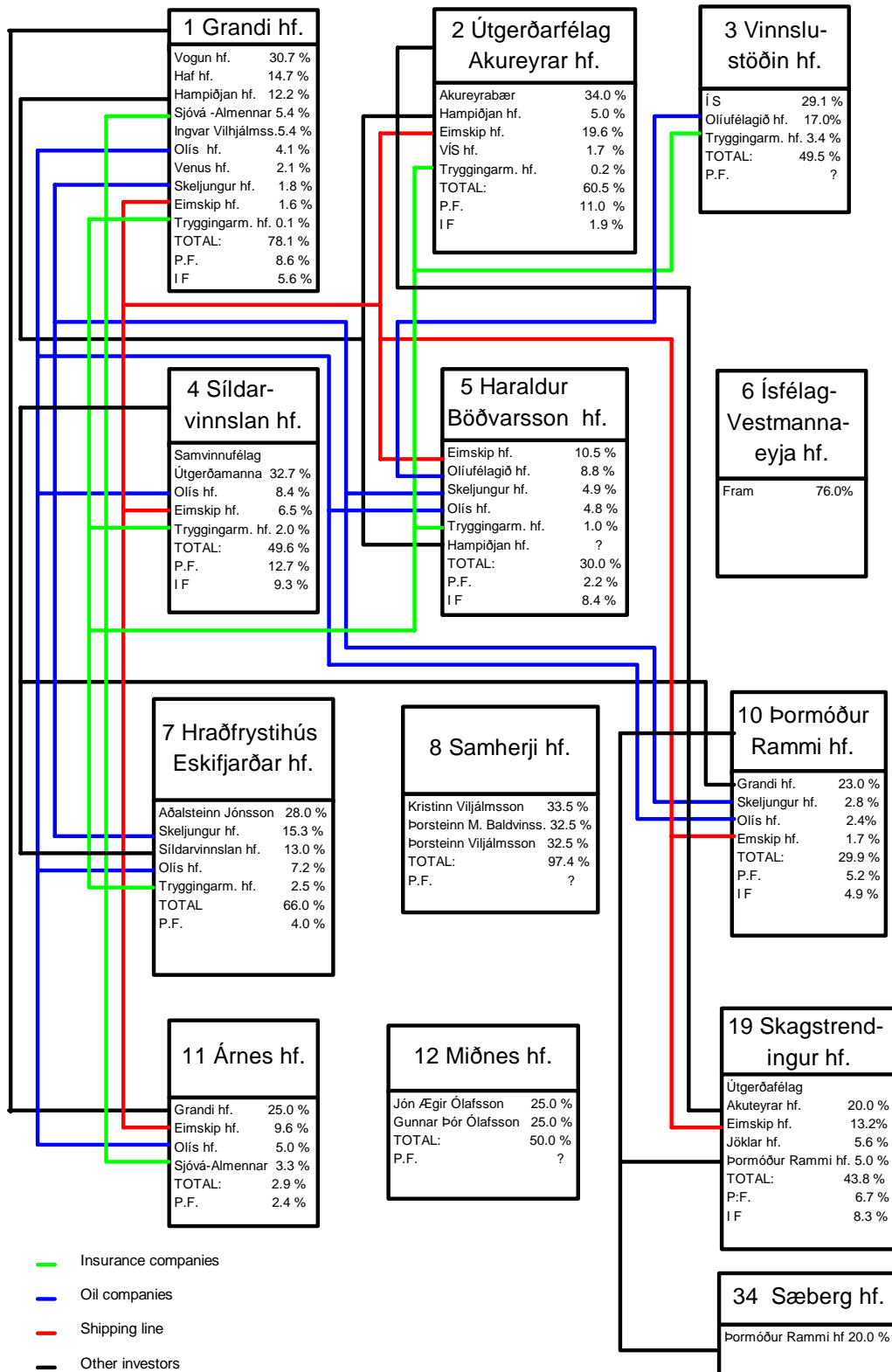
Figure 7.7 (below) shows that nine out of the thirteen fishing companies examined here have shareholders in common. First, Eimskip (the largest shipping line in Iceland), own shares in seven of these thirteen fishing companies, varying from 1.6 per cent to 19.6 per cent. Eimskip has bought all those shares in the period 1994-1997. Two insurance companies<sup>10</sup>, Sjóvá-Almennar and Tryggingamiðstöðin, own shares in two and six of the fishing companies respectively. Three oil companies, Skeljungur, Olís and Olúfélagið hold shares in four, six and two companies respectively. Finally Hampiðjan (which produces fishing gear) has shares in three of the fishing companies.

On closer examination, the picture is even more complicated than that, as all these investors/companies are closely linked through shareholding in each other. Eimskip own 9.6 per cent in Sjóvá-Almennar and 11.7 per cent in Skeljungur. Sjóvá-Almennar owns 4.1 per cent in Skeljungur, which in turn own 3.1 per cent in Sjóvá-Almennar and they own 12.3 and 0.7 per cent in Eimskip respectively. Skeljungur own 3 per cent

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<sup>10</sup> The insurance sector is discussed in the chapter 6 on the financial industry. There it is shown that the insurance sector has become concentrated in recent years through merger and intercorporate shareholding.

Figure 7.7: Multiple Shareholders across Fishing Companies



Source: Author

in Tryggingamiðstöðin which own 4.1 per cent in Skeljungur. Olúfélagið and Sjóvá-Almennar own 35 and 3 per cent respectively in Olís. Whilst Sjóvá-Almennar own 6.3 per cent in Olúfélagið. Furthermore, Vogun and Venus (both are family holding companies) which are two large shareholders in Grandi hf. (the largest fishing company) holding 30.7 and 2.1 per cent, respectively, own collectively 15 per cent in Hampiðjan which in turn own 12.2 per cent in Grandi hf. Vogun also holds 4.8 per cent in Olúfélagið. Haf hf. and Ingvar Vilhjálmsson, also large shareholders in Grandi hf., holding 14.7 and 5.4 per cent respectively, own 4.3 and 8 per cent in Tryggingamiðstöðin. Ingvar Vilhjálmsson is also a shareholder in Eimskip with 1.4 per cent. Finally, according to figure 7.7 it appears that Ísfélag Vestmannaeyja (the 6th largest fishing company) is not connected to the other firms through shareholding, whereas, it has to be pointed out that Fram, which is a family holding company, own 76 per cent in Ísfélag Vestmannaeyja and also own 32 per cent in Tryggingamiðstöðin, which again owns shares in six of the thirteen fishing companies examined here. Fram also own 1.34 per cent in Skeljungur. The other two companies with no apparent links, shown on figure 7.7 (the eight and the twelfth largest) are solely family owned. However, as was noted above Miðnes (no.12) merged with Haraldur Böðvarsson (no 5) in 1997.

Figure 7.7 further shows that this group of interlinked companies and individuals have potential control through shareholding in these fishing companies, as they hold anything from 24.8 per cent in Útgerðarfélag Akureyrar to 78.1 per cent in Grandi hf<sup>11</sup>. Moreover, it can be seen that the pension funds<sup>12</sup> are increasingly investing in those firms and hold from 2.2 per cent in Haraldur Böðvarsson to 12.7 per cent<sup>13</sup> in

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<sup>11</sup> Most researchers have accepted the validity of adopting a specified threshold level of shareholding, below which the exercise of minority control is unviable (Scott, J.1986). For example, Berle and Means (1932) adopted a cut-off point of 20 per cent in their much-quoted research, and later researchers have suggested 10 per cent, 5 per cent or even less. (See, for example, Larner, R. (1970), Zeitlin, M. (1974) and Scott, J. (1986)).

<sup>12</sup> The pension funds are shown as P F on figure 7.7

<sup>13</sup> These figures are from 1995 and thus might have changed, as the pension funds are investing more and more in the industry sector, due to changes in their investment regulation. See further discussion in chapter 5

Síldarvinnslan. The increasing investment of insurance companies, pension funds and other investment funds<sup>14</sup> indicates a growing fusion of interests between the financial sector and industry. A further example is a large fish-meal factory (SR mjöl) which the state privatised in 1994. Main shareholders are pension funds and the insurance company Sjóvá - Almennar (see above) with over 50 per cent of the shares.

The data presented here, thus, shows that there is indeed a strong and growing concentration within the fishing industry, both through intercorporate shareholding within the industry and principal common individual/company shareholding from other industries. Large companies are getting larger, which corresponds with the growing concentration of quota. The data further indicate that an interlinked group of companies and individuals are enlarging their share in the fishing industry, which is the backbone of the Icelandic economy. In fact, it can be concluded that a number of seemingly independent companies in the Icelandic fishing sector are under potential common control.

The next section of this chapter will look at exportation in the fishing industry with the aim of assessing whether a concentration of shareholding is also emerging in here. The fish export companies are clearly of great importance for the marine sector and the whole economy of Iceland, as fish and fish products is the only export industry of consequence.

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<sup>14</sup> Almost all of these investment funds are owned by the banks in Iceland and the pension funds also own a large share in those investment funds (see chapters 5 and 6). I have only managed to get some figures over their investment in industry and these are shown on figure 7.7 marked as I F.

## **The fish export sector**

In 1993, 30 companies exported fish and fish products. Three companies, however, control 67 per cent of the market share and have 66 per cent of the total turnover in the fish export sector. The reason is that, until recently, these three companies were each granted monopoly control over a particular segment of the fish export market by the state. One of them, Sölusamband Íslenskra Fiskiframleiðenda (SÍF), was established in 1932 by employers/company owners in the fishing industry and since then has been in control of all saltfish exports.<sup>15</sup> The other two, Íslenskar Sjávarafurðir (ÍS) established in 1990, (it was originally established in 1942 as a part of the co-operative movement (SÍS)<sup>16</sup>), and Sölumiðstöð Hraðfrystihúsanna (SH) in 1943, are mainly involved in frozen fish product exports. The ÍS has traditionally been connected to and exported for the Co-operative movement, and SH for the private sector. That these companies gained control over all fish export when they were established, reflects the fact that major firms in this sector were closely linked to the party leadership of the Independence Party (IP) and the Progressive Party (PP), which were in power during this time<sup>17</sup>. Furthermore, the managers and directors of these firms, in some cases, were leading party figures at a national level. Therefore, the companies were connected into strong personal and political networks, which granted them privilege enabling them to thrive (see chapter 2 for discussion of this period).

During the late sixties and the early seventies these export companies had become a group of multinational firms.<sup>18</sup> However, as Sigurjónsson (1985:58) points out: ‘the money paid for export abroad only to a certain extent reached the coast of Iceland,

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<sup>15</sup> In the first decades of this century, saltfish was the most important product for export in the marine sector. For example, in 1905 saltfish export constituted 73 per cent of all export in the fishing sector whilst in 1935 its share had decline to 51 per cent and was only 18 per cent in 1990.

<sup>16</sup> In 1990, the co-operative movement went bankrupt and ÍS took over their subsidiary firms in the fishing sector. ÍS is still strongly connected to the members of the co-operative movement.

<sup>17</sup> The Independence Party is strongly connected to the private sector and the Progressive Party to the Co-operative movement.

<sup>18</sup> “The fishing and the fish exporting sector has established independent processing and sales organisation for foreign markets, e.g. the US market, whereby it has become essentially multinational” (Sigurjónsson, B.B. 1985:58).



profits were increasingly placed in various investments in the US'. Increasingly this seems to be the case as the export companies are steadily expanding their operations, not only in the US and the UK, where they own large fish processing plants, but also in Africa and South America.<sup>19</sup> The implication of this is a falling level of processed industrial products among Icelandic export commodities and the Icelandic economy appears to be developing towards a deindustrialisation. This is particularly evident in the export sector where the emphasis is to supply raw fish for processing and marketing to other countries of the capitalist world: a process referred to as the 'Latin-Americanisation' of Iceland (Sigurjónsson, B.B. 1985). Moreover, with growing unemployment and increasing need for the creation of new jobs in Iceland it is ironic to note SH has been given an award in Grimsby in England for the creation of new jobs there.

The SH is by far the largest company in Iceland in terms of turnover. In 1994 its turnover was ISK (Icelandic króna)<sup>20</sup> 36 billion (£ 360 million) whilst, for comparison, in 1993 the total turnover of all the banks and saving banks in Iceland was ISK 32.9 billion (£ 329 million). The total turnover in 1994, for ÍS and SÍF was ISK 19.2 billion (£ 192 million) and ISK 9.2 billion (£ 92 million) respectively (Frjáls Verslun, 1995. No. 5).

The main owners of the national export companies are the fishing companies. As shown above, the largest fishing companies are closely linked through shareholding and moving toward concentration in ownership. So, does the same pattern occur in the export companies?

None of the three export companies are connected through intercorporate shareholding among themselves. This is not surprising as they operate as a cartel i.e. there is less

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<sup>19</sup> This information is from different newspaper reports in Iceland in 1995-1996.

<sup>20</sup> The value of the Icelandic króna is approximately 100.00 króna for £ 1.00.

need for them to connect through shareholding among themselves. The ÍS connections to the co-operative movement and the SH to the private sector are reflected in the shareholding and they had no shareholder in common. Only one firm, an oil company (Olíufélagið hf) holds shares in both ÍS (3.90 per cent) and SÍF (3.96 per cent). Whereas SH and SÍF have six shareholders in common, four of whom are among the fishing companies examined above. In view of the different type of export activity they are in, this is to be expected as some fishing firms produce both saltfish and frozen fish. On the other hand, it is worth noting that Eimskip (the largest shipping line), which own shares in seven of the fishing companies above, has recently bought ten per cent of the shares in SÍF.

However, of most interest is the fact that the fishing companies examined above, have been increasing their share in SH in the last few years; for example, Grandi hf. (the largest) has enlarged its share by 43 per cent since 1994 and Þormóður Rammi<sup>21</sup> (the tenth) by 54 per cent (Morgunblaðið, 12 May 1996). In 1993, SH was owned by 40 shareholders whilst in 1996 there were 36 shareholders, and ownership continues to become more concentrated. The ten largest shareholders in SH owned 63 per cent in 1993 and 73 per cent in 1996. Eight of the ten largest shareholders are among the 13 fishing companies examined above. In 1993 these eight companies owned 46.34 per cent of SH and 59.67 per cent in 1996 (see table 7.2). Hence, they have enlarged their share 29 per cent in this three-year period. Moreover, since 1996 this development appears to be happening at even faster speed, for example, in 1998 Þormóður Rammi has increased its share in SH to 15.64 per cent as compared to 5 per cent in 1996.

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<sup>21</sup> Grandi own 23 per cent in Þormóður Rammi

**Table 7.2: Shareholding in SH 1993 and 1996**

	1993	1996	Percentage change 1993-96
Útgerðafélag Akureyrar hf	11.52 %	14.47%	+ 2.95
Ísfélag Vestmannaeyja hf	7.90%	9.54%	+ 1.64
Grandi hf	6.45%	9.20%	+ 2.75
Haraldur Böðvarsson hf	5.38%	7.00%	+ 1.62
Síldarvinnslan hf	4.84%	6.13%	+ 1.29
Miðnes hf	3.72%	4.10%	+ 0.38
Hraðfrystihús Eskifjarðar hf	3.29%	4.23%	+ 0.94
Þormóður Rammi hf	3.24%	5.00%	+ 1.76
Total	46.34%	59.67%	+ 13.33

*Source: Morgunblaðið 1993-1997, Íslenskt Atvinnulíf 1993-1996*

Clearly, there is an increasing concentration of shareholding in SH and the owners are the fishing companies that are closely interlinked through a group of common shareholders. In summary, the data presented above indicate a growing tendency towards oligopoly within the marine sector, that is, the backbone of the Icelandic economy. The next section will explore shareholding amongst private companies that manufacture for the fishing industry, another important sector of the whole fishing industry.

### **The manufacturing sector**

In 1994 manufacturing (other than fish processing) contributed 11.4 per cent to GDP. It employed on average around 16 thousand people, representing 13 per cent of the labour force, and generated 13 per cent of the total foreign exchange earnings of the economy. This includes state firms and the aluminium smelter. Only private firms manufacturing for the fishing industry will be considered here, but they are the largest private companies within the manufacturing sector.

