Summary of Paper: Board Connections and Trade Credit

What is this study about?

This study examines whether firms with more board connections—directors who serve on multiple corporate boards—have better access to trade credit from suppliers. Trade credit is a critical and widely used source of short-term financing in the U.S., allowing firms to purchase goods and delay payment to manage cash flow. Using a large sample of 27,377 U.S. firm-year observations from 2000–2017, the study tests whether board networks improve firms' perceived creditworthiness by facilitating the flow of private information about reputation, liquidity, and reliability.

What are the major findings of the study?

The study finds a strong positive relationship between board connections and trade credit access. On average, one additional board connection is associated with a 1.31% increase in trade credit (measured as accounts payable relative to cost of goods sold). Firms with the highest level of board connectedness receive approximately 7.84% more trade credit than those with the lowest. The effect is strongest for firms with high liquidity needs, limited external information (low analyst coverage), and strong profitability. Results remain consistent across multiple robustness tests addressing firm characteristics and governance factors.

Why is the study important?

The findings highlight that governance structure directly affects financing outcomes—not just oversight. For accountants, auditors, and analysts, board composition can influence liquidity, supplier terms, and working capital management. This insight is valuable for evaluating financial health, credit risk, and operational flexibility.

What is the impact on professional practice and society at large?

Practically, firms can improve access to supplier financing by strategically building well-connected boards, especially when traditional financing is constrained. Suppliers may also incorporate governance signals into credit decisions to better manage risk. More broadly, the study shows that informal networks shape capital access and business resilience. However, practitioners should remain cautious, as board networks may also transmit poor governance practices if not properly monitored.