

The Labor Market Impact of Shareholder Power: Worker-Level Evidence

By Falato, Gallego, Kim, and von Wachter

Discussion by Alex Xi He
University of Maryland

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Summary

- **Research question:** How does concentrated institutional ownership of firms affect worker outcomes?
- A companion paper uses establishment-level data and finds lower wages and employment, and this paper uses more granular worker-level data
- Taste-wise, I am very positively inclined towards this paper, both in terms of research question and the methodology
 - Big, general interest, policy-relevant question
 - Detailed matched employer-employee data

Main Finding

$$Y_{ijkct} = \frac{\sum_{\tau=0}^5 Y_{ijkct}}{Y_{ijkct-1}} = \alpha_{kct} + \beta Treat_{ijt} + X\gamma + \varepsilon_{ijkct}$$

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	CEOs	CEOs	CEOs	Top 5	Top 5	Top 5	Rank-and-file
Dep. Var.:	Scaled Cumulative Earnings						
Treatment	-0.634*** (0.084)	-0.586*** (0.104)	-0.696** (0.271)	-0.429*** (0.046)	-0.429*** (0.049)	-0.440*** (0.084)	-0.096*** (0.035)
R ²	0.193	0.347	0.751	0.115	0.190	0.459	0.235
Worker-level Controls	Y	Y	Y	Y	Y	Y	Y
Industry × Year FE	Y	Y		Y	Y		
County × Year FE		Y			Y		
Industry × County × Year FE			Y			Y	Y
Observations	15,500	15,500	15,500	74,000	74,000	74,000	8,963,000

Comment #1: Control Group

- The paper compares firms with at least 5 pp increase in total block institutional ownership (treated) to firms with at least 5 pp increase in overall institutional ownership but less than 5 pp increase in total block institutional ownership (control)

Panel A: Firm Characteristics

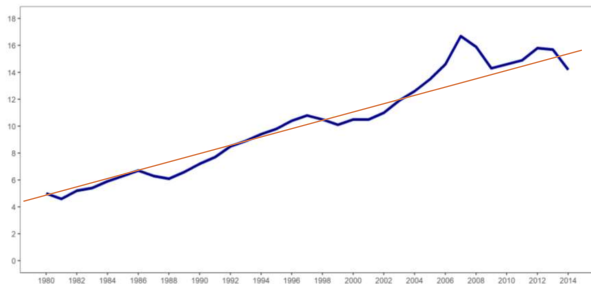
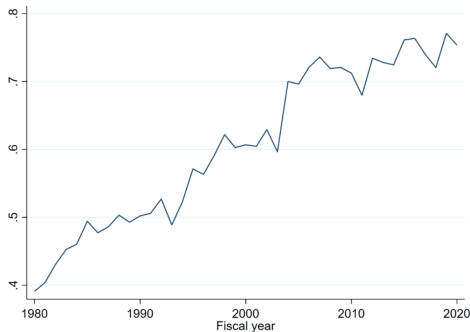
	(1)	(2)	(3)	(4)	(5)
	Treated, t-1		Control, t-1		Treated-Control
	Mean	STD	Mean	STD	t-stat.
Overall IO (%)	67.48	21.99	60.08	20.98	7.95
Total Block IO (%)	13.9	12.99	16.3	12.73	-3.46
Percent Change in Overall IO	6.59	11.7	9.994	6.56	-8.18
Percent Change in Block IO	11.59	8.059	-1.915	5.119	45.16
Total employment	37,050	55,390	29,990	44,740	1.82
Total payroll (\$m)	2,053.00	3,266.00	1,769.00	2,671.00	1.05
Book value of assets (\$m)	33,500	115,800	36,780	129,400	-0.37
ROA	0.138	0.098	0.142	0.1	-0.73
Market-to-book	2.282	1.804	2.438	2.073	-1.12
Observations	10,000		5,000		-

- Treated firms have +6.6 pp in block IO and -5.0 pp in non-block IO, whereas control firms have -1.9 pp in block IO and +11.9 pp in non-block IO

Comment #1: Control Group

- Is the control group the right counterfactual?
 - Institutional ownership is endogenous, and block and non-block institutional owners may target different firms (e.g., block institutional shareholders want control, and non-block institutional shareholders target firms with high future returns)
 - Non-block institutional shareholders may have similar effects (e.g., share proxy advisors)
- Suggestions:
 - Summary statistics of treated and control vs. other public firms
 - Use last-treated group as control
 - Propensity score matching
 - Look at reversals

Comment #1: Control Group



- The increase in block institutional ownership is a small part of the increase in overall institutional ownership
- Does an increase in non-block institutional ownership have similar effects?
 - Large literature in finance studying the effects of institutional ownership (e.g., Aghion, Van Reenen, and Zingales, 2013; Crane, Michenaud, and Weston, 2016)

Comment #2: Earnings Measure

- Block institutional ownership may affect the structure of pay for workers. For example, they may reduce base pay and increase incentive pay (stock options and stock compensation)
 - LEHD does cover exercised stock options
- This is more problematic for high-wage workers, where you find the largest effects
- Can cross-validate manager earnings with external datasets like Execucomp

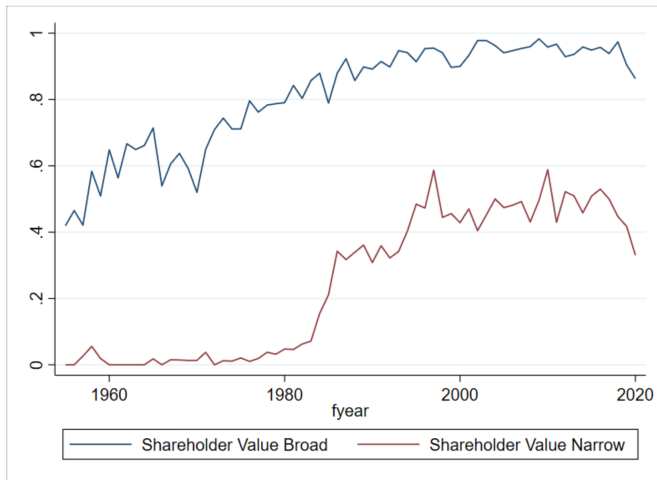
Comment #3: Mechanisms

- How do institutional shareholders reduce worker pay?
- Effects are much larger for dedicated institutions that have long-term investment horizons and stronger incentives to engage management, suggesting that management plays an important role
- Do they fire the managers? Are the effects larger for firms that replace their managers?
- Do they change the compensation structure and incentive pay of managers?
- Do you see any changes in company filings and shareholder proposals?

More firms mention shareholder value as a primary goal in letters to shareholders

Rajan, Ramella, and Zingales (2023)

Panel A: Shareholder Value



Business managers emphasize shareholder value more in 10-K filings

Acemoglu, He, and le Maire (2024)