The products manufactured for the fishing industry include fishing gear, packaging for fish export and plastics. In recent years there has as well been a growth of various high-technology industries, which produce, among other things, electronic appliances for fishing and fish processing. The largest companies involved will be explored here briefly. Kassagerðin, the largest private manufacturing company in Iceland, produces packaging, has 61 per cent of the total turnover within that production and employs 159 people. Hampiðjan, the second largest, produces fish gear, has 42 per cent of the total turnover and has 112 employees. Plastprent, the third largest, produces plastics and has 18 per cent of the turnover and 99 employees. Marel, the fourth largest of the private manufacturing companies, is in the high- technology market for the fishing industry and has 87 employees<sup>22</sup>. Finally, Umbúðamiðstöðin, the fifth largest private company, produces packaging for export and has 23 per cent of the total turnover and 43 employees.

None of these five companies hold shares in one another. The largest (Kassagerðin) is solely a family company; the other four have shareholders in common. SH the export company (see above) own 72.6 per cent in Umbúðamiðstöðin and other shareholders are the fishing companies, most of which also own shares in the SH. SH also holds 34.7 per cent in Plastprent, along with Skeljungur (oil company) which holds 12.3 per cent, and Sjóvá-Almennar (insurance company) with 5.7 per cent. The latter two are a part of the interlinked group which is enlarging their share in the fishing industry and therefore have strong links to SH (see above). Sjóvá-Almennar also holds 2.4 per cent in Marel, the high technology company, along with Eimskip (a shipping line) which holds 40.4 per cent. Eimskip is also a part of the interlinked group. Finally, Sigurður Egilsson holds a 10 per cent share in both Hampiðjan and Marel, and is also a shareholder in Eimskip and Vogun, which is the largest shareholder in Grandi (the largest fishing company). Hampiðjan as well is strongly connected into Grandi, (holding 12.2 per cent), and they have shareholders in common (see above). Finally,

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<sup>22</sup> Figures of total turnover not known

pension funds and investment funds hold around 23 per cent in Marel and 15 per cent in Hampiðjan.

Four out of the five largest private manufacturing companies in Iceland are thus connected through shareholding and, again, it is the same group of interlinked companies and individuals that hold the largest shares. Hence, this sector has to be seen as developing towards concentration.

### **The oil companies**

There are three main oil companies in Iceland, which have 95 per cent of the market share. Olúfélagið hf., established in 1946 by the Co-operative movement, is the largest with 39 per cent of the market and has 334 employees. Skeljungur hf. has 29 per cent of the market and 258 employees. It was established as a private company in 1928 but changed to a joint-stock company in 1955. Finally, Olúverslun Íslands hf (Olís), founded in 1927,<sup>23</sup> has 27 per cent of the market and 295 employees. In recent years these companies have started to co-operate closely and now own and run collectively distribution firms. Furthermore, in 1995, Olúfélagið bought 35 per cent of shares in Olís and is now the largest single shareholder in it. In that respect, these two companies can now be considered as one, which indicates a concentration of shareholding within the oil sector is taking place.

The insurance firm Sjóvá-Almennar (see above) hold shares in all the three oil companies. It holds 6.8 per cent in Olúfélagið hf, 4.1 per cent in Skeljungur and 3.0 per cent in Olís. Other common shareholders are pension and investment funds. The connections Olúfélagið has with the Co-operative movement are reflected in the shareholding, but two of its largest single shareholders are co-operative investment and

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<sup>23</sup> Its founder and director for many years, was also a prominent trade union leader for over 15 years between 1922 and 1941, see chapter 2.

pension funds, holding 12.1 per cent and 10.7 per cent respectively.<sup>24</sup> Vogun (see above) own 4.8 per cent in Olúfélagið. In Olís hf, by contrast, the largest shareholders, apart from Olúfélagið hf and Sjóvá-Almennar, are private pension funds. The main shareholders in those two oil companies are, therefore, other firms and investment funds. In other words, they appear to be owned and/or controlled by intercorporate interests like most of the companies that have been examined here so far.

The third Oil Company Skeljungur hf., has a different combination of shareholders. The largest single shareholder is The Shell petroleum co. with 17.1 per cent, Eimskip (the shipping line) is second with 11.7 per cent, the fourth is Sjóvá-Almennar holding 4.1 per cent and the sixth is Tryggingamiðstöðin (also insurance company) with 4.1 per cent. The last three are members of the interlinked group identified above, which have been enlarging their share in the fishing industry and in other sectors in recent years along with Skeljungur itself. Two private pension funds and two investment funds are also shareholders with around 9 per cent collectively.

The main difference, however, from the other companies is the number of individuals and families that hold shares in Skeljungur hf. The family H. Benediktsson, which founded the firm, is still the largest “individual” shareholder with 8 per cent in the family name and with other shares distributed between individual family members.<sup>25</sup> Other families and individuals also hold substantial shares in Skeljungur hf., which can be seen in the fact that 14 of the largest shareholders hold collectively 63.5 per cent of all the shares. The rest is divided between 330 shareholders. Hence, it is argued here that Skeljungur hf. is, at least nominally, under family control

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<sup>24</sup> It has become clear during this study, that there is an obvious tendency for the co-operative pension fund to invest in companies that have traditionally been connected to the Co-operative movement and for the private pension fund industry to invest in a ‘block’ of companies in the private sector. This could imply that personal connections between companies and pension funds affect investment decisions. This is discussed more closely in the chapter 5 on the pension fund industry and chapter 8 on interlocking directorship.

<sup>25</sup> Figures over exact shareholding among the H.Benediktsson family are not available.

The oil sector has an oligopolistic market structure. However, there are clear trends towards concentration and the market is probably better described as being controlled by two interest groups. One relates to the Co-operative movement and the other to the private sector.

### **The transport sector**

For a small island, access and control over transport is clearly of great importance as it is the key to, for example, obtaining resources abroad. Here, transport at sea and in air will be examined. In Iceland, no rail transport exists and the main way to travel inland is either by private cars, buses or aeroplanes.

#### *Shipping lines*

Three shipping lines control 95 per cent of the market. The shipping line Eimskip hf, (see above) is by far the largest one. It was founded as a joint-stock company in 1914 and shareholders were around 14 thousand. It has 65 per cent of the market share<sup>26</sup>, is the fifth largest private company in Iceland and has around 800 employees. The second largest shipping line is Samskip hf., which has connections to the Co-operative movement. It has 26 per cent of the market and 210 employees. The third is Jöklar hf, which only has 3 per cent of the market and 33 employees.

There are no direct intercorporate linkages between these companies. The shareholding in Samskip hf. mirrors its connection to the Co-operative movement. The co-operative pension fund is a large investor with 8.1 per cent, along with Olúfélagið hf (above) with 7 per cent and VÍS (an insurance company with connection to the Co-operative movement) with 7.8 per cent. Other large shareholders are mainly companies also connected to the Co-op movement. Three private pension funds are small investors with investment ranging from 0.18 per cent to 0.42 per cent. Jöklar hf., on the other

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<sup>26</sup> Eimskip hf. has been steadily increasing its market share since 1985, when its major rival company, Hafskip hf, went bankrupt.

hand, is solely own by the export company SH (above) which holds 95 per cent of the shares.

However, when shareholding in Eimskip hf. is explored a picture emerges which is similar to the pattern of shareholding in the oil company Skeljungur. That is, a few intercorporate links, some pension funds and investment funds investors and then mainly individuals and families. The largest single shareholder in Eimskip is the insurance company Sjóvá-Almennar with 12.5 per cent. Other intercorporate investors are Vogun with 1.1 per cent and Skeljungur with 0.7 per cent. All those three companies along with Eimskip itself are members of the interlinked group identified above. The Commercial pension fund holds 4 per cent and an investment fund 2.8 per cent. Those investors collectively hold 21.1 per cent out of the 40 per cent of shares which was possible to find information on for this study. Around 20 per cent of the 40 per cent (possibly quite a lot more) are distributed between a few families and individuals. Hence, the interlinked group along with families and individuals hold at least 40 per cent of the shares. The rest is shared between 14,466 shareholders. Therefore, Eimskip could potentially be under the control of families.

It was noted above that no direct links existed between the three shipping line companies. However, given that Eimskip hf. has been investing extensively in the fishing sector in the last four years and the fishing companies are the owners of the export company SH, which again is the sole owner of the shipping line Jöklar hf., it can clearly be argued that strong links do indeed exist between Eimskip hf. and Jöklar hf.

The sea transport sector is therefore best seen as being controlled by two interest groups, just like the oil sector. Furthermore, in the last year these two interest groups have been expanding their transport operations inland by investing in domestic transportation firms. Eimskip hf, for example, now holds 65 per cent of shares in



Vöruflutningamiðstöðin, which is one of the largest transport/cargo firms in Iceland. Eimskip is therefore becoming a major agent in inland transportation.

### *Airlines*

The main Icelandic airline, Icelandair (Flugleiðir hf.), has 80 per cent of the market and is the only one examined here.<sup>27</sup> Due to the exclusive license, the state has granted Icelandair, it has managed to preserve its monopoly. Hence, all attempts to establish other “national/international” airlines in Iceland have failed.<sup>28</sup> Icelandair is the third largest private company in Iceland (according to turnover), has 1,273 employees and is therefore the largest private employer in Iceland.

The single largest shareholder in Icelandair is the shipping line Eimskip hf. with 34 per cent of the shares. Sjóvá-Almennar (an insurance company) follows holding 6 per cent; Vogun (above) holds 0.8 per cent and Skeljungur 0.7 per cent. Again, the interlinked group of companies identified above is collectively holding the largest portion of the share capital. The Commercial pension fund holds 6.3 per cent and Hlutabéfasjóðurinn (investment fund) 2.2 per cent. They are both large shareholders in Eimskip as well. Other main shareholders are private pension funds, individuals and families, some of whom are also investors in Eimskip hf. Sixteen of the largest shareholders in Icelandair hold collectively 62.6 per cent of the shares. The rest are held by 4,400 shareholders. In short, the same interests which control Eimskip control Icelandair. The transport sector in Iceland, overall, therefore appears to be very concentrated and possible moving towards a total monopoly.

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<sup>27</sup> In 1993, 16 firms operated. All except Icelandair are very small and operate mainly on the inland market. Furthermore, Icelandair is a large shareholder in many of these firms.

<sup>28</sup> In 1990, Arnarflug hf., the only other airline that operated on the international market, was declared bankrupt. Since then, no serious attempts have been made to establish another airline in Iceland.

### **The tourism sector**

In 1994, foreign visitors in Iceland numbered 179 000 compared to 143 000 in 1992, 131 000 in 1989 and 97 000 in 1985. The foreign exchange revenue generated by tourism in 1994 amounted to approximately 11 per cent of the total for the economy. Tourism has been the fastest growing industry in Iceland in recent years.

In 1993, 65 companies operated within the sector. The four largest are travel agencies, whilst most of the others are mainly involved in running hotels, restaurants, inland tours etc. The four travel agencies had 45 per cent of the market share in 1993. The two largest are international tour operators but the other two are mostly inland tour operators.

The largest one (with the highest turnover in 1993) is Samvinnuferðir-Landsýn with 20 per cent of the market share. Main shareholders are VÍS hf and Olúféléagið hf (insurance and an oil company both connected to the co-op movement, see above). They hold 38.5 per cent and 27.9 per cent respectively. The third largest shareholder is ASÍ (the Labour Federation) holding 16 per cent. Other trade unions are also shareholders. The second largest travel agency is Úrval-Útsýn with 15 per cent market share. That agency has only two shareholders, the airline Icelandair hf. with 81.5 per cent and the shipping line Eimskip hf with 18.5 per cent. Given that transport to and from the country is more or less in these companies' hands, it is hardly surprising that they run their own travel agency. The third agency, Ferðaskrifstofa Íslands hf., has a 5 per cent market share. It used to be state owned but is now owned and run by its employees, who bought it when it was privatised in the early 1990s. The largest shareholder in the fourth agency, Kynniferðir hf., which also has a 5 per cent market share, is Icelandair hf with 58.6 per cent. Icelandair hf. is as well a large shareholder in many hotels, car hire companies and small tour operators throughout the country. In

sum, there are many direct intercorporate links throughout the tourism sector although they are not shown here.

The tourism sector is therefore concentrated in terms of shareholding. With main shareholders being Icelandair hf. and Eimskip hf, which are part of the interlinked group identified above. Again, the same two interest groups (co-op and private sector) own the largest share in the largest companies.

## **Conclusion**

So, what conclusions can be drawn from this inquiry into the present structure of shareholding in the largest private companies in Iceland? First, a concentration of corporate ownership and consequently concentration of 'potential' control is taking place *within* and *between* different sectors of Icelandic industries. Second, a coherent and resolute group of private companies was identified which is connected through shareholding into all the major industries, both financial and non-financial. Third, two interest groups, one with connections to the co-operative movement and the other to the private sector, were recognised within most sectors. Those two groups are connected through intercorporate shareholding into major industries (see figure 7.8 below). Lastly, since the establishment of the stock exchange in the mid-1980s, pension funds, investment funds and insurance companies are increasingly investing in private companies. Furthermore, the stock exchange appears to be the key for creating a network of shareholding between private companies in Iceland, consequently contributing to a concentration of intercorporate ownership and control.

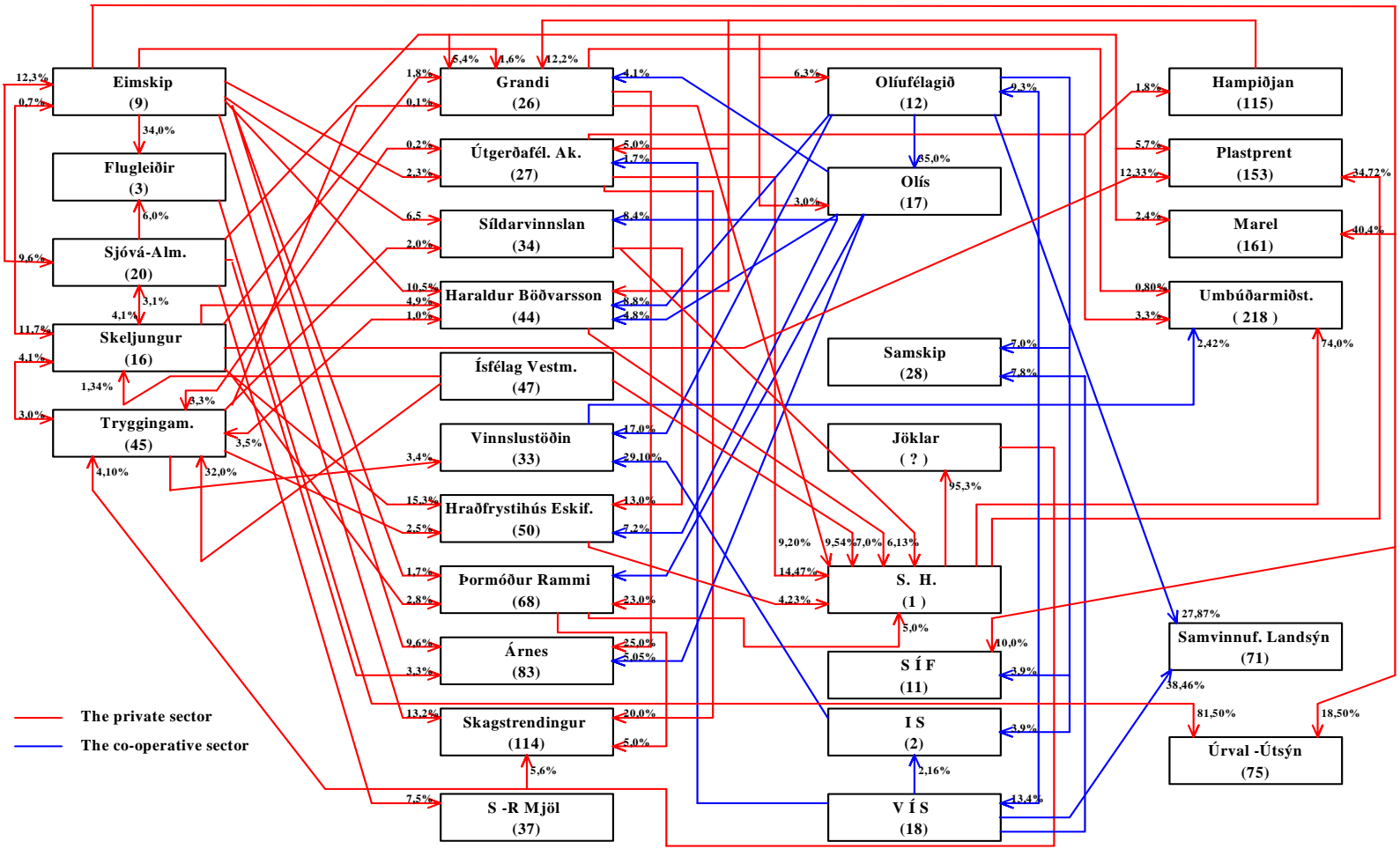
The most interesting factor that emerges in this study is the existence of a coherent and resolute group of tightly interlinked companies which have been enlarging their share in major industries in Iceland in recent years. This group consists of both financial and non-financial firms, and collectively they have potential control over the major industries through their shareholding. Consequently, it is argued here that this group of interlinked companies can be seen to be at the apex of the corporate network structure

in Iceland. Furthermore, it points towards an organisational fusion of financial and non-financial firms and indicates development towards a system of 'finance capital'. Figure 7.8 gives an overview of intercorporate shareholding across the industries that were examined in this chapter, with most of the companies of the interlinked group placed at the apex of the corporate network structure. It shows in red intercorporate shareholding in the private sector, and in blue companies connected to the co-operative sector. As can be seen, links through shareholding between private companies are extensive. Moreover, it has to be emphasised that figure 7.8 only shows *direct* intercorporate holdings, but many of these companies also have shareholders in common, which reinforces the whole network. Lastly, figure 7.8 informs us that out of the 30 companies examined, 24 are among the 100 largest companies in Iceland (which includes state companies). The size ranking is shown in brackets under the company's name.

