

Informal networks and corporate board appointments

To what extent are new appointments to corporate boards made through the educational and social networks of current members and potential members? Edward Cowley, Helen Simpson and Edmund Wright are investigating school, college and club connections in the boardrooms of the UK's top companies.

In 2011, the independent review of Women on Boards led by Lord Davies recommended that FTSE 100 boards should aim for 25% female membership by 2015. In examining low levels of female representation, the Review found that 'the informal networks influential in board appointments, the lack of transparency around selection criteria and the way in which executive search firms operate, were together considered to make up a significant barrier to women reaching boards.'¹

Our research is examining these informal networks and the role played by social ties in board appointments and the careers of company executives. The early findings suggest that social connections – through membership of elite private members' clubs and golf clubs – may still play a role in boardroom appointments. This implies that reduced reliance on such networks will be necessary to increase board diversity.

The research makes use of a wealth of information on executives' educational and employment backgrounds, positions on boards of trustees and affiliations to private members' clubs and golf clubs. We investigate whether the likelihood of a senior

executive getting further corporate board appointments is related to their educational and social connections.

More precisely, we examine whether an individual is more likely to be appointed to a specific company board if he has a link with an existing board member – for example, through membership of the same golf club, such as Wentworth or Sunningdale, or the same private members' club such as White's or the Reform Club.

Membership of elite private clubs appears to play a role in boardroom appointments

Our study analyses data on around 1,700 UK listed companies, all of which made new appointments to their boards over the period from 1998 to 2008. We look at whom was chosen for each board position among a set of potential candidates comprising around 2,600 directors.

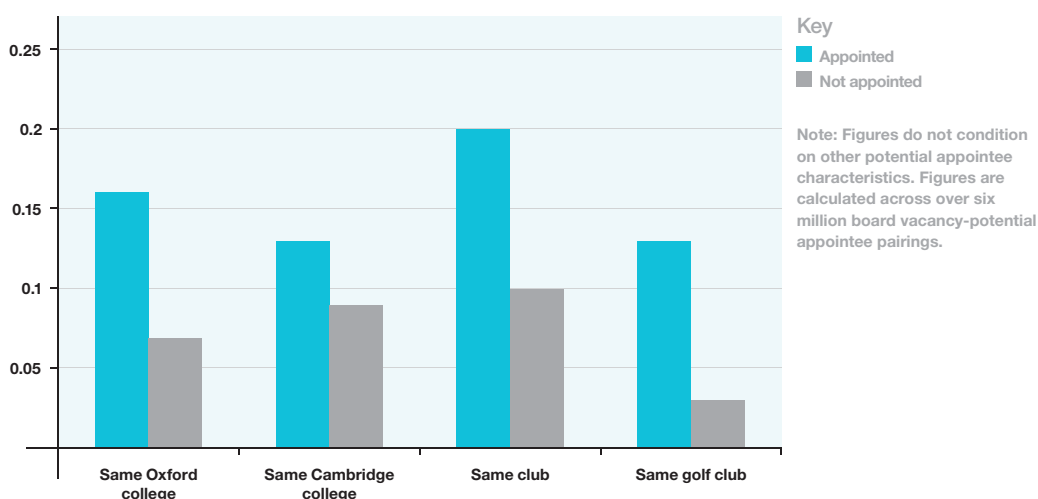
The choice of whom to appoint is taken to be related to the characteristics of each individual – such as their age, whether they were Oxbridge educated, whether or not they are members of private members' clubs and golf clubs, and the number of board positions they currently hold and have held in the past.

The main factors of interest in the appointments process are not just whether an individual is a member of a golf club or



1. <http://www.bis.gov.uk/assets/biscore/business-law/docs/w/11-745-women-on-boards.pdf>

Figure 1
Potential appointee connections with current board members:
Percentage with each characteristic



attended Oxford University, but whether any of the current board members also attended the *same* Oxford college (perhaps even at the same time) or are members of the *same* golf club – and whether these links are related to the probability that an individual is appointed.

But it is important to note that such measures can only be a proxy for a potential social connection: they do not tell us whether two people definitely know each other.

Figure 1 gives an indication of some of the results. For each pairing of a board vacancy and a potential appointee in the data, it shows the percentage of potential appointees who have a link to the current board, and splits them according to whether or not they subsequently joined the board.

Because the dataset is set up so that each individual director is considered as a potential appointee for each vacancy (resulting in over six million observations), the overall likelihood of a connection is very low (less than 1% of the sample). But what Figure 1 clearly reveals is that before taking account of individuals' other characteristics, those who are appointed to a board are much more likely to share an educational or social connection with current board members than those not appointed.

A key issue that our research must address is the true direction of the relationship between new board appointments and social connections between the new appointee and existing members. Gaining membership to some private members' clubs and golf clubs requires nomination by, and the approval of, existing members. It is therefore possible that individuals become members of particular golf clubs after joining a corporate board, via an introduction from an existing member.

To address this issue, we use data on individuals who were already members of specific clubs in 1997, and look at

new board appointments from 1998 onwards. We also use information on individuals' existing board positions in each year to construct measures of direct and indirect professional connections that they have with individuals on other boards.

For example, suppose Company A in Figure 2 is recruiting a new board member. Director 1 who sits on the board of Company A also sits on the board of Company B and through this knows Director 2. Director 1 also has an indirect professional link with Director 3, because Director 1 and Director 3 both know Director 2. Connections such as these may lead to recommendations of particular individuals for new positions and may therefore influence who is appointed.

Social networks formed through male-dominated clubs may remain a barrier to increasing female representation on boards

Our findings suggest that social connections through private members' clubs and golf clubs – as well as networks of contacts established through existing boardroom positions – may play a role in shaping who gains a seat on a board.

Characteristics such as having attended Cambridge University, being relatively young, having a larger network of professional connections and being more experienced in terms of the number of board positions held in the past (but currently holding a smaller number of positions on quoted company boards) are all positively associated with gaining a new board appointment.



Figure 2

Direct and indirect professional connections

Direct link between Directors 1 and 2

Company A
Director 1

Company B
Director 1
Director 2

Indirect link between Directors 1 and 3

Company A
Director 1

Company B
Director 1
Director 2

Company C
Director 2
Director 3

Being a member of a golf club also seems to be associated with a higher probability of gaining a board seat. But what appears to be more strongly related to the likelihood of being appointed is being a member of the same golf club as a director who already sits on the board.

Educational connections through an elite school or Oxbridge college play less of a role than social connections

Having taken account of directors' other characteristics, our research finds that educational connections with current board members – through attending an elite school, such as Eton, or being educated at the same Oxbridge college – appear to play less of a role than social connections. But clearly these connections may well have had a prior influence on social club memberships.

The final stages of the research will examine the split between executive and non-executive board appointments. We will also look at potential appointees' connections with the members of a board's nomination committee, which is tasked with identifying suitable candidates for board positions.

Our research uses data on individuals who had already gained their first boardroom position. Interestingly, for this group with existing board experience, women actually seem more likely to gain additional board positions than men. But if social connections are also important for gaining a *first* board appointment, then the findings imply that the role of

networks formed through male-dominated or exclusively male social clubs is likely to prove a barrier to increasing female representation on boards.

In relation to this, one recommendation from Lord Davies' review is that firms should make more information available about the appointments process and the work of the nomination committee. The aim would be to improve transparency in recruitment and subsequent board diversity.

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