Does good corporate governance include employee representation? Evidence from German corporate boards.

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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