In conclusion, the companies situated at the apex of the corporate network structure are very tightly interlinked through principal shareholding in each other as figure 7.9 reveals. These companies are; Eimskip hf (the shipping line) and Icelandair hf (Flugleiðir, the airline), both are by far the largest firms in the transport sector. Skeljungur hf (oil company) the second largest in the oil sector. Grandi hf (fishing company) the largest in the fishing industry sector. Sölumiðstöð Hraðfrystihúsanna (SH fishing export company), the largest company in Iceland. All these companies were discussed above.

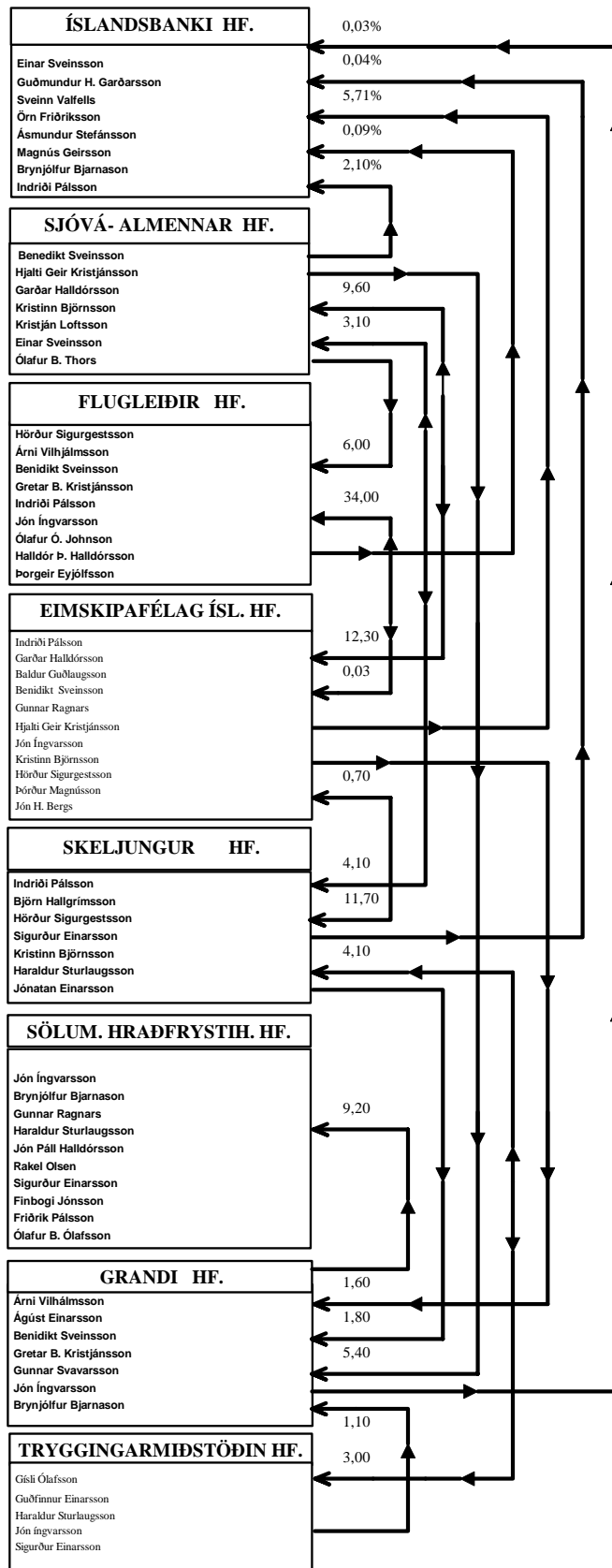
Figure 7.8:

*Intercorporate Shareholding across Industries*



Source: Author

Figure 7.9: Shareholding between Interlinked Companies



Source: Author

Then there is Sjóvá-Almennar and Tryggingamiðstöðin (insurance companies), the second and third largest within the insurance sector and finally Íslandsbanki, the second largest bank in Iceland and the only private bank.<sup>29</sup> All these companies are among the 26 largest companies in Iceland (except Tryggingarmiðstöðin ranking 45 th)

Apart from being very tightly interlinked through intercorporate shareholding in each other, these companies also have many shareholders in common. It was argued above that Skeljungur hf, Eimskip hf, Icelandair hf and finally Grandi hf are potentially under family control as many of their largest shareholders are families and individuals. Furthermore, the two insurance companies, Sjóvá-Almennar hf. and Tryggingarmiðstöðin hf. are also potentially under family control (see chapter 6). What is of interest here is the fact that the same individuals and families appear in various combinations as principal shareholders, in all those interlinked companies, including Íslandsbanki. When such family ‘spheres of influence’ exist and radiate out among several large corporations, it needs to be understood that ‘the same small proportion of the stock in the hands of such a family in a specific corporation carries different implications and potential for control than when held by a single individual with no other major resources and institutions to buttress his position’ (Zeitlin, 1974:1098-99).

That is, a number of related individuals might participate in the ownership of a family block, creating a complex holding pattern to keep control concentrated, despite the diffusion of ownership. Hence, kinship information is vital to an understanding of the control structure.

Moreover, the pension funds, which are large shareholders in Íslandsbanki, are also large shareholders in many of these firms. This could imply, that the pension funds are being used to increase the ‘spheres of influence’ that these companies and/or families have (see discussion in chapters 5 and 8). One implication of the pension funds

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<sup>29</sup> See discussion on the last three companies in the chapter 6.

investing in these firms is that the labour movement becomes 'employer' and 'owner' and, accordingly, has to look after the interests of the company to increase profit. That can clearly lead to conflicts of interests and it is suggested here that this conflict is the source of the labour movement paradox.

Finally, the main conclusion to be drawn from this chapter is that economic concentration is rapidly increasing in Iceland, through extensive corporate shareholding, with the interlinked group of companies at the centre.

The next chapter will explore interlocking directorship and kinship ties between these companies discussed above, in order to understand the control structure. It will investigate whether there is a connection between the network of capital/shareholding relations and the network of interlocking directorships, as strong interlinking between the two could imply even stronger control. It will also explore if there is a cohesive and resolute group of directors, individuals or families behind these shareholders, which participates in direct control of these companies. Only then can a conclusion be drawn concerning the locus of control of these firms.



## **CHAPTER 8: INTERLOCKING DIRECTORSHIPS AND CONTROL IN PRIVATE COMPANIES IN ICELAND**

### **Introduction**

The overall pattern of intercorporate connections can be analysed in terms of its two constituent networks - the exchange network which comprises shareholding, credit, service and trading relations, and the communications network which comprises a system of interlocking directorships. In the study of interlocks, lines connect companies through individuals who occupy positions on the boards of directors of those companies. That is to say, an interlock is the social relation that is created between two companies, when the same individual is a member of the board of directors in both companies. Such an individual is termed a multiple director (Scott, 1985). An interlock is thus one link in a chain of connections that is called a network of interlocking directorships and opens up channels of communication between the companies involved, and the more number of interlocks there are, the more complex the network becomes. Once created, however, these links acquire an independent significance. That is, such links do not only connect the two companies concerned in a relation of strategic control, they also tie the companies into an already existing network of interlocking directorships.

Interlocks can be divided in three: primary, induced and secondary interlocks. For example, when a director of a bank becomes a member of the boards of two companies, the connection between each company and the bank are primary interlocks, whilst the connection between the two companies is an induced interlock. Primary interlocks thus reveal stronger connections with long-term implications than those of induced interlocks. A secondary interlock, however, is totally unconnected with primary interlocks and exists because a person with a base outside the companies being investigated (for example, a politician) sits on two or more boards as an outside director (Scott et al, 1984:26).

This chapter explores interlocking directorships and kinship ties between private companies on the stock exchange in Iceland in order to understand the control structure. Only primary interlocks, which reveal stronger connections, are examined. The main aim is to examine if the potential for control created through intercorporate/shareholding relationships, by the interlinked group<sup>1</sup>, is reinforced by interlocking directorships. In other words, when relations in the capital exchange network are involved in the attempt to exercise strategic control, they are frequently reinforced through a director link between the companies. Hence, a strong interlinking between the network of capital/shareholding relations and the network of interlocking directorship implies a stronger and cohesive control structure.

The chapter will start with a brief discussion of the significance of interlocks. The network of interlocking directorships in companies on the stock exchange is analysed in order to demonstrate if there are more interlocks from some companies than others; in particular, if there exists a ‘controlling’ centre among the companies. Connections from that centre to companies outside the stock exchange, to financial institutions, the pension fund industry and the Federation of Employer’s are then examined. The aim is to see if the fusion of companies at board level has led to the emergence of an ‘inner circle’ of company directors, who function as finance capitalists and play a major part in the co-ordination and cohesion of the economy. Finally kinship ties between the inner circle of company owners/directors and linkages to the government are explored.

### **The significance of interlocking directorships**

Interlocking directorships are a persistent features of industrial capitalist economies, and the structure of interlocks in various countries seem to exhibit specific trends over time (see for example, Scott, 1979; Stokman, Ziegler and Scott, 1985 and Scott, 1990). In 1977, Levine and Roy argued that the stability of the structure of interlocks at any

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<sup>1</sup> Chapter 7 explores which firms are part of the interlinked group and their capital/shareholding relations.

particular time does not depend upon the power of particular people or companies; rather the structure of the network is irreducible to the actions of its units. Moreover, Warner and Unwalla (1967) point out in their study on interlocks that 'the social system that continues through the generations is only momentarily concerned with any given individual. The personnel varies, individuals disappear, but the system persists or, modified, continues in a new form' (pp 124-5). So, what is the real significance of interlocks? According to Stanworth and Giddens and others such as Mills the 'minimum inference' which can be made about any interlock is:

...Patterns of interlocking directorships indicate channels of communication that are established within the corporate world. And channels which facilitate flows of information do also offer a *possible* means of using influence or power (Stanworth and Giddens 1975:22; Mills 1956:122-3).

That is, the existence of a system of interlocking directorships opens channels of communication between the companies involved. This communication network is the means through which business information may be transmitted easily and efficiently from one point in the network to another (Mokken and Stokman, 1974). Furthermore, once these interlocking links have been created they acquire an independent significance, as they do not merely connect the two companies concerned in a relation of strategic control. They also tie both companies into an already existing network of interlocking directorships. 'This network is an unintended consequence of the various acts of establishing director's links, and as an unintended consequence it may react back upon its creators' (Scott, 1990:262). Scott goes on to argue that:

Although board representation may be sought as an attempt to consolidate control over a company, it also links the companies into an established network of communication. As a consequence, both companies will be subject to influences which may reinforce the relations of control, but which also introduce a new set of determinants on corporate behaviour (1990:262)

The result is an extensive network of communication through which business information can flow. The flow of information through the system is determined by its structure and the construction of corporate strategy is influenced by the information

available to corporate management. 'Information flow is a possible basis of power over and above the power involved in capital flows such as shareholdings and bank loans' (Scott, 1979:100). The structure of the system of directorships is thus a determinant of the limits and possibilities of corporate behaviour whether intentional or not.

According to Allen (1974) 'the coherent structure of corporate interlocking and its stability over time suggest... that interlocking directorates are an important and significant feature of the corporate economy' (p: 404). Allen further argues that interlocks enable corporations to 'anticipate environmental contingencies' and so control their relations with other organisations on which they are dependent. Gustavsen (1976) has applied a model of organisation-environment relation specifically to interlocks and argues:

Investment decisions - decisions about where to allocate the capital - must be made on the basis of environmental conditions like market and raw materials development. This calls for information about various external issues, which again calls for contacts to people who might know something about the relevant issues (p: 277).

Accordingly it can be assumed that the main significance of a structure of interlocks is the communication of business information, and the consequence of the flow of information is thus to reduce uncertainty deriving from the 'complexity' of the environment (Scott, 1979). Useem (1982) argues that interlocks enhance the external scan, for example, the large company has to monitor government, markets, finance, technology and labour relations. This can be achieved by recruiting directors who are likely to enhance the amount of information to which the company has access. Interlocks, therefore, supplement the activities of the departments formally engaged in external scanning (Scott and Griff, 1984) and are able to ensure a certain degree of integration and co-ordination. Banks (1970:223) puts it like this: 'the device of interlocking directorships succeeds in creating a form of unity in a situation of

diversity, without going all the way to monopoly in a single organisation'. However, as Scott (1979) points out the clearest statement of this point is perhaps that of Porter, who argues that

It is not...the role of directors as the overseers of individual corporations taken separately that makes them an economic élite. Rather it is the fact that collectively they preside over all the major segments of the corporate world in an extensive interlocking network. They are the ultimate decision-makers and co-ordinators within the private sector of the economy. It is they who at the frontiers of the economic and political systems represent the interests of corporate power. They are the real planners of the economy. ...Planning, co-ordination, developing, taking up options, giving the shape to the economy and setting its pace, and creating the general climate within which economic decisions are made constitute economic power in the broad sense (Porter, 1965:255 in Scott, 1979:102).

Interlocks are created for many reasons. Primary interlocks, especially, will often come into being as an expression of institutional links such as capital and commercial relations between companies. For this reason, they may be used as indicators to map these underlying institutional links. Provision of capital is the basis upon which one company may exercise control over the allocative policies of other companies. When relations in the capital exchange network<sup>2</sup> are involved in the attempt to exercise strategic control, they are frequently reinforced through a director link between the companies. That is, interlocks may be created for the purpose of control as one company may attempt to exercise control over another in order to maximise its own advantage. Writers on 'bank control' (see, for example, Fitch and Oppenheimer, 1970a, 1970b) have generally stressed this type of interlock. 'But bank interlocks need not result from attempts at control. Enterprises seek vertical interlocks with banks and other credit organisations so as to ensure easier access to capital; and even where this is not deliberate intent, those enterprises which are well-placed in relation to banks tend to find themselves better able to obtain capital' (Scott and Griff, 1984:27). Finally, interlocks may also be created for the purpose of loose co-ordination and some interlocks are due to none of these reasons. That is, they are, rather, accidental or

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<sup>2</sup> The capital exchange network between the companies investigated in this study is discussed in chapter seven

contingent features of business activity, for example, when an expertise is brought to enterprise boards in order to enhance its external scan. However, the creation of interlocks, no matter for what reason, all have the same unintended consequence, that is, they contribute to a system of interlocks which constrains the strategies pursued by all companies in the system. In other words, the structure of the system of interlocks and its development over time are not results of conscious design. For example, corporations enter specific relations of strategic control with the controlling corporations being interlinked and cemented through shared directorships. 'The resulting pattern of power and dependence relations is such that particular corporations and groups are "powerful" by virtue of their position in the power structure' (Scott, 1979:103). These power relations are overlaid by the communication network of interlocking directorships in which the most central companies are the most influential (Mokken and Stokman, 1976). On the other hand, it has to be pointed out that those who are most influential in the communication network are not necessarily the most powerful in the network of strategic control. For instance, the sphere in which a bank is able to exercise its direct power of strategic control may be far smaller than the sphere in which it is influential (Allen, 1976:889-90). Clearly, interlocks are very important features of the business structure, essential for information flow and hence reducing 'uncertainty' within the business environment. Interlocks can therefore be seen as tools for co-ordination and orchestration of the economy.

