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 low 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 workplace performance?

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

Determinant Test

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

Interaction with Liquidity Management

- Bargaining Device ⇒ Costs of Implementation:
  - Information reduction ⇒ Information asymmetry costs
  - Liquidity management ⇒ Financial distress costs

Empirical result: Substitutability

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Support of Identifying Assumption

- 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.
- 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: Reduction Probability

- Does information redaction improve wage settlement performance?
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- Information redaction using bivariate probit: significant
- Information redaction using logistic regression: significant

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.

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?