Opportunistic Proposals by Union Shareholders*

John G. Matsusaka, Oguzhan Ozbas, and Irene Yi
University of Southern California

Effective corporate governance requires mechanisms that allow shareholders to influence corporate decisions. This paper investigates the use of shareholder proposals, an increasingly prominent governance mechanism, by labor unions. Activist union pension funds are subject to cross-pressures: they wish to increase fund returns to help beneficiaries but also to aid current union workers. We show theoretically that shareholder proposals can be used as bargaining chips in contract negotiations. Empirically, we use variation in the expiration of collective bargaining agreements to identify exogenous changes in the value of making proposals. We find that during contract negotiation years, unions increase the number of proposals they make by about one-quarter (and by about two-thirds during contentious negotiations), and change the subject of proposals to focus on matters personally costly to managers. We do not find similar changes in proposal behavior by nonunion shareholders. Opportunistic union proposals are also associated with better wage agreements for the union. The evidence suggests that some union proposals are intended to influence collective bargaining outcomes rather than maximize shareholder value, and that increasing proposal rights will not necessarily help shareholders at large if some shareholders use those rights to advance their private interests.

September 2015

* Comments welcome: matsusak@usc.edu, ozbas@usc.edu, Irene.e.yi@gmail.com. We thank the Katz Research Fellowship and USC for financial support.

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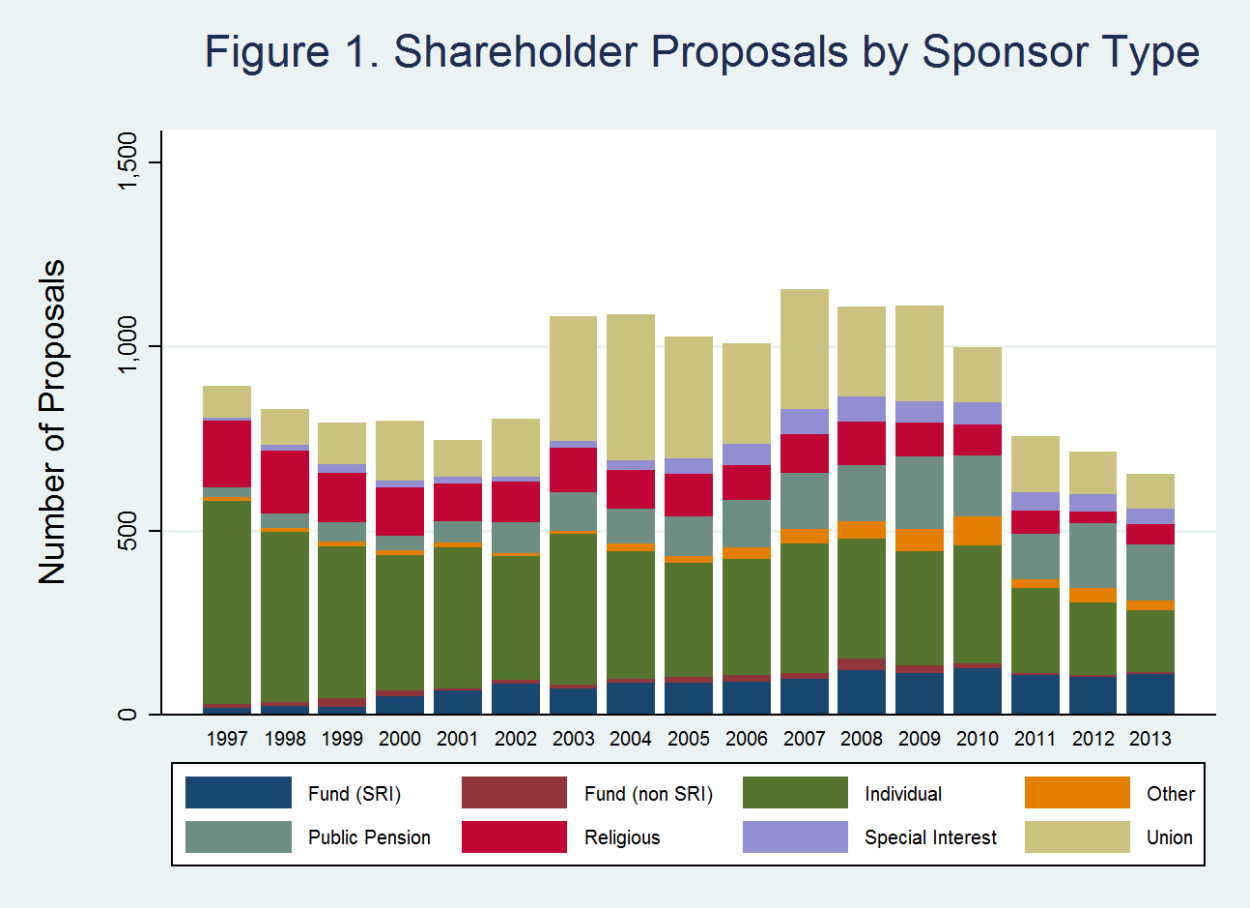
1. Introduction

