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## ORIGINAL ARTICLE

# Labor empowerment in corporate boards: The devil is in the details

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## Abstract

In 2013, mandatory worker representation on French corporate boards was enacted. We examine the way employee directors have been incorporated within the board machinery. Our empirical results indicate that employee representatives have a limited access to board committees. This result casts doubt on the ability of employee directors to significantly influence corporate governance. Consistent with this analysis, we do not find any significant impact, either positive or negative, of codetermination on firm performance.

## INTRODUCTION

Board-level employee participation (codetermination) has long been considered as an oddity or exception relegated to Germany. However, there has been a marked increase in interest in the topic over the last decade, alongside the wider debate on workplace democracy. In the political sphere, both Elizabeth Warren and Bernie Sanders proposed legislation that would have made codetermination mandatory for large U.S. firms, while Theresa May, then British Prime minister, briefly considered it before retracting. In the academic sphere, a growing number of studies have tackled the subject, proposing to extend or enact board-level employee participation (Moore & Reberieux, 2011; Palladino, 2021; Piketty, 2020), examining its empirical consequences (Belot & Waxin, 2022; Gregorič & Rapp, 2019; Jäger et al., 2021, 2022; Kim et al., 2018; Kraft et al., 2011; Petry, 2018), or comparing it with other mechanisms supporting worker voice in corporate governance (Ferreras, 2017).

In theory, codetermination could hamper firm performance by deterring investment in physical capital, since workers could expropriate the value of those investments (Grout, 1982; Jensen & Meckling, 1979). On the other hand, some authors argue that codetermination fosters cooperation and information sharing between employees and the management, while it allows for a better protection of the firm-specific investments in human capital, which should ultimately translate into improved performance (Freeman & Lazaar, 1995;

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Osterloh & Frey, 2006). However, as Conchon (2011, p. 16) noted a decade ago, econometric studies focusing on codetermination have failed to decide between these two interpretations. Recent empirical studies rather point to the absence of significant effects on various worker and firm outcomes (see Jäger et al., 2022, for a comprehensive review of this literature<sup>1</sup>).

Accordingly, we are faced with a paradox: many hopes and fears are placed in codetermination, while empirical studies point to the very modest effects of the arrangement. This paradox calls for further research on codetermination, exploring aspects not previously studied. The empirical studies mentioned above proceed by “inferential leaps” (Pettigrew, 1992), as they look at the relationship between input variables (the presence or the fraction of worker representatives in the boardroom) and output variables (productivity, remuneration, capital intensity, tax avoidance, etc.). We develop a complementary approach which is to enter the black box of codetermination functioning, in an attempt to better understand the operational working of shared governance. More precisely, we investigate employee directors' empowerment within the boardroom – as a prerequisite to an analysis of the effects of shared governance.

We focus on the case of France, where codetermination – while it existed so far on a selective and/or voluntary basis – has been made mandatory for large private firms in 2013. This year, a quota (hard law) was adopted, requiring the mandatory presence of one or two employee representatives in the boardroom, while the corporate governance code (soft law) added a recommendation on the presence of one employee director in the compensation committee (a board subcommittee responsible for determining and overseeing the remuneration packages of senior executives, including the CEO). Our sample includes the 120 largest companies listed at Euronext-Paris, over the period 2008–2018. We focus on board committee memberships. Committees are sub-groups of the board, whose members meet prior to board meetings to discuss and prepare decisions on specific topics. As such, committees are strategic positions within the boardroom that can be seen as a proxy of a director's influence on board decisions. Despite this, and according to Adams et al. (2021), “board committees have been relatively understudied, perhaps because they are not the focus of standard financial datasets” (p.1143). Although committee chairs hold influential positions within the board, it should be immediately noted that none of the companies in our sample have employee representatives chairing any committee over our entire sampled period. Therefore, the positions we are focusing on pertain solely to regular committee membership. More precisely, using fixed effects linear probability and difference-in-differences regression models, we study the access of employee directors to board committee memberships, as well as the effects of the (hard and soft) laws on this access.

We have two main findings: (i) employee directors have a limited access – controlling for individual and firm level heterogeneity – on two “monitoring” committees (audit and nomination), which can be considered the most strategic or influential; (ii) the introduction of a quota together with a new provision in the soft law compounded the problem for employee directors (even though it has improved their access to the compensation committee). In essence, our study shows how firms have been able to leverage the law to limit or contain labor empowerment in the boardroom. Consistent with this analysis, we finally show that the adoption of mandatory codetermination had a value-neutral effect on firm performance (although it did contribute to an increase in board size).

The article builds on and ties to three lines of research.

<sup>1</sup>They conclude their review in the following terms: “The empirical evidence we have summarized and presented thus far suggests that codetermination has, on net, zero or slight positive effects on key worker and firm outcomes – in contrast to the strong predictions by both proponents and opponents of codetermination.” (p.874).

Firstly, our research contributes to the expanding body of literature on codetermination. From the perspective of industrial relations, codetermination is increasingly recognized as a complement to traditional mechanisms that support worker voice at the firm level (collective bargaining and work councils). Moreover, the inclusion of employee representatives on corporate boards aligns with a progressive agenda aiming to enhance board diversity so as to strengthen corporate social responsibility (CSR), particularly in addressing environmental challenges (Gelter, 2018; Scholz & Vitols, 2019; Vitols, 2023). However, existing empirical studies predominantly indicate a value-neutral effect of this mechanism. Furthermore, direct surveys addressed to employee directors indicate that they perceive themselves to have a moderate influence on strategic decision-making (Conchon & Waddington, 2016; Rose & Hagen, 2019). Together, these findings suggest that codetermination may not necessarily translate into substantial labor empowerment in corporate governance. Our study delves deeper into this issue, by examining board committees. Indeed, these committees play a crucial role in distributing power among board members. To the best of our knowledge, our study is the first to provide a comprehensive multivariate analysis of the position of employee directors within the board committee structure.

Secondly, we contribute to the literature on organizational and governance designs based on sub-committees. In the recent years, political science research has documented the impact of the allocation of legislators to parliamentary committees. Some committees are associated with higher power, status, influence and prestige. The composition of legislative committees is therefore not neutral. An important body of literature has focused on gender and highlights how the allocation of women to less valued committees results in a lower capacity to influence legislative decision (see, e.g., Bolzendahl, 2018; Murray & Sénac, 2018; Strøm, 1998). Even though there is a growing interest for these arrangements in the corporate governance literature (see, e.g., Stiles, 2013 or Adams et al., 2021), committees have been so far rather ignored by scholars. Our study thus contributes to the literature by exploring the actual functioning of the board, through the lens of board committees. These committees are specifically important when focusing on board diversity (broadly defined as an effort to promote boards open to a wider range of profiles than male shareholder representatives graduated from the same schools). Indeed, transforming the governance of a firm is not just a question of board seat allocation or distribution. For example, the fact that a number of European countries (Norway, Germany, Italy, Belgium or France) have introduced a gender quota on boards, resulting in near parity in terms of seats, does not automatically mean that gender inequalities in corporate leadership have disappeared. Inequalities can also play out in terms of within-board positions (committee memberships and chairs). Consequently, the impact of shared governance is also likely to depend on board arrangements – a point that has not been investigated so far to our knowledge.

Thirdly, our article contributes to the literature by providing a new look at the intertwining of hard law and soft law in corporate governance. Codetermination in France is indeed regulated by both types of laws. While the requirements regarding the appointment of employee representatives on the board lie in the hard law, the inclusion of employee directors in (one of the) committees is governed by the recommendations included in the AFEP-MEDEF code of governance.<sup>2</sup> In addition, the AFEP-MEDEF code does not allow employee directors to be classified as “independent”; we show that this has negative implications for their access to board committees.

Overall, our findings reveal that in the French context, and regarding the effectiveness of codetermination, “the devil is in the details.” Although the hard law grants employees a certain degree of power through board seats, this power is somewhat diminished or restricted due to strategic behavior adopted by companies as well as soft law provisions. These two latter

<sup>2</sup>The *Association Française des Entreprises Privées* (AFEP) and the *Mouvement des Entreprises de France* (MEDEF) – a private association representing the largest French corporations and the main employers' union, respectively – are responsible for drafting the corporate governance code for listed companies since 1995.

aspects are often overlooked (or perceived as details) in current debates surrounding codetermination, which tend to primarily focus on the numerical representation or proportion of board seats held by employee representatives.

## LEGAL AND INSTITUTIONAL BACKGROUND

French company law allows *Sociétés Anonymes* (the functional equivalent of Public Limited Companies) to choose either a one-tier, Anglo-Saxon style board of directors, or a two-tier German-style system, with a supervisory board. Most large companies have adopted the former structure (Belot et al., 2014). Whatever the structure, board duties are of two types. The first duty is to monitor corporate executive officers, and more specifically the Chief Executive Officer (CEO). Independence (*vis-à-vis* the company and its CEO) is considered as the main criterion supporting this monitoring function. To this end, the AFEP-MEDEF corporate governance code (2022) recommends that at least 50% of directors be independent – a number respected by most companies. The second duty is to determine and advise on major strategic decisions. For this purpose, directors with firm- or industry-specific expertise are commonly sought after. In addition, since 2011, large firms are required to have gender balanced boards (at least 40% of women: see Rosenblum & Roithmayr, 2015).

To support the board in fulfilling its duties, French listed companies have adopted – following U.S. and British companies – a within-board functional division of tasks through specific committees (Rebérioux & Roudaut, 2019). The audit, the compensation and the nomination committees are assigned the board's monitoring function. The audit committee oversees financial reporting and disclosure. It is mandatory under company law and the AFEP-MEDEF code recommends that two thirds of audit committee members be independent. 100% of our sampled companies (belonging as of December 2011 to the SBF120 index) have an audit committee in 2018 (end of our sampled period). The compensation committee is in charge of setting the remuneration design for top management. The nomination committee is responsible for selecting (and terminating) the CEO. The AFEP-MEDEF code recommends that half of the members of compensation and nomination committees be independent. Although there is no legal requirement to set up a compensation or a nomination committee, the two are very frequent: 96% of our sampled firms have one committee dedicated to compensation and 95% a committee dedicated to nomination (actually, for 58% of the firms, it is a joint compensation-nomination committee) in 2018. Other committees are charged with providing strategic advice on firm-specific issues – such as technology management, corporate social responsibility – and support the board's advisory function. They are less frequent than monitoring committees: 55% of our sampled companies (resp. 44%) have set up a strategy committee (resp. a CSR committee) in 2018.