Moreover, an ample and growing literature has demonstrated that interlocking directorships may also have a different significance from the ones discussed above. That is, leaders of major corporations interlock not only through board membership but also through memberships in social clubs; cultural and governmental decision-making bodies (see for example, Domhoff, 1967; Zeitlin, 1974; Mizruchi, 1982 and Soref and Zeitlin, 1987). For some writers this indicates that a dominant social class, which has a common interest in the business system as a whole, exists above and beyond people's positions within particular corporations, 'wealthy families from all

over the country, and particularly from major cities... are parts of interlocking social circles which perceive each other as equals, belong to the same clubs, interact frequently, and freely intermarry' (Domhoff 1974:86). Moreover, the corporations themselves may be but tools for the more general accumulation of capital by major capitalist families. Zeitlin has characterised these dynastic families as 'kinecon groups':

The corporation is the legal unit of ownership of large-scale productive property. The set of interrelated kin who control the corporation through their combined ownership interests and strategic representation in management constitute the kinecon group (Zeitlin et al. 1975:110).

Hence Zeitlin (1974) claimed that 'Without research into the web of kinship relations binding apparently unrelated individuals into a cohesive owning unit for purposes of control, analysis of the locus of control of the large corporation is hobbled at the outset' (p.1108).

Whilst Mizruchi argues

...There is no reason that it must be a necessary condition for the existence of a cohesive capitalist class. The basic economic institution in contemporary capitalist society is the large corporation. If these corporations are themselves intertwined into a coherent and cohesive system, then it may be irrelevant whether the ties are based on family control, historical tradition or contemporary necessity. Of course, the ability to demonstrate the family basis of this institutional control would certainly lend further credence to the claim that there is an active capitalist class in American society (1982:192-3).

In other words, to be able to explore where the actual locus of control lies it is inadequate to analyse only the principal shareholders within a certain company or shareholding connections between companies. One has to analyse the interlocking directorships between those companies in order to establish if interlocks have been created for the purpose of strategic control, and then explore if the interlocking directors and principal shareholders are tied into a web of kinship relations. Only then can the control structure be seen.

**Accumulation of positions in Iceland: multiple directors and the network of interlocking directorships in private companies on the stock exchange.**

This section will explore the overall patterns of relations that result from interlocking directorships between the 30 private companies whose shareholding connections were analysed in chapter seven. (See the methodology chapter for a discussion of sources and data collection) Figure 8.1 shows this overall pattern of interlocking directorships. However, not all relations between companies based on interlocking directorships can be considered of the same importance. The strength of a relation depends both on the number of interlocks between two companies and on the combination of positions held by a multiple director in the two companies. Analytically, it is important to start with the distribution of positions over individuals, as this defines the structure of the resulting network between people and organisations. Within a network of interlocking directorships between companies, only persons with two or more positions - the multiple directors - generate interlocks (Stokman and Wasseur, 1985).

**Table 8.1: The Distribution of Directorships (1995)**

<i>No. of directorships per person</i>	<i>No. of people</i>	<i>No. of directorships</i>
1	109	109
2	17	34
3	9	27
4	5	20
5	4	20
6	1	6
Totals	145	216

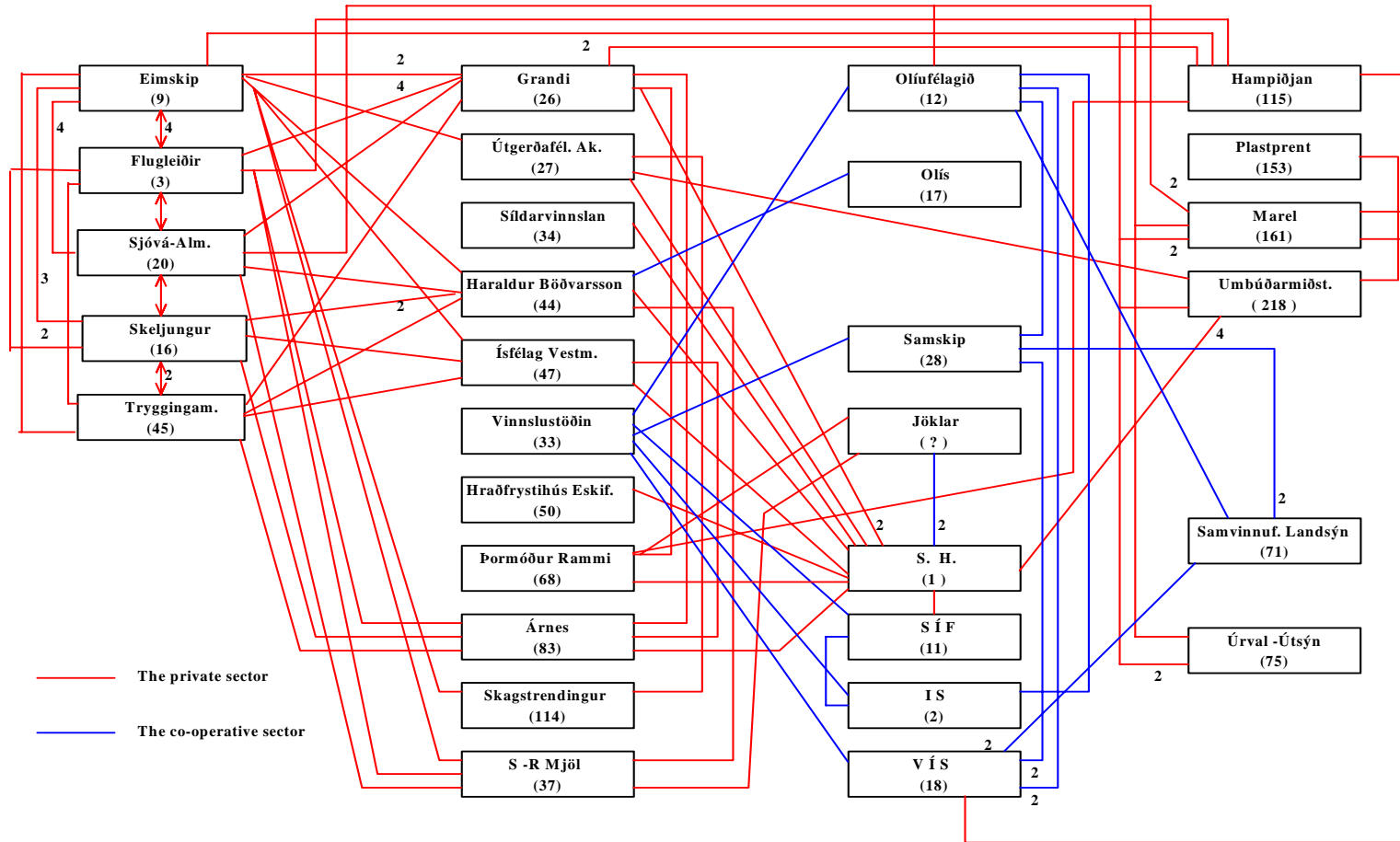
*Source: Author*

In the 30 companies shown in figure 8.1 it was found that 145 persons hold 216 directorships. 109 persons hold only one position whilst 36 are multiple directors holding collectively 107 positions. No women were among the multiple directors. Table 8.1 above shows the distributions of directorships in the 30 companies.



Figure 8.1:

*Interlocking Directorships across Industries*



Source: Author

25 per cent of all directors in these 30 companies are thus multiple directors. That is a relatively high proportion if it is compared, for example, to a comparative study of ten countries (see Stokman, Ziegler and Scott, 1985) which showed that multiple directors were a small minority of all directors, their proportion varying from 11 to 20 per cent. That study found the largest proportions of multiple directors to be in France, Italy, Finland, the USA and Belgium. Stokman and Wasseur point out:

With the exception of the USA, all these countries had a Latin variant of the European two-board system. These four countries also had the highest mean number of positions per director and this *cumulation ratio* was surprisingly constant over these countries. In the countries with the German variant of the European two-board system, the cumulation ratio was systematically lower than in the Latin variant but showed more variation.... The two countries with the one-board system were very different: Great Britain had a low percentage of multiple directors and a very low cumulation ratio, whereas the USA scored high on both measures (1985:22 in Stokman, Ziegler and Scott).

A high *cumulation ratio* can be due to either a large proportion of multiple directors or to a high number of directorships per multiple directors. The study discussed above showed that a high cumulation of positions by multiple directors was unrelated to the proportion of multiple directors. For instance, Great Britain, Germany and Austria had the same low proportion of multiple directors, but the number of directorships held by them was higher in Austria and Germany than the very low figure for Great Britain. For the USA and Finland a similar observation is made as both countries had a large proportion of multiple directors, but the accumulation of positions in the USA was very low in comparison with Finland. In fact, the study reveals a great similarity between Great Britain and the USA, the two countries with the one-board system, as the differences between these two countries are almost entirely due to the substantially larger proportion of multiple directors in the USA (Stokman, Ziegler and Scott, 1985:22-23). Their conclusion was that the distribution of positions over persons was substantially different in each of the three board systems:

...The Latin system (Belgium, France, Italy and Finland) combined a high proportion of multi directors with a high cumulation of positions by them; the Anglo-American system (Great Britain and the USA) showed the lowest

cumulation of positions by multiple directors; and the German system (Austria, Germany the Netherlands and Switzerland) was located somewhere between the other two systems... (Stokman and Wasseur, 1985:23 in Stokman, Ziegler and Scott).

The board system in Icelandic companies is very similar to the one-board system in Britain and the USA. The cumulation ratio among the 30 companies shown in figure 7.1 is 1.49; this is very high compared with the Latin system countries which had a high cumulation ratio of 1.34-1.36, whilst Britain and the USA had a low cumulation ratio of 1.15 and 1.28 respectively. In other words, the distribution of position over persons in Icelandic companies appears to bear more resemblance to the Latin system although it is an Anglo-American system.

As was pointed out in chapter seven, two interest groups were recognised within most industrial sectors in Iceland, one with connections to the co-operative movement and the other to the private sector. Figure 8.1 (p. 234) which gives an overview of the interlocking directorships across industries, shows in red interlocking directorships in the private sector (22 companies) and in blue interlocking (8 companies) in the co-operative sector. It can be seen that interlocking between the private companies is extensive. How many of the 36 multiple directors belong to the private sector and how many to the co-operative sector was examined as was the accumulation of their positions. The results are shown in table 8.2.

**Table 8.2:** *Accumulation of Positions by Multiple Directors*

	Number of positions					Total
	2	3	4	5	6	
Private companies	12	7	5	3	1	28
Co-op companies	5	2	0	1	0	8

*Source: Author*

Table 8.2 shows a clear difference in the cumulation of positions by multiple directors in the private and the co-operative sectors. In the 22 private companies 100 persons hold 158 directorships, 72 hold one position whilst 28 are multiple directors holding 86 positions. Multiple directors are thus 28 per cent of all directors in private companies shown in figure 8.1, which is very high. The cumulation ratio is also very high: 1.58. On the other hand, in the eight co-operative companies 45 persons hold 58 directorships. 37 hold one position and 8 are multiple directors which are around 18 per cent of all the directors in co-operative companies shown on figure 8.1 and they hold 21 positions. The cumulation ratio for this sector is only 1.28. The results from the co-operative sector are thus consistent with the Anglo-American system discussed above, whilst the private sector has both a larger proportion of multiple directors as well as a higher cumulation ratio than appears to be the 'norm' in the Anglo-American system.

Differences in the cumulation of positions by multiple directors is of considerable importance for the structure of the networks of interlocking directorships, as the number of interlocks is a quadratic function of the number of positions held by a person. For instance, a multiple director with 13 positions creates 78 interlocks, both primary and induced, between companies, whilst a multiple director with six positions creates only 15 interlocks.<sup>3</sup> Hence, a substantial part of each network can, therefore, be due to the interlocks of a few individuals with a large number of positions. The comparative study of ten countries discussed above found, for example, that 'Except for Great Britain and the USA with their low accumulation of positions, more than 60 per cent of all interlocks were carried by the multiple directors with four or more positions - between a quarter and one-fifth of the multiple directors. These multiple directors are designated "big linkers"' (Stokman and Wasseur, 1985:24).

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<sup>3</sup> The general formula is  $m(m-1)/2$ , where  $m$  is the number of positions held (Stokman and Wasseur, 1985:43 in Stokman, Ziegler and Scott)

There are 36 multiple directors in the Icelandic companies shown on figure 8.1 and they create collectively 129 interlocks between the 30 companies. As table 8.2 shows the private companies have 9 big linkers, (a person holding four or more positions) and collectively they create 75 interlocks between those 22 private firms. Whilst the co-operatives have only one big linker who holds five positions and creates 10 links between 8 companies. The 10 big linkers thus carry two-third of all interlocks between those 30 companies. Furthermore, figure 8.1 reveals that all 30 companies are connected, that is, there are no companies that are not interlocked with another company.

At this level of analysis, the network of interlocking directorships can be interpreted as minimally constituting a communication or information network between the companies. 'A major aspect of the structure of such a communication network is its *density*, i.e. the fraction of pairs of points (corporations) between which a line exists' (Stokman and Wasseur, 1985:25). That is, two companies connected through a line have a direct link between their highest decision-making boards. Stokman and Wasseur describe such companies with direct access as being located at '*distance 1*' from one another in the network. However, two companies with no direct access to one another may be linked indirectly. For example, if two or more directors of two companies meet each other in a third company to participate in its policy-making, the first two companies are said to be located at '*distance 2*' from one another. 'They have one or more meeting-points in the network. Pairs of corporations at a greater distance from one another can hardly be assumed to communicate through such personal interlocks' (Stokman and Wasseur, 1985:25). All 30 companies in figure 8.1 are located at '*distance 1*' from one another; all the connecting lines shown are primary interlocks. This is of a major importance because the discussion so far of the overall structure of the network has not distinguished between different *types* of interlocks. Primary interlocks reveal stronger connections, with long-term implications, than those of induced interlocks. Furthermore, primary interlocks can be interpreted as the

skeleton around which the body of a network is formed and which thus determines its shape. (Stokman, Ziegler and Scott, 1985). Hence, it can be concluded that the network shown on figure 8.1 is dense with strong connections between the companies, where 10 persons, 'big linkers', carry two-thirds of all the interlocks, which again indicates an 'inner circle'. Furthermore, if interlocking directorships coincide with financial participation it indicates that the potential for financial *control* is being effected. The financial connections between those companies (analysed in chapter seven) show how links through shareholding between the 22 private companies are extensive and a concentration of corporate ownership is increasing. There are also strong shareholding links between the co-operative companies. In fact, the pattern of interlocking directorships and intercorporate shareholding is almost identical (see figure 8.1 and figure 7.8). This analysis suggests that the network of interlocks is used to exercise control, as the potential for control created through intercorporate/shareholding relationship is clearly reinforced by interlocking directorship. In other words, when relations in the capital exchange network are involved in the attempt to exercise strategic control, they are frequently reinforced through a director link between the companies. Hence, a strong interlinking between the network of capital/shareholding relations and the network of interlocking directorship implies a stronger and cohesive control structure.

