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Abstract

- We examine the effect of social networks of bank directors on board gender diversity and compensation.
- We find that within-board networks are extensive, but there are significant differences in the size and gender composition of male vs. female networks. We also find that social networks play an important role in determining the compensation and gender composition of bank boards.
- Our findings suggest that female networks play a role in recruitment while stronger male networks correspond to more lucrative appointments.

Introduction

- Women are notably underrepresented at financial firms (Liao et al., 2019), suggesting that their social networks differ from those of male board members.
- We explore the causes and consequences of the underrepresentation of women in financial firms using a unique dataset from Boardex on the professional and social connections of individual directors over the 1999-2018 period.
- We provide three important findings: 1) female directors are less connected to other board members in both number and intensity of connections, 2) boards with stronger female-female networks have a higher percentage of women, and 3) those connected to male directors enjoy higher compensation.

Methods

- We define two directors as connected if they were at the same institution at the same time prior to being on the same bank board. Our connection indices at the director and bank level measure the breadth and duration of connections.
- Panel A:** $Connection\ Index_i = \beta_1 Female\ Dummy_i * Female\ Conn.\ Dummy_i + \beta_2 Female\ Dummy_i + \beta_3 Female\ Conn.\ Dummy_i + \beta_4 X_i + \lambda_t + \alpha_b$
- Panel B:** $Percent\ Female\ (Male)_{b,t} = \beta_1 Female-Female\ (Male-Male)\ Conn.\ Index_{b,t-1} + \beta_2 Z_{b,t-1} + \lambda_t + \alpha_b$
- Panel C:** $Ln(Compensation)_i = \beta_1 Male\ Conn.\ Dummy_i + \beta_2 Female\ Conn.\ Dummy_i + \beta_3 X_i + \lambda_t + \alpha_b$
- We control for experience, board characteristics, and bank balance sheet traits.

Results

- Director Connections:**
 - Newly appointed female directors are less connected to other directors, to the CEO, and to the senior executives than newly appointed male directors.
 - Although women have fewer connections overall, they are more connected to other women.
- Bank Connections:**
 - Stronger female networks are associated with more women on the board. A one standard deviation increase in female-female connectedness is associated with a 4.2 percentage point increase in the share of women on the board in the following quarter.
 - Male networks have no consistent effect on the share of men on the board.
- Compensation:**
 - Being connected to another male director at the time of appointment is associated with higher compensation.
 - There is no similar effect for connections to a female director.

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	(1)	(2)	(3)	(4)
<i>Panel A: Director Connections</i>				
Dependent Variable:	Director Connections		Executive Connections	
Fem. Dummy * Fem. Conn. Dummy	0.131*** (0.0173)	0.118*** (0.0188)	0.0471** (0.0199)	0.0603*** (0.0220)
Female Dummy	-0.0534*** (0.00993)	-0.0565*** (0.0122)	-0.0305** (0.0154)	-0.0336** (0.0166)
Female Connection Dummy	-0.226*** (0.0136)	-0.164*** (0.0150)	-0.589*** (0.0153)	-0.583*** (0.0181)
Year & Bank FE	X	X	X	X
Director Controls		X		X
Observations	12,758	9,262	12,046	9,160
R-squared	0.468	0.495	0.564	0.582

	<i>Panel B: Bank Connections</i>			
Dependent Variable:	Percent Male		Percent Female	
MM Connection Index _{t-1}	-0.0235** (0.0111)	-0.0128 (0.0117)		
FF Connection Index _{t-1}			0.125*** (0.0106)	0.155*** (0.0104)
Year & Bank FE	X	X	X	X
Bank Controls		X		X
Observations	18,887	14,963	18,887	14,963
R-squared	0.626	0.668	0.660	0.721

	<i>Panel C: Compensation</i>			
Dependent Variable:	Ln(Salary)		Ln(Total Compensation)	
Male Connection Dummy	0.163** (0.0669)	0.162** (0.0681)	0.167** (0.0682)	0.167** (0.0694)
Female Connection Dummy	0.0941 (0.115)	0.0949 (0.116)	0.0962 (0.115)	0.0975 (0.116)
Female Dummy	-0.146** (0.0704)	-0.111 (0.0700)	-0.150** (0.0715)	-0.116 (0.0713)
Return on Assets		-0.00320 (0.00285)		-0.00318 (0.00283)
Year & Bank FE	X	X	X	X
Director Controls		X		X
Observations	887	875	887	875
R-squared	0.557	0.571	0.547	0.560

Discussion and Conclusion

- Social connections on bank boards are extensive.** The average director is connected to 52 percent of other directors on the board.
- Male and female board members have social networks that differ in terms of extent and intensity.** Men have stronger and deeper social connections to other board members.
- Social connections matter in determining the composition of the board.** Boards that have stronger female networks have a higher percentage of board members who are female.
- Social connections also matter in determining compensation.** Stronger connections to men on the board are associated with higher compensation. There is no evidence that connections to women on the board have the same effect.
- Our results are relevant for gender diversity initiatives.** They suggest that female networks are an important means by which banks increase board gender diversity.

References

- Liao, R. C., Loureiro, G., & Taboada, A. G. (2019). Women on Bank Boards: Evidence from Gender Quotas around the World, mimeo