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The Old Boy Network: The Impact of Professional Networks on Remuneration in Top Executive Jobs

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Summary of presentation:

- The big question: are networks of prior contacts causally important in explaining professional advancement in modern societies?
- If yes, does differential access to networks explain differences in professional advancement of women (and other minorities)?
- The empirical difficulty: correlation between networks and advancement is strong but may be due to unobserved characteristics (eg talent)
- Our contribution: analysis of > 20,000 US and EU executives from > 5,000 firms (>90% of S&P 500, Nasdaq 100 and European indices), with an identification strategy: the use of placebo networks
- Our answers to the questions: 1) Yes, very important, and 2) Yes, partly

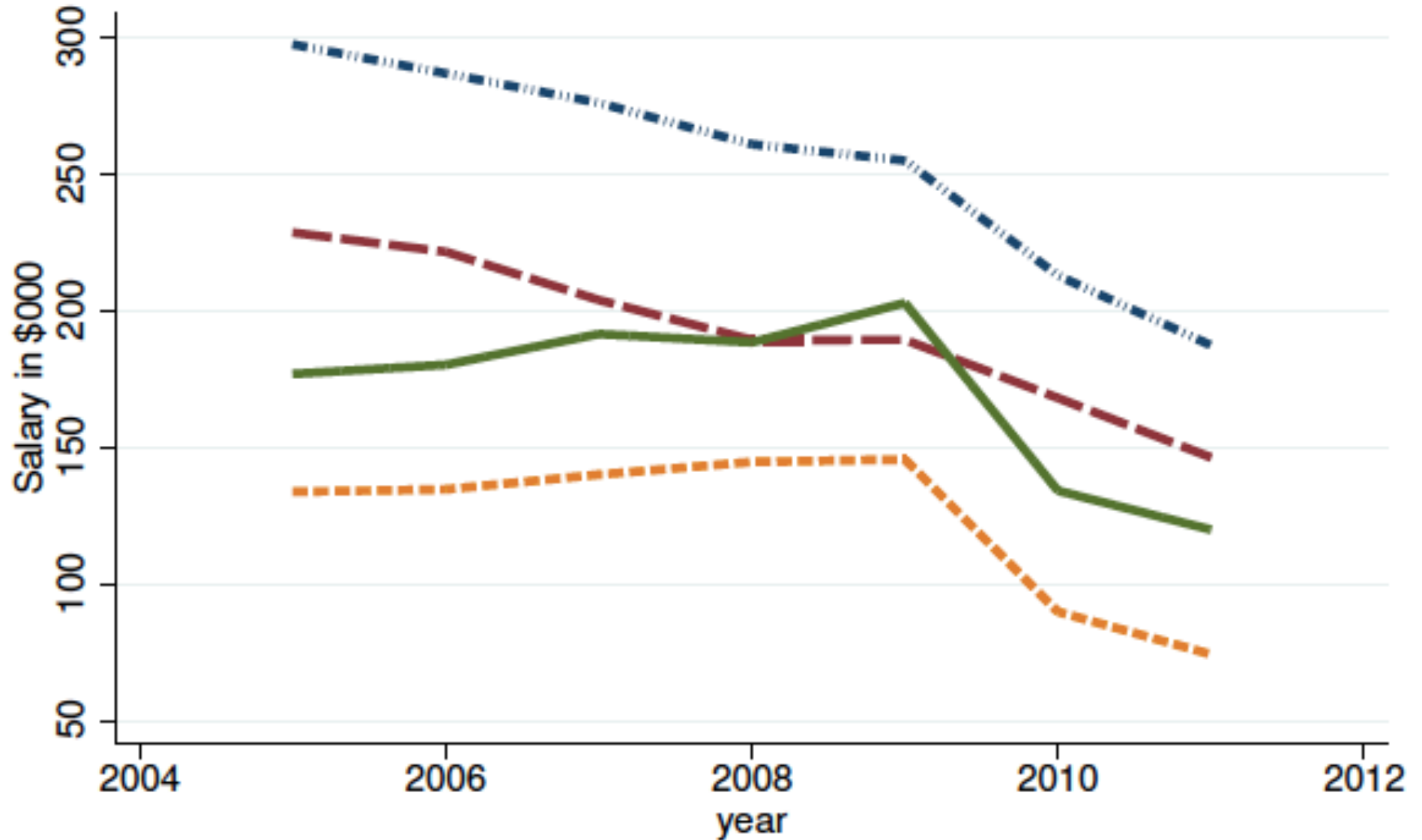
Other related research

- This is part of a program of work on gender and network differences with Nicoletta Berardi, Guido Friebel, Marie Lalanne, Bernard Richter and Peter Schwardmann
