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Do Employees Benefit from Worker Representation on Corporate Boards?

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Corporations are made up of multiple stakeholders, including workers, managers, and shareholders. The rights and interests of these stakeholders vary markedly across Western market economies. On the one hand, both the United States and the UK follow a corporate governance system of shareholder primacy. In this system, it is the shareholders, and the shareholders alone, who elect the corporate board, which directly or indirectly manages the corporation on behalf of the shareholders. On the other hand, many European countries follow a shared governance system that grants workers formal authority in the corporate decisionmaking, often in the form of worker representation on corporate boards. As many economies have seen significant declines in the labor share of income, worker representation on corporate boards has gained popularity as a way to ensure the interests and views of the workers. For example, recent polls suggest that a majority of American voters want workers to hold seats on corporate boards, and leading politicians both in the United States and the UK are advocating a system of shared governance. Yet there is limited scientific evidence on how such a shared governance system actually affects firms and workers.

Our research contributes to an emerging empirical literature that tries to understand whether, to what extent, and why, employees benefit from worker representation on corporate boards. We find that a worker is paid more and faces less earnings risk if that worker 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 per se. Instead, the wage premium and reduced earnings risk demonstrate that firms with worker representation are likely to be larger and unionized and that larger and unionized firms tend to both pay a premium and better insure workers against fluctuations in firm performance. Conditional on the firm's size and unionization rate, worker representation has little, if any, effect. Taken together, these findings suggest that while workers may indeed benefit from being employed in firms with worker representation, they would not benefit from legislation mandating worker representation on corporate boards.

We reach these conclusions in the context of Norway, drawing on two strengths of the Norwegian environment. First, by linking several administrative data sources we are able to construct a matched-panel data set of all workers, firms, and corporate boards for the period 2004–2014. These panel data allow us to measure the worker representation status of firms and to follow workers over time, even if they switch between firms. Second, the rich data combined with institutional features allow us to use a variety of research designs. This includes comparing different groups of workers before and after a switch between firms with different representation status, an analysis studying changes in worker compensation in response to idiosyncratic shocks to firm

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performance, an analysis exploiting differences in the timing of adoption of worker representation, and a design taking advantage of a law regulating the rights to worker representation as a discontinuous function of firm size.

We apply this variety of research designs to draw causal inference about two related yet distinct sets of parameters. The first set captures the causal effects of working in a firm with worker representation on the corporate board. These effects are relevant to understand the degree to which where someone works determines what that person earns and the earnings risk that person faces. To estimate the wage effects of working in a firm with worker representation, we compare workers switching between firms with different representation status to their coworkers switching between firms with the same representation status. On average, we find that workers moving into firms with worker representation experience a 4 percent increase in wages compared with their former coworkers moving between firms without representation.

Conversely, workers moving out of firms with worker representation experience, on average, a 3 percent drop in wages compared with their former coworkers moving between firms with representation. The wages of workers in firms with worker representation are not only higher on average but are also better insured against fluctuations in firm performance. Controlling for time-invariant worker and firm heterogeneity, we estimate a significantly lower pass-through of idiosyncratic firm shocks to incumbent workers' wages in firms with representation. In response to a 10 percent fall in the value-added of a firm, the wages of workers decrease by 0.9 percent in firms without worker representation, while the wages of workers only decrease by 0.2 percent in firms with worker representation.

The second set of parameters captures the causal effects of adopting worker representation on the corporate board of a given firm. These effects are relevant for assessing the impacts of a policy that would introduce or remove worker representation on corporate boards. Using the regulation governing workers' rights to representation, we find no evidence of a discontinuity in wages at the firm size cutoff. By contrast, there is a large jump in the share of firms with worker representation at the firm size cutoff. These findings are not likely to be driven by sorting of firms or workers; both the density of workers and the distribution of predetermined characteristics are smooth around the cutoff. To complement these results, we exploit differences in the timing of adoption of worker representation. We find no evidence of any significant change in incumbent workers' compensation in the years following adoption relative to the control group comprised of workers in firms adopting worker representation later in the sample period.

The estimates of these two sets of parameters suggest that while employees do benefit from working in a firm with worker representation, the gains are not driven by worker representation per se but rather by other factors that are correlated with both worker representation and worker compensation. We develop this argument in several ways. We first show that firms with worker representation stand out as considerably larger and more unionized than firms without representation. Returning to our analysis of job switchers, we next estimate sizable wage premiums associated with working in larger or more unionized firms. Furthermore, we show that workers in larger or more unionized firms are better insured against fluctuations in firm performance. Lastly, we demonstrate that the gains from working in a firm with worker representation disappear once one accounts for differences in firm size and the share of unionized workers.

NOTE:

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