The presence of board-level worker representatives has a long history in France. The waves of nationalizations in 1946, 1947, and 1950 introduced, in all state-owned companies, employee representation in boardrooms. The privatization of former state-owned companies carried out from 1986 onwards did not call into question this principle: the presence of employee directors in company boards, with full voting rights, was maintained almost everywhere. However, only state-owned or former state-owned companies were concerned by codetermination then (Conchon, 2011).

The first law regarding codetermination in private firms was passed in 2013<sup>3</sup> – France then becoming one of the 14 European countries that have adopted codetermination laws granting workers voice in the strategic decisions taken by private companies board (Gold & Waddington, 2019). Under this law, firms subject to mandatory codetermination were those

<sup>3</sup>Loi n°2013–504 du 14 juin 2013 relative à la sécurisation de l'emploi.

employing more than 5000 workers in France, or more than 10,000 workers worldwide.<sup>4</sup> These two thresholds were lowered by a subsequent law in 2015, requiring private firms to adopt codetermination as soon as they employ more than 1000 workers in France, or more than 5000 worldwide.<sup>5</sup> The minimum number of employee directors that must be appointed then depends on the size of the board. Whenever the board is made up of eight (non-employee) members or less, one labor representative has to be appointed to the company board; when the board comprises at least nine (non-worker) members, two labor representatives have to be appointed. These provisions apply in exactly the same way to firms with a board of directors and to firms with a supervisory board. Average board size for large French listed firms is in between 12 and 13 directors (see the descriptive statistics for our sample in the Data section). With two employee directors, the average codetermination rate (defined as the number of worker representatives divided by the total number of board members) is therefore around 15% – a figure that remains significantly lower than in other European codetermination countries, especially Germany (where employees hold 30%–50% of board seats in large companies).

Importantly, codetermination is to be distinguished from board representation of employee-shareholders (Ginglinger et al., 2011). Employee ownership is largely diffused in France and in 2006 employee-shareholders were granted the right to be represented on the board of their company (with full voting rights), provided that they collectively hold more than 3% of the company equity capital.<sup>6</sup> In contrast, codetermination provides employees with board-level representation rights on the sole basis of their employment status and does not require any stock ownership.

In addition to legislative (hard law) provisions, labor position in the boardroom is regulated by soft law, with dedicated provisions included into the French AFEP-MEDEF code. Since 2013 the code recommends that at least one employee director sits on the compensation committee. This recommendation was originally intended to be included in the 2013 codetermination law, but it was instead introduced in the corporate governance code, with the aim of granting companies with greater flexibility.

The AFEP-MEDEF code also states that employee directors do not qualify as “independent.” Although there has been much debate about the definition of independence, the appointment of independent directors is seen as a key element in today's corporate governance, as their presence is thought to improve the supervision of management's actions. Consequently, there has been a sharp increase in the number of independent directors since the 1990s, following the U.S. standards. The status of employee directors is not clear from this point of view: should they be considered as independent directors or not? The promoters of the AFEP-MEDEF code have decided that they are not, on the basis that employee directors are subordinate to management in their employment relationship and could therefore be forced to support executives' decisions. Employee directors are accordingly qualified as “affiliated” directors, i.e., non-executive and non-independent. However, French regulators could have decided otherwise, notably by following the decisions adopted in 2003 by the US Securities and Exchange Commission (SEC)<sup>7</sup> and in 2005 by the European Commission (2005/162/EC). The refusal of French regulators to consider employee representatives as independent is not without consequences, since access to certain committees is made easier for independent directors: as discussed above, the AFEP-MEDEF code calls

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<sup>4</sup>This law applies to all companies, whether listed or not, and whatever their legal form (*Société Anonyme SA* for the overwhelming majority of Euronext companies or *Société en Commandite*). The only exception concerns *Societas Europaeas SE*, which are not required to have employee directors if none existed before the incorporation (in general, a switch from a *SA* to a *SE*).

<sup>5</sup>Loi n°2015–994 du 17 août 2015 relative au dialogue social et à l'emploi.

<sup>6</sup>Loi n°2006–1770 du 30 décembre 2006 pour le développement de la participation et de l'actionnariat salarié.

<sup>7</sup>Due to the listing of European companies on US stock exchanges, the SEC was confronted with the question of whether employee directors should be considered independent. It concluded that employee directors could “provide an independent check on management” and therefore could qualify as independent, “so long as the employees are not executive officers” (*Final Rule: Standards relating to listed company audit committees*, April 25, 2003).

for two thirds of the audit committee and one half of the nomination committee and/or compensation committee to be independent.

## LITERATURE REVIEW AND RESEARCH QUESTIONS

Stiles (2013) provides a review of previous studies that have dealt with committees in corporate governance, although he notes that these governance arrangements have received little attention overall. There are several reasons to consider committee membership as a proxy of one director's influence on board final decisions. First, being a member of a committee allows for more in-depth consideration of the issues to be addressed by the board. Second, sitting on a committee allows a director to spend more time with other board members, and therefore more time to try to influence their opinions. Finally, it is more difficult to challenge decisions prepared by committees because this is tantamount to questioning decisions that have been taken by a group that has invested time and effort to shape them. Importantly, the distribution of committees across directors is heterogeneous. Executive directors are usually kept out of committees. But even when focusing on non-executive directors, heterogeneity remains important: for instance, in our sample for 2008–2018, 23.5% of non-executive directors sit in no committee at all, 44.5% sit in 1 committee and 32% serve on at least 2 committees (with a maximum of 6). Focusing on (non-executive) directors with a minimum of 2 years of tenure does not change the picture: a significant number (21%) of non-executive directors remain on the doorstep of committees, while others cumulate. From this point of view, there are indeed different “classes” of directors, with multi-committee members being surely more influential than 0-committee members.

Considering the empirical literature, results are dispersed, but suggest, in line with the previous observation, that not all directors are equal in terms of committee memberships and that some characteristics have a higher return than others (in terms of committee access). For instance, Bilimoria and Piderit (1994) observe lower chances of access for women to certain committees, but they also find that women are more likely to sit on the public affairs committee. Wearing and Wearing (2004) report that female directors in British listed firms are at a disadvantage in chairing important board committees. However, Adams and Ferreira (2009) find an opposite result for U.S. companies. More recent results on gender and committee access can be found in Green and Homroy (2018), Rebérioux and Roudaut (2019), Field et al. (2020) and Gormley et al. (2023). Regarding the inclusion of employee representatives in (French) board committees, first evidence can be found in Belot and Waxin (2022). They report that 16% of family firms have employee directors sitting on a board committee, as compared to 43% for other, non-family firms (and the difference in means is significant at the 1% level). Our approach is different: (i) we do not compare employee directors in different types of companies but to other directors; (ii) we consider a broader set of committees; and (iii) finally, we provide a multivariate analysis.

Our first research question is therefore to document the access to board committees for employee representatives. If employee representatives were considered and treated in the same way as other directors, one should not observe any systematic differences in their ability to access the various committees – once controlling for individual and firm characteristics. On the contrary, the observation of a systematic discount or premium in the individual probability for employee directors to access committees would be suggestive of a particular treatment – likely to affect their ability to shape boards and companies' strategic choices. To investigate this issue, we model the individual probability to access various board committees, in a regression-based setting. We do so on the most recent period (2014–2018) where, following the 2013 codetermination law, the number of employee directors is the highest.

In a second step, we try to further explain this pattern, by examining the (causal) impact of the regulation on employee directors' position within boards. As indicated above, before 2014, worker representatives were already present in some companies. Since 2013, the hard law required this

presence to be mandatory, while soft law added one further indication as to the place of worker representatives within boards. A question is therefore to grasp the impact of the newly issued regulatory provisions on the situation of French worker representatives in boards. In particular, besides their direct quantitative effect on the number of employee representatives sitting in boards, did these regulatory changes also translate into a qualitatively improved position for worker representatives in boards? Importantly, faced with new regulatory constraints regarding board-level labor representatives, firms may have adapted to limit the power granted to new (employee) directors. Put differently, the introduction of a quota in 2013 (plus a new recommendation in soft law) may not only have changed the quantitative importance of labor in French boardrooms; this may also have impacted the role of worker representatives within boardrooms. To fully grasp the effects of a quota on labor representatives' empowerment, it is therefore necessary to consider how it can upset boardroom balances, not only in terms of seats, but also in terms of committee access. Hence, our second research question is to analyze the effect of the 2013 regulatory changes on within-board labor representatives' empowerment. We do so by examining the change in individual probability (to access committees), in a difference-in-differences setting.

Finally, as it is more standard in the literature, our third research question is to estimate the impact of codetermination (i.e., of the appointment of new employee directors) on board size and firm performance. To do so, we aggregate our data at the firm-year level, and run difference-in-differences regressions in a staggered-adoption design.

## EMPIRICAL STRATEGY

Our first research question is to document the way employee representatives have been integrated within the board machinery. We use a linear probability model on individual data to estimate the likelihood to access committee positions for employee directors over the 2014–2018 period. We estimate the following equation, where  $Audit_{i,j,t}$  indicates the probability for individual  $i$  to be a member of the audit committee of firm  $j$  at time  $t$  (and then replace  $Audit_{i,j,t}$  with alternative committees)<sup>8</sup>:

$$Audit_{i,j,t} = a \cdot Employee_i + X'_{i,j,t} \cdot b + \mu_{j,t} + \varepsilon_{i,j,t} \quad (1)$$

where  $Employee_i$  is a dummy variable equal to 1 if  $i$  is an employee director (and 0 otherwise). The coefficient  $a$  then measures the probability to access the audit committee for an employee director in the post-reform period. We additionally control for a vector  $X_{i,j,t}$  of relevant individual characteristics. These include gender, nationality, age, education, busyness, board tenure, as well as a set of dummies that capture other directors' status (employee-shareholder representative, independent, and executive director). Firms have the possibility to establish more committees than those recommended by soft or hard law, but also to choose the number of members sitting on each committee. The number of committee memberships offered by each firm each year is therefore variable. To account for this heterogeneity, we introduce firm-year fixed effects ( $\mu_{j,t}$ ). Firm-year fixed effects allow us to account more broadly for any kind of time-variant heterogeneity across companies. Equation (1) thus allows examining the probability for employee directors to have access to the different committees, as compared to other directors *sitting on the same board*. In this setting, board and firm time-variant characteristics cannot be estimated (they are absorbed in the fixed effects). The error term ( $\varepsilon_{i,j,t}$ ) is clustered at the firm level.