Moreover, the intercorporate shareholding analysis reveals that eight large companies are tightly interlinked through principal shareholding in each other. This pattern is repeated in the network of interlocking directorships between those companies. The shareholding and interlocking connections between the eight companies can be seen in figure 8.2. If two companies share two directors (if there are two interlocks), the *multiplicity* of the line between the two companies is said to be 2. Multiple interlocks between companies indicate a strong relation between them and may indicate a shared system of co-optation, which gives strong possibilities of policy co-ordination and

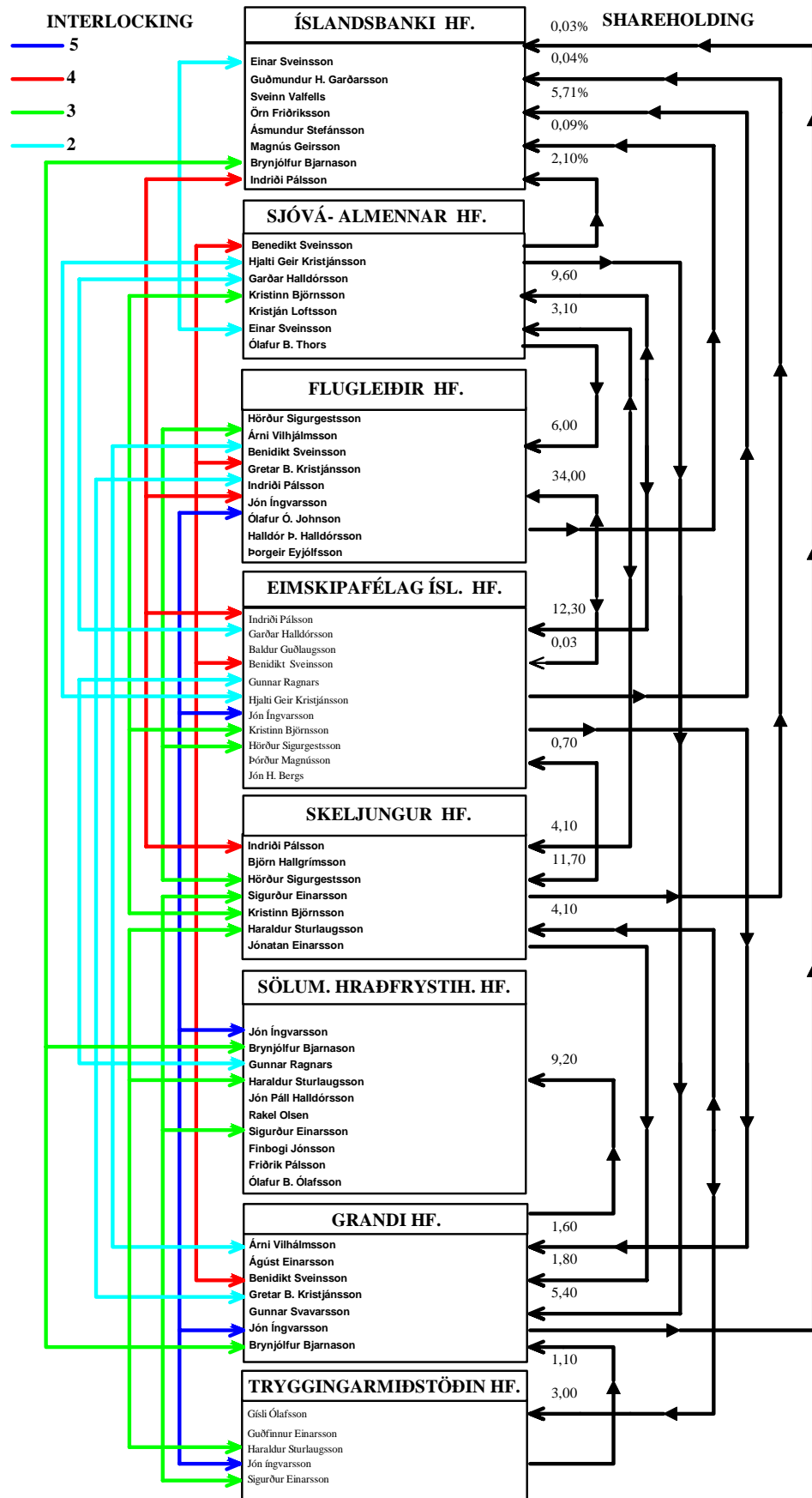
shared information (Stokman and Wasseur, 1985). Seven out of the eight interlinked companies are shown on figure 8.1. These companies are:

**Table 8. 3: Companies in the Interlinked Group**

<i>Company name</i>	<i>Sector</i>	<i>Size within sector</i>
Eimskip hf	Shipping line	the largest
Icelandair hf (Flugleiðir)	Airline	the largest
Skeljungur hf	oil company	the second largest
Grandi hf	Fishing company	the largest
Sölumiðstöð Hraðfrystihúsanna (SH)	Fishing export company	the largest
Sjóvá-Almennar hf	Insurance company	the second largest
Tryggingamiðstöðin hf	Insurance company	the third largest

All these companies were discussed in chapter seven. Íslandsbanki, the second largest bank in Iceland and the only private bank, however, is not shown on figure 8.1, as its connections to other companies were shown in chapter 6. All the companies in table 8.3 above are tightly connected through interlocking directorships. The multiplicity of the line between the companies on figure 8.1 (p.234) is shown as a number next to the connecting line. For instance, it can be seen that Eimskip and Tryggingamiðstöðin share one director (the line has no number), Eimskip and Skeljungur share 3 directors, Eimskip and Sjóvá-Almennar share 4 directors, Eimskip and Icelandair hf (Flugleiðir) also share 4 directors and Eimskip shares 2 directors with both Grandi and SH. Icelandair hf shares 2 directors with Skeljungur, one with Tryggingamiðstöðin and Sjóvá-Almennar and 4 directors with Grandi etc. Finally, the nine ‘big linkers’ in the private sector are all inside directors on the boards of those eight companies. As Stokman and Wasseur conclude ‘If one multiple director has an inside position in two corporations, then the two corporations are very strongly tied together. In such rare cases, the interlock is clearly used to exercise control. At the other extreme, an interlock created by a multiple director who has an outside positions

Figure 8.2: Interlocking and Shareholding within the Interlinked Group





in two corporations can be assumed to involve only communicative functions, unless such an interlock coincides with other interlocks to create a line of high multiplicity' (1985:36).

This reveals two things: first, these companies have a very strong relation between them which strongly indicates a shared system of co-optation and strong possibilities of shared information, policy co-ordination and control; second, these companies are directly connected through interlocking directorships and in many cases also through financial connection to all other private companies in figure 8.1. This could imply that they are a *centre* in the network. As Stokman and Wasseur argue:

The existence of central corporations in a network, i.e. corporations that are directly connected with a large number of other corporations, is not identical to the existence of a *centre* in the network. Central corporations may well have their own spheres of influence, in which case one can hardly speak of one overall centre. The concept of a centre is, rather, associated with the existence of a number of central corporations having a high number of mutual connections: the network between central corporations is densely connected, and all central corporations are able to communicate with each other. As communications in the network of interlocking directorships is confined to distances 1 and 2, central corporations were seen as constituting one centre if they had either direct access or meeting points with *all* other central corporations (Stokman and Wasseur, 1985:30).

Following Stokman and Wasseur, the conclusion is that those eight companies indeed constitute *one centre* in the network shown on figure 8.1. This centre, with its strong financial and interlocking connections with other companies in the network, can thus be looked upon as the locus of control within this network. However, as the analysis so far has concentrated on financial and interlocking connections between companies on the stock exchange, connections to other companies, institutions or funds outside the stock exchange have not been explored. The stock exchange in Iceland is young and under-developed and relatively few companies are registered (in 1997, 35 companies were registered). Hence, in order to explore whether the fusion of those 'centre' companies at board level has led to the emergence of an 'inner circle of company

directors, who act as finance capitalists playing a part in the co-ordination and cohesion of the economy, it is vital to examine broader connections from the centre.

### **Interlocking directorships from the centre**

This section aims to explore if the centre has links to companies outside the stock exchange and to pension funds or other financial institutions, in order to investigate the possible significance/influence of this centre for the corporate community in Iceland.

The eight companies in the centre have 80 persons holding 251 directorships. Twenty-six persons hold one position whilst 54 are multiple directors. That is 67 per cent of all directors within these eight companies are multiple directors, which create interlocking. This is clearly an extremely high proportion. Only one woman is among the multiple directors holding two positions. Table 8.4 shows the distribution of directorships in the centre.

**Table 8.4: The Distribution of Directorships in the Centre (1995)**

<i>No. of directorships per person</i>	<i>No. of people</i>	<i>No. of directorships</i>
1	26	26
2	17	34
3	9	27
4	10	40
5	7	35
6	3	18
7	3	21
8	1	8
9	1	9
10	2	20
11	0	0
12	0	0
13	1	13
<b>Total</b>	<b>80</b>	<b>251</b>

*Source: Author*

The cumulation ratio of positions per director within those eight companies is 3.14, which again is extremely high. The 54 multiple directors hold collectively 225

directorships and create 514 primary and induced interlocks. Table 8.4 also reveals that 26 persons hold two and three directorships which leaves 28 persons as 'big linkers' that is, holding four or more positions. Interestingly, the number of big linkers is exactly the same as the number of multiple directors in the private companies discussed in the section above and it was, indeed, observed that in most cases it was the same people. That is, multiple directors with 2 or 3 links within private companies on the stock exchange were found to have more interlocks to companies outside the stock exchange and thus became 'big linkers'. Moreover, these 28 big linkers create 470 interlocks, including 164 primary interlocks. In other words, most of the interlocks within and from the centre are carried by these 28 persons who have 164 *direct* and 306 *indirect/induced* connections to other firms, as compared with 75 interlocks when the companies in figure 8.1 were explored. This indicates two things: first, the centre has interlocking directorship connections to many companies outside the stock exchange market; second, this points toward the significant influence that the centre has within the corporate community in Iceland. It was found that the centre interlocks with 63 companies, 27 investment funds, insurance companies and credit card companies and with three banks (excluding Íslandsbanki, which is a part of the centre). So, the network of interlocking directorships within and from the centre connects *directly* 93 private companies. This does not include links that the centre has with companies abroad<sup>4</sup>, with co-operative companies<sup>5</sup> and to pension funds.

Icelandic companies are many but very small by international standards. For example, over 70 per cent of all companies have only one or two employees, 5 per cent have 10 employees or more and only around two per cent have 60 employees or more. Five per cent of the largest companies (total 1316 excluding the public sector) pay more than two-third of all wages (Snævarr, 1993). All the companies in the centre except

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<sup>4</sup> Some of the eight companies have invested heavily abroad in recent years and many of the 'big linkers' are on the board of directors in these corporations abroad.

<sup>5</sup> There have been some signs recently in Iceland that co-operative firms are starting to merge with private companies and there are interlocking directorships links existing between private and co-operative firms that are not counted here.

Tryggingamiðstöðin are among the 26 largest companies in Iceland. The number of their employees ranges from more than 100 up to 1273 employees. Hence they are very large compared with the Icelandic average.

It was found that 20 of the 93 linked companies are among the 50 largest in Iceland, 7 are among the 50-100 largest, 8 among 100-150 largest and 7 among 150-200. In other words, 42 of the 200 largest companies in Iceland are directly connected into a network of interlocks with those eight companies at the centre. Furthermore, it needs to be pointed out that among the 200 largest companies in Iceland are many state owned and co-operative companies. It can be concluded that the bulk of the largest private companies are directly linked and, when the induced interlocks are also considered, the network is widely extended throughout the corporate community.

In a study like this it is important not only to consider the size of a company but also the importance it has for the town or the region in which it is based: a relatively small company compared with the largest in the country can be extremely important for the people in its region. This is particularly the case in Iceland, where the main industry is fishing and in some places the fishing factory may be the only employer. The eight companies in 'the centre' are all based in Reykjavík, the capital of Iceland. They are among the largest companies there and only one is operating within the fishing industry. However, it was found, that most of the companies based around the rest of the country, and with which the centre has direct links, are fishing factories. These fishing factories are in many cases the largest employers in their area. For example, out of six counties, Reykjavik excluded, the centre has direct links (in most cases both financial and interlocks) to 10 large companies in five counties. Nine out of ten are fishing factories, all of which are among the four largest employers in their county and the remaining one is the aluminium smelter, also the largest employer in its county.

The discovery of these connections is consistent with the fact that the centre has increasingly been investing in the fishing industry (as was shown in chapter seven). It is also connected with the increasing concentration of quota holding in the largest fishing companies, as well as increasing concentration of shareholding from the centre. It is suggested here that the interlocks have been created for the purpose of control within the fishing industry, which is the main source of national revenue. The findings thus strongly indicate that the main industry in Iceland is becoming concentrated in the hands of a few companies and control centralised in the hands of a few multiple directors. Moreover, in recent years the companies in the centre have shown large increases in their profits due mainly to their growing investments rather than their production. They are becoming an additional part of the financial institutions as a large part of their activity is selling and buying shares. In fact, many of them have established their own financial securities subsidiaries whose only activities are to deal on the stock exchange. Industry and finance is becoming integrated which points to a system of finance capital. Scott argues:

The nature of finance capital as the 'fusion' of banking and industry is expressed in the system of effective possession, the mode of investment funding, and the integration of large corporations into an extensive network of communication (Scott, 1979:104).

The financial institutions and investment funds that have links with the centre are of considerable importance. For instance, the centre shares a director with the Central Bank in Iceland, the largest Saving-Bank and Landsbankinn, which is state owned<sup>6</sup> and is the largest bank in the country. In the same way, it is also linked into the two credit-card companies in the country, into most investment funds and the board of stock exchange. Finally, it has strong links with the media; both television and the firms that publish the two most widely read newspapers in Iceland (the morning and the afternoon paper).

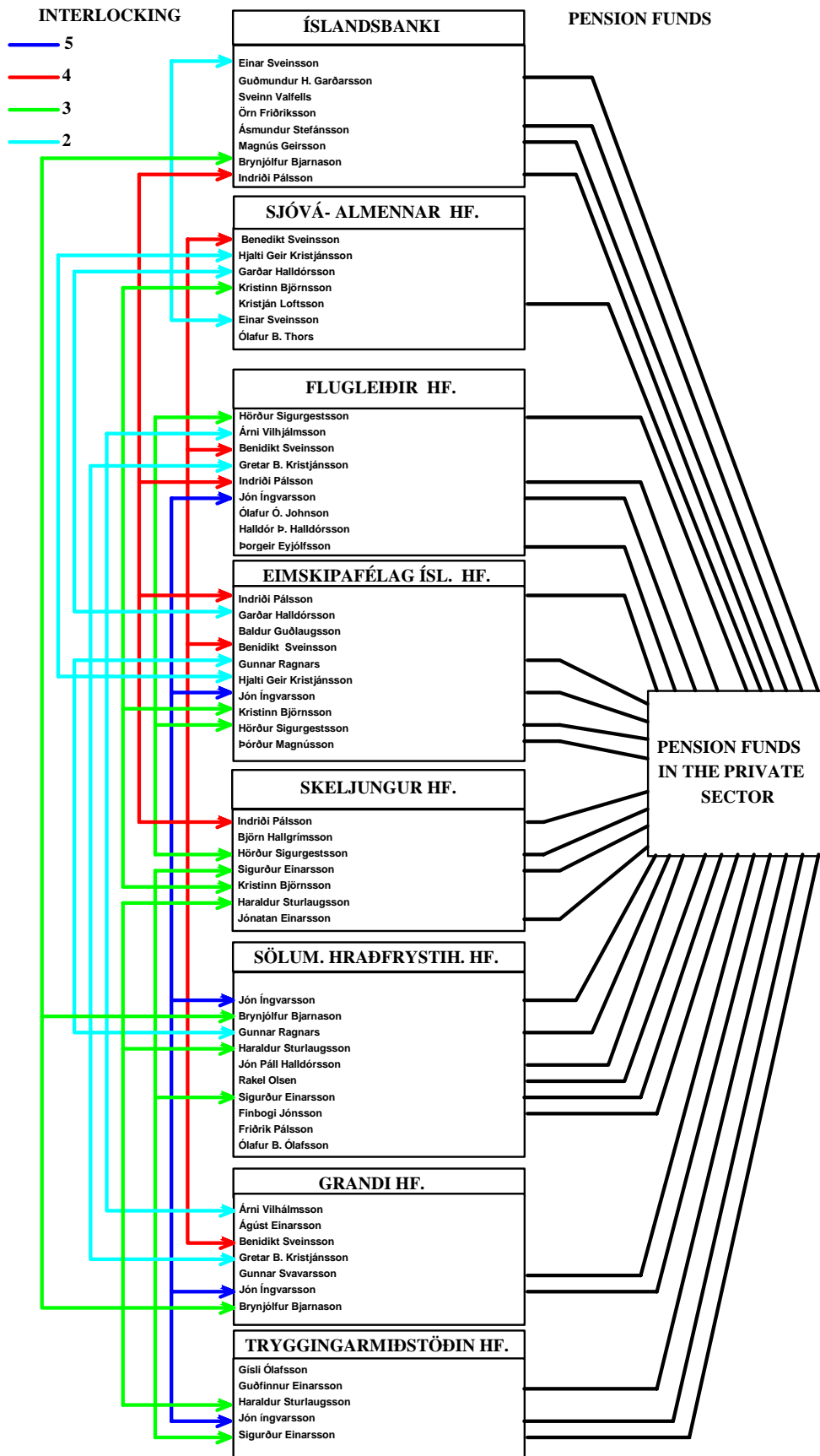
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<sup>6</sup> The government in 1997 changed the bank into a shareholding company wholly owned by the state, but aims to start to sell shares now in 1998.

