The idea that a company's employees could elect their representatives to the board of directors (i.e. *board co-determination*) might be gaining new momentum. For instance, the British Prime Minister Theresa May has recently mentioned this possibility as one of the steps aiming to improve the governance and management of the corporations in the UK, boost their competitiveness, while ensuring higher wages and job creations. The idea of employee board representation is however not a new one. A number of European countries during the seventies introduced legislation that provides (to various degrees) for employee representation on the board of directors. The adoption of those rules was presumably based on social and political considerations rather than economic efficiency. This is, however, not the case today. There are various reasons for why we should expect that allowing the employees to participate in the governance of corporate affairs could create significant economic benefits, at least in the firms whose competitiveness depends on the firm-specific skills and knowledge that employees develop during their employment. For example, employees might need to learn how to operate a specific machine or specialize in a product that pertains exclusively to their current employers, i.e. i.e. develop skills and knowledge that only their current employers are willing to pay for. In this case, the employees (similar to the shareholders) bear the risk of losing the return on these investments in case of employment loss and the firm's decay. The employees' willingness to develop such firm-specific skills should, therefore, be higher when they have some voice in the conduct of corporate affairs…

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