SOCIAL NETWORKS IN THE BOARDROOM

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Abstract
This paper provides evidence consistent with the facts that (1) social networks strongly affect board composition and (2) social networks are detrimental to corporate governance. Our empirical investigation relies on a large dataset on executives and outside directors of French public firms. This data source is a matched employer-employee dataset providing both detailed information on directors/CEOs, and information on the firm employing them. We first find a very strong and robust correlation between the CEO’s network and that of his directors. Networks of former high ranking civil servants are the most active in shaping board composition. Our identification strategy takes into account (1) firm and directors’ fixed effects and (2) matching of firms and director along one observable and one unobservable characteristic. We then turn to direct effects of such network activity. We find that firms where these networks are most active pay their CEOs more; are less likely to change CEO when they underperform; and engage in less value-creating acquisitions. This suggests that social networks are active in the boardroom, and have detrimental effects on firms’ governance.

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