It is argued here that the interlocking structure found among companies on the stock exchange (figure 8.1.), with the centre at the middle, has been reinforced when broader links were explored. That is, interlocks and shareholding relations among private companies appear to be structured around the 'most influential' companies in Iceland. Only primary interlocks, which in most cases have coincided with financial links and indicate strong relations, have been examined. It is claimed here that the potential for control created through intercorporate/shareholding relationships by the interlinked groups or the centre has been reinforced through interlocking directorships. Consequently, a strong and cohesive control structure has been created among the largest private companies. The results suggest a highly structured system with the capacity for control and the 8 'controlling' interests are clearly the major actors in the intercorporate network, with direct links to 93 companies. Furthermore, the director links created for the purpose of strategic control generate, as their unintended consequence, a complex system of interlocking directorships, which constitute a network of communications between companies. Therefore, it can be assumed that the centre has great opportunities to influence the policy making of the wider corporate community.

As can be seen from figure 8.3 the centre has many direct links to the private pension fund sector; an important factor because the private pension funds in Iceland are the fastest growing funds in the country and are increasingly investing in industry (see discussion in chapter 5). Business, whether monopoly or not, cannot operate without finance capital and in all capitalist countries pension funds are becoming the main investors in business. Therefore, it is in the interest of each

Figure 8.3: Primary Interlocks from the Centre to Private Pension Funds



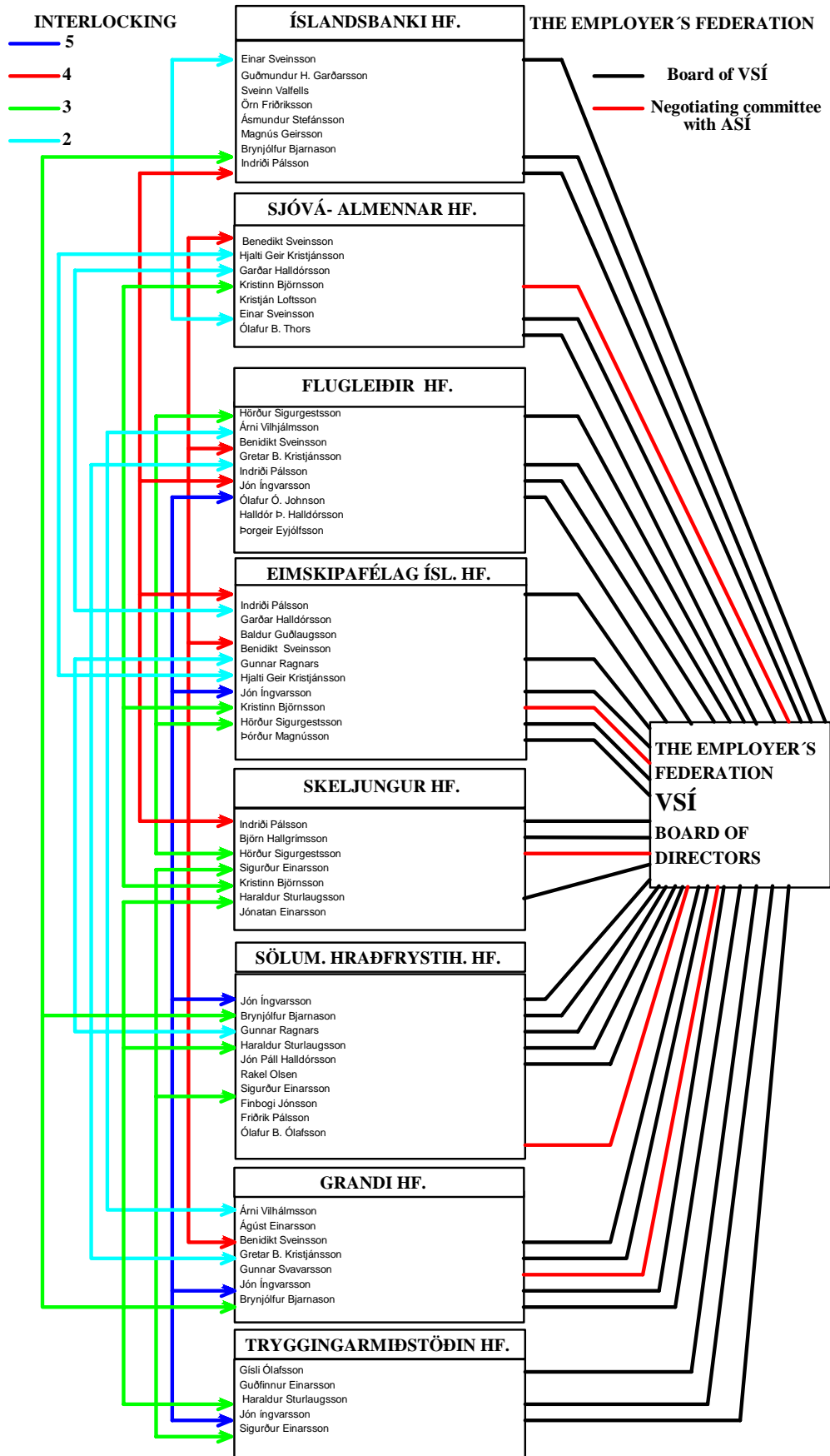
Source: Author

company to attract pension funds' investment. The network of interlocking directorships is the basis on which directors communicate with one another and exchange corporate information between one company and another. It can thus be argued that a director with interlinks to pension funds is in a better position to 'sell' its company policy to the pension fund and influence the investment policy of the fund. It was, indeed, observed in this study that the pension funds in the private sector invest mainly in that sector, whilst the pension funds in the co-operative sector invest in co-operative companies. Hence, a significant question arises: are pension funds investing purely on the basis of the rate of return they are likely to get, or are investments being used to increase the 'spheres of influence' of individual companies? Certainly, pension funds tend to remain relatively passive as investors, allowing bank directors or professional fund managers to act on their behalf; pension funds board members usually do not attempt to take a seat on the boards of the companies in which they have invested. This can give the companies considerable freedom in how they use the pension fund investment as long as a reasonable rate of interest is returned. Hence, the company can use the funding to further its own interests, for instance, to buy shares in other companies and carry out further concentration and centralisation.

The private pension fund industry in Iceland is controlled collectively by employers and leading members of the labour movement (see the discussion in chapter 5). The private pension funds along with the large funds of the labour movement form the backbone of Íslandsbanki (the bank of Iceland, see the discussion in chapter 6) which is one of the eight companies in the centre. In that sense, it might be argued that the labour movement is a part of the centre, particularly since it was found that leading members of the labour movement are on the board of Íslandsbanki and on the board of some investment funds. However, they are not usually on the board of the private companies in which the pension funds have invested. In addition, it seems to be common for multiple directors to be on the board of a private pension fund, which invests in their own companies. The significance is that multiple directors have the



Figure 8.4: Interlocks from the Centre to the Employer's Federation VSÍ



Source: Author  
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opportunities to influence the pension fund investment and increase their scope for power and at the same time involve labour union leaders in the responsibility of investment decision-making. While it appears that the labour union leaders have fewer opportunities to influence private company policies, it is suggested that the labour movement's paradox is well encapsulated here. That is, the labour movement leaders through their co-operation with employers in the pension fund industry have become closely involved in investment decision-making for the pension funds. Their main aim in that process is to get as high a rate of return as possible for the private pension fund industry, hence, the policy has been to invest mainly in larger companies. This has contributed to a) economic concentration and b) low wage policies in order to increase companies' profits.

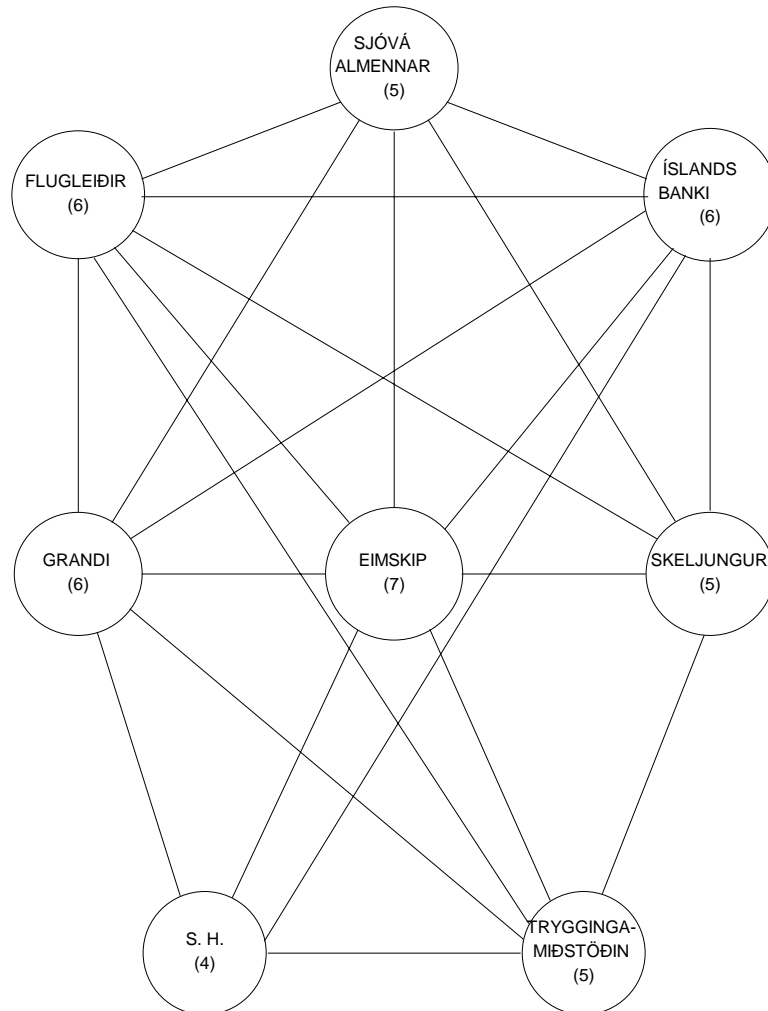
The centre with its high percentage of multiple directors has a strong footing in the Federation of Employer's (VSÍ) as can be seen in figure 8.4. VSÍ aims to unite employers, co-ordinate their policies and negotiate wage settlements with the labour movement on the employers' behalf. It was observed that out of 21 directors on the executive board of VSÍ in 1996, eight came from the centre (five are big linkers). In fact, seven of the companies had a representative on the executive board (all but Tryggingamiðstöðin). On the federal board of directors, the centre had 15 representatives and on the negotiating committee it had four representatives out of eight (three big linkers) (See figures 8.4). This negotiating committee has a leading role to play when negotiating wage settlements with the labour movement. Therefore, it can be concluded that the centre is a powerful actor in forming wage policies, has strong connections with leaders of the labour movement and is powerful within VSÍ. Traditionally, VSÍ has always worked closely with the government as an advisory body and has sometimes taken the lead in forming government policies. Members of VSÍ serve on many government committees (see the discussion in chapter 2 on the importance of government committees in Iceland) and many government ministries

have strong links to VSÍ and other private interest groups. Finally, the centre has a strong representation in the Chamber of Commerce.

### The centre and kinship ties

It has been claimed throughout this chapter that the eight companies constitute a centre within the corporate community network in Iceland. It is clear that these eight companies are very tightly connected through financial and interlocking links. Figure 8.5 demonstrates the network of interlocks *within* the centre.

*Figure 8.5: The Centre: Network of Interlocking Directorships*



*Note: number of connections are shown in brackets*

*Source: Author*

Figure 8.5 reveals that Eimskip has direct links to all the other seven companies in the centre. That is, Eimskip (shipping line) shares a director with all the other companies. Icelandair hf (Flugleiðir), Íslandsbanki (the bank of Iceland) and Grandi (fishing company) share directors with six of the companies. Both of the insurance companies, Sjóvá-Almennar and Tryggingamiðstöðin share with five of the companies as well as Skeljungur (Oil Company). Finally, S.H (fish export) shares directors with four of the companies. Moreover, five of the eight companies share the same chartered accountant. They are Eimskip, Icelandair hf, Íslandsbanki, Grandi and Skeljungur. Due to this and the fact that these companies are strongly interlinked through institutional shareholding, that is, they have invested heavily in each other and they also have many shareholders in common, it is suggested here that these eight companies could be considered, in many respects, to be *one*. Yet, in order to be able to sustain this claim, kinship ties and relationships between the boards of directors have to be investigated, as interpersonal connections alongside interlocking directorships are important. In other words, interpersonal connections can serve as the basis for cohesion and informality among directors at the level of social integration (Scott and Griff, 1984). Zeitlin et al. have pointed out that:

The word “family” may be...inadequate to encompass the intricate kinship network that unites a number of related officers, directors, and principal shareowners into a cohesive control group. The “effective kinship unit” may include close relatives (secondary and tertiary) and other kin outside the immediate family who are nevertheless members of the extended and tightly organized network that controls a given corporation (Zeitlin et al., 1975:108).

Hence, Zeitlin has characterised dynastic families as ‘kinecon groups’

Ordinarily, the kinecon group consists of the primary, secondary, and other relatives among officers, directors, and principal shareholders whose combined individual and indirect (institutional) shareholdings constitute the dominant proprietary interest in the corporation. A kinecon group, of course, may control more than one corporation. Therefore, any single firm under its common control may not have all or even most of the members of the kinecon group among its executives and principal shareowners. Two unrelated kinecon groups may also jointly control a corporation.... The concept of the kinecon group and of social class are, therefore, integrally related: both refer to the fusion of kinship and

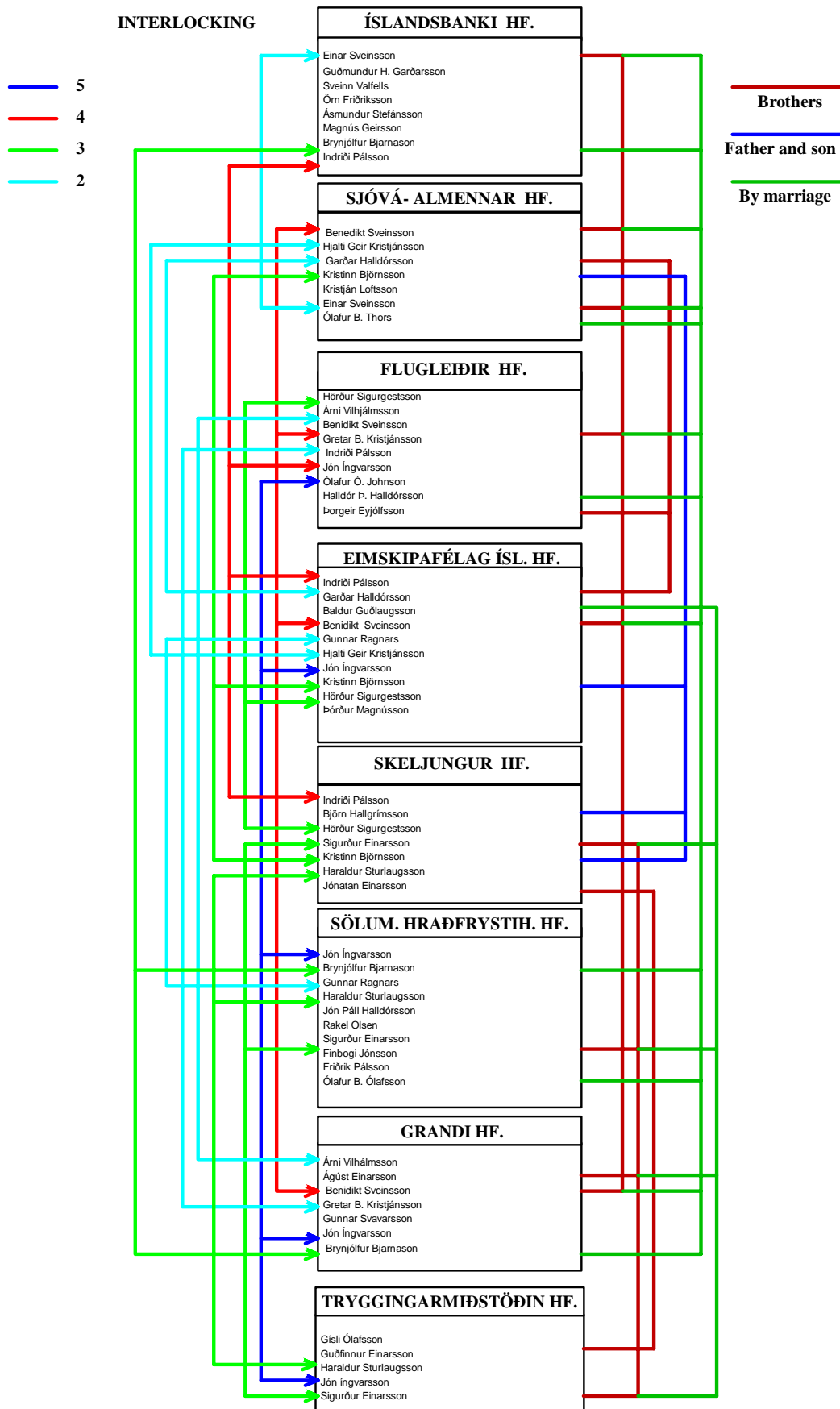
property systems, and it is through this fusion on a higher level that classes are perpetuated. People similarly located in the process of production and property system are more likely to associate with each other freely than with others, and, therefore, to freely intermarry (Zeitlin et al., 1975:110).