Our second research question is to document how the new laws (the hard law quota plus the soft law provision on compensation committee) passed in 2013 have impacted on the

<sup>8</sup>This empirical approach to directors' access to committee boards can also be found in Rebérioux & Roudaut (2019), Ferreira et al. (2021) and Gormley et al. (2023) – albeit with a focus on women directors.



position of employee representatives within boardrooms. We therefore estimate a difference-in-differences linear probability model to compare the situation of employee directors (relative to non-employee directors) present in the post-reform period (2014–2018) to that of employee directors present in the pre-reform period (2008–2013). It should be noted that our model is not able, from an econometric point of view, to distinguish between the effect of the hard law and the effect of the new soft law provision on compensation committees – since both regulations were introduced at the same time, in 2013. Our model is the following:

$$Audit_{i,j,t} = a. Post_t + b. Employee_i + c. Post_t. Employee_i + X'_{i,j,t}. d + \mu_{j,t} + \varepsilon_{i,j,t} \quad (2)$$

where  $Post_t$  is a binary variable equal to 0 for the years from 2008 to 2013 and 1 afterwards (2014–2018). We consider that 2013, i.e., the year of the adoption of the first codetermination law in private firms, is part of the pre-period reform. Indeed, firms were granted several months to comply with the law and our data show that companies have massively appointed employee directors in 2014 rather than in 2013, i.e., one year after the law enactment.  $Employee_i$  captures time-invariant differences between employee directors and other directors, in terms of access to the audit committee. The interaction term  $Post_t. Employee_i$  captures the effect associated with being an employee director in the post-reform period. The coefficient  $c$  therefore allows us to identify the causal impact of the laws on employee directors' positions, under the parallel trend assumption. We include a vector of individual characteristics  $X'_{i,j,t}$  as well as firm-year fixed effects ( $\mu_{j,t}$ ). Finally, we allow the error term  $\varepsilon_{i,j,t}$  to cluster at the firm level.

Finally, to investigate the effect of increased shared governance on board size and firm performance, we consider our data at the firm-year level of observation (rather than at the individual-firm-year level). We then use a Two-Way Fixed Effect (TWFE) model in a staggered-adoption design, as we observe variation in treatment timing (i.e., in the appointment of new employee representatives). We postpone the presentation of the empirical strategy in the [Discussion](#) section.

## DATA AND DESCRIPTIVE STATISTICS

Our sample includes all the companies belonging as of December 2011 to the SBF120 index – the main index of Euronext-Paris. We track them from 2008 to 2018. Under corporate and securities laws, listed companies are required to publish and disclose an annual report, under the supervision of the *Autorité des Marchés Financiers* (AMF, the French equivalent of the Securities and Exchange Commission). These annual reports are all freely available on the companies' websites as well as on the AMF website. Article L.225-37 of the *Code du commerce* requires companies to draft and include in the annual report a section devoted to corporate governance. This section provides detailed and standardized information on the composition of board of directors: for each board member, gender, nationality, education, professional experience, age, status (independent, executive, employee-shareholder representative, employee representative, etc.), date of entry in the board, term of the office, etc., are indicated. In addition, annual reports provide comprehensive information on the composition of each board committee set up by companies. We therefore hand-collected all this information and match it with the Datastream database, using the ISIN code of companies, to obtain yearly accounting and financial information.

We end up with a sample that comprises 2592 distinct persons and 16,363 individual-firm-year observations. 82% of the firms are present in our sample for the entire period (11 consecutive years). The few companies that we do not observe for 11 years are firms that were acquired or merged with another firm between 2012 and 2018 (e.g., Zodiac Aerospace acquired by Safran or Lafarge that merged with the Swiss company Holcim). Overall, more than 95% of the companies are observed at least 7 consecutive years.

As individual control variables, we include directors' age, gender, length of board tenure, nationality, education, status (independent, executive and shareholder employee) and busyness (dummy equal to 1 if a director sits on more than one board in a given year in our sample, 0 otherwise). Regarding the dependent variables, we consider five different committee memberships: the audit committee, the compensation committee, the nomination committee, the strategy committee and the corporate social responsibility (CSR) committee. We consider any committee that deals with the top management remuneration as a compensation committee. We consider as nomination committees the committees whose *sole task* is to select (or terminate) the CEO and to appoint new directors. This means that committees that *simultaneously* deal with compensation *and* nomination are here assumed to be compensation committees. This is an important detail since numerous French firms have established a *joint* compensation-nomination committee, rather than two separate committees (in contrast with British standards, for instance). However, this simplification does not really affect our analysis since the soft law recommendation regarding the presence of an employee director in compensation committees also applies to joint compensation-nomination committees. Any committee responsible for strategic decisions or investments is regarded as a strategy committee. Finally, any committee responsible for corporate social responsibility or sustainable development is here registered as a CSR committee.

We use five standard variables as firm controls (when we do not introduce firm-year fixed effects): the total number of employees (in the firm), the value of total assets, the Return On Invested Capital (ROIC), the financial leverage (defined as total debt over total equity) and the price-to-book ratio. As French law allows companies to choose between a one-tier board (board of directors) and a two-tier board (supervisory board, along with a management board), we control for this heterogeneity by including a binary variable equal to 1 if the company has a supervisory board (0 otherwise). We also control for board size and whether or not the functions of CEO and Chairman of the board are separated.

Table 1 reports the descriptive statistics of our variables, while Appendix Table A1 provides their definition. Average board size is 12.3, slightly increasing over the period (from 11.9 in 2008 to 12.8 in 2018 – see Discussion section for a more in-depth analysis). Employee directors account for 4.3% of observations/directorships, women for 25.5% (as part of our period is after the enactment of a board gender quota in 2011), independent directors for 51.4% and insiders for 8.7%. The average age is 58 years old, and average tenure is 6.7 years – both stable over time. The average probability for a director a given year (i.e., a directorship) to be member of an audit (resp. compensation) committee is 33.3% (resp. 31.5%), while it is only 24.5% for strategy committee, 10.4% for nomination committee and 8% for CSR committee. These differences are mainly due to the greater or lesser frequency with which these committees are set up: audit and compensation committees are almost universal, while CSR committees are much rarer. By contrast, the size of these various committees (where they exist) is quite similar (figures not reported in the Table): 4.1 persons on average for compensation committees, 4.2 for audit committees, 4.3 for nomination committees and 4.4 for CSR committees. Strategic committees are slightly larger, with 5.8 directors on average.

Our data show that the adoption in June 2013 of the first codetermination law regarding private firms has been followed by a sharp increase in the number of employee directors sitting on the boards of the SBF120 firms. Figure 1 plots this evolution: whereas the number of employee directors remains stable around 37 from 2008 to 2013, it doubles in 2014 to reach 80. The graph therefore shows that firms have complied with hard law, although they have used the delay they were granted to appoint employee directors to their board.<sup>9</sup> The surge of employee

<sup>9</sup>The companies affected by the law were those employing more than 5000 employees for more than two consecutive fiscal years. Furthermore, once it was established that a company fell under the scope of the law, it had 6 months to establish the procedures for appointing employee directors, followed by an additional 6 months to effectively appoint them. Overall, by leveraging these various aspects, companies benefited from a substantial adjustment period, about 2 years after the enactment of the law. The same is true for the second law (August 2015).

**TABLE 1** Descriptive statistics (2008–2018).

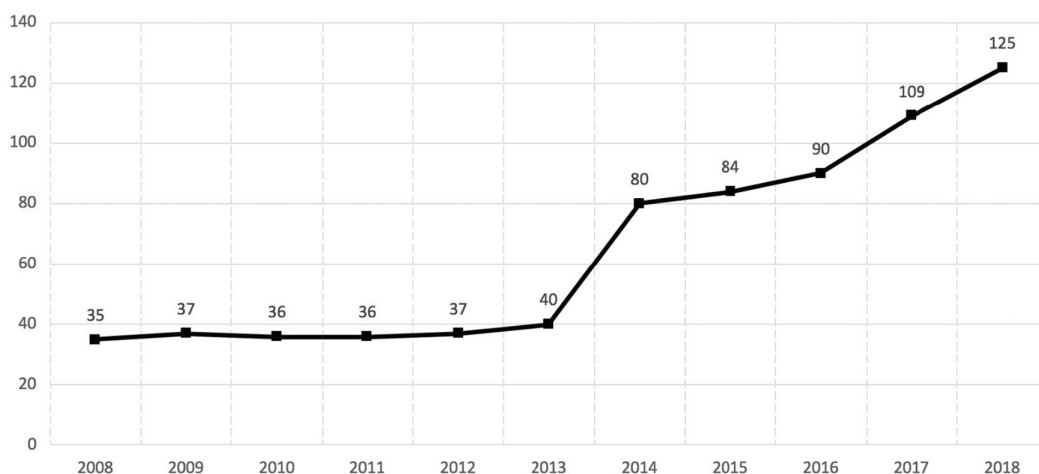
	Obs	Mean	SD	Min	Max	Median
Firm/board characteristics						
Number of employees	1283	55,252	75,027	36	495,287	21,034
Total assets (millions of €)	1304	77,175	271,274	76	2071,532	8282
Return on invested capital	1326	0.0652	0.0693	-0.1754	0.284	0.0639
Leverage	1326	121.62	192.18	0	1311.11	68.84
Price-to-book ratio	1326	1.74	1.85	-25.03	15.26	1.47
Board size	1326	12.3	3.4	3	23	12
Supervisory board	1326	0.206	0.404	0	1	0
CEO/Chairman separation	1326	0.514	0.500	0	1	1
Individual characteristics						
Woman	16,363	0.255	0.436	0	1	0
Employee director	16,363	0.043	0.204	0	1	0
Employee-shareholder	16,363	0.019	0.136	0	1	0
Independent	16,363	0.514	0.5	0	1	1
Insider	16,363	0.087	0.282	0	1	0
Foreigner	16,363	0.239	0.427	0	1	0
Elite	16,363	0.415	0.493	0	1	0
Busyness	16,363	0.324	0.468	0	1	0
Age (years)	16,363	58.393	9.811	20	95	59
Tenure (years)	16,363	6.706	6.480	1	64	5
Committees (dummies)						
Audit	16,363	0.333	0.471	0	1	0
Nomination	16,363	0.104	0.305	0	1	0
Compensation	16,363	0.315	0.465	0	1	0
Strategy	16,363	0.245	0.430	0	1	0
CSR	16,363	0.08	0.271	0	1	0

*Note:* Statistics on firm and board characteristics are computed at the firm-year level. All firm characteristics (number of employees, total assets, return on invested capital, financial leverage and price-to-book ratio) are obtained from the Datastream database. Board information (board size, supervisory board and CEO/chairman separation) has been collected from companies' annual reports. Statistics on individual characteristics and committee memberships are computed at the firm-year-individual (or directorship) level. All this information comes from companies' annual reports. Table A1 in Appendix defines all the variables.

directors happens in 2014 rather than in 2013. As a consequence, we consider 2013 to be part of the *pre-reform* period.<sup>10</sup> The rise continues after 2014 until the number of employee directors reaches 125 in 2018.

