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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 Pentair¹⁵

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 classes²⁶—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.

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.

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- ³ Mike Fucci and Terri Cooper, "[The Inclusion Imperative for Boards: Redefining Board Responsibilities to Support Organizational Inclusion](#)," *Deloitte Insights*, April 2, 2019.
- ⁴ "[Codetermination the German Way](#)," *ABC*, March 6, 2013; Edwin F. Beal, "[Origins of Codetermination](#)," *ILR Review*, vol. 8, no. 4 (1955): p. 483-498.
- ⁵ Justin Fox, "[Why German Corporate Boards Include Workers](#)," *Bloomberg*, August 24, 2018.
- 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 Videbæk Munkholm, "[Board Level Employee Representation in Europe: An Overview](#)," (working paper presented for the annual conference of the European Center of Expertise, March 2018).
- ⁷ Natalie Videbæk Munkholm, "Board Level Employee Representation in Europe: An Overview," (working paper presented for the annual conference of the European Center of Expertise, March 2018).
- ⁸ Andrea Garnero, "[What We Do and Don't Know About Worker Representation on Boards](#)," *Harvard Business Review*, September 6, 2018.
- ⁹ David Blanco-Alcántara, Óscar López de Foronda, and Luis Miranda-Sanz, "One or Two Tier Board Structure? An Analysis for the Top European Companies," (Universidad de Burgos, 2017).
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- ¹⁴ Susan R. Holmberg, "[Fighting Short-Termism with Worker Power: Can Germany's Co-Determination System Fix American Corporate Governance](#)," Roosevelt Institute, October 2017.
- ¹⁵ Mike Fucci and Terri Cooper, "[The Inclusion Imperative for Boards: Redefining Board Responsibilities to Support Organizational Inclusion](#)," *Deloitte Insights*, April 2, 2019.
- ¹⁶ Susan R. Holmberg, "[Fighting Short-Termism with Worker Power: Can Germany's Co-Determination System Fix American Corporate Governance](#)," Roosevelt Institute, October 2017.
- ¹⁷ Felix Hörisch, "[The Macro-economic Effect of Codetermination on Income Equality](#)," MZES, Working Paper Series (2012).
- ¹⁸ Sorapop Kiatpongsan and Michael I. Norton, "[How Much \(More\) Should CEOs Make? A Universal Desire for More Equal Pay](#)," *Perspectives on Psychological Science*, vol. 9, no. 6 (November 2014): p. 587-593.
- ¹⁹ Nuno Fernandes, Miguel A. Ferreira, Pedro Matos, and Kevin J. Murphy, "[Are U.S. CEOs Paid More? New International Evidence](#)," *The Society for Financial Studies*, vol. 26, no. 2 (February 2013): p. 323-367.
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- ²² George Tyler, "[The Codetermination Difference](#)," *The American Prospect*, January 10, 2019.
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- ²⁸ Joan C. Williams, Marina Multhaup, and Sky Mihaylo, "[Why Companies Should Add Class to Their Diversity Discussions](#)," *Harvard Business Review*, September 5, 2018.