Kinship relations thus connect individual families and kinecon groups into a wider kinship network and the presence of kinsmen on two different companies creates a kin interlock, or 'kinterlock' between them (Scott and Griff, 1984:119) It has become evident that the big linkers carry most of the interlocks, hence they can be seen as the skeleton which structures the corporate network. Accordingly, for analytical purposes it was decided to concentrate on kinship ties and relationships between the big linkers.

Among the 28 big linkers in the centre are three pairs of brothers, and one father and son. (See figure 8.6. for an overview of kinterlocking in the centre) Four of the six brothers and both the father and the son are big linkers. One pair of the brothers has a brother in law who is a big linker and another pair of brothers are related by marriage to three other big linkers on the boards. All these individuals own large shares in the companies in the centre, some more than others, and they are all descendants or connected by marriage to the original founders of most of the companies in the centre. Other members from those families were observed on boards of companies but usually only holding one or two positions. No women are among the big linkers. Six more big linkers who own large shares appears to have no kinship ties to other big linkers but are still strongly connected to each other and those families discussed above, through the original founders. That is, the fathers and grandfathers of these big linkers were among the first leading capitalists in Iceland and were very influential in society and there were, in many cases, strong business, friendship and intermarriage relations between those families. Of these 16 big linkers already discussed, 12 are rich enough to be mentioned in a book called 'Iceland's richest people' (Sigurgeirsson and Jónasson, 1992).

Figure 8.6:

*Kinterlocking in the Centre*



Of the 12 remaining big linkers, one is the executive director of Eimskip and the other is the ex-executive director of Skeljungur. Neither appears to have kinship ties with the families above, however, it is common knowledge that there is a strong friendship and they have worked with and for the families for a long time. The ex-executive director of Skeljungur is also the Grand Master of the Freemasons organisation and is mentioned in the book on Iceland's richest people. These 18 big linkers and their families, through combined individual and indirect (institutional) shareholdings, constitute the dominant proprietary interest in the companies in the centre, ranging from 15 per cent to 60 per cent of the total shares or more. The connections between those big linkers in terms of personal and shareholding relations are extensive enough to characterise them as an extended kinecon group with separate kinship centres. The concept of 'aligned interests' or the 'financial group' probably best describes the designation of this situation (see the discussion in chapter seven).

Two of the remaining big linkers are bank managers in Íslandsbanki, one is a professional manager for the largest private pension fund and one has been a prominent businessperson for years. They are all Freemasons (Þormóðsson, 1981) and link into other rich families. No personal information was available for six big linkers apart from the fact that most of them, like the others, are among the highest wage earners in the country.

Most of the big linkers are thus descendants from the 'old ruling élite' which was characterised by the presence of kinship clusters and who were the leading capitalists in Iceland in the first half of this century. They and members of their families have also been and are active in Icelandic politics, both in state and local government. For instance, at least seven of the big linkers are descendants from the old power nucleus of the Independence Party (IP) which has been the leading actor in Icelandic politics (see the discussion in chapter 2). It was found that the centre has strong connections to both parliament and the government. Two big linkers (brothers) have two first cousins

serving as ministers. One is the minister of transport and the other minister of education. Another big linker's wife is the minister of public health. There are thus direct connections to three ministers out of the nine in the government. Three big linkers are directly connected into parliament through a wife, a daughter in law and a brother. Finally, many of the big linkers and the multiple directors in the centre either serve on their local governments and/or are very influential within their communities.

## **Conclusion**

The Icelandic corporate community is tightly interlinked through financial and interlocking directorships. The potential for control created through intercorporate/shareholding relationships by the interlinked group or the centre has been reinforced through interlocking directorships. Consequently, a strong and cohesive control structure has been created among the largest private companies. The results suggest a highly structured system with the capacity for control and the 8 'controlling' interests are clearly the major actors in the intercorporate network with direct links to 93 companies. The evidence, therefore, strongly points towards concentration of finance and shareholding and centralisation of control. Within the centre it was found that the fusion of those centre companies at board level has led to the emergence of an 'inner circle' of company directors (multiple directors/big linkers), who function as finance capitalists playing a part in the co-ordination and cohesion of the economy. This inner circle is powerful and influential not only within the corporate community, but in all major investment funds, pension funds and all major financial institutions. They are a leading force in the Federation of Employers, the Chamber of Commerce, and have strong connections with the government and serve on numerous government committees. They have, therefore, good access to government decision-making and are able to ensure that their voice is heard where it matters. 'These associations constitute the formal interface between the highest levels of government and large corporations in all sectors, those who guide their activities



can have a decisive impact on the public policies collectively promoted or opposed by business' (Useem, 1984:72).

The conclusion has to be that the 'inner circle' represents the new ruling élite in Iceland, who are descendants from the 'old ruling élite'. In the old ruling system the executive capitalist was the director of a single unit of capital, while in the new ruling system the board of directors function *collectively* as capitalists. That is, the 'finance capitalist' is a 'multiple director' sitting on the boards of a number of companies, and playing a part in the co-ordination and cohesion of numerous separate companies. Their interests are not limited to one particular company, but extend to whole industries or to the economy as a whole (Scott, 1991). Moreover, this 'new ruling élite' is extremely powerful because of the forces on which it can rely. Through controlling and investing the pension funds collectively, an unusual co-operation between employers and the labour movement (ASÍ) has developed. With the effect, that today the labour movement in Iceland is closely linked with the "ruling élite" through a vast and complicated network of personal, financial and interlocking directorships. The consequences of this are, that a new 'actor-network' has been constructed from the ASÍ 'élite' and VSÍ 'élite', and thus new power relations have emerged which appear to have united two essentially divided groups.

## **CHAPTER 9: CONCLUSION: REVISITING THE PARADOX**

This final chapter draws the thesis together and discusses the main outcome and the conclusion of the study. There is a short section, which aims to integrate some elements from the study using Actor Network Theory to see if it can offer further insight into our understanding of the labour movement paradox. Finally, it considers possible directions for future research.

### **Outline and main outcome of the study**

Trade union leaders and private employers have been steadily increasing their co-operation since the 1960s. During the period 1959-1971 the Independence Party (IP) – Social Democratic Party (SDP) coalition, which is the longest-lasting coalition ever in Iceland, was in power. Due to the IP's relationship with the employers association (VSÍ) and the combined IP-SDP trade union (ASÍ) strength, they were able to bring together the leadership of the major social and economic interests at work in Icelandic society. That is, they created networks of interests, mainly through the founding of committees, which enabled the coalition to bring most levels of the system into an effective decision making mechanism. The committees became networks of networks, with a) ties between individuals in the committees and b) ties between network clusters, that is, linkages were created between the committees and, from them, to all levels of society, as was discussed in chapter 2. Hence, they link together individuals at all levels of the system, reduce conflict and increase co-operation. Many of these committees became advisory bodies for the government and since the 1960s, formal consultation by the government and parliament with ASÍ and VSÍ has become very common.

Towards the end of this period (1969), a comprehensive private pension fund scheme was established. The aim was to increase national savings, investment and economic

growth, and therefore the resources available for welfare payments. This development is also linked to the privatisation of welfare and the decay of public provision. The labour movement and employers have worked very closely together in running and controlling this scheme, especially so since 1980 when it became clear that the pension funds were in poor financial standing, which needed improving and for the system to be made more efficient. One important consequence of this co-operation is that in 1989 three private banks merged and at the same time took over one of the state-owned banks. This establishment, Íslandsbanki, which is now the only private bank in Iceland, has the vast funds of the pension industry as its backbone. But as was noted in chapters 5 and 6 since they were established, pension funds in the private sector have been the major funds of private banks in Iceland. The labour movement and private employers jointly control this bank as well as the private pension fund industry. Consequently, this compact between employers and labour has handed them significant economic power and has, at the same time, lead to concentration and centralisation within the financial market in Iceland as was revealed in chapter 6.

Due to this co-operation the private pension funds' assets have increased enormously since the early 1980s. Their financial standing is now very good and they have become the largest and the fastest growing funds in the country. It is, however, unclear whether this has added to the real growth of the private pension fund industry during this period, even with the compulsory membership system, since most of this growth has come from investment returns and the rise in the stock market. What is clear is that the investment policy of private pension funds has changed over this period, which is the main factor behind this growth. The pension funds are the largest investors in the country, and for Icelandic industries it is of crucial importance where they will invest in the future. Furthermore, the study indicates that the absence of a legal framework for the pension fund industry has contributed to more 'power' for ASÍ and VSÍ. That is, they can change and bend rules and regulations according to their own 'needs' or preference. This is, for example, reflected in ever changing regulation of the pension

funds investment in shares (see chapter 5). It was found that this development has encouraged centralisation in the pension fund industry and decision-making and control has become concentrated in the hands of a few people from ASÍ and VSÍ, who can accordingly exert a large influence on the investment policy of the pension funds.

In the mid-1980s the Icelandic Stock Exchange was established and has rapidly evolved into one of the main pillars of the financial market. The growing funds of the private pension fund industry needing different investment alternatives, along with deregulation in the financial market and companies needing new capital were the driving forces behind the Stock Exchange. Its establishment created new investment opportunities for the private pension fund industry and other investors alike. Since then the pension funds have increasingly invested in private companies, financial and non-financial, registered on the stock exchange, instead of investing in government bonds and providing loans to their members. This has contributed to higher investment returns for the pension funds, improved their financial standing substantially and provided companies with capital. It has to be remembered in this context how small Icelandic society is, and accordingly the stock exchange is very small. In 1997, only 35 companies were registered on the stock exchange. The ten largest of those companies have 92 per cent of the total turnover of all the registered companies. Furthermore, the market value of the ten companies is 50.8 per cent of the total market value of the 35 registered companies. Consequently, it can be argued that investors have a rather limited choice when investing on the stock exchange. The implication of this for the pension fund industry is that their investment can become concentrated in few companies.

Chapter 7 explored the present structure of shareholding in and among the largest private companies on the stock exchange. The main outcome of this chapter shows that the establishment of the stock exchange along with this new investment ‘opportunity’ has had ‘unintended’ consequences for Icelandic society as well as the labour

movement and its members. First, as more companies have entered the stock exchange to attract new investors, demand for high-productivity and high company profits has risen considerably. This has contributed to growing merger of companies and increasing concentration of corporate ownership within different sectors of industries, as was shown in chapter 7. This development is especially striking within the marine sector, which is of fundamental importance to the Icelandic economy. Second, the stock exchange is the key for creating a network of shareholding within and between sectors of industries and thus contributing to a concentration of ‘intercorporate control’ (Zeitlin: 1975). That is, the stock exchange opens up possibilities for an investor or a group of investors to buy shares in different companies, in some cases enough shares to gain control individually or collectively. Those companies in turn can invest in other companies who again invest in yet more companies. Hence creating a network of shareholding either within or between sectors of industries, or both. This can lead to concentration of corporate ownership and consequently concentration of control within and between sectors of industries. This has been the case in Iceland. This study has identified a coherent and resolute group of 8 tightly interlinked companies, which, through shareholding is, connected into all major industries, both financial and non-financial. In fact, this group holds shares in most other companies on the stock exchange as well as in many companies outside the exchange. In addition, the study found strong evidence that this group has been enlarging their share in major industries in Iceland in recent years, especially in the marine sector, and collectively they have potential control over the major industries through their shareholding. The main conclusion drawn from chapter 7 was, therefore, that economic concentration is rapidly increasing in Iceland, through extensive corporate shareholding, with the interlinked group of companies at the centre. It was also found that the private pension funds, which are increasingly investing in many companies on the stock exchange, are large shareholders in the interlinked group. As a result it could be argued that the ownership of substantial chunks of corporate capital may have been ‘socialised’

through the pension fund industry. But employees' legal ownership does not equal control in those companies.

Chapter 8 found that the employee contributors to Icelandic pension funds have little control over what happens to the accumulated funds which are invested for their retirement. Their representatives, trade union leaders, who serve on the board of the pension funds and take part in investment decisions, are usually not on the board of the companies in which the pension funds have invested. Hence, they remain uninvolved in companies' affairs. In that sense, corporate capital has not been 'socialised' through the pension fund industry. The main conclusion from chapter 8 was that the potential for control created through intercorporate/shareholding relationships by the interlinked group has been reinforced through interlocking directorships. Consequently, a strong and cohesive control structure has been created among the largest private companies. The results suggest a highly structured system with the capacity for control and strongly points towards concentration of finance and shareholding and centralisation of control. It was found that the fusion of those interlinked companies at board level has led to the emergence of an 'inner circle' of company directors (multiple directors/big linkers), who function as finance capitalists playing a part in the co-ordination and cohesion of the economy. This inner circle is powerful and influential not just within the corporate community, but in all major investment funds, pension funds and all major financial institutions. They are a leading force in the Federation of Employer's (VSÍ) and the Chamber of Commerce. They have strong connections with the government and local governments and they serve on numerous government committees. Finally, most are members of the Independence Party (IP). The conclusion drawn from chapter 8 is that a ruling élite, which is extremely powerful because of the forces on which it can rely, controls the Icelandic corporate community. Hence, they have a strong influence on the Icelandic economy. Furthermore, the ruling élite, along with a few leaders of the labour movement, control the financial institutions that mainly invest in their own companies.

## **Main conclusions**

The evidence shows that there exists a strong ‘ruling élite’ in Iceland, which has its basis in the large corporations and financial institutions, has potential control over the corporate community and plays a major role in shaping the social and political climate. The ‘ruling élite’ is socially and economically cohesive, which is manifested in common stock ownership and most visibly in the complex pattern of interlocking directorships that unites the corporate community and creates a dense communication network.

A decisive trend of the last decade has been for fewer and fewer companies to orchestrate ever-greater fractions of the total economic activity, even as the economy itself has expanded. At the same time, networks of economic relations among companies are becoming inclusive. The most significant trend is in the rise of intercorporate ownership. This has led to economic concentration and centralisation. For example, the evidence shows that a few companies are rapidly enlarging their share in the fishing industry, which is the backbone of the Icelandic economy.

The evidence suggests that behind the companies, which are increasingly enlarging their share in other companies and hence the economy, is a group of families or ‘interest groups’ that are strongly connected through financial and personal ties. This further suggests the existence of systematic, intercorporate co-ordination. The great bulk of the private economy is therefore now in the hands of a few individuals who form the core of the business class or the ‘inner circle’ and participate in the strategic control of the companies, which form the monopoly sector of the Icelandic economy. Porter’s (1965) description of the Canadian dominant segment could equally well have been developed for Iceland. He concludes that multiple directors linking large companies ‘are the ultimate decision-makers and co-ordinators within the private sector of the economy. It is they who at the frontiers of the economic and political

systems represent the interests of corporate power. They are the real planners of the economy' (p.258).

As this study has demonstrated, further linkages have been constructed which bring personnel from the inner circle of the business class into contact with, and authority over, decision makers in other institutions in other sectors, whilst transferring leaders from these sectors into the centre of the business world, for example, in the pension funds and the financial sector. Furthermore, complex interlocking relationships between business and government, through committees and other ties, exist. The business class is therefore able to obtain access to decision-making positions within the government. These inter-institutional exchanges and interlocks allows the inner circle to co-ordinate the broadest range of societal sectors and hence to implement society-wide social policy. In this sense, the business class and the inner circle constitute a ruling class, and through these means the labour movement has been incorporated into the wider power structure in Iceland.

Labour movement leaders and the ruling élite have developed strong connections through their co-operation in different government committees and control of the pension fund industry. This has created further co-operation in the bank industry and in the financial market where those same actors control many investment funds along with the only private bank in Iceland. The vast and growing funds of the pension industry are the main pillars in this co-operation. So, what are the main conclusions to be drawn from this study for the labour movement paradox? Has this co-operation produced 'unintended' consequences for the labour movement and its members and contributed to a) economic concentration and b) low wage policies and unemployment? These issues are explored below.



