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Director Connectedness and Advising Quality: The Role of Inside and Outside Directors

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Abstract

We explore the effect of director connectedness on firms' investment and financing activities. Evidence suggests that well-connected directors are more effective advisors, with outside and inside directors often playing different roles. Outside directors have better information regarding external factors such as industry trends, which are important when evaluating investment decisions. During competition shocks, well-connected outside directors have greater influence on investment decisions than inside directors. Outside director connectedness also has a more pronounced effect on a firm's R&D outcome than inside director connectedness. Connected inside and outside directors have similar positive impacts on the market reaction to acquisition activity, indicating that all well-connected directors are associated with mergers that are perceived to be more valuable. However, well-connected inside directors play a larger role in lowering financing costs when information asymmetry is high.

Keywords: Centrality, Director Connectedness, Investment, R&D, Economic Policy Uncertainty, Cost of Debt, Seasoned Equity Offers**JEL Classification:** G30, J33, M52[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID3947423_code615765.pdf?abstractid=3270299&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3947423_code615765.pdf?abstractid=3270299&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID3947423_code615765.pdf?abstractid=3270299&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3947423_code615765.pdf?abstractid=3270299&mirid=1&type=2)

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