Do Firms Leave Workers in the Dark Before Wage Negotiations?

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Abstract

- A unionized firm's strategic use of financial disclosure in labor negotiations
- Empirical Strategy: exogenous expiration date of collective bargaining contracts
- Main finding: when wage negotiations are imminent, firms strategically redact information about material agreements.
- Strategic redaction is pronounced
  - when unions cannot accurately predict firms' prospects,
  - when firms have low growth opportunities,
  - when liquidity is less constrained,
  - and when the estimated cost of a work stoppage is low.
- Balance the costs and benefits of information asymmetry: strategic disclosure is statistically uncorrelated to *ex post* performance.

Research Question

- Do firms leave workers in the dark before wage negotiations? If so, how prevalent is this behavior?
- What factors do amplify or mitigate this behavior?
- Does this behavior improve *ex post* firm performance?

Labor Negotiation & Firm Behavior

- More than 16.4 million employees (12% of the U.S. workforce) were represented by unions in 2018
- Strategic decision on capital structure and value-destroying worker-management alliance
- How about information disclosure?: information advantage vs. information asymmetry costs.

Comment Letter on Materiality-Based Disclosure Rule

Heather S. Corzo (Director of the AFL-CIO) states:

> *"The lack of per se, line item disclosure requirements [...] has meant, in effect, that issuers have excessive discretion to determine what information is disclosed to investors."*

Thomas S. Timko (Vice President of GM):

> *"We believe the application of a principles-based approach allows registrants the flexibility to enhance their existing disclosures by focusing disclosures on items that are truly useful to investors."*

Public Speech

Richard L. Trumka (President of the AFL-CIO) states:

> *"[stronger standards] enhance workplace democracy and fair bargaining by giving workers more information about the financial condition and assets of employers."*

Empirical Challenge & Strategy

- How to detect strategic withholding of information?
- To compare a firm's tendency to redact financial information in the years with and without upcoming wage contract negotiations.

Institutional Background: Confidential Treatment Order

- Regulation S-K mandates disclosure of material agreement.
- A CTO is an SEC order to allow firms to omit certain information about material agreements, if full disclosure will cause substantial harm to the firms and their investors (Rules 406 and 24b-2).

CTO Example: General Motors

- Excerpt from FY 2017, 10-K Item 15.

Exhibit Number	Exhibit Name
10.17†	Amended and Restated Master Agreement, dated as of December 19, 2012, between General Motors Holdings LLC and Peugeot S.A., incorporated herein by reference to Exhibit 10.24 to the Annual Report on Form 10-K of General Motors Company filed February 6, 2014
†	Certain confidential portions have been omitted pursuant to a granted request for confidential treatment, which has been separately filed with the SEC.

- Excerpt from Redacted Business Agreement (Exhibit 10.17 in 10-K)

(∗∗∗) Confidential Treatment request granted by the Securities and Exchange Commission on February 28, 2013

AMENDED AND RESTATED MASTER AGREEMENT
between
GENERAL MOTORS HOLDINGS LLC
and
PEUGEOT S.A.

Cost Sharing	(∗∗∗)
Supply Agreements	The Parties will ensure that the Supply Agreements will provide for a balanced benefit for both Parties in the allocation of the manufacturing of production volumes on each side (which the Steering Committee shall regularly review).
IP	(∗∗∗)
Exclusivity	The Parties may agree case-by-case on specific Products for which, during the period of cooperation for such Products, the Parties shall not develop such Product outside of the Alliance, whether on their own or with third Parties.

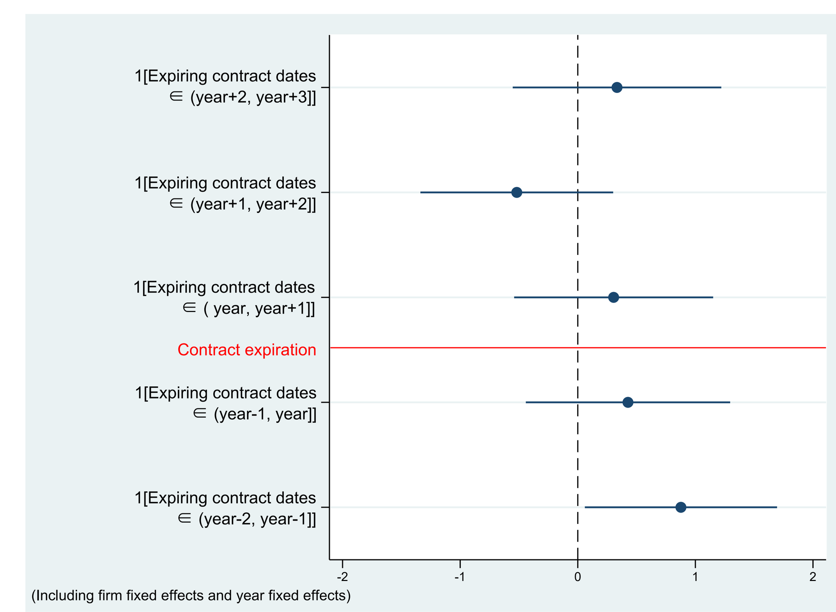
Identifying Assumption

- In the absence of collective bargaining, the nature and occurrence of business agreements are not systematically different across fiscal years in a given firm.
- Change in redaction behavior before wage negotiations is attributable to bargaining consideration.