The purpose of corporate governance is to ensure that managers are responsible stewards of corporate resources and return adequate funds to investors (Shleifer and Vishny, 1997). Effective governance requires mechanisms that give shareholders power over corporate decisions. One such mechanism, the shareholder proposal, which allows shareholders to propose and vote on corporate policies, has emerged as a focus of corporate reformers who want to expand its availability and scope (Bebchuk, 2005). While the idea of proposal rights has broad appeal, bringing more "democracy" to corporate decisions, in practice the proposal process is dominated by groups whose interests might not be aligned with shareholders at large. The most prominent of these groups is labor unions, which have become major players in the proposal process (Figure 1). Labor union pensions have a fiduciary duty to maximize fund returns, but they are also subject to pressure to advance the union's current interests.[1] The prominence of labor unions as shareholder activists has led critics to argue that shareholder proposals are a double-edged sword: they can be used to prod the company to maximize value but can also be used to advance private interests of activist shareholders. The purpose of this paper is to provide an assessment of the extent to which labor unions use the proposal process to advance their private interests.

Our empirical strategy is based on the idea that unions have a heightened incentive to make proposals for private reasons during contract negotiations. We show theoretically that a union can enhance its bargaining position by introducing a shareholder proposal that managers dislike; it can offer to withdraw its proposal if the company compromises during contract negotiations.

[1] The countervailing pressures on union pension funds, and the concerns they raise about enhancing their power as shareholders have been much discussed: see Anabtawi (2006), Bainbridge (2006), Bebchuk (2005), Larcker and Tayan (2012), Romano (2001), Schwab and Thomas (1998).



We test whether union shareholders behave opportunistically by estimating the change in their proposal behavior in years with contract negotiations, relying for identification on the observation that negotiations occur when existing contracts expire, and expiration dates are largely exogenous once established at the initiation of a contract. We examine a sample of 256 companies during the period 1997-2013 that negotiated at least one contract with a union. Our main finding based on 3,501 firm-years of data is that labor unions increase the number of proposals they make in the months surrounding the expiration of a contract. The magnitude is material: the probability of a union-sponsored proposal at a median employment firm rises by 4.7 percent during a year with a contract negotiation from its base level of 22.1 percent. This finding is robust to various controls, including firm and year fixed effects, financial variables, and governance variables.

Labor unions appear to use shareholder proposals to enhance their bargaining position during contract negotiations. A key identifying assumption in our analysis is

that opportunities to increase corporate value through the proposal process are no more likely to occur in contract expiration years compared to other years. To assess this assumption, we examine proposals by nonunion shareholders such as activist funds, individuals, and religious groups. We observe much smaller and statistically insignificant changes in the number of proposals from these groups in the months surrounding an expiring contract. The increased number of union proposals during contract negotiations does not appear to be attributable to opportunities that uniquely emerge in expiration years.

Not all contract negotiations are contentious; sometimes the parties reach agreement on the main points amicably and quickly. Shareholder proposals are needed as bargaining chips only in negotiations where the main points are in dispute. As an additional robustness check on the interpretation of our findings, we examine union proposal activity concurrent with contentious negotiations, defined as those that resulted in a work stoppage (typically a strike, but also including lockouts). For a median employment firm, the probability of a union proposal in an expiration year with a contentious negotiation is 14.7 percent higher than in nonexpiration years, a sizeable increase from the incremental probability of 4.7 percent when both amicable and contentious negotiations were considered.