Table A2 in Appendix reports the means for individual characteristics and committee memberships for each period (pre- or post-reform), by breaking down the observations into three groups: employee directors, employee-shareholder representatives and “other directors” (i.e., all other directors including independent directors, executives, blockholder representatives, state representatives, etc.). Employee directors differ significantly from the group of “other directors” in almost

<sup>10</sup>A closer examination of our data reveals that only two companies in our sample newly appointed employee directors in 2013 (see also Table A6), resulting in the narrow increase between 2012 and 2013 from 37 to 40. This rise is limited compared to the doubling of the number of employee directors happening the following year. However, our analysis remains overall unchanged if 2013 is included in the *post-reform* period rather than in the *pre-reform* period.



**FIGURE 1** Number of employee directors on SBF120 company boards (2008–2018). *Source:* Companies' annual reports.

every aspect, both in the pre-reform period and in the post-reform period (they are younger, less tenured, less foreigner, and they belong less to the elite defined in terms of *Grandes écoles*). Hence, we need to control for individual characteristics in our regressions to account for these confounding variables. It can also be observed that employee directors somewhat differ from employee-shareholder representatives, especially in the post-reform period, providing us an additional rationale for distinguishing between these two forms of board-level employee representation.

Considering the average probability for an individual in a given year to be a member of a certain committee, we observe that employee directors have a rather distinctive profile. In particular, post-reform, they are less likely than other directors to access audit committees: their probability to be member of an audit committee is 14.3%, against 36.2% for employee-shareholder representatives and 35.7% for all other board members. A similar pattern is observable for nomination committees, where the probability for an employee director to sit is almost zero (0.2%), against 12.4% for other directors (excluding employee-shareholder representatives).

## EMPIRICAL RESULTS

### The position of employee directors in the post-reform period

We estimate model [1] for each committee dummy. The results are reported in [Table 2](#).

We observe in columns 2 and 4 that being an employee director in the post-reform period is negatively associated with the likelihood to sit on the nomination (1% level of significance) and the strategy committees (10% level of significance). In contrast, employee directors are on average more likely to serve on of the compensation committee (at the 1% level of significance – see column 3). These coefficients (whether negative or positive) are economically meaningful: the penalty is equal to about 10 percentage points for the nomination committee and 8 percentage points for the strategy committees, for respective mean values of 10.4% and 24.5% (see [Table 1](#)). For the compensation committee, the ‘premium’ accruing to employee directors is also economically significant: 18 percentage points for a mean value of 31.5%. This premium on compensation committees indicates that companies have to a large extent complied with the soft law recommendation on this matter.

The fact that we do not report any negative discount on employee directors regarding audit committees (column 1) might seem surprising: when looking at the descriptive (univariate)

**TABLE 2** Employee directors' access to committees in the post-reform period (2014–2018).

	(1)	(2)	(3)	(4)	(5)
	Audit	Nomination	Compens.	Strategy	CSR
Employee	-0.0497 (0.0403)	-0.0985*** (0.0210)	0.181*** (0.0348)	-0.0799* (0.0441)	0.0110 (0.0276)
Employee- shareholder	0.171** (0.0730)	-0.104*** (0.0294)	0.0243 (0.0730)	-0.0702 (0.0730)	0.0339 (0.0518)
Insider	-0.250*** (0.0209)	-0.150*** (0.0236)	-0.241*** (0.0243)	-0.0537 (0.0361)	0.0199 (0.0223)
Independent	0.248*** (0.0211)	0.00442 (0.0123)	0.158*** (0.0231)	-0.0616** (0.0242)	0.00818 (0.0135)
Woman	0.0146 (0.0243)	0.00984 (0.0154)	-0.0217 (0.0232)	-0.0811*** (0.0207)	0.0538*** (0.0167)
Tenure	0.0239*** (0.00340)	0.0149*** (0.00224)	0.0166*** (0.00365)	0.00249 (0.00322)	0.00566** (0.00228)
Tenure squared	-0.000559*** (0.0000736)	-0.000317*** (0.0000664)	-0.000461*** (0.000122)	-0.0000172 (0.0000929)	-0.000140** (0.0000581)
Age	-0.00424*** (0.00111)	0.00147* (0.000761)	0.00615*** (0.00122)	0.000868 (0.000898)	0.00101 (0.000720)
Foreigner	-0.0363 (0.0333)	-0.0240 (0.0161)	0.0216 (0.0297)	0.0301 (0.0252)	-0.00970 (0.0184)
Elite	0.0811*** (0.0276)	-0.00213 (0.0138)	0.0195 (0.0266)	0.0156 (0.0214)	-0.00671 (0.0151)
Busyness	-0.00371 (0.0222)	0.0269* (0.0155)	0.0685*** (0.0250)	0.0528*** (0.0177)	-0.00894 (0.0136)
Firm-Year FE	Yes	Yes	Yes	Yes	Yes
Obs.	7327	7327	7327	7327	7327
Adj. R2	0.104	0.259	0.075	0.310	0.208

Note: \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Models are estimated by OLS. The dependent variable is a dummy equal to 1 if the director is a member of the audit committee (col. 1), a dummy equal to 1 if the director is a member of the nomination committee (col. 2), a dummy equal to 1 if the director is a member of a committee dedicated to compensation (col. 3), a dummy equal to 1 if the director is a member of the strategy committee (col. 4), and a dummy equal to 1 if the director is a member of the CSR committee (col. 5). Right-hand side variables include the *Employee* dummy (equal to 1 if director  $i$  is an employee representative) and other individual controls (directors' age, gender, tenure, tenure squared, nationality, education, busyness, independence, insider and shareholder employee representative). All regressions include firm-year fixed effects. Robust standard errors clustered at the company level in parentheses.

statistics, we have observed that the (post-reform) probability for an employee representative to be a member of the audit committee was significantly lower than for other directors (14.3%, against 35.7% for all non-employee directors). In fact, the puzzle is easily solved: the univariate statistics is mainly driven by the fact that employee directors are not considered as independent, while audit committee access is primarily reserved for independent directors (see the AFEP-MEDEF code). When we do not control for independence (i.e., when we regress model [1] for audit committee but without the independence dummy), then we report a very significant (at the 1% level) discount: the coefficient on *Employee* is negative (-0.171) with a standard error of 0.0421.<sup>11</sup> From this, we can conclude that employee directors in the post-reform period

<sup>11</sup>Full results available upon request.

are barred from joining the audit committee because they do not qualify as independent under the 2003 AFEP-MEDEF code provisions.

At this stage of the analysis, our results provide evidence of a limited access of employee directors to different board committees – either because they represent workers (nomination and strategy committees) or because they do not qualify as independent (audit committee). By contrast, they benefit from a premium on the compensation committee. These results clearly point out the impact of soft law provisions (regarding their non-independence or regarding the access to compensation committee) on the appointment of employee directors to committees. Finally, in order to have a more synthetic view, we proceed to a regression of type [I], with as dependent variable the total number of committees where individual  $i$  sits in company  $j$  at year  $t$ . As indicated in [Literature Review and Research Questions](#), this number varies from 0 to a maximum of 6 committees. Furthermore, we do not control for independence (as it contributes to conceal the deficit suffered by employee directors). The results confirm our previous observations: the coefficient associated with *Employee* is negative ( $-0.1989$ , with a standard error of  $0.0877$ ), significant at the 5% level.<sup>12</sup> This indicates that in total, and despite the recommendation on compensation committees, employee directors sit on fewer committees than other directors – controlling for their individual characteristics.

To test the robustness of our results, we perform three distinct tests.

First, we change our regression sample, by excluding firms that have appointed employee directors after the 2015 second law, which lowered the (size) threshold for application of codetermination. These late-treated firms are likely to be smaller than companies concerned by the first 2013 law; as such, they may have different governance needs, therefore changing our results. It is not the case, as evidenced in [Table A3](#): estimation results are very similar that those obtained on our full, baseline sample ([Table 2](#)). In particular, the coefficients on the *Employee* dummy are almost unchanged.<sup>13</sup>

Second, we re-estimate model [I] with a logit model, instead of a linear probability model. To reduce the number of fixed effects in this non-linear setting, we replace firm-year fixed effects by year effects and firm- and board-level controls. Results are displayed in [Table A4](#), line (a), where we report the marginal effects of the *Employee* dummy. As a check, we run the same regression (with year effects as well as firm and board controls) with a linear probability model: the coefficients on the *Employee* dummy are reported in line (b) of [Table A4](#). The results of the two models (lines (a) and (b)) are basically similar, and in line with our baseline results (see [Table 2](#)).

Third, we use matching methods. As employee representatives have distinct individual characteristics as compared to other types of board members (see [Table A2](#)), the idea is to check the robustness of our results when considering a common support.<sup>14</sup> We first use a radius propensity score matching. In a first step, we estimate the propensity score: we use a logit model to regress the *Employee* dummy on our set of individual characteristics (gender, tenure, age, nationality, *Grandes écoles* and being a busy director), with a caliper of 0.001. Note that the variables *Independence*, *Insider* and *Employee-Shareholder* are not introduced at this stage, as they perfectly predict failure (the probability to be an employee representative is 0 for an independent director). In a second step we use a linear probability model, with propensity scores used as weights, to regress our committee dummies on *Employee*, *Independence*, *Insider* and *Employee-Shareholder*, also controlling for year effects and firm- and board level variables. Doing so, we have exactly the same regressors than the two

<sup>12</sup>Full results available upon request.

<sup>13</sup>As suggested by a reviewer, we have also excluded firms that already had employee directors when the 2013 codetermination law was enacted (13 in total). For the vast majority, these are formerly state-owned firms, privatized in the 1980s to 1990s. Overall, our findings are robust to this change in the sample (full results available upon request).

<sup>14</sup>We thank a reviewer for this suggestion.

previous models in Table A4, lines (a) and (b). Results are reported in the line (c) of Table A4,<sup>15</sup> and can directly be compared with previous results (lines (a) and (b)): we observe that our findings are robust to this new estimator. As an alternative, we use a Coarsened Exact Matching (CEM) estimator (Askenazy et al., 2024; Iacus et al., 2012): all our findings are unchanged (see Table A4, line (d)).