The labour movement has transferred significant economic power into the hands of the ruling élite through their collective control of the private pension industry and the only private bank in Iceland. This élite, along with 'professional fund managers', where they occur, has virtually total discretion over what happens to the money and how it is invested. This permits them considerable market power over buying and selling in the case of take-overs and mergers, and in the privatisation of state companies. More importantly, as trade union leaders remain passive investors on behalf of the pension fund industry, they have no control or involvement in corporate policy making. Consequently, they have no influence over the funds after they have been invested. This gives the company board of director's considerable freedom in how they use this investment, that is, the investment can be used to take-over or invest in other companies. Therefore, contributing to economic concentration.

In the last decade the pension funds have been the main providers of credit for the Icelandic State. Therefore, paradoxically for the labour movement, economic power is being transferred from the public to the private sector through the pension fund industry investments. Moreover, there is a growing pressure to remove the direct role of the government in business and improve capital allocation by increasing the role of the market. There are implications that arise from this. The State will probably have to finance its operation by borrowing from abroad instead of having access to domestic savings, which could lead to growing foreign debts, increased taxes and the further decline of the welfare state. Accordingly, the State may then come under more pressure to privatise its companies to raise money. As the main investors are pension funds and the large companies or, in other words the ruling élite, this could contribute to even further concentration and centralisation in the Icelandic economy. In the process, the power over macro-economic management and welfare is transferred to private financial institutions (see Minns, R. 1980, 1996a, and 1996b) and the ruling élite. This process has already started, for example, the government changed the two remaining state-banks to limited companies late in 1997 with the aim of privatising

them in the future. Íslandsbanki, which is jointly controlled by the labour movement and the ruling élite, made an offer to the government in August 1998 to buy one of the two state-banks. Interestingly, one of the main arguments for buying the bank, put forward by the management of Íslandsbanki, was the ‘dispersed ownership’ of Íslandsbanki created by the large shareholding of the pension funds. Accordingly, they claimed, concentration within the financial system would be avoided if they bought the state-bank. However, as was noted above, employee legal ownership of the pension funds does not equal control in the companies pension funds invest in. On the contrary, through the investment process pension funds are increasingly being transferred under the control of the ruling élite. Hence, the labour movement has contributed to economic concentration.

As was noted above, with more companies entering the stock exchange to attract new investors such as the pension funds, demand for high-productivity and increased profit has risen considerably. One implication has been more mergers and take-overs of companies, with subsequent rationalisation which has meant that the unemployment rate did go up considerably in the 1990’s. For example, unemployment in the bank sector rose evidently when the three private banks merged and took over one state-bank to form Íslandsbanki. However, high profits from investment at the cost of reduced jobs do not create better pensions or more secure pension funds. Pension funds and their participants rely on employment growth and not just investment returns to deliver pensions in the future. High-productivity investment can lead to job losses and therefore less secure pensions for those affected, whilst employment-generating, ‘social’ investment on a macro-level creates more pensionable employment (Minns, 1996a: 381). That is, ‘economic’ returns on investment portfolios may be quite different in a macro-economic context from ‘economic’ rates of return for benefits to pension fund contributors and pensioners. Therefore, it has to be asked who really gains and loses in this privatised structure. But there is a further paradox here for the labour movement and its members. The people who are facing insecure employment

prospects created by the search for high returns are the same people who ‘might’ benefit in the future, through the ownership of the shares by the pension funds.

The changed investment policy of the pension fund industry in Iceland appears to aim for the highest rate of return to boost the pension fund performance, without necessarily taking into account other broader consequences that might follow. An increase in equity holding is, for instance, not synonymous with economic growth. There is no evidence that the pension funds investment has increased economic growth. In fact, economic growth in Iceland has, if anything declined slightly over part of this period, which was examined. Minns points out that no one has produced evidence of the relationship between the level of pension funds’ investment rate of return and national economic performance. ‘Comparing the USA, the UK, Japan, Australia, Canada and Germany over the 10 years 1984-93, the UK had the highest returns in its equity market but the lowest increase in GDP. ...growth has caused savings, not the other way around (Minns, 1996a:382-384). Hence, it is more important how ‘responsibly’ the pension fund industry invests rather than necessarily showing an immediate high rate of returns on the investment portfolios. That is, the pension funds need to increase productive investment, which, in turn, leads to increased economic growth. The private pension funds are not being used constructively to create productive growth and employment in Iceland. The pension funds investments are mainly concentrated in larger companies, who in turn are themselves becoming large investors on the stock exchange. A growing share of these companies’ profits now arises from their investments rather than their production. Whilst if the pension funds were to invest more in new and smaller firms they might be able to increase long-term growth and create new jobs. Furthermore, the financial system’s demand for high returns has put increasing pressure on company management to maintain and increase the growth of profit and dividends. One obvious route for the manager is to reduce wage bills and make them more malleable by ensuring that employment levels can be quickly adjusted to changes in demand.

Reflecting this trend, companies have reorganised their workforces so that growing proportions work part-time. Two part-time workers can produce the same or more as one full-time equivalent, but for a fraction of the overheads and with much more 'flexibility'. Casual workers can be hired and fired as demands rises and falls. Profitability is therefore maximised whilst the risk of fluctuating demand has been displaced to the labour force (Hutton, 1996:171). Finally, the pension funds have started to increasingly invest abroad, a trend that is likely to grow over the next few years. Moreover, the largest companies in Iceland are also investing abroad with an alarming speed. This does not produce economic growth nor create new jobs in Iceland; rather it may contribute to even more insecurity on the labour market

The labour movement has also been co-operative in helping companies to increase their profit. Wage restraint through collective bargaining has been in force during most of the 1980's and 1990's, but wage restraint contributes to corporate profit. This wage restraint policy can be attributed to the election of a new president of ASÍ in 1980, Ásmundur Stefánsson, who worked as an economist for ASÍ before this. He has, since retiring as the president of ASÍ in 1992, worked as an executive manager of Íslandsbanki, which he was instrumental in establishing, (see chapter 6). He was also a member of the People's Alliance (PA), which claims to be the workers party. This wage restraint policy of ASÍ created some problems for the PA in the elections 1987 as was pointed out by Harðarson and Kristinsson:

The People's Alliance campaign had less vitality than on many previous occasions. Attempts to use the unfavourable direction of incomes for many groups of wage earners as a point of criticism created some moments of embarrassment for the party, a member of which is the President of the Federation of Labour, who had been instrumental in agreeing wage restraint deals with the government and maintaining peaceful industrial relations (1988:226).

This policy reached its zenith with a nation-wide wage/price agreement that was struck between labour, business and government in February 1990. The main aims were to

lower inflation and interest rates, stop wages from falling, improve the situation of the lowest paid, achieve stability in the economy, and strengthen employment. (Skýrsla forseta ASÍ, 1990:59). In 1998, it is clear that this policy has not worked in favour for many groups of wage earners in Iceland, as wage differentials are now wider, working hours are long, unemployment rose considerably during part of the 1990's, benefits and welfare are being cut and the taxation system is no more redistributive than before. A large bulk of wage earners today are worse off, have more household-debts and less job security today, than in the beginning of the 1980s, whilst their pension funds have been steadily growing since the early 1980's. The conclusion must be that the labour movement has, paradoxically, contributed to low wage policies and unemployment while looking after the interests of the pension fund industry. Put another way, whilst the pension funds rate of return rapidly improves, the economy is becoming concentrated and centralised, unemployment looms and the real standard of living collapses.

In short, the conclusion of this study is that through controlling and investing the private pension funds collectively, close links have developed between the labour movement and the 'ruling élite' that have created a vast and complicated network of personal, financial and interlocking directorships. This has led to concentration and centralisation in the financial sector and in the corporate community. In the process, economic and political power has been transferred to VSÍ and ASÍ, and they have been dominating the economic administration of Iceland over the last decade, whilst direct political parties' influence has declined. The main leaders of ASÍ have become strongly connected to influential members of the IP through this co-operation in the financial sector. At the same time, ASÍ wage restraint policy, along with general failure to serve its members, has undermined the power of the left wing political parties. That is to say, people connect the left wing parties and the labour movement. Because a closed shop arrangement prevails in all industrial sectors, people can not vote with their feet and leave their trade union. Consequently, when the labour

movement does not deliver the 'goods' to their members, the left wing parties suffer in elections. Therefore, paradoxically, the labour movement has increased the political and economic strength of the 'ruling élite' but diminished its own power to work for its members. Moreover, the fundamental characteristics of the Icelandic élitist power system have remained intact. A new exclusive power élite has been created, which has its roots in the 'new' capital business class with the cultural and electoral support of the middle class and workers. This 'new ruling élite' is extremely powerful because of the forces on which it can rely: the co-operation of the labour movement and their joint control in the financial sector. So new power relations have emerged which have united two essentially divided groups through their 'shared interests' in controlling the private pension fund industry and a new network of financial power has been created in Iceland. As a result, the labour movement no longer wholly represents the people they were elected to represent; rather they have become a 'tool' for the 'ruling élite' to keep social order. This is the main paradox of the labour movement; it has become weak for its members and strong for the 'ruling élite'. Finally, since the first establishment of financial institutions late last century until the late 1960s, a ruling élite controlled the banks, and the economic sector served the political one. Power was acquired through political and administrative institutions and the political leaders in Iceland dominated the economic establishment, not vice versa. Although the economic institutions constituted a part of the élite's bases, they were not of the greatest significance when it came to the exercise of political power (Grímsson, 1976). As this study shows, the financial institutions are still controlled by a ruling élite in 1998, however, it is now the political sector that serves the economic one. With diminishing direct power of the political parties, political leaders have become lieutenants of economic entrepreneurs. In this sense, the structure of the system has changed and it is VSÍ and ASÍ that initiate fundamental economic changes not the political leaders.

### **Some concluding remarks: Actor Network Theory (ANT) and the paradox**

It was the intention of the author to use Actor Network Theory to analyse the main elements of this study to see if it could offer further insight into our understanding of the labour movement's paradox. Time, however, will not allow me that. I became interested in ANT relatively early in my studies and felt it had something to offer. The main reason was that it helped me to think differently about my research topic and I felt I had gained more understanding of the subject. Firstly, it was the notion of translation, which according to ANT is the method by which an actor enrolls others as allies in the building of a network. This helped me to understand, for example, why the closed shop arrangement is not an issue in Iceland and I try to explain this with a simple example below. Secondly, it is the concepts of simplification and punctualisation. ANT points out that networks are not always visible - we are not aware all the time of the network that lies behind and makes up an actor or organisation. When that happens, the network has been 'punctualised'. If a network acts as a single unit, then it disappears, to be replaced by the action itself and the 'simple' actor of that action. In addition, since punctualisation is an effect, the way in which the effect is generated is also effaced; it is neither visible nor relevant. For example, a well-managed bank or company, a trade union that has been 'simplified' to a function of collective bargaining or pension fund that pays your salary when you retire - comes, for a time, to mask the networks that produce it. In other words, entities are "black-boxed" reducing an infinitely complex world to a manageable one. Each simplified entity in the actor-world is another network; each black-box is a network in its own right. However, the simplifications are only maintained as long as other entities do not reject the reality that they represent as a simplification, that is, as long as the black box is unopened. This is a crucial concept in ANT. The opening of black boxes is the way in. This is what I feel I have done in this study, that I have opened up a black-box which contained another black-box and so forth to discover the vast and complicated network that is behind ASÍ, VSÍ, Íslandsbanki, SAL and the pension fund industry and the corporate community. This network was not visible before, it was masked in the

ANT term, and still is for most people in Iceland. Finally, ANT considers 'power' to be an effect not a cause. Power is composed here and now by enrolling many actors in a given political and social scheme, and is not something that can be stored up and given to the powerful by a pre-existing society.

According to ANT the process of network-building involves simplifying and juxtaposing a diversity of heterogeneous entities into a system of associations and the black-boxing of entities, as an infinitely complex world is transformed into a manageable, structured actor-network. A network is composed of a series of heterogeneous elements, human and non-human, that have been linked together for a period of time and actors and intermediaries are the two basic elements that build up a network according to ANT. Those who engage in a complex network-building process need to enrol others, which involves persuading others that they share a common interest or problem.

The Icelandic labour movement is without a doubt a macro-actor in Icelandic society today. In terms of membership the labour movement is very strong, with its membership among the highest in the western countries, but this arises from the closed shop arrangement that prevails throughout the public and private industrial relations sectors. Members can not choose which trade union they belong to, as the country has been divided into areas or territories each 'belonging' to certain unions, so it depends on what kind of a job and what area one works in. The closed shop arrangement was established in collective bargaining between an employer and a trade union (Dagsbrún) in Reykjavík, in the early years of the labour movement and was soon taken up in all other collective bargaining. The closed shop contract has become an actor that is able to associate human and non-human by enrolling them into trade unions, but it is also an intermediary (literary inscription in this case), which gives 'shape, existence and consistency to those social links'. The closed shop arrangement seems to be considered



as a 'natural phenomenon' in Iceland, at least it has caused very little debate. In that sense, we can say it has been put into a 'black box' in ANT terms and it has contributed to the labour movement's growth in two ways. Firstly, by 'enrolling' members, and secondly by providing the labour movement with considerable funding as each member has to pay 1-2 per cent of all their wages to a union. The labour movement thus 'enrols' and 'speaks for' the majority of the working population and their families in Iceland. It is involved in all major decisions regarding living conditions for the population, acts as an advisory body for the government and has, in recent years, become more and more involved in the economic administration of the country. Finally, it controls the pension funds, which are the largest funds in Iceland, jointly with employers. Furthermore, decision-making and the collective bargaining process is getting increasingly centralised, that is, the main Federation of Labour (ASÍ) is taking over that role from individual trade unions. ASÍ can thus be considered to be what ANT calls 'Translation centres':

Locations, at which translation strategies are evolved, attempts are made to control the diverse elements that make up the actor-network, and calculations about the return from different strategies are made. Locations which are able to turn themselves into spokesmen for other entities and, in some sense, profit from this asymmetry (Callon, Law and Rip eds. 1986:xvii)

The translator (ASÍ) is the spokesperson of the entities he constitutes, in this case, the workers. Translation is the methods by which an actor/translator enrols others. These methods involve, for example, the definition and distribution of roles. Thus ASÍ attributes to its members an identity, interests, a role to play and a course of action to follow, through the closed shop arrangement. Then there are strategies by which an actor-world, in this case ASÍ and its unions, renders itself indispensable to others by creating a geography of obligatory passage points to be able to have a work, to get unemployment benefits, to belong to a pension fund and until recently to get a mortgage one has to be a member of a trade union, which then become obligatory passage points. This can also be seen as instances of social control.

ASÍ can be seen as an obligatory passageway as it places itself at a strategic point through which the unions must pass with all their collective agreements. “The translation thus maps out geography of necessary points of passage for those elements who wish to continue to exist and develop” (Callon, 1986:27).

The membership of the private pension funds in Iceland are also compulsory for trade union members, hence the funds become obligatory passage points. Membership in a union generally gives compulsory membership in one particular pension fund and all premiums must automatically be paid into it. Thus, neither the employer nor employee is free to select their preferred pension fund to manage their pension scheme nor is it generally possible for an individual to select the best managed and efficient scheme. This is due to an agreement between the trade unions and employers’. This can be considered as a part of translation process or strategy, where ASÍ and VSÍ act as ‘spokesman’ and define or translate people’s interests. Finally, in the last two decade the labour movement has been growing steadily in size through the linkages that it has established with other actor-networks in the society, like the Employers Federation (VSÍ) and the pension funds. That can be seen as a process of growing from micro to macro. ASÍ, VSÍ, the pension fund industry and Íslandsbanki have been simplified and punctualised and mask the vast network behind them and a new actor-world has been constructed.

### **Suggestions for further research**

This study has illustrated that Iceland has a ruling élite which is very strong and influential. It is suggested here that a more extensive mapping and analysis of the élite connections needs to be done in the Icelandic context, in order to get a better picture of how influential the élite really is. Three types of connections are considered sufficiently important to warrant further analysis:

a) Connections to government to explore the ruling élite influence on government policy-making.

b) Connections and influence in the educational system

c) Connections and influence in the multi media.

Finally, the level of oligopoly / monopoly are important in the context of micro-states as they are likely to be high and diminish GDP in the long run, therefore, more extensive mapping and analysis of corporate connection, including investment abroad, are important.

In view of the findings of this study, it is suggested that pension funds, where they exist, are very important for the economy of each country. The investment of pension funds can affect economic concentration, not only in Iceland but also elsewhere in the world. Hence, it important to explore the possible implications of pension funds investment policies, particularly to assess the social consequences of the investment policy and to explore how it can affect global concentration and centralisation.

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**THE LABOUR MOVEMENT PARADOX**

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