Gender and Professional Networks on Bank Boards

Ann L. Owen
Hamilton College

Judit Temesvary
Federal Reserve Board

Andrew Wei
Federal Reserve Board

May 19, 2022

The views expressed in this presentation are those of the authors and do not necessarily reflect the views of the Board of Governors of the Federal Reserve System.

Motivation

- Women are notably underrepresented at financial firms (Liao et al., 2019), partly due to a lack of professional connections (Fernandez-Mateo and Fernandez, 2016).
- A few studies look at whether the extent and type of professional connections differ between men and women; General focus on CEO connections (Kramarz and Thesmar, 2013; Fracassi and Tate, 2012; Hwang and Kim, 2009)
- We study:
  - How do board connections influence the appointment of directors?
  - How does the gender of connections contribute to the gender pay gap that the literature has shown to exist (Bertrand et al., 2010; Hospido et al., 2019)?

What we do and our results

- We compile a unique dataset from Boardex (including new biographical data and social connections matrix) and Call Reports.
- We show ways in which male and female networks *among bank board directors* differ:
  - *Within-board professional networks are extensive, but female board members are less connected, in both the number and length of connections*
- With matching estimations, we *focus on appointed directors*, and show:
  - *Professional networks play an important role in determining appointments*
  - *Effect is larger for men than for women*
- We also study compensation, and find:
  - *Connections appear to enable women (but not men) to find lucrative positions*

Our data

- We construct a database on the professional and social connections, covering:
  - 11,097 individual directors
  - 717 public and private U.S. banks
  - Over the 1999-2018 period

- We collect data from Boardex and Call reports on a range of director and bank traits:
  - Director age, education, experience, employment, and compensation
  - Proportion of the board composed of women
  - Total assets

Measuring connectedness

- We focus on connections via employment, education, and social activities

- For a given appointed director, we calculate the % of all directors, male directors, and female directors the appointed director is connected to on the board
  - We also construct "weighted connections"

Figure 1: Connection Types by Connection Gender.

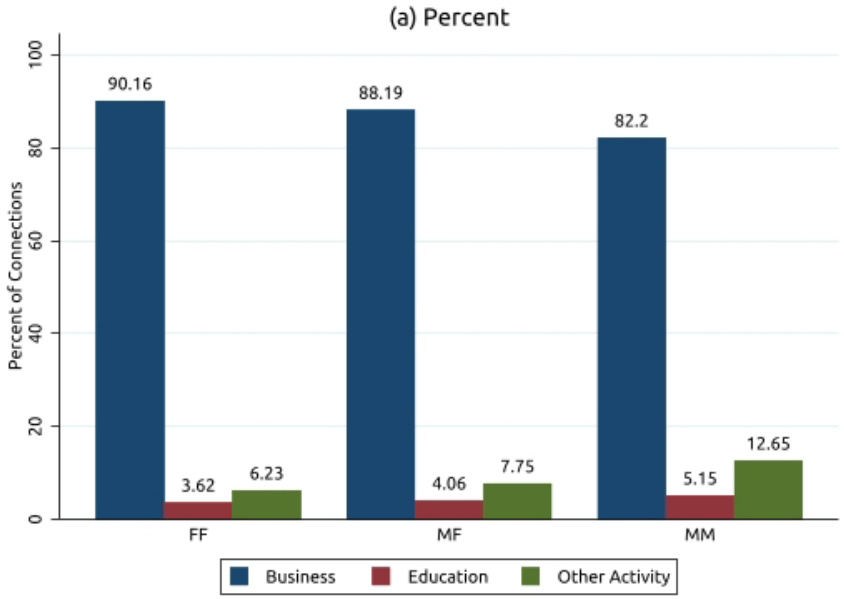
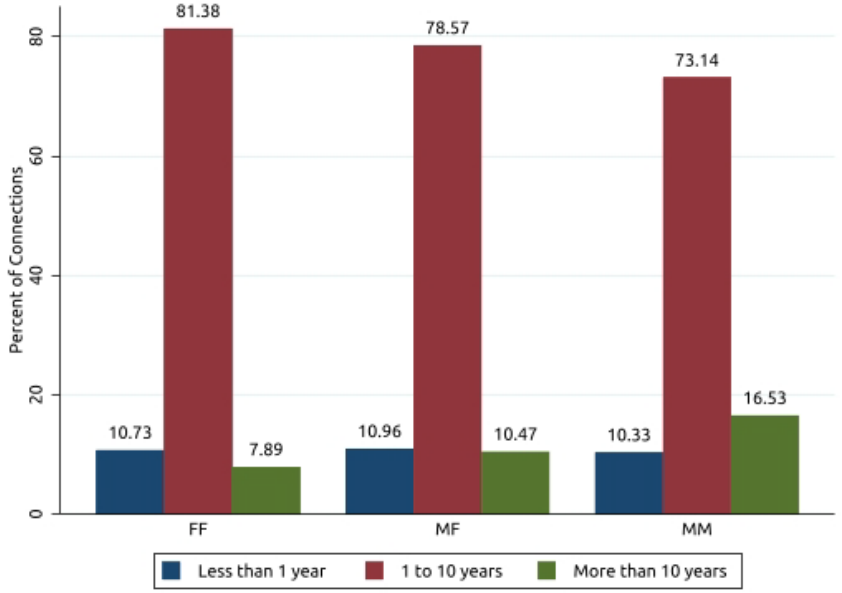


Figure 2: Connection Lengths by Connection Gender.