## The effects of codetermination laws

We now examine our second research question, regarding the impact of the law on employee representatives' empowerment. We estimate model [2] for each committee dummy. Our main coefficient of interest is the one associated with the interaction term *Post\*Employee*, as it identifies the effect of the adopted regulations on employee directors' access to committees, under the parallel trend assumption.

To test the null (parallel trend) hypothesis that there is no difference in pre-reform trends between the treated (employee representatives) and the control group (other directors) in committee access, we estimate a dynamic specification of model [2] (Borusyak et al., 2024). More precisely, we regress our committee dummies on the treatment dummy (*Employee<sub>i</sub>*), interaction terms between year effects ( $\gamma_t$ ) and the treatment dummy, individual controls ( $X'_{i,j,t}$ ) and firm-year effects ( $\mu_{j,t}$ ):

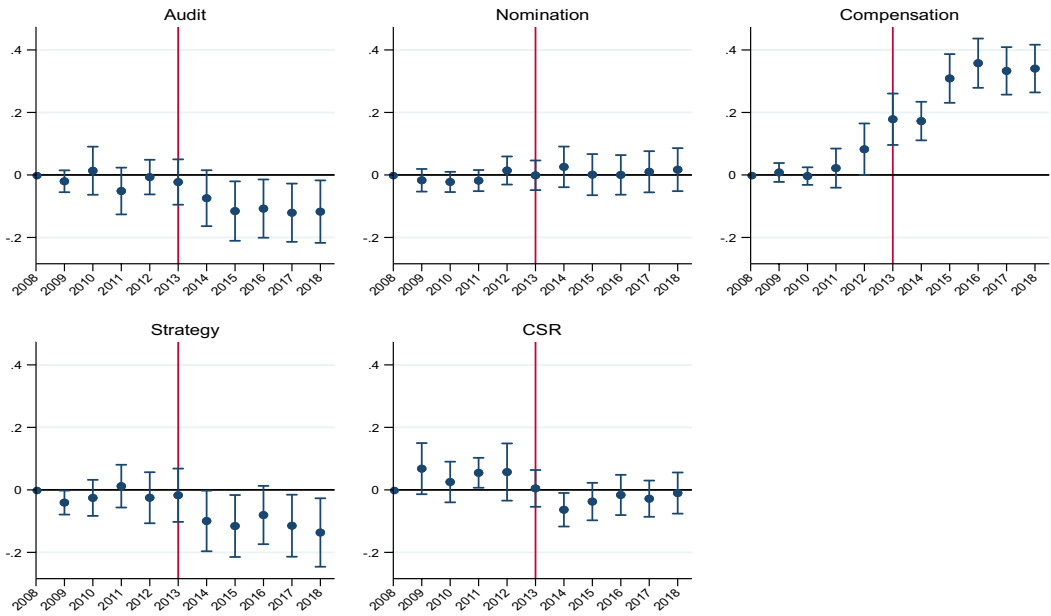
$$Audit_{i,j,t} = b \cdot Employee_i + \sum_{t=2009}^{t=2015} c_t \cdot \gamma_t \cdot Employee_i + X'_{i,j,t} \cdot d + \mu_{j,t} + \varepsilon_{i,j,t} \quad (3)$$

The coefficients  $c_t$  on the interaction terms measure the yearly effects of being an employee representative on audit committee access, taking 2008 as the year of reference. For instance,  $\widehat{c}_{2009} > 0$  means that, starting with a negative gap (a discount) for employee representatives in 2008, the gap has narrowed (for instance went from  $-10\%$  to  $-5\%$ ) in 2009. The null hypothesis is supported if  $\widehat{c}_{2009}$ ,  $\widehat{c}_{2010}$ ,  $\widehat{c}_{2011}$ ,  $\widehat{c}_{2012}$  and  $\widehat{c}_{2013}$  are not significantly different from 0: there might have been a (conditional) gap in committee access between employee representatives and other directors in 2008, but this gap has stayed constant over time in the pre-reform period. Figure 2 plots the  $c_t$  coefficient estimates, with 90% confidence intervals, from  $t=2009$  to  $t=2018$  – for each of our five committee variables.

We observe that in the pre-reform period, and with the exception of year 2013 for the compensation committee,<sup>16</sup> all the pre-reform  $c_t$  coefficients are never statistically different from 0. More precisely, the null hypothesis that there is no difference between employee directors and other board members in pre-reform trends is equivalent to the null hypothesis that all pre-reform  $c_t$  coefficients (from  $t=2009$  to  $t=2013$ ) are equal to each other. We perform this test, for each of the outcomes: the  $p$ -values we obtain are equal to 0.657 for audit committee, 0.147 for nomination committee, 0.473 for strategy committee and 0.338 for CSR committee. Due to

<sup>15</sup>We indicate (in the notes below the Table) the number of observations used in the second stage, i.e., the common support. Balancing tests, available upon request, indicate that once on this support, there is no more significant difference between employee representatives and other board members for any individual attribute.

<sup>16</sup>Indeed, the possibility to open compensation committees to worker representatives was already being discussed in some organizations or forums – certainly opening up the possibility of leakages. For instance, *l'Institut Français des Administrateurs* (an independent association that brings together, represents, informs and trains directors in French companies) wrote, in a (public) report of a meeting on March 27, 2012, about compensation committee: “We consider that the presence of employee directors on boards is a good thing and that there should be no obstacle to the appointment of such directors to compensation committees. However, [...] If it is not imposed by law, should it not be excluded and encouraged in the governance codes as a good practice?”. Similarly, the proposal to include employee directors in compensation committees was part of François Hollande's election programme during the 2012 French presidential campaign.



**FIGURE 2** Committee memberships for employee directors – Parallel trends. This figure reports estimated coefficients  $c_t$  on the interaction terms between year effects and the *Employee* dummy (equal to 1 if  $i$  is an employee representative), with  $t=2008$  used as a reference, obtained by estimating Equation (3) by OLS. The dependent variable is a dummy equal to 1 if the director is a member of the audit committee (top left panel), a dummy equal to 1 if the director is a member of the nomination committee (top middle panel), a dummy equal to 1 if the director is a member of a committee dedicated to compensation (top right panel), a dummy equal to 1 if the director is a member of the strategy committee (bottom left panel), and a dummy equal to 1 if the director is a member of the CSR committee (bottom right panel). Regressions also include the *Employee* dummy, firm-year fixed effects and individual controls (directors' age, gender, tenure, tenure squared, nationality, education, busyness, independence, insider and shareholder employee representative). Standard errors are clustered at the company level. Error bars correspond to 90% confidence intervals.

the aforementioned leakage or anticipation effect, the  $p$ -value for compensation committee is equal to 0.003 ( $\widehat{c}_{2013}$  is significantly different from 0). Overall, we cannot rule out the null hypothesis. It supports the parallel trends assumption and reinforces the confidence in the results of our difference-in-differences estimations. These results are reported in Table 3.

The coefficient on *Post\*Employee* is negative and significant (at the 5% level) in column 1 (audit committee): the 2013 regulatory shock has had a negative effect on employee directors' access to audit committees. Generally speaking, two main factors may influence this access (controlling for tenure, gender, etc.): (i) the fact that employee directors are not considered as independent and (ii) the fact that they represent labor rather than capital (ii). Our first empirical model (on the post-reform period: see [1]) gives clear indications regarding the first factor (i): employee directors are penalized post-reform in audit committee matters because of their non-independent status. Our second, difference-in-differences model (see [2]) informs about the second factor (ii): the 2013 reform negatively impacts on the access of employee directors *as labor representatives*, irrespective of the (non-)independence status. Put differently, while employee directors were favored as such in the pre-reform period in terms of audit committee access, their situation has deteriorated in the post-reform period. This suggests that firms have reacted to the (hard law) requirement to open up their boards to employee representatives by limiting their access to the most strategic committee (the audit one) – compared to previous practices. A similar pattern can be observed when considering the strategy committees (column 4): the coefficient on *Post\*Employee* is significant



**TABLE 3** Employee directors' access to committees, DiD estimates.

	(1)	(2)	(3)	(4)	(5)
	Audit	Nomination	Compensation	Strategy	CSR
Post	(.)	(.)	(.)	(.)	(.)
Post*Employee	-0.0943** (0.0461)	0.0183 (0.0363)	0.258*** (0.0352)	-0.0953* (0.0503)	-0.0634 (0.0496)
Employee	0.0251 (0.0658)	-0.115** (0.0454)	-0.0968*** (0.0262)	0.0130 (0.0724)	0.0613 (0.0567)
Employee- shareholder	0.0881 (0.0641)	-0.0874*** (0.0242)	-0.0373 (0.0529)	-0.0801 (0.0722)	0.0125 (0.0351)
Insider	-0.246*** (0.0170)	-0.0997*** (0.0180)	-0.231*** (0.0198)	-0.0218 (0.0326)	-0.00247 (0.0147)
Independent	0.231*** (0.0169)	0.00901 (0.0114)	0.151*** (0.0183)	-0.0673*** (0.0197)	0.0149 (0.0116)
Woman	-0.00380 (0.0223)	0.00247 (0.0148)	-0.0301 (0.0184)	-0.0540*** (0.0191)	0.0331** (0.0135)
Tenure	0.0208*** (0.00284)	0.0136*** (0.00204)	0.0162*** (0.00312)	0.00211 (0.00277)	0.00288** (0.00136)
Tenure squared	-0.00048*** (0.0000691)	-0.000280*** (0.0000444)	-0.000414*** (0.000114)	0.0000125 (0.0000814)	-0.0000766** (0.0000353)
Age	-0.00347*** (0.000894)	0.00104* (0.000578)	0.00476*** (0.00101)	0.000134 (0.000722)	0.000452 (0.000390)
Foreigner	-0.0323 (0.0274)	-0.0124 (0.0134)	0.0181 (0.0242)	0.0289 (0.0181)	-0.0216* (0.0115)
Elite	0.0877*** (0.0237)	-0.000791 (0.0116)	0.00712 (0.0200)	0.0249 (0.0178)	-0.00561 (0.00923)
Busyness	-0.0353* (0.0186)	0.0241** (0.0110)	0.0664*** (0.0194)	0.0497*** (0.0146)	-0.0190** (0.00873)
Firm-Year FE	Yes	Yes	Yes	Yes	Yes
Obs.	16,363	16,363	16,363	16,363	16,363
Adj. R2	0.088	0.253	0.084	0.309	0.230

Note: \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Models are estimated by OLS. The dependent variable is a dummy equal to 1 if the director is a member of the audit committee (col. 1), a dummy equal to 1 if the director is a member of the nomination committee (col. 2), a dummy equal to 1 if the director is a member of a committee dedicated to compensation (col. 3), a dummy equal to 1 if the director is a member of the strategy committee (col. 4), and a dummy equal to 1 if the director is a member of the CSR committee (col. 5). *Post* is a dummy variable equal to 0 for the years from 2008 to 2013 and 1 afterwards (2014–2018). The *Employee* dummy is equal to 1 if director  $i$  is an employee representative. Other individual controls are directors' age, gender, tenure, tenure squared, nationality, education, busyness, independence, insider and shareholder employee representative. All regressions include firm-year fixed effects. Robust standard errors clustered at the company level in parentheses.