The theory that unions use shareholder proposals as bargaining chips in negotiations also suggests what type of proposals unions would make. The most effective proposals are those that impose direct costs on the managers. We identify a set of proposals that appear to best fit this description: restrictions on director and executive compensation. We find that 46 percent of labor union proposals concern executive compensation, compared to 28 percent of nonunion proposals. Also, unions appear to increase the fraction of such proposals in the months surrounding a contract expiration, while nonunion shareholders do not increase the frequency of such proposals. Unions are also disproportionately likely to initiate proposals concerning director elections and qualifications in expiration years.

We also examine the probability of a withdrawn proposal. More than 40 percent of shareholder proposals never come to a vote. Some of these are withheld from the proxy statement by management after receiving a no-action letter from the SEC, but more often they are withdrawn by the sponsor after negotiating an arrangement with

management. The ability to withdraw proposals before they come to a vote makes them suitable as bargaining chips. We find that the probability of a withdrawn union proposal declines by 8.4 percent during expiration years, while the withdrawal rate of nonunion proposals does not change materially in expiration years. We do not have a sharp prediction about the direction of withdrawal rate changes in expiration years, but the fact that unions alter their propensity to withdraw again suggests opportunistic behavior.

Although not our primary purpose, we also report some suggestive evidence on how union proposals affect collective bargaining outcomes and corporate governance. We do not have an identification strategy to measure the causal effect of proposals on wage outcomes; instead we report evidence on equilibrium relations derived from our model. According to the model, unions withdraw proposals when managers compromise on collective bargaining terms. In equilibrium, then, we expect to see better contract terms for unions when they end up withdrawing proposals than when proposals go to a vote. We examine 877 collective bargaining outcomes for firms in our sample, focusing on the wage part of the agreement. Consistent with the model, we find that annual wage increases under the new contract are about 0.22 percent higher (compared to a median of 2.9 percent) following negotiations with a withdrawn proposal than negotiations with a proposal that went to a vote.

Finally, we examine the connection between union proposals and corporate governance. Even if union proposals allow the union to receive higher compensation, and thus presumably reduce firm value through higher labor costs, the proposals themselves might induce the company to adopt better governance practices. We examine a set of eight governance provisions that some activists and scholars believe are important for corporate performance. We find that firms are more likely to change these provisions in the "good governance" direction in years with a shareholder proposal, but that union proposals are associated with a lower probability of change, and union proposals in contract expiration years are associated with an even lower probability of change. Both wage and governance results suggest a connection between union proposals and outcomes, but the estimated differences are not usually precise enough to distinguish from zero statistically.

Previous attempts to assess the motives and consequences of union shareholder proposals have produced inconclusive findings. Several studies have estimated stock price announcement returns associated with union proposals (see Denes et al. (2015) for a survey, and Thomas and Cotter (2007) and Prevost et al. (2012) for applications to union proposals). Typically, the announcement date is the day that the proxy statement is mailed, or the day of the annual meeting. However, according to SEC rules, proponents must submit their proposals to the company at least 120 days before the annual meeting, so it is likely that information about proposals is known to market participants well before the proxy is mailed. Another limitation is that more than 40 percent of proposals are withdrawn before the proxy is mailed, usually as the result of a negotiated solution with the company. The proposals that actually go to a vote comprise a screened sample that may or may not be representative of the full set of proposals.[2]

This paper contributes to several literatures. Most directly it sheds light on the consequences of shareholder power in corporate governance. By highlighting a potential downside of shareholder proposals, it might help explain other studies that find that increased shareholder rights reduce firm value (Akyol et al., 2012; Larcker et al., 2011; Stratmann and Verret, 2012). A variety of new regulations in the 21st century have chipped away power from managers and given it to shareholders, but recent attempts to increase proxy access have been resisted by federal courts on the grounds that regulators have not rigorously examined the benefits and costs of increasing proxy access. Our study is one piece of evidence toward building a foundation of evidence to inform future policy making.

Our evidence suggests that shareholders may benefit from structuring the proposal process to limit the ability of conflicted shareholders to advance their private interests. Corporate value might be enhanced by restricting certain shareholders from making proposals when they are engaged in direct negotiations with the company. This

[2] Other studies compare votes cast for proposals sponsored by labor interests versus those sponsored by other shareholders (Thomas and Martin, 1998) and examine whether unions are more likely to target unionized firms (Ertimur et al., 2011). Del Guercio and Woidtke (2013) present indirect but related evidence that directors of firms that comply with requests from union pensions are more likely to lose their directorship. This suggests that firms dislike directors who are receptive to unions, and could indicate that labor union proposals are not value maximizing.

would extend beyond unions; for example, proposals from potential acquirers or businesses that sell or buy from the company might also be restricted. Our evidence also raises the possibility that shareholder proposals might have purposes unrelated to the specific content listed in the proposal. This idea adds another dimension to how we typically think about shareholder proposals.