Estimation methods

- Director matching estimation
  - We match a director appointed to a bank *b* with another director appointed to a bank different than *b*
  - We match directors of the same gender that are appointed in the same quarter, and ensure they are similar in age, education, experience, and employment
  - We compare connections to *b* between a director appointed to *b* and a director not appointed to *b*

- Bank matching estimation
  - We match a board that appointed a director *i* with a board that did not appoint a director *i*
  - We match boards that appointed a director of the same gender in the same quarter. We ensure that matched banks/boards are similar in average director characteristics, share of women, and bank size
  - We compare connections to *i* between a bank that appointed *i* and a bank that did not appoint *i*

Results

- Director matching estimation:
  - Directors are significantly more connected to the board to which they were appointed
  - Connections "matter" less for women; both female and male connections "count"

	N	Women (W)	Men (M)	Difference (W – M)	Bias-adjusted difference
Δ %Board Connected	5,290	0.0833***	0.145***	-0.0614***	-0.0613***
		(0.00238)	(0.00379)	(0.0111)	(0.0111)
Δ Connection-years/Director	5,393	0.172***	0.341***	-0.169***	-0.169***
		(0.00578)	(0.0112)	(0.0376)	(0.0376)

- Bank matching estimation
  - We get similar results when via bank/board matching, suggesting that the results are not driven by differences in board characteristics

	N	Women (W)	Men (M)	Difference (W – M)	Bias-adjusted difference
Panel A: Nearest Neighbor Match					
Δ %Board Connected	891	0.0796***	0.152***	-0.0725***	-0.0731***
		(0.00671)	(0.00928)	(0.0214)	(0.0214)
Δ Connection-years/Director	891	0.204***	0.415***	-0.211***	-0.212***
		(0.0182)	(0.0324)	(0.0623)	(0.0624)

Compensation matching and results

- Compensation matching
  - We match connected and unconnected directors and compare their compensation
- Results
  - We find that connected women (but not men) tend to earn a higher compensation at appointment

	N	Women (W)	Men (M)	Difference (W – M)	Bias-adjusted difference
Panel A: Match Connected Directors to Unconnected Directors					
Δ Total Compensation / Avg. Tot. Comp.	276	0.344***	0.811	-0.467	-0.465
		(0.0375)	(0.820)	(0.839)	(0.840)
Panel B: Match Female-Connected Directors to Unconnected Directors					
Δ Total Compensation / Avg. Tot. Comp.	74	0.503***	0.466	0.0366	0.626
		(0.0741)	(0.533)	(0.739)	(0.743)
Panel C: Match Male-Connected Directors to Unconnected Directors					
Δ Total Compensation / Avg. Tot. Comp.	199	0.291***	0.990	-0.699	-0.682
		(0.0451)	(1.121)	(1.146)	(1.149)
Panel D: Match Female-Connected Directors to Male-Connected Directors					
Δ Total Compensation / Avg. Tot. Comp.	69	0.430***	0.125	0.305	0.379
		(0.0522)	(0.346)	(0.501)	(0.515)

Conclusions

- Professional networks of female board members are smaller and less intense but are valuable in earning appointments and higher compensation

- Connections to the specific bank board play a causal role in leading to an appointment

- Director recruitment strategies that rely on networks may play a role in maintaining the underrepresentation of women on bank boards

Thank you!

References

Bertrand, M., C. Goldin and L. Katz (2010). "Dynamics of the gender gap for young professional in the financial and corporate sectors," *American Economic Journal: Applied Economics* 2, 228-255.

Fernandez-Mateo, Isabel and Roberto M. Fernandez (2016). "Bending the Pipeline? Executive Search and Gender Inequality in Hiring for Top Management Jobs," *Management Science* 62(12).

Fracassi, C. and G. Tate (2012). "External networking and internal firm governance," *The Journal of Finance* 67(1), 153-194.

Hospido, L., L. Laeven, L., and A. Lamo (2019). "The gender promotion gap: Evidence from central banking," *Review of Economics and Statistics,* 1-45.

Hwang, B. H. and S. Kim (2009). "It pays to have friends," *Journal of Financial Economics* 93(1), 138-158.

Kramarz, F. and D. Thesmar (2013). "Social networks in the boardroom," *Journal of the European Economic Association* 11(4), 780-807.

Liao, R. C., G. Loureiro, and A.G. Taboada (2019). "Women on Bank Boards: Evidence from Gender Quotas around the World," *SSRN Working Paper* 3346672.