The Impact of the External Networks of Directors on Firms

This project investigates the external social networks of directors and their real impact on firms. Using a social-network based measure of director connections with important outside economic agents such as suppliers, bankers, and powerful politicians in a sample of U.S. firms from 1999 to 2011, we study whether and how these network connections impact firm value, performance, and major corporate financing and investment decisions. We also analyse the extent to which network characteristics such as size, closeness, activeness and homophily determine network value. Finally, we propose a robust identification to the endogenous relationship between director network connections and firm value.

Key Research Findings to date

Surrounding close gubernatorial elections, local firms with directors connected to winners increase value by 4.1% over firms connected to losers. Director network’s value increases with network strength and activities, and is not due to network homophily. Connected firms are more likely to receive state subsidies, loans, and tax credits. They obtain better access to bank loans, borrow more, pay lower interest, invest and employ more, and enjoy better long-term performance.

Comments and Additional Information

Our first our working paper from this project is submitted to a journal.

Bang Nguyen - Links to the research project

- links to your research outputs

The Working Paper’s Web Page: Available at SSRN:
https://ssrn.com/abstract=2753836

- seminars, conference presentations, press releases and other academic activities

Asian Finance Association (AsianFA) 2017 Conference