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Journal of Financial Economics

Volume 82, Issue 3, December 2006, Pages 673-710

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<https://doi.org/10.1016/j.jfineco.2005.10.005>

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Abstract

Within the German corporate governance system, employee representation on the supervisory board is typically legally mandated. We propose that such representation of labor on corporate boards confers valuable first-hand operational knowledge to corporate board decision-making. Indeed, we find that labor representation provides a powerful means of monitoring and reduces agency costs within the firm. Moreover, we show that the greater the need for coordination within the firm, the greater the potential improvement there is in governance effectiveness through the judicious use of labor representation. These benefits do not appear to hold for union representatives.



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JEL classifications

G3; G30

Keywords

Labor representation; Corporate governance; Firm value

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We thank an anonymous referee, Timothy R. Burch, Alexander W. Butler, Doug Emery, Andy Naranjo, Tie Su, attendees of seminars at the University of Miami, and the University of South Florida, and discussants at the 2004 European Finance Association Meeting in Maastricht, the Netherlands, the 2004 European Financial Management Association Meeting in Zurich, and the 2004 Financial Management Association Meeting in New Orleans. Gaurav Chalana provided excellent data assistance. Any errors are our own.

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