 - A experimental study of network *formation*: making links in the lab and the world (Friebel et al 2016)
 - A field study of network *maintenance*: phone communication strategies (Friebel and Seabright 2011)
 - Studies of network *use*: professional networks and executive pay (Lalanne & Seabright, 2015; Berardi & Seabright, 2012)
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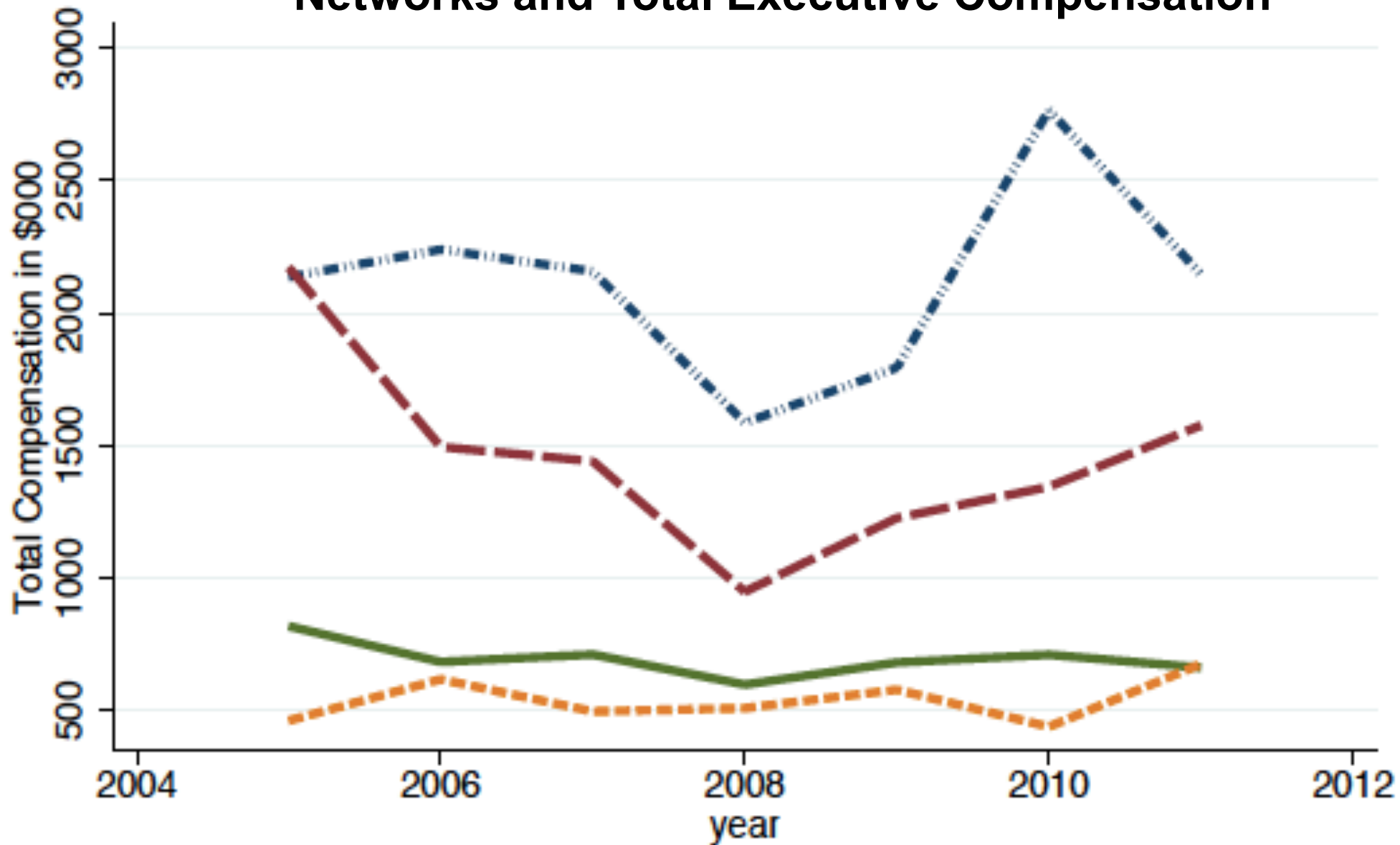
Data description and methodology:

- Our dataset: over 22,000 top executives and board members working for over 5000 US, UK, French and German companies from 1999 to 2011, inc. >90% of main indices; whole BoardEx dataset: roughly 380 000 individuals:
- Demography, education, employment history
- Social network information from: universities, non for profit organizations and previous companies. We use previous employment links to current members of whole Boardex dataset
- Links should be interpreted as opportunities for interactions; we do not observe actual investment in social interactions.

