Trend Brief: Socioeconomic Board Diversity

What Is Socioeconomic Board Diversity (SBD)?
Also called “board-level employee representation” or worker representation on boards, socioeconomic board diversity (SBD) refers to the presence of non-executive-level employees on boards to ensure that workers’ values and interests are considered during the corporate decision-making process.¹

How Can Workers’ Interests Be Represented on Corporate Boards?
Socioeconomic board diversity is one of many mechanisms utilized for codetermination, meaning joint decision-making between workers, executives, and shareholders.² At minimum, SBD requires the presence of current, non-executive-level employees on a board. More importantly, effective SBD requires an inclusive environment where these employee representatives—collectively with other board members—can make decisions that positively influence the employees of an organization and its stakeholders.³

Europe Leads the Way
Conceptualized as far back as 1918 and revitalized by labor shortages and political concerns from World War II,⁴ SBD spread throughout Europe and is now the norm in most of the continent today.⁵ Of the 31 European Economic Area countries, 19 have legal frameworks supporting various models of board-level employee representation.⁶ Each model is based on different factors, such as company eligibility, strength of representation, duties and responsibilities, and methods for choosing the employee representatives.⁷ Often considered a role model for SBD, Germany is the focus of studies on worker representation.⁸

German law requires companies to enact a codetermination model with two boards: the executive board and the supervisory board, which includes non-executive directors, shareholders, and employee representatives.⁹ Other companies in Europe, for example in Sweden, have a single board that includes employee representatives.¹⁰ France allows companies to decide between a one-tier or two-tier board. The one-tier model is more common.¹¹

An Emerging Trend in the United States
In the United States, socioeconomic class is often overlooked as a dimension of diversity; it has only recently entered conversations concerning recruitment and retention.¹² US companies have also started to understand the significant loss of talent and perspective that results when diverse perspectives (including diverse socioeconomic backgrounds) are excluded from corporate decision-making.¹³ At the same time, many researchers, economists, and politicians are now questioning whether the current model for US boards—which prioritizes the interests of the shareholders over other stakeholders—is sustainable.¹⁴
The Benefits of Socioeconomic Board Diversity

“When boards think and act inclusively, it sends a very clear message [about] what’s important to the company.”

- Billie Williamson, Director, Kraton Corporation, Cushman & Wakefield, and Pentair

Research has shown that socioeconomic board diversity positively impacts key stakeholders, including employees, customers, and managers. The benefits include:

- Prioritizing long-term investment in both the organization and employees.\(^{16}\)
- Higher wages for employees and greater income equality.\(^{17}\)
  - A 2014 study found that the CEO-to-worker pay ratio in the United States was 354 to 1, more than twice the ratio in Germany.\(^{18}\) This gap is mainly due to the difference in performance-based pay. While both US and German boards award their CEOs with performance-based pay in the form of stocks in addition to monetary compensation, the portion of performance-based pay for US CEO salaries are higher than that of its foreign counterparts.\(^{19}\)
- The ability to negotiate alternative cost-reducing measures in lieu of layoffs.\(^{20}\)
- Investment in upskilling.\(^{21}\)
  - More than one-third of US jobs (36%) are skilled, putting the United States behind many countries with SBD practices.\(^{22}\)
- Modeling inclusion.
  - Boards can set an example of an inclusive governing culture by embedding the organization’s values into business strategies and making management accountable for upholding this vision.\(^{23}\)

In August 2019, 181 CEOs signed the Business Roundtable statement calling on US companies to shift from an exclusive focus on shareholder interests to a new corporate social responsibility that takes all stakeholder interests into account. Increasing socioeconomic board diversity is one step US companies can take to ensure employees’ interests are continually represented.\(^{24}\)

Why Socioeconomic Diversity Matters

Socioeconomic diversity matters because research shows that diverse and inclusive companies have higher levels of talent retention, productivity, and innovation.\(^{25}\) However, many companies often overlook socioeconomic diversity, especially the ways that it intersects with race and gender. For example, class migrants—professionals who have climbed to higher socioeconomic classes\(^{26}\)—are often people of color. As employees with unique experiences and perspectives, they can offer a first-hand understanding of customers and worker populations as well as effective leadership skills.\(^{27}\) Creating an inclusive culture for class migrants can contribute to diverse talent retention.\(^{28}\) But it is also important to ensure that as “non-traditional” dimensions of diversity such as socioeconomic class are elevated, other dimensions such as race and gender are not subsequently de-prioritized. All of these intersectional components of identity can and should be prioritized at the same time.

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1 Natalie Videbæk Munkholm, "Board Level Employee Representation in Europe: An Overview," (paper presented for the annual conference of the European Center of Expertise, March 2018).
2 Bennet Berger and Elena Vaccarino, "Codetermination in Germany- A Role Model for the UK and the US?" Bruegel, October 13, 2016.
6 The 19 countries are Austria, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, and Sweden. Natalie Videbaek Munkholm, “Board Level Employee Representation in Europe: An Overview,” (working paper presented for the annual conference of the European Center of Expertise, March 2018).
10 Worker-participation.eu, “Board-Level Representation: Sweden.”
14 Susan R. Holmberg, “Fighting Short-Termism with Worker Power: Can Germany’s Co-Determination System Fix American Corporate Governance,” Roosevelt Institute, October 2017.
16 Susan R. Holmberg, “Fighting Short-Termism with Worker Power: Can Germany’s Co-Determination System Fix American Corporate Governance,” Roosevelt Institute, October 2017.
20 Aleksandra Gregorić and Marc Steffen Rapp, “Board-Level Employee Representation and Firms’ Responses to Crisis,” (paper presented at conference of the Institute of Labor Economics, Bonn, Germany, September 7–8, 2018).
25 Catalyst, Quick Take: Why Diversity and Inclusion Matter (August 1, 2018).