

Availability of financial reporting and labor market outcomes*

Jeppe Christoffersen[†]
COPENHAGEN BUSINESS SCHOOL

Martin Zafiryadis[‡]
COPENHAGEN BUSINESS SCHOOL

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Abstract

We explore how regulation aimed at increasing financial transparency influences labor market outcomes by analyzing a 2013 Danish mandate requiring limited liability firms to submit financial statements in XBRL format. This reform catalyzed the rise of information intermediaries accessing and disseminating firm-level financials at scale, hence lowering information processing costs for unsophisticated users. Using economy-wide matched employer-employee data and a difference-in-differences design — with unlimited liability firms exempt from the mandate as a control group — we find that the regulation led to a statistically and economically significant increase in employee wages: approximately 1.0 percentage point. However, the effect appears driven not by direct employee use of financials, but by managerial preemption of anticipated wage demands. Our results align with theories of compensating wage differentials when disclosures reveal poor financial health, and rent-sharing when earnings exceed the zero-earnings benchmark. These results underscore how financial reporting regulation can influence dynamics with key non-investor stakeholders.

Keywords: Financial reporting, Labor, Rent-sharing, Compensating wage differentials, XBRL reporting

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[†]jc.acc@cbs.dk

[‡]mz.acc@cbs.dk