Networks and Executive Salary



Networks and Total Executive Compensation



How do we know networks are the cause?

- We use a placebo method (by analogy with clinical trials)
 - Maybe successful executives are also ones who are hired by firms that give them large networks
 - So we construct for each person their placebo connections – those who worked at the same firm at a different time
 - Real connections have a much bigger impact on salary than do placebo connections – placebo connections have negative sign!
 - So the impact of unobserved characteristics is the opposite of what we expected...
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Table 6: Determinants of salary in 2008 for executives in 2004

	I	II	III
Ln connections (2004)	0.123*** (0.00958)		0.198*** (0.0142)
Ln placebo connections (2004)		0.0253*** (0.00549)	-0.0578*** (0.00806)
Female	-0.424*** (0.0383)	-0.407*** (0.0385)	-0.419*** (0.0382)
Constant	32.64*** (3.299)	34.79*** (3.318)	32.70*** (3.291)
Controls	Yes	Yes	Yes
Observations	10737	10737	10737

OLS estimation, standard errors in parentheses

Controls include time in role, time in role squared, age, age squared, degree level, degree field

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 7: Pooled regressions of salary for executives

	I	II
Ln lagged connections	0.201*** (0.00956)	0.171*** (0.0102)
Ln lagged weighted connections		
Ln lagged placebo connections	-0.0441*** (0.00535)	-0.0348*** (0.00547)
Female	-0.362*** (0.0275)	-0.376*** (0.0272)
Constant	78.78*** (5.656)	70.71*** (5.777)
Controls	Yes	Yes
Country and sectoral dummies	No	Yes

Table 8: Pooled regressions of non salary remuneration for executives

	Total compensation	Total compensation	Total wealth	Total wealth
Ln lagged connections	0.510*** (0.0149)		0.708*** (0.0228)	
Ln lagged weighted connections		0.416*** (0.0103)		0.613*** (0.0157)
Ln lagged placebo connections	-0.104*** (0.00856)	0.0196** (0.00605)	-0.241*** (0.0130)	-0.0769*** (0.00910)
Female	-0.470*** (0.0407)	-0.488*** (0.0404)	-0.630*** (0.0578)	-0.662*** (0.0570)
Constant	170.5*** (8.397)	147.3*** (8.363)	264.2*** (12.06)	231.5*** (12.02)
Controls	Yes	Yes	Yes	Yes
p-value for equality of coefficients	0.000	0.000	0.000	0.000
Observations	66991	66991	64093	64093

How important economically are these effects?