The paper also contributes to the literature on the motivation of unions as shareholders (Agrawal, 2011). While the idea of unions using proposals to extract private benefits has been recognized as a theoretical possibility for some time, many observers have discounted its practical importance. For example, Schwab and Thomas (1998) argue that union pensions have fiduciary responsibilities that require them to focus on fund value, and Bebchuk (2005) argues that union proposals are unlikely to be effective bargaining chips unless they maximize value, and in that case they would likely be brought by some other shareholder if not by the union. Our evidence indicates that unions do use the proposal process strategically, suggesting the possibility of non-value maximizing proposals being advanced as bargaining chips cannot be summarily dismissed.

Our paper also contributes to the literature on the strategic interaction between firms and labor unions. Firms in unionized industries appear to hold less cash (Klasa et al., 2009) and maintain higher leverage (Bronars and Deere, 1991; Matsa, 2010) as a way of signaling weakness, in order to gain concessions from unions. Another stream of research studies firms' strategic behavior before collective bargaining (DeAngelo and DeAngelo, 1991; Klasa et al., 2009; Huang et al., 2015). Our evidence suggests that labor unions engage in strategic behavior through the shareholder proposal process in order to strengthen their hand in collective bargaining.

2. Institutional Background

Shareholders have a variety of control-related rights. They elect the directors and must approve major transactions such as mergers; and they have a limited right to nominate candidates for the board. The focus of our study is the right to propose that a company take a specific action or change its governance structure in a specific way. The proposal process is governed by SEC rule 14a-8: a proposer notifies the company that it intends

to make a proposal, and the company must include the proposal in its proxy materials as long as it meets certain conditions. [3]

Rule 14a-8 allows a company to exclude a proposal only under certain conditions. The proposer must satisfy several procedural requirements and the subject matter of the proposal must not concern matters relating to the company's ordinary business operations or relate to a personal claim or grievance of the proposer.[4] If a company intends to omit a proposal, it must submit an explanation to the SEC. If the SEC agrees with the company it issues a so-called "no-action" letter indicating that it will not take any action against the company if it omits the proposal. Proposals to amend bylaws and the charter are binding on the firm if approved by shareholders, but such proposals are uncommon; most proposals are advisory in nature in order not to conflict with state law. Such "precatory" proposals are not binding on the company, and managers are able to ignore them legally. For the same reason, there is nothing legally significant about a proposal that exceeds or falls short of 50 percent approval. However, evidence suggests that managers do respond to proposals, even those that receive less than 50 percent approval, and responsiveness increases with votes in favor (Ertimur et al., 2010). Often a company enters into negotiation with a proposer, and if a mutually agreeable action can be found the proposal is withdrawn and does not come to a vote.

Unions may bring proposals based on direct ownership of the stock, or more commonly, based on ownership of stock through a union pension fund. When bringing proposals and voting on proposals, pension fund managers are governed by federal and state laws. Perhaps the most important is the Employee Retirement Income Security Act of 1974 that requires pension fund managers to run plans solely in the interest of participants and beneficiaries, and for the exclusive purpose of providing benefits and

[3] Shareholders can also make "floor resolutions" directly at annual meetings.

[4] Procedural requirements include: ownership of sufficient shares for one year, notification of the company at least 120 days before the proxy statement is released, the proposal is no more than 500 words, and a limit of one proposal per proponent. Proposals can be excluded if the company already has substantially implemented the proposal, if a proposal conflicts with a management proposal, if a proposal is the same as a recently defeated proposal, or if a proposal is improper under state law. Because most state laws prohibit binding proposals, in order to comply with the state-law requirement, most proposals are stated as advisory rather than as binding.

