

MAKING GOOD CORPORATE BOARD APPOINTMENTS: Evidence from Italy of the productivity advantages for firms in bigger and better-connected cities

In large cities, good firms are more likely to hire good directors. New research by **Audinga Baltrunaite** and **Egle Karmaziene** analyses how expanding the local pool of potential directors affects board appointments in private firms in Italy.

Their study, to be presented at the annual congress of the European Economic Association in Manchester in August 2019, find that a high-speed train service triggers more board renewals, leading to better matches between firms and directors. Most importantly, better firms with access to high-speed train service become more productive.

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Transport infrastructure investments are widely debated in public. Critics claim that environmental and financial costs are excessive. In contrast, supporters envisage numerous economic benefits from improved transport networks, such as a smoother circulation of goods or tourism flows.

This study highlights an additional economic benefit of infrastructure investments by showing how the high-speed train connects fractionalised, and hence thin, labour markets of corporate directors.

The study is among the first to analyse board appointments in private firms, while the bulk of the existing research concerns publicly held firms. It builds on a rich novel database on the universe of Italian companies and their directors.

The analysis uses the information on more than 74,000 firms and more than 200,000 unique directors over the 2006-2016 period. Backed by the idea of the efficiency of positive 'assortative matching', the authors define a good match when top directors manage top firms (and vice versa).

They find that access to a greater talent pool leads to more board renewals, possibly due to a more active labour market for corporate directors. Although there are no changes in the average directors' ability, the distance between director and firm quality diminishes, suggesting a more efficient talent allocation.

Most importantly, better firms with access to high-speed train services appear to improve their productivity, which illustrates one of the potential economic benefits of infrastructure investments.

Not all firms benefit equally from the introduction of the high-speed train service. Family firms remain rather immune to a more open talent pool – their board appointments change little, and so does their productivity. Interestingly, it is the most productive firms that improve their efficiency due to better director-firm matches.

This study shows that director allocation improves when firms choose them from a larger pool of talents. The study uses a train line opening as a shock to evaluate the link between this pool and match quality, highlighting one additional economic benefit of public investments in transport.

In addition, there may be other ways (for example, promoting the use communication technologies in organising board meetings) in which policy-makers could help firms reach more talents by acting on director search and hiring costs. These results suggest that such policies would benefit not only private firms, but also the overall efficiency of the productive system.

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