Directors’ Interlocking Ties and Firm Performance: Network Prominence as a Cue for Boardroom Interactions

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All interested are welcome
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ABSTRACT

This study examines performance implications of corporate board by focusing on one question: How does the inequality of directors' prominence in the interlocking network affects firm performance? Directors are embedded in a network of elites created by interlocking ties, but vary considerably in positional prominence due to their differential degree of involvement with other elites in the network by holding a different number of board positions. Network prominence signals directors' resource access, influence and legitimacy. We suggest that directors on a corporate board constitute a group of individuals interacting to determine strategic issues and their prominence in the external network is likely to become a cue for interactions inside the boardroom. Directors with more similar network prominence are less likely to respect each other and are more likely to get caught up in contestation for ranks rather than focus on substantive issues in boardroom interactions, and vice versa. We derive a set of hypotheses from this proposition and test them with a panel of 530 manufacture firms over a span of 7 years. The analysis shows that inequality in directors' interlocking ties is positively related to firm performance. This positive relationship is stronger in a board composed of directors with medium than both low and high levels of interlocking ties, but is weaker when past firm performance is better, the board is bigger, and CEO has the highest network prominence in the boardroom.