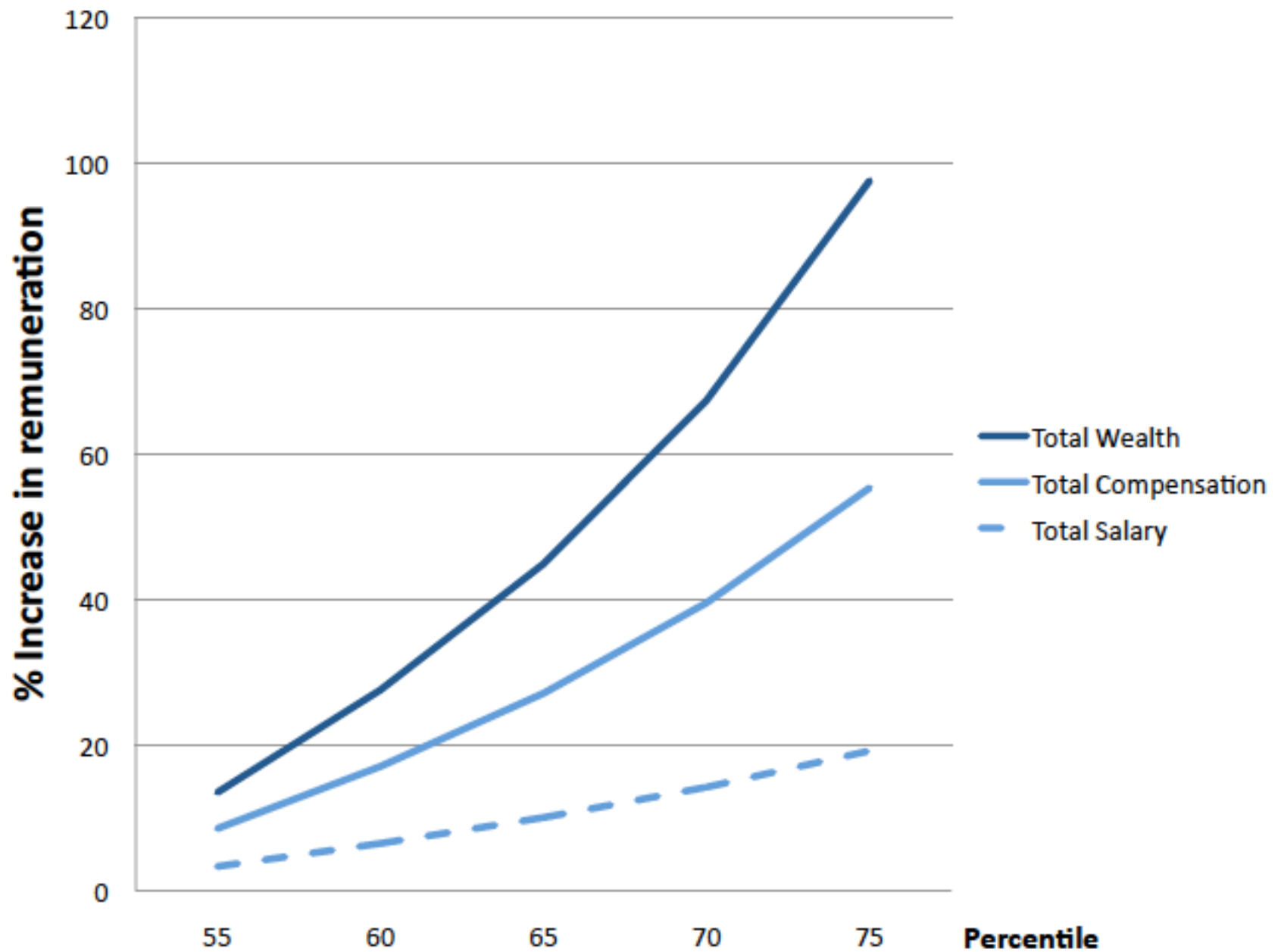


Figure 3: Percentage increase in remuneration implied by percentile increases in connections above the median

What about women's networks?

- At first sight women's networks appear to be only about half as effective as men's in promoting professional advancement
 - But the story is more subtle than that – the selection effect (as evidenced by placebo networks) operates differently for women and for men.
 - The firms that reward and advance talented women are less likely than for men to be firms that give them access to a network of influential contacts
 - Why?
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Table 10: Pooled regressions of salary for executives

	I	II	III
Ln lagged connections	0.152*** (0.00687)	0.208*** (0.00966)	0.203*** (0.00984)
Female*Ln lagged connections	-0.0968*** (0.0253)	-0.0950*** (0.0253)	-0.0284 (0.0391)
Ln lagged weighted connections			
Female*Ln lagged weighted connections			
Ln lagged placebo connections		-0.0439*** (0.00534)	-0.0407*** (0.00550)
Female*Ln lagged placebo connections			-0.0492* (0.0224)

What are the mechanisms?

- The main mechanism is that networks help women to be employed by the kind of firm that pays better
 - It also helps women to have more women in their networks
 - Is it having more women in your network or working for a Female-Friendly Firm (FFF) that matters?
 - Paradox: Working for FFFs helps women – but also helps men!
 - And women's networks don't help them be employed by FFFs
 - A possible explanation: FFFs are just “well-managed firms”
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Conclusions

- The use of the placebo method suggests networks of past colleagues are highly influential in explaining professional advancement for top US and EU executives
 - The selection effects on unobservables are negative: more talented individuals are, on average, being recruited early in their career by firms that give them less access to influential networks
 - The effects are economically large
 - The negative selection effects are stronger for women
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