Networks in Top Management: A Meta-Analysis on the Influence of Networks on CEO Compensation

Motivation

Which factors determine the level of CEO compensation? This question has been at the center of academic research for decades. While classical studies have primarily focused on firm size, performance, or corporate governance structures, CEOs' social networks have increasingly attracted attention. Through board interlocks, alumni networks, or political ties, CEOs can build access to information, reputation, and power resources that may be valuable for firms – yet these networks may also entail risks, such as weaker monitoring or rent-seeking behavior.

The existing research on this topic is fragmented. Studies in accounting, finance, and management have examined the influence of networks and ties on compensation levels. However, an integrated picture is still lacking. The central question of this thesis is therefore: Do CEOs' networks influence the level of their compensation?

Theoretical Background

From a social capital perspective, networks can be understood as resources that generate individual and organizational advantages. Through board interlocks or other executive connections, CEOs expand their social capital and gain access to information, legitimacy, and career opportunities. Firms may thus be willing to pay higher compensation to well-connected CEOs to internalize these benefits.

At the same time, studies point to potential downsides: extensive networks may lead to conflicts of interest, weaker board oversight, or the risk described by the "managerial power" perspective (Bebchuk & Fried 2003). CEOs may then use their networks to extract excessive pay, which aligns more closely with an agency-theoretical view. Taken together, the theoretical arguments suggest that networks may have both positive (value-enhancing) and negative (rent-seeking) effects on CEO compensation.

Aim and Method

This thesis aims to systematically review and quantitatively evaluate the current state of research. To achieve this, empirical studies that explore the relationship between networks and CEO compensation will be identified and coded. The gathered data will then be analyzed through a meta-analysis, which may be conducted either descriptively or using regression analysis.

References

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