paying expenses. In 1997, the Department of Labor issued a bulletin calling for an activist role for private pension funds; a 2008 bulletin clarified that when voting, "the responsible fiduciary shall consider only those factors that relate to the economic value of the plan's investment and shall not subordinate the interests of the participants and beneficiaries in their retirement income to unrelated objectives." The bulletin also states: "[t]he use of pension plan assets by plan fiduciaries to further policy or political issues through proxy resolutions that have no connection to enhancing the economic value of the plan's investment in a corporation would, in the view of the Department, violate the prudence and exclusive purpose requirements of section 404(a)(1)(A) and (B)."[5]

Although on the face of it, the law provides little scope for union pensions to use their resources to influence collective bargaining outcomes, various observers have questioned whether the law has teeth. Larcker and Tayan (2012) cite a 2011 report by the Inspector General of the Department of Labor that asserts that the fiduciary standards are not being upheld. It is an open question to what extent union pension funds use the proposal process to help plan beneficiaries as opposed to seeking to advance the interests of current union members engaged in collective bargaining.

3. Theory

The following simple model is developed to frame the empirical analysis. The model has two actors, a union and a manager, with payoffs denoted u and v, respectively. The model begins with the union choosing whether to initiate a shareholder proposal. The union and manager then negotiate the labor contract; if the union has initiated a proposal, it can offer to withdraw the proposal as part of the negotiation.[6]

If the proposal is not withdrawn (goes to the shareholders for a vote), then the union receives a private benefit $b \sim U[0,1]$, and the manager pays a private cost $c \sim U[0,1]$. The benefits and costs include the expected value of the impact of the proposal being

[5] U.S. Department of Labor, Part 2509, *Interpretive Bulletins Relating to the Employee Retirement Income Security Act of 1974*; "Interpretive Bulletin Relating to the Exercise of Shareholder Rights and Written Statements of Investment Policy, Including Proxy Voting Policies or Guidelines" (08-2).

[6] In the existing literature, the model is closest to Matsusaka and Ozbas (2015).

approved.[7] The manager's cost also includes distraction, mental strife, and possible embarrassment for the manager; for example, few managers enjoy having the details of their compensation become the subject of a public debate. The union's benefit is private information. The sequence of actions is the following:

- $t = 0$: The union learns b. The union has the option to make a proposal. The cost of initiating a proposal is $k > 0$; this cost is not recoverable if the proposal is withdrawn.

- $t = 1$: The manager learns c. The union and manager negotiate the wage contract. There is a surplus R to be divided. Negotiations take the form of the manager making a take-it-or-leave-it offer to the union in the form of a share $W < R$ of the surplus that the union will receive. As part of the contract, the union commits to withdraw its proposal. Other than this, no side payments are allowed.[8]

- $t = 2$: The union chooses whether to accept the contract and withdraw the proposal, or reject the contract and continue with the proposal. If the offer is rejected then the surplus shrinks to θR, where $\theta \in [0,1]$, all of which is captured by the manager (think of the manager running the firm with nonunion employees if bargaining fails). Payoffs are realized.

Solving the game by backward induction, at $t = 2$ the union accepts the manager's offer W if and only if $W \geq b$. If the contract is accepted and the proposal is withdrawn, payoffs are $u(AGREE) = W$ and $v(AGREE) = R - W$. If the contract is

[7] Our empirical results mainly involve advisory measures. One might ask why managers would feel compelled to heed the results of a purely advisory measure. There is evidence showing that managers do respond to the votes on shareholder proposals, even if a proposal receives less than majority support (Ertimur et al., 2010).

[8] Because the main purpose of the model is to motivate the empirical analysis, we focus on a particularly simple bargaining game. For example, we do not allow counteroffers, or separate offers to settle the wage and proposal issues. Our intuition, based on sketches of alternate models, is that the main implication will hold in these other environments, but this is conjecture.

rejected and the proposal goes to a vote, payoffs are $u(DISAGREE) = b$ and $v(DISAGREE) = \theta R - c$. The union's wage is its reservation value (zero) if it does not reach agreement with the manager (that is, if it makes no proposal or its proposal goes to a vote).

At $t = 1$, the manager offers the union W. From the manager's perspective, the union will accept the offer with probability $\Pr(b \leq W | b \geq \bar{b}) = (W - \bar{b})/(1 - \bar{b})$, where $\bar{b}$ is a cutoff value such that the union chooses to make a proposal if $b > \bar{b}$, and does not make a proposal otherwise.