(at the 10% level) and negative (-0.0953, with a standard error of 0.0503). The conditional discount or penalty supported by employee directors (controlling for independence) has therefore increased following 2013. On the other hand, the regulatory changes have had no effect on the access of employee directors to the nomination committee (column 2), although they are barred in the post-reform period from joining that committee (see the

results of model [1], reported in Table 2, column 2), their situation has not worsened (nor improved) over time, following the reform.

Last but not least, turning to the compensation committee (Table 3, column 3), we observe a completely different pattern: the coefficient on the interaction term *Post\*Employee* is positive, equal to 0.258, with a standard error of 0.035 (significant at the 1% level). The 2013 regulatory changes have thus strongly improved the access of employee directors to this committee. This confirms the power of soft law: the introduction in 2013 of a new provision in the code, expressly recommending that an employee director be included in the compensation committee, has generally had the intended effect. Since 2013, these committees have been broadly opened to employee representatives – and are today their main leverage of influence within boardrooms.

We test the robustness of our difference-in-differences regressions in two different ways. First, we drop late-treated firms that have appointed employee directors after the second regulatory shock. Our results (available upon request) are almost unchanged. Second, we run a placebo experiment to further test the common-trend assumption. To do so, we consider the pre-reform period only (2008–2013), and envisage a fictive event/regulatory shock occurring in the middle of this period, i.e., in 2011. Our post-fake-reform period then includes the years 2011, 2012 and 2013. With this new time division, we reestimate model [2] (difference-in-differences). Results are reported in Table A5. As can be seen, none of the coefficients associated to the interaction term *Employee\*Post* are different from 0 at conventional levels of statistical significance – except for the compensation committee. It means that the fictive event had no effect on the position of employee directors. These results are fully consistent with our previous test for common trend assumption, using the dynamic model [3]. Indeed, we then saw that all the pre-reform  $c_t$  coefficients were never statistically different from 0, with the exception of year 2013 for the compensation committee. In other words, in the pre-reform period, there were no observable trends for employee director regarding committee access (as compared to other directors). The access to compensation committee is different, as employees started to benefit from a conditional premium in 2013: we have already mentioned in footnote 16 that this positive coefficient is very likely related to the occurrence of leakages and discussions, in 2012–2013, regarding the opening of this committee to employee representatives. In our placebo experiment, those leakages mean that the post-fake-reform period is associated with a positive coefficient for employee directors (as against non-employee board member), as compared to the pre-fake-reform period.

## DISCUSSION

### Containing labor influence?

Our empirical analyses, static over the post-reform period and dynamic in double differences, have enabled us to observe a number of results regarding the integration of employee directors in French boardrooms. Overall, controlling for a number of individual observable characteristics and for firm unobservable heterogeneity, we observe that employee directors are not currently treated as directors like any other. In particular, they have less access to audit (when we do not control for independence), nomination and strategy committees, and more access to compensation committees. This general pattern partly reflects the legal provisions regulating labor representation at the board-level. First, the decision to consider them as non-independent limits their access to the audit committee. Second, the provision on compensation committees increases their access to such committees. Third, the 2013 law, by introducing a quota for the first time, has led to a substantial increase in the number of employee directors, but at the cost of a decrease in their relative influence. The 2013 change did indeed result in a decline (relative to the previous period and to other directors) in their ability to join audit and strategy committees.

This last result (the decline in their relative influence) echoes the discussion, mostly in political science (Brulé & Toth, 2022; Krook, 2015) but also in management (Leibbrandt et al., 2018), about the possibility of a backlash against women, following the enactment of gender quotas in boardrooms. This backlash may operate through various mechanisms: growing distaste for women in leadership positions, increased sabotage in peer-review process, increased inter-group conflicts, etc. In our case, the imposition of a quota of employee representatives, while increasing their formal representation, has led companies to adjust their internal power structure – resulting in a relative decrease in employee directors' access to influential positions, as compared to the previous period. Firms, forced to integrate new members, have accommodated the law by adopting a strategy of newcomers' containment. This analysis is consistent with Belot and Waxin (2022) who observe two “avoidance strategies” by French family firms subject to codetermination law: family firms tend to increase board size (therefore reducing the formal power of new employee directors) and to limit the access for employee directors to compensation committees, as compared to non-family firms. The first strategy, to let the size of the board increase in order to dilute the power of the worker representatives, is also reported by Thomsen et al. (2016) for Swedish firms subject to a codetermination law. We highlight another avoidance strategy, whereby companies have used the discretionary power over committee assignment to limit the access of employee directors to influential positions. In particular, the door to audit committees (and, to a lesser extent, of strategy committees) has been partially closed to them. A similar phenomenon was observed following the application of a gender quota in French boardrooms in 2011. The number of female directors has increased, but their positions on boards have also weakened in the post-reform years (Rebérioux & Roudaut, 2019).

Our analysis also suggests that soft law may have been instrumental in restricting the access of employee representatives to the most influential committees. In particular, the soft law recommendation that they be included in compensation committees may have had a crowding-out effect on their presence in other (more prestigious, more powerful) committees. It suggests that companies were free not only to follow (or not) the code's recommendations regarding the presence of employee directors on compensation committees, but also to include them on other committees, which they did not.

Finally, our results also indicate that employee directors do not really occupy the positions one might have expected, given their profile or individual characteristics. Arguments in favor of codetermination generally emphasize the increased in firm-specific information sharing between management and employees associated with shared governance (Freeman & Lazear, 1995; Osterloh & Frey, 2006). This makes employee directors fairly natural candidates for seats on non-monitoring committees, i.e., strategy committees and CSR committees. This is not the case, with our empirical findings even reporting a limited (conditional) access to strategy committees. This may reflect a general reluctance on the part of companies to include employee directors on committees and a more general desire to contain labor empowerment in boards.

## Firm-level outcomes

Ultimately, one question remains: what can we expect from this strengthening/extension of codetermination for French companies? Regarding corporate governance, if the influence of employee directors remains low (as we have shown), co-determination laws could nevertheless have an impact on board size. Two options are possible. On the one hand, if firms opt for a replacement strategy, the appointment of employee directors should be offset by the departure of other directors – board size should therefore not be affected. On the other hand, firms could simply “add” the newcomers (employee directors), increasing board size. As discussed above, this may be an “avoidance strategy” used to minimize the influence of employee directors (by keeping their percentage representation low: see Belot & Waxin, 2022, or Thomsen et al., 2016). But this could also reflect a simple adjustment period, as firms cannot necessarily

dismiss non-employee directors during their term (that are generally of 4 years). Beyond corporate governance, the question obviously arises of the impact on firm performance. In view of existing studies and the low influence of employee directors in the governance of French companies, we expect to observe no significant effects on performance.

To test these hypotheses, we aggregate our data at the firm-year level, and take advantage of the fact that companies have appointed employee directors at various points in time: it is therefore a staggered adoption design, where the treatment (the fact of appointing employee representatives at the board-level) is a binary absorbing state (i.e., for each firm  $j$  – except never-treated and always-treated ones – there is an event date  $E_j$  when  $j$  switches from treated to untreated and stays as such until the end of our observation period). In this framework, the equivalent of a difference-in-differences model, consisting of observing over time the effect of a treatment on a treated group relative to a control group, is a Two-Way Fixed Effect (TWFE) model (see, e.g., Borusyak et al., 2024 for a general discussion). In our setting, this model is the following:

$$Y_{j,t} = \sum_{h=-5}^{-2} \beta_h D_{j,t}^h + \sum_{h=0}^{+5} \beta_h D_{j,t}^h + X_{j,t} + \theta_j + \gamma_t + \varepsilon_{j,t} \quad (4)$$

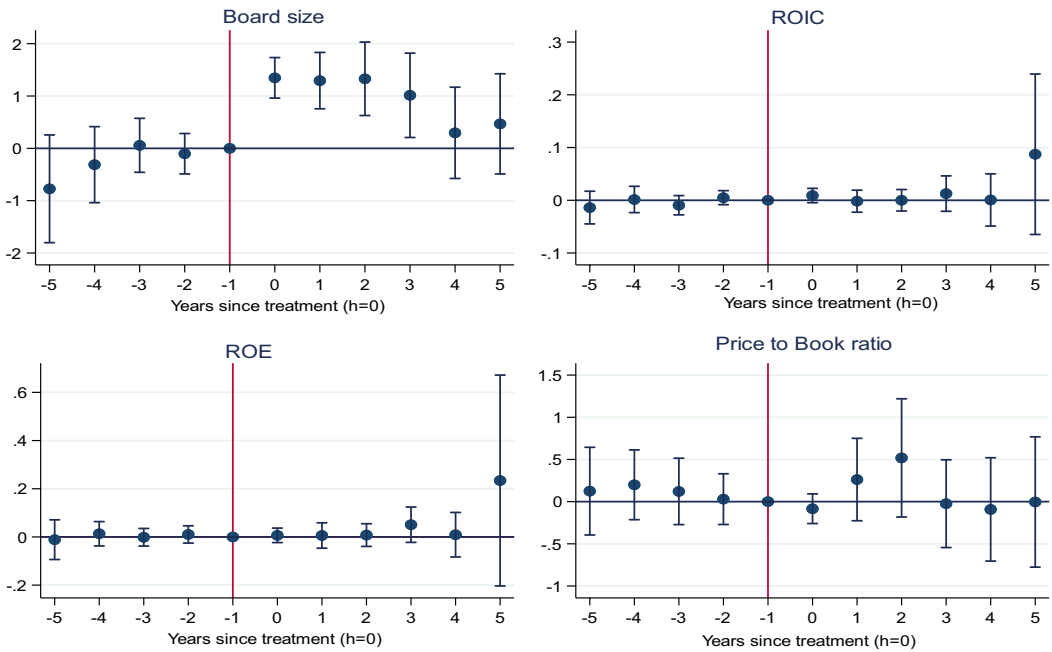
where  $Y_{j,t}$  is a firm-level outcome (board size and different measures of performance),  $\theta_j$  are firm fixed-effects and  $\gamma_t$  are year fixed-effects.  $D_{j,t}^h = \mathbf{1}\{t - E_j = h\}$  is a distance-to-treatment indicator taking value 1  $h$  years away from the year  $E_j$  of the treatment for firm  $j$ .  $\beta_h$  the coefficients on  $D^h$ , are our parameters of interest: they measure the yearly effect of the treatment on the outcome.  $h = -1$  (i.e., 1 year before the appointment of new employee directors) is omitted: it is used as the reference point to estimate treatment effects. The model is dynamic: the coefficients  $\beta_h$  are allowed to vary over time (or more precisely over distance-to-treatment  $h$ ). Finally,  $X_{j,t}$  is a vector of firm- and board-level controls and the standard errors  $\varepsilon_{j,t}$  are clustered at the firm level.