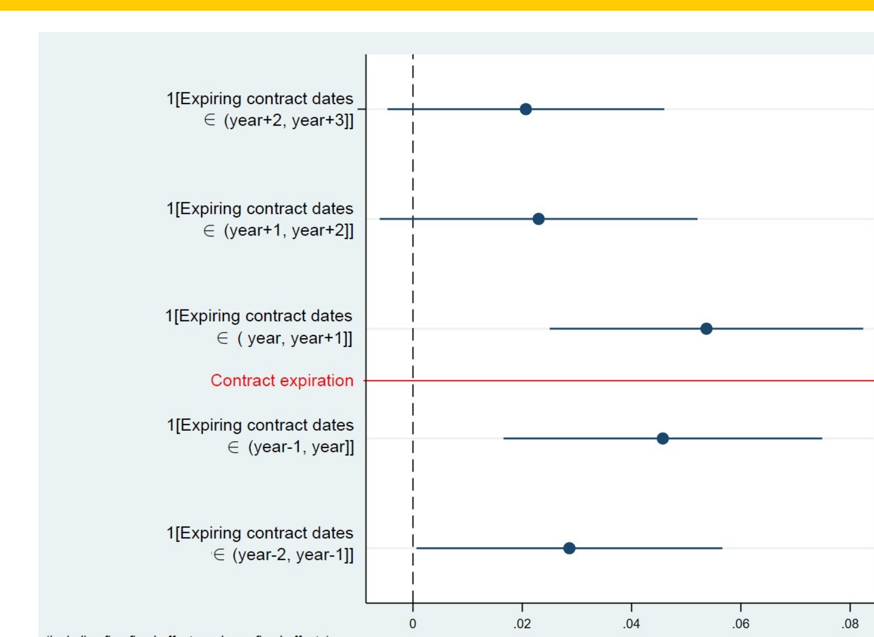
Support of Identifying Assumption

1. Timing of contract expirations is exogenous.
   - *Ex ante* the length of contracts is constant in a workplace.
   - *Ex post* the contract is rarely renegotiated prior to their original expiration dates.
2. Timing of material agreement disclosure is uncorrelated with contract expirations.
   - Regulation S-K requires timely disclosure.
   - Number of exhibits does not deviate around contract expirations.

Number of Exhibits



Main Result: Redaction Probability



	$\mathbb{1}$[Firm redacted any material contracts]		$\mathbb{1}$[Firm redacted material contracts other than lending, employee, or investment agreements]	
	(1)	(2)	(3)	(4)
$\mathbb{1}$[Expiring contracts in $t+1$]	0.031^{***}	0.033^{***}	0.026^{**}	0.026^{**}
	(2.62)	(2.67)	(2.36)	(2.32)
Firm Fixed Effect	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes
Controls	No	Yes	No	Yes
Observations	3640	3468	3640	3468
Adjusted R^2	0.025	0.033	0.018	0.025

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Determinant Test

- Information uncertainty: ⊕
- Growth opportunity: ⊖
- Financial constraint: ⊖
- Work stoppage costs: ⊖

	$\mathbb{1}$[Firm redacted any material contracts]		$\mathbb{1}$[Firm redacted material contracts other than lending, employee, or investment agreements]	
	(1)	(2)	(3)	(4)
$\mathbb{1}$[Expiring contracts in $t+1$] × $\mathbb{1}$[High analyst forecast error]	0.033^{*}	0.031	0.040^{**}	0.038^{**}
	(1.76)	(1.63)	(2.28)	(2.16)
$\mathbb{1}$[Expiring contracts in $t+1$] × $\mathbb{1}$[High backward-looking sales growth]	−0.032	-0.037^{*}	-0.046^{**}	-0.052^{***}
	(−1.54)	(−1.76)	(−2.36)	(−2.61)
$\mathbb{1}$[Expiring contracts in $t+1$] × $\mathbb{1}$[High WW measures]	−0.032	−0.033	-0.039^{*}	-0.040^{*}
	(−1.51)	(−1.46)	(−1.96)	(−1.92)
$\mathbb{1}$[Expiring contracts in $t+1$] × $\mathbb{1}$[High text-based similarity measure]	-0.040^{*}	-0.042^{*}	−0.020	−0.022
	(−1.69)	(−1.79)	(−0.89)	(−0.99)
$\mathbb{1}$[Expiring contracts in $t+1$]	Yes	Yes	Yes	Yes
Determinant variable	Yes	Yes	Yes	Yes
Firm Fixed Effect	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes
Controls	No	Yes	No	Yes

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Interaction with Liquidity Management

- Bargaining Device ⇒ Costs of Implementation:
  - Information redaction ⇒ Information asymmetry costs
  - Liquidity management ⇒ Financial distress costs
- Empirical result: Substitutability

	Liquidity management using debt financing		Liquidity management using asset purchase	
	(1)	(2)	(3)	(4)
$\mathbb{1}$[Expiring contracts in $t+1$]	0.038^{***}	0.039^{***}	0.038^{***}	0.038^{***}
	(2.96)	(2.89)	(2.84)	(2.73)
Liquidity Management Amount	0.001	0.001	0.149^{*}	0.151
	(0.67)	(0.51)	(1.86)	(1.43)
$\mathbb{1}$[Expiring contracts in $t+1$] × (Liquidity Management Amount)	−0.001	−0.001	-0.203^{**}	-0.196^{*}
	(−1.17)	(−1.14)	(−2.29)	(−1.82)
Firm Fixed Effect	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes
Controls	No	Yes	No	Yes
Observations	3640	3468	3258	3109
Adjusted R^2	0.025	0.033	0.026	0.030

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Conclusion & Future Direction

- Disclosure policy as an instrument in negotiations with stakeholders, and its determinants
- New channels through which unions affect employers
- Future direction
  - Does information redaction improve wage settlement outcomes?
  - How would market react to strategic redaction?

Contact

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