The manager's expected payoff from an offer x is then

(1) $$\Pr(b \leq W | b \geq \bar{b})\, v(AGREE) + (1 - \Pr(b \leq W | b \geq \bar{b}))v(DISAGREE).$$

To avoid corner solutions, we assume $R > 2/(1 + \theta)$. Solving the first order condition of (1), using the uniform distribution of b, gives the manager's optimal offer: $W^*(c) = .5((1 - \theta)R + \bar{b} + \mathrm{c})$.

At $t = 0$, the union chooses whether to initiate a proposal. If the union makes a proposal, it will end up withdrawing the proposal if $W^* \geq b$. The union's expected payoff from initiating a proposal is then

(2) $$\Pr(W^* < b) \cdot u(DISAGREE) + \Pr(W^* \geq b) \cdot E[u(AGREE) | W^* \geq b] \equiv F(b, \bar{b}).$$

Because the expected payoff from not initiating a proposal is $u(0) = 0$, the union initiates a proposal if $F(b, \bar{b}) \geq k$. The equilibrium cutoff $\bar{b}$ for making a proposal then is defined as the solution to $F(\bar{b}, \bar{b}) = k$. We focus on parameter configurations for which there is an equilibrium cutoff level $\bar{b} \in (0,1)$, meaning that proposals do occur in equilibrium but not with certainty. This requires, among other things, that k is neither too small (or proposals always occur) or too big (or proposals never occur).

The probability of a proposal is $1 - \bar{b}$. The probability of a proposal when there is not a concurrent wage negotiation is simply k. This leads to a main implication:

Proposition 1. *The union is more likely to make a proposal when there is a concurrent wage negotiation:* $\bar{b} < k$.

The intuition for Proposition 1 is straightforward. When there is no concurrent wage negotiation, a union proposal produces a certain payoff of $b - k$, and not proposing produces a payoff of zero. When there is a concurrent wage negotiation, the payoff from a proposal can never be below $b - k$ because the union always has the right to proceed to a vote; however, the payoff could be greater than $b - k$ if the manager chooses to buy support by sharing more of the surplus. Because the upside is potentially larger when there is a concurrent wage negotiation, the union finds it optimal at the margin to make proposals with lower private benefits than when there is not a concurrent wage negotiation. Testing this implication is a central purpose of the paper.

Proposition 2. *The union is more likely to make a proposal as the available surplus increases:* $\partial\bar{b}/\partial R < 0$.

The proof of Proposition 2 appears in Appendix A. Intuitively, as the surplus increases, the manager is willing to offer the union more in negotiations. This improves the union's collective bargaining outcome, and also makes it more likely that an agreement can be reached that leads to withdrawal of the proposal. Accordingly, the union is willing to move forward with marginal proposals when the available surplus grows. This proposition is also a focus of the tests below.

The model also generates a set of implications concerning equilibrium outcomes and proposals. Because proposals are endogenous, these implications do not describe causal relations.

Equilibrium Implications. *(1)* $E[W|no\ proposal] = E[W|DISAGREE] < E[W|AGREE]$. *(2)* $E[v(0)] > E[v(DISAGREE)]$. *(3)* $E[v(0)] > E[v(AGREE)]$.

If there is no proposal, the final wage is the union's reservation value. If there is a proposal that is not withdrawn, then the union again receives its reservation value. If

there is a proposal that is withdrawn, the manager has agreed to pay the union above its reservation value. The implications for firm value are the reverse. The best situation is no proposal. If there is a proposal that goes to a vote, then the firm ends up paying a low wage, and also pays the cost associated with the proposal. If there is a proposal that does not go to a vote, the firm pays a higher wage but avoids the cost of the proposal.

4. Data and Methods

A. Data Sources

This project involves the combination of seven data sets; most had to be cleaned and in some cases manually merged. The details are described in Appendix B. Here we outline the main features of the data sources.

The main results relate shareholder proposals to contract expirations. Information on shareholder proposals was taken from the *Institutional Shareholder Services (ISS) Proposals* database (formerly RiskMetrics). This database lists shareholder proposals received by companies in the S&P 1500 index. The ISS Proposal database assigns a type to each sponsor, such as activist fund, individual, or union. Because these classifications are sometimes inconsistent within the database, sometimes ambiguous, sometimes incorrect, and often missing, we created new classification categories.[9] We took care to identify union-affiliated sponsors as accurately as possible, and corrected obvious misclassifications. The number of proposals by type of sponsor is presented in Figure 1. Table 1 describes the classifications in detail and reports the most active sponsors in each category.