A recent literature has shown that coefficients obtained by estimating such a TWFE model by OLS would often lead to biased estimates (see Borusyak et al., 2024; Callaway & Sant'Anna, 2021; de Chaisemartin & d'Haultfœuille, 2023; Sun & Abraham, 2021). Indeed, such estimates are likely to suffer from a “contamination” problem, that is, the possibility that treatment effects from prior periods affect the estimate for a particular  $\beta_h$  (Callaway & Sant'Anna, 2021; Sun & Abraham, 2021). This contamination problem will hold when the treatment effect is not constant (or homogeneous) across time (de Chaisemartin & d'Haultfœuille, 2023). To address this issue, de Chaisemartin and d'Haultfœuille (2022) have proposed a robust estimator, avoiding “forbidden comparisons” between newly treated units (switchers) and already-treated units to compute the average treatment effect. We use this DID\_1 estimator, where never-treated and not-yet-treated observations are used as a control group.

Table A6 indicates the timing/structure of the treatment, at the firm-level. We observe that the first switchers are treated in 2013 (see also footnote 10) and our last observation period is 2018. Accordingly,  $h = 5$  years is the maximum distance-to-treatment we are able to consider. Also, with the DID\_1 estimator, the maximum number of lags ( $h < 0$ ) cannot be larger than the number of forward, dynamic effects ( $h \geq 0$ ).

To measure firm performance, we use three different indicators, to check the robustness of our conclusions: the Return On Invested Capital (ROIC, defined as net operating profit after tax divided by debt and equity), the Return On Equity (ROE, defined as net income divided by total equity) and the price-to-book ratio (ratio of the market value to the book value of the firm). We winsorize these three variables at the 1% and 99% levels.

The regression coefficients and standard errors obtained when running model [4] are plotted against the time distance to the treatment – see Figure 3. As mentioned above  $h = -1$  is taken as a reference, hence the reported coefficient is equal to 0. Regarding board size, the



**FIGURE 3** Firm-level outcomes and employee director appointment. This figure reports estimated coefficients on time-to-treatment dummies (in years) from  $h = -5$  to  $h = +5$ , with  $h = 0$  indicating the treatment period and  $h = -1$  used as a reference, obtained by estimating Equation (4) using the DID\_1 estimator of de Chaisemartin and d'Haultfœuille (2022). The dependent variables are, alternatively, board size (number of board members, including worker representatives), the Return On Invested Capital (ROIC), the Return On Equity (ROE) and the price-to-book ratio. In addition to firm and year fixed effects, regressions include the total number of employees in the firm (in log), total assets (in log), financial leverage, the shares of foreign directors, ‘elite’ directors, busy directors, shareholder-employee representatives, insiders, independent directors and female directors, as well as a dummy that takes value 1 if CEO function and Chairman (of the board) functions are separated and a dummy that takes value 1 if the company has a supervisory board. Standard errors are clustered at the firm level. Error bars correspond to 95% confidence intervals.

results are clear-cut: the trends appear to be parallel in the pre-event period: none of the estimated coefficients on lags between  $h = -2$  and  $h = -5$  are significantly different from zero. In contrast, the treatment immediately increases the total number of directors, as compared to the pre-treatment year, by around 1.2 person on average. The effect is stable (significantly positive) over the next three consecutive years. This result indicates that companies that had to comply with the law have done so by simply adding one or two (depending on board size) new employee directors. They have not compensated this appointment by a departure. This result is consistent with what has been observed for French family firms by Belot and Waxin (2022) and for Swedish firms by Thomsen et al. (2016), and can be interpreted as a sign of an “avoidance strategy” (aiming at decreasing labor influence). However, we also see in Figure 3 that 4 years after the treatment, the difference in board size with the pre-treatment year is no longer significant. This might suggest that after a couple of years, French firms have re-adjusted their boards, finally coming back to their initial size (but with employee representatives). In contrast with board size, we do not report any significant effect of appointing new employee director(s) on firm performance: none of the coefficients from  $h = 0$  to  $h = +5$  are significantly different from 0 at conventional levels, whatever the indicator of performance (ROIC, ROE or price-to-book ratio). The pre-trend and the post-trend appear to be very similar, with no sign of break in performance: as expected, especially given the limited empowerment of worker

representatives (as measured by committee access), the extension of codetermination in 2013 and 2015 did not translate into higher performance for companies.

## CONCLUSION

In this article, we have explored labor empowerment through codetermination. To do so, we have proposed an empirical study of the position of employee directors within French boards in large listed companies (the SBF120) over the period 2008–2018. This period was marked by the adoption of two successive laws (in 2013 and 2015) requiring the presence of employee directors above a certain number of employees, in a country where codetermination existed so far only on a selective or voluntary basis. Still over the same period, a soft law (non-binding) recommendation was added (on the presence of employee directors on the compensation committee), in addition to a long-standing recommendation on the non-independence of worker representatives. Overall, our findings indicate that the resulting French codetermination model is in fact quite limited in scope. We report that employee directors are not board members like the others. First, they are few in number, by European standards (the average rate of worker representation in codetermination countries is around 30%). Second, because of their non-independent status, which is debatable, they are barred from the audit committee. Third, they do not chair any committees. Fourth, because they represent workers, they have a more difficult access to the strategy and nomination committees. Finally, they are confined by soft law to the compensation committee – a committee with a rather technical content, not necessarily consistent with their own individual expertise (which would naturally open the door to the strategy and CSR committees). In these conditions, it is not surprising that we do not observe any significant impact of French-style codetermination on company performance – neither positive nor negative. All in all, it appears that “the devil is in the details.” Seeking to increase labor voice in corporate governance may be achieved through codetermination, but the magnitude of this voice will also depend on the secondary (soft law) provisions relating to these particular directors, as well as on the specific strategies adopted by companies regarding committees' directorship allocation.

Our findings indicate that board committees should become a matter of concern for the various firm stakeholders (shareholders, employees), as well as for the regulatory authorities, so that board diversity can have a real influence on corporate strategies.

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## DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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## APPENDIX

TABLE A1 Variables.

Variables	Definition
Firm characteristics	
Employees	Number of employees
Total assets	Value of the total assets of the company
ROIC	Return on invested capital
Financial leverage	Debt/total equity
Price-to-book ratio	Market value/book value
Board characteristics	
Board size	Number of directors
Chairman/CEO separation	Dummy equal to 1 if the Chairman and the CEO positions are separated
Supervisory board	Dummy equal to 1 if the board is a two-tier board
Individual characteristics	
Woman	Dummy equal to 1 if the director is a woman
Employee director	Dummy equal to 1 if the director is a labor representative
Employee-shareholder	Dummy equal to 1 if the director is a representative of employee-shareholders
Independent	Dummy equal to 1 if the director is considered as a 'independent', in accordance with the recommendation of the AFEP-MEDEF code of governance
Insider	Dummy equal to 1 if the director is an executive of the company
Foreigner	Dummy equal to 1 if the director is not French
Elite	Dummy equal to 1 if the director is graduated from one the following French <i>Grandes Ecoles</i> : <i>Polytechnique</i> , <i>Ecole des Mines</i> (engineer schools), <i>Sciences Po Paris</i> , ENA (political science schools) and HEC Paris, ESSEC or ESCP (business schools)
Busyness	Dummy equal to 1 if the director holds a one seat in at least two boards of the SBF120 firms
Age	Director age (years)
Tenure	Number of years in the boardroom
Committees (dummies)	
Audit	Dummy equal to 1 if the director is a member of the audit committee
Compensation	Dummy equal to 1 if the director is a member of the committee dedicated to compensation, i.e., a member of the compensation committee or the compensation-nomination committee
Nomination	Dummy equal to 1 if the director is a member of the nomination committee
Strategy	Dummy equal to 1 if the director is a member of the strategy committee
CSR	Dummy equal to 1 if the director is a member of the committee dedicated to corporate social responsibility or sustainable development

Source: Companies' annual reports and Datastream.

**TABLE A2** Individual characteristics and committee memberships (means and difference in means).

	<b>Employee directors (1)</b>	<b>Employee-shareholders (2)</b>	<b>Other directors (3)</b>	<b>(1)–(2)</b>	<b>(1)–(3)</b>	<b>(2)–(3)</b>
<b>Panel A: Pre-reform period (2008–2013)</b>						
Woman	0.308 (0.060)	0.335 (0.074)	0.156 (0.010)	-0.028 (0.095)	0.152** (0.061)	0.18** (0.074)
Tenure	5.063 (0.636)	3.652 (0.395)	6.824 (0.168)	1.412* (0.749)	-1.761*** (0.658)	-3.173*** (0.429)
Age	51.615 (0.915)	53.174 (0.951)	58.848 (0.281)	-1.559 (1.32)	-7.233*** (0.958)	-5.674*** (0.991)
Foreign	0.023 (0.014)	0.11 (0.05)	0.234 (0.012)	-0.087* (0.051)	-0.211*** (0.018)	-0.124** (0.050)
Elite	0.032 (0.027)	0.077 (0.037)	0.456 (0.016)	-0.046 (0.046)	-0.425*** (0.031)	-0.379*** (0.04)
Busy	0	0.006 (0.006)	0.368 (0.016)	-0.006 (0.006)	-0.368*** (0.016)	-0.361*** (0.017)
Audit	0.249 (0.055)	0.206 (0.06)	0.329 (0.011)	0.042 (0.081)	-0.080 (0.056)	-0.123** (0.061)
Nom.	0	0	0.1 (0.007)	0	-0.1*** (0.007)	-0.1*** (0.007)
Comp.	0.045 (0.016)	0.058 (0.034)	0.316 (0.010)	-0.013 (0.038)	-0.271*** (0.019)	-0.258*** (0.036)
Strat	0.308 (0.057)	0.265 (0.066)	0.243 (0.009)	0.043 (0.087)	0.065 (0.058)	0.022 (0.066)
CSR	0.158 (0.044)	0.045 (0.021)	0.052 (0.005)	0.113** (0.048)	0.107** (0.044)	-0.007 (0.021)
<b>Panel B: POST-reform period (2014–2018)</b>						
Woman	0.383 (0.041)	0.539 (0.078)	0.365 (0.015)	-0.156* (0.088)	0.018 (0.044)	0.175** (0.079)
Tenure	3.057 (0.178)	4.533 (0.396)	6.994 (0.169)	-1.476*** (0.434)	-3.937*** (0.246)	-2.461*** (0.431)
Age	51.5 (0.635)	54.237 (0.991)	58.746 (0.273)	-2.737** (1.176)	-7.246*** (0.691)	-4.509*** (1.027)
Foreign	0.125 (0.03)	0.191 (0.066)	0.265 (0.012)	-0.066 (0.072)	-0.140*** (0.032)	-0.075 (0.067)
Elite	0.076 (0.024)	0.066 (0.033)	0.414 (0.015)	0.010 (0.041)	-0.338*** (0.028)	-0.348*** (0.036)
Busy	0.006 (0.005)	0.046 (0.034)	0.316 (0.015)	-0.04 (0.034)	-0.31*** (0.016)	-0.27*** (0.037)
Audit	0.143 (0.028)	0.362 (0.069)	0.357 (0.012)	-0.218*** (0.074)	-0.213*** (0.031)	0.005 (0.07)

