Board-level Employee Representation and Firms' Responses to Crisis[‡]

Aleksandra Gregorič[a]

Marc Steffen Rapp[a,b]

We hypothesize that companies with board level employee representation (BLER) should experience a lower probability of crisis-induced dismissals than other firms. Theoretically, we link this effect to the employee directors' ability to reduce the information asymmetry and moral hazard in employee-employer contracting, thereby facilitating the implementation of labor-cost adjustments that are an alternative to workforce dismissals. We confirm our hypotheses by analyzing the behavior of Scandinavian public corporations with/without employee directors during the Great Recession. We show that BLER associates with significantly lower performance-sensitivity of employment cuts during the crisis period. In these firms, the lower likelihood of employment reductions was in part ensured through alternative measures providing for a reduction of the labor costs per employee.

JEL-Classification: L00, G3, J53

Keywords: Industrial relations, board of directors, employee directors, employment, labor costs, Great Recession

[a] Center for Corporate Governance, INT, Copenhagen Business School, Denmark.

[b] School of Business and Economics, Philipps-Universität Marburg, Germany.