Information on labor contract expirations was taken from the *BNA Labor Plus* database maintained by the Bureau of National Affairs. Under the National Labor Relations Act, firms with labor union contracts are required to file notices of contract expiration with the Federal Mediation and Conciliation Service. These filings contain information including employer names, labor union names, contract expiration and notice dates, and the number of employees involved in the collective bargaining.

[9] Because public sector unions are unlikely to have a direct interest in collective bargaining outcomes in corporations, we only include private sector unions in the category of union sponsors. Public employee unions and their pension funds are considered separately.

Information on work stoppages was taken from the *BNA Work Stoppage* database, and information on collective bargaining outcomes was taken from the *BNA Settlements* database.

Information on firm-specific governance provisions was taken from the *ISS Governance* database (formerly IRRC Takeover Defense database). Information on board independence and the board chair was taken from the *ISS Directors* database. Both databases cover the S&P 1500 companies. Finally, we used Compustat as the source for firm financial information.

There were two challenges in combining the databases. First, none of the three BNA databases include firm identifiers such as CUSIP or GVKEY, so firms could only be identified by their names as they appear on the BNA filings. We manually matched these employer names with company names in the other databases. Second, the BNA databases indicate the enterprise involved in the labor action but often do not indicate if the enterprise was independent or a subsidiary or plant of another company. Because shareholder proposals are received by the parent company, we manually matched subsidiaries to companies. When a subsidiary changed its ownership during the sample period, we linked it to the owner at the time of the contract expiration.

The time period of our study is determined by the scope of the BNA databases, which span 1997-2013. To make the project manageable and reduce noise, we limit the sample to companies that had at least one contract involving 500 or more contract employees. This filter was needed because there are more than 210,000 unique names in the full contract listing database, and each name would have to be matched manually to the other databases. The final sample includes 256 firms, for a total of 3,501 firm years. These companies received 5,732 proposals during the sample period.

The final sample covers a significant fraction of major American companies: 220 firms were included in the Fortune 500 at some point and 187 were part of S&P 500 index. On average, our sample firms are 2.7 times larger than the mean company in the S&P 1500 index, as measured by the market capitalization. Our sample firms also account for a healthy fraction of shareholder proposals: 37 percent of proposals in the ISS Proposals database, which covers all firms in the S&P 1500 index, were received by the firms we study.

B. Variables and Methods

The backbone of our analysis is a measure of contract expirations in a given year, and a measure of shareholder proposals that were received in the year prior to the expiration. The ISS Proposals database does not provide the date that a proposal was submitted to the company, but rather the date of the annual meeting at which the proposal would be put to a vote. We say that a proposal was initiated during negotiations if the annual meeting for the proposal took place in the year before the contract expiration.

We define a year in terms of the annual meeting, and define shareholder proposals intended for that meeting to be part of that year. Contract expiration information is linked to proposal information for the quarter of the annual meeting and the following three quarters. For example, if a company's annual meeting took place in the second quarter of 2010, then 2010 would be a contract expiration year if there is at least one expiring contract in between the second quarter of 2010 and the first quarter of 2011, and a nonexpiration-year otherwise. Many firms have more than one contract expiring in a given year. The number of employees covered by expiring contracts in a given year is defined as the sum of covered employees during the quarter of the annual meeting that year, or in the three following quarters. In the example above, the number of covered employees in 2010 is the sum of covered employees in between the second quarter of 2010 and the first quarter of 2011. In the same way, we linked data on work stoppages to the proposal data. Table 2 provides summary statistics for the labor variables used in the analysis.

Our main results seek to explain the frequency of shareholder proposals as a function of contract expirations. Our workhorse is a linear probability regression of the form:

$$(3) \qquad PROP_{it} = \alpha_1 EXPIRE_{it} + \alpha_2 EMPLOY_{it} + \beta' X_{it} + \gamma_i + \mu_t + \varepsilon_{it},$$

where i indexes a firm and t indexes time. In the main specification, $PROP_{it}$ is an indicator variable equal to one if firm i receives one or more shareholder proposals in year t, and zero otherwise. In robustness checks, we also run regressions with the number of union shareholder proposals as our dependent variable. The main

explanatory variables are $EXPIRE_{it}$ an indicator equal to one if a firm has an expiring contract in a given year, and $EMPLOY_{it}$, the number of workers covered by the expiring contract. The vector X_{it} captures various controls. The firm and year fixed effects are γ_i and μ_t, respectively, and ε_{it} is the error term.