(Continues)

TABLE A2 (Continued)

	<b>Employee directors (1)</b>	<b>Employee-shareholders (2)</b>	<b>Other directors (3)</b>	<b>(1)–(2)</b>	<b>(1)–(3)</b>	<b>(2)–(3)</b>
Nom.	0.002 (0.002)	0.007 (0.006)	0.124 (0.007)	–0.005 (0.007)	–0.122*** (0.008)	–0.118*** (0.01)
Comp.	0.318 (0.035)	0.191 (0.057)	0.332 (0.011)	0.127* (0.067)	–0.014 (0.036)	–0.141** (0.058)
Strat	0.197 (0.032)	0.243 (0.066)	0.249 (0.010)	–0.047 (0.073)	–0.052 (0.033)	–0.005 (0.066)
CSR	0.137 (0.026)	0.184 (0.057)	0.108 (0.007)	–0.047 (0.063)	0.029 (0.027)	0.076 (0.058)

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Observations are at the individual-firm-year level. The first three columns of the table report the mean of individual controls and committee membership dummies. The last three columns report the difference in means. Standard errors in parentheses.

**TABLE A3** Employee directors' access to committees in the post-reform period (2014–2018) – excluding firms appointing employee directors after 2015.

	(1)	(2)	(3)	(4)	(5)
	Audit	Nomination	Compens.	Strategy	CSR
Employee	-0.0191 (0.0446)	-0.109*** (0.0244)	0.183*** (0.0384)	-0.0854* (0.0513)	0.0132 (0.0326)
Emp-shareholder representative	0.294*** (0.0810)	-0.140*** (0.0352)	-0.0148 (0.0729)	-0.0628 (0.0860)	0.0333 (0.0627)
Insider	-0.243*** (0.0256)	-0.174*** (0.0287)	-0.251*** (0.0256)	-0.0318 (0.0448)	0.0250 (0.0296)
Independent	0.248*** (0.0243)	0.000610 (0.0149)	0.158*** (0.0282)	-0.0837*** (0.0280)	0.0168 (0.0153)
Woman	0.0239 (0.0280)	0.0104 (0.0204)	-0.0244 (0.0279)	-0.0833*** (0.0245)	0.0497** (0.0190)
Tenure	0.0274*** (0.00385)	0.0178*** (0.00283)	0.0154*** (0.00440)	0.00209 (0.00378)	0.00693** (0.00295)
Tenure squared	-0.000612*** (0.0000824)	-0.000384*** (0.0000878)	-0.000410*** (0.000153)	0.0000171 (0.000115)	-0.000181** (0.0000739)
Age	-0.00535*** (0.00135)	0.00143 (0.00101)	0.00704*** (0.00152)	0.000435 (0.00105)	0.000506 (0.000862)
Foreigner	-0.0155 (0.0373)	-0.0240 (0.0175)	-0.00160 (0.0307)	0.00462 (0.0269)	-0.0224 (0.0234)
Elite	0.0860*** (0.0299)	-0.0119 (0.0159)	0.00377 (0.0283)	0.0114 (0.0257)	-0.0164 (0.0187)
Busyness	0.0242 (0.0250)	0.0364* (0.0197)	0.0748** (0.0318)	0.0698*** (0.0175)	-0.0124 (0.0168)
Firm-Year FE	Yes	Yes	Yes	Yes	Yes
Obs.	5287	5287	5287	5287	5287
Adj. R2	0.116	0.253	0.083	0.334	0.200

Note: \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Models are estimated by OLS. The dependent variable is a dummy equal to 1 if the director is a member of the audit committee (col. 1), a dummy equal to 1 if the director is a member of the nomination committee (col. 2), a dummy equal to 1 if the director is a member of a committee dedicated to compensation (col. 3), a dummy equal to 1 if the director is a member of the strategy committee (col. 4), and a dummy equal to 1 if the director is a member of the CSR committee (col. 5). Right-hand side variables include the *Employee* dummy (equal to 1 if director  $i$  is an employee representative) and other individual controls (directors' age, gender, tenure, tenure squared, nationality, education, busyness, independence, insider and shareholder employee representative). All regressions include firm-year fixed effects. Robust standard errors clustered at the company level in parentheses.

TABLE A4 Estimated coefficients on the *Employee* dummy – robustness checks using various estimators.

	(1)	(2)	(3)	(4)	(5)
	Audit	Nomination	Compens.	Strategy	CSR
Logit model					
(a) Employee	-0.1008* (0.0577)	-0.1189*** (0.0130)	0.1788*** (0.0321)	-0.0552 (0.0440)	0.0151 (0.0317)
Linear Probability Model (LPM)					
(b) Employee	-0.0774* (0.0436)	-0.0831*** (0.0185)	0.1631*** (0.0305)	-0.0660 (0.0468)	0.0143 (0.0317)
Propensity Score Matching (PSM)					
(c) Employee	-0.1167** (0.0494)	-0.0887*** (0.0236)	0.1485*** (0.0507)	-0.0438 (0.0530)	0.0316 (0.0322)
Coarsened Exact Matching (CEM)					
(d) Employee	-0.0911* (0.0512)	-0.0796*** (0.0265)	0.1303*** (0.0424)	-0.0796 (0.0564)	0.0335 (0.0381)

Note: \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . The Table reports the estimated coefficients on the *Employee* dummy, using 4 distinct estimators (lines a, b, c and d). The dependent variable is a dummy equal to 1 if the director is a member of the audit committee (col. 1), a dummy equal to 1 if the director is a member of the nomination committee (col. 2), a dummy equal to 1 if the director is a member of a committee dedicated to compensation (col. 3), a dummy equal to 1 if the director is a member of the strategy committee (col. 4), and a dummy equal to 1 if the director is a member of the CSR committee (col. 5). In line (a), we use logit regressions and report marginal effects. In line (b), we use Linear Probability Models. In line (c), we use a Propensity Score Matching. In line (d), we use a Coarsened Exact Matching. All models include year fixed effects, as well as firm and board controls (number of employees, value of total assets, return on invested capital, financial leverage, price-to-book ratio, a binary variable equal to 1 if the company has a supervisory board, board size and CEO/Chairman separation). In lines (a) and (b), we also control for individual characteristics (directors' age, gender, tenure, tenure squared, nationality, education, busyness, independence, insider and shareholder employee representative). In lines (c) and (d), matching is performed on the following individual attributes: directors' age, gender, tenure, nationality, education and busyness. Linear Probability Models are then run on the common support, using propensity score as weights, and with the following regressors: independence, insider and shareholder employee representative (plus year fixed effects, firm and board controls). In line (c) (PSM), the common support includes 4504 observations. In line (d) (CEM), the common support includes 3012 observations. Robust standard errors clustered at the company level in parentheses.

**TABLE A5** Placebo test – fictive event in 2011.

	(1)	(2)	(3)	(4)	(5)
	<b>Audit</b>	<b>Nomination</b>	<b>Compens.</b>	<b>Strategy</b>	<b>CSR</b>
PostF*Employee	-0.0285 (0.0283)	0.0109 (0.0168)	0.0942*** (0.0319)	0.0134 (0.0354)	0.00252 (0.0287)
Employee	0.0304 (0.0712)	-0.116** (0.0466)	-0.162*** (0.0230)	0.00159 (0.0747)	0.0548 (0.0604)
Firm-Year FE	Yes	Yes	Yes	Yes	Yes
Obs.	9036	9036	9036	9036	9036
Adj. R2	0.077	0.249	0.092	0.309	0.248

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Models are estimated by OLS, on the 2008–2013 period (pre-reform). The dependent variable is a dummy equal to 1 if the director is a member of the audit committee (col. 1), a dummy equal to 1 if the director is a member of the nomination committee (col. 2), a dummy equal to 1 if the director is a member of a committee dedicated to compensation (col. 3), a dummy equal to 1 if the director is a member of the strategy committee (col. 4), and a dummy equal to 1 if the director is a member of the CSR committee (col. 5). *PostF* is a dummy variable equal to 0 for the years from 2008 to 2010 and 1 afterwards (2011–2013). The *Employee* dummy is equal to 1 if director *i* is an employee representative. Other individual controls are directors' age, gender, tenure, tenure squared, nationality, education, busyness, independence, insider and shareholder employee representative. All regressions include firm-year fixed effects. Robust standard errors clustered at the company level in parentheses.

**TABLE A6** Timing of the treatment (appointment of employee directors).

	<b>Number of firms</b>	<b>%</b>	<b>Cum. %</b>
Never treated	47	36.15	36.15
Always treated	13	10.00	46.15
Treated in 2013	2	1.54	47.69
Treated in 2014	29	22.31	70.00
Treated in 2015	5	3.85	73.85
Treated in 2016	4	3.08	76.92
Treated in 2017	19	14.62	91.54
Treated in 2018	11	8.46	100.00
Total	130	100.00	

*Reading:* 13 firms out of 130 are always-treated units, i.e., where employee directors are present throughout the entire 2008–2018 period. 19 firms appoint employee directors for the first time in 2017.