

DOCTORAL THESIS

Essays on labor power and agency problem: values of cash holdings and capital expenditures, and accounting earnings informativeness

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ABSTRACT

This study consists of two essays. In the first essay, I examine the effect of employee blockholdings on the values of corporate cash and capital expenditures. I find that when employees hold large equity stake in their companies, corporate cash holdings are worth less to outside shareholders and capital expenditures contribute less to shareholder value. The negative effect of employee block ownership on the values of cash and capital expenditures is concentrated in companies with fewer anti-takeover provisions, in companies which pay their employees abnormally high wages, and in companies where managers have little equity ownership. Our findings support the hypothesis that employee blockholdings can serve as a protection for managers from the market for corporate control and allow managers to extract private benefits at the expense of shareholders.

In the second essay, I examine how labor power affects the informativeness of companies' reported earnings. Using a sample of firms in 42 countries for the period of 1990 to 2009, I find that strong union laws provide managers greater incentives to manipulate reported earnings to hide firm true performance from labor, leading to lower value relevance of earnings in these countries. Further analysis shows that firms use more negative accruals in countries with more powerful labor unions. Overall, these findings support the hypothesis that managers intentionally distort reported earnings to shelter corporate income from labor so that they can improve their bargaining position against powerful labor unions.

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