The identifying assumption, which follows from the theory, is that a union's private benefit from making a proposal is higher in years with an expiring contract than years without an expiring contract, but that the nonprivate benefit of a proposal is no different in expiration and nonexpiration years. If this is true, then unions will make more proposals in expiration years while other shareholders will not make more proposals in expiration years. Our identification strategy relies on the exogenous timing of collective bargaining contract expirations. A contract typically lasts 3-5 years, and the expiration dates are set at the onset of the contract. This provides an arguably exogenous indicator of when unions have a higher private benefit from submitting a proposal.

The employment variable $EMPLOY$ allows the impact of a contract expiration to vary with the number of employees. We explored an alternative specification that uses the percentage of a company's work force involved in a contract rather than the absolute number of employees and the results were noisy. Theoretically, one could argue that unions seek to maximize the aggregate utility of their members, in which case they should care about the absolute number of contracted members not their percentage as a fraction of all firm employees.

We estimate equation (3) with a linear probability model because it is easier to (i) implement fixed effects, (ii) interpret coefficients, and (iii) cluster the standard errors. In robustness checks, we also estimate the regression with conditional logit and probit specifications and obtain similar results, except where noted. Although the model produces a clear directional prediction on the effect of expiring contracts, we report statistics for two-tailed tests throughout, which makes our findings conservative.

Controlling for firm-specific effects helps to separate the effect of expiring contracts from unobserved heterogeneity across firms that are fixed over time. We include year fixed effects to account for unobserved heterogeneity across years since we

observe time-series variation in the number and the proportion of union proposals as shown in Figure 1. In all our regressions, we cluster standard errors at the firm level.

5. Empirical Results

A. Proposals and Contract Expirations

The main implication we test is whether unions make more proposals in years in which they are engaged in collective bargaining because of an expiring contract. Panel A of Table 3 presents estimates of the probability that a company receives a union proposal, based on linear probability regressions.[10] The unit of observation is a firm-year, and the key explanatory variable is a dummy equal to 1 if a company had a labor contract expiring in a given year. All regressions include firm and year fixed effects, so the key coefficients are based on within-firm variation in contract expiration status. Coefficients are scaled by 100 to be interpreted as percentages. Standard errors clustered by firm are reported in parentheses beneath the coefficients.

The regression in column (1) of Table 3 indicates that a company was 4.4 percent more likely to receive a proposal from a union in a year with an expiring contract than a year without an expiring contract. To put this coefficient in perspective, recall from Table 1 that a company's unconditional probability of receiving a union proposal in a given year is 22.1 percent. So an expiring contract increases the probability of a union proposal by about one-fifth. The coefficient is different from zero at the 5 percent level.

Regression (2) of Table 3 allows the probability of a union contract to vary with the number of employees covered by the contract. It seems natural to expect that unions are more likely to make strategic proposals when there are many rather than few employees covered by the expiring contract. Also, Proposition 2 implies that proposals are more likely when the stakes grow, and the stakes may be correlated with the number of contract employees. The regression includes a variable equal to the number of employees covered by the expiring contract, which allows the treatment effect to vary with the number of employees. The coefficients on both the expiration dummy and the number of employees are positive and different from zero at conventional levels of

[10] The patterns and significance levels are essentially the same with a conditional logistic specification.

significance. The coefficients imply that unions were more likely to make proposals in expiration years, and increasingly so as the number of covered workers increased.

The net effect of contract expiration in this specification is a linear combination of the coefficient on the dummy and the coefficient on number of employees multiplied by the number of employees. The bottom two rows of Panel A report the estimated effect of contract expiration when the number of employees is approximately the median (800) and approximately the mean (4,000). An expiring contract involving 800 workers increased the probability of a union proposal by 4.7 percent; an expiring contract involving 4,000 workers increased the probability of a union proposal by 5.0 percent. Both values are different from zero at the 1 percent level of significance.

A possible concern is that the number of employees covered by the expiring contract may be a proxy for firm size.[11] Several studies have found that larger firms are more likely to receive shareholder proposals (Denes et al., 2015; Table 3). To allