ECONOMIC FINDING

Do Employees Benefit from Worker Representation on Corporate Boards?

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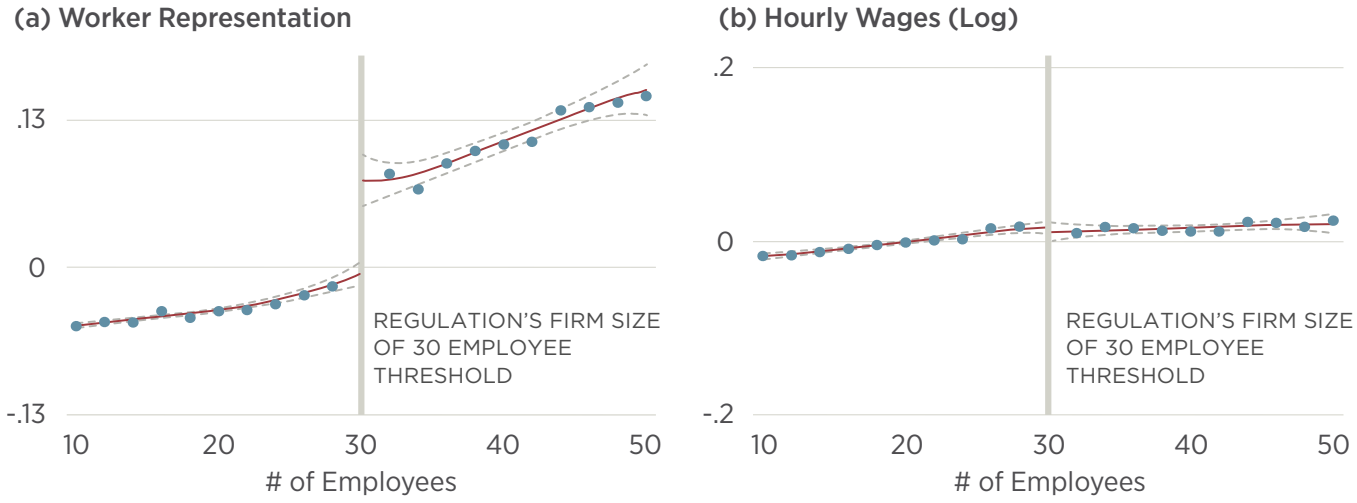
Workers may benefit from employment at firms with worker representation, but these benefits largely accrue due to firm size and unionization, suggesting that employees would not benefit from legislation mandating worker representation on corporate boards.

Many western economies have seen significant declines in the labor share of income, which has led to calls for worker representation on corporate boards to ensure the interests and views of workers. Recent polls suggest that a majority of American voters support this idea, and leading politicians in the US and the UK are advocating a system of shared governance. However, there is little scientific evidence on whether such shared governance systems have their intended effect.

To address this question, the authors constructed a unique matched panel dataset of all workers, firms, and corporate boards in Norway for the period 2004-2014, allowing the authors to measure the worker representation status of firms and to follow workers over time, even if workers switched firms. Importantly, these rich data combined with institutional features allowed the authors to use a variety of research designs, including

- comparison of different groups of workers before and after a switch between firms with different representation status,
- the ability to incorporate changes in worker compensation in response to idiosyncratic shocks to firm performance,

Figure 1 · Effects of the Regulation on Worker Representation and Hourly Wages



Notes: Panel (a) plots the mean residualized rates of worker representation, and Panel (b) plots the mean residualized log hourly wages for workers in each firm size bin. The dependent variables are residualized with respect to a full set of year, region, and industry fixed effects, and indicators for whether the firm is part of a corporate group and for whether the board represents the entire corporate group. Each graph sets the scale of the y-axis equal to ±0.5 standard deviation of the respective variable. The sample used is the RD sample as defined in Section 2, restricted to workers in firms with between 10 and 50 employees in year t − 1 which remained above or below the cut-off in years t − 1 and t − 2. Standard errors are based on bias-corrected local polynomials, and clustered at the firm-level. Obervation below is 1,415,948 and observation aboveis 496,681. RD Estimate for Panel (a) is .089 and for Panel (b) is -.009)..

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Table 1 · Controlling for Firm Characteristics Correlated with Worker Representation

	Hourly Wage (Log)			
	(1)	(2)	(3)	(4)
Panel A. Worker Representation Wage Premium				
Post x Into-Treatment	0.043	0.018	0.016	0.008
	(0.005)	(0.007)	(0.007)	(0.007)
Panel B. Pass-Through Rate				
Worker Representation x Value Added (Log)	-0.064	-0.020	-0.015	-0.007
	(0.005)	(0.006)	(0.005)	(0.005)
Controls				
Baseline	x	x	x	x
Firm Size		x	x	x
Unionization Rate			x	x
Other Firm Characteristics				x

Notes: This table shows the wage impacts of worker representation after controlling for firm characteristics that are correlated with worker representation. Panel A reports estimated worker representation wage premia from a version of equation (1) where the period-specific indicators 1[s = k,G(i) = 1] and the corresponding coefficients τk are post replaced with a single post-treatment indicator 1[k > 0, G(i) = 1] and a single coefficient τ for worker fixed effects and an indicator for the post-treatment period. Column 2 adds an indicator for whether the worker moved to a large firm interacted with the post-treatment indicator. Column 3 adds an indicator for whether the worker moved to a unionized firm interacted with the post-treatment indicator. Column 4 controls for other observed firm characteristics of the destination firm interacted with the post-treatment indicator. In all columns, the sample is restricted to the observations in the movers subsample for which we observe all firm characteristics at both the origin and destination firms. Panel B reports estimated differences in the pass-through of (log) value added to wages between firms with and without worker representation, where the pass-through rates for each group of firms are obtained from separate estimations of equation (2). Column 1 includes worker-firm and industry-by-year fixed effects and a cubic polynomial in worker age. Column 2 controls for the differential pass-through in larger versus smaller firms by interacting firm size (binned) with (log) value added. Column 3 additionally controls for the firm unionization rate (binned) interacted with (log) value added. Column 4 controls for the differential pass-through rate associated with other observed firm characteristics by interacting each characteristic with (log) value added. In both panels, other observed firm characteristics include whether the firm is publicly listed, whether the firm is part of a corporate group, and whether the board represents the entire corporate group, industry, firm age (bins), labor share, capital to labor ratio, share of workers with a college degree, the average age of workers, share of workers who are male, and the share of workers who are immigrants. We binarize all continuous controls at the median of the distribution. Standard errors are clustered at the firm-level in both panels.

- an event study analyzing the effect of worker representation,
- and the effects of a law regulating the rights to worker representation as a discontinuous function of firm size.

The authors find that a worker is paid more and faces less earnings risk if she gets a job in a firm with worker representation on the corporate board. However, these gains in wages and declines in earnings risk are not caused by worker representation; rather, the wage premium and reduced earnings risk reflect that firms with worker representation are likely larger and unionized, and that larger and unionized firms tend to both pay a premium and better insure workers against fluctuations in firm performance.

Bottom line: Conditional on the firm's size and unionization rate, worker representation has little, if any, effect.

This research offers important insight for policymakers. Taken together, these findings suggest that while workers may indeed benefit from employment in firms with worker representation, they would not benefit from legislation mandating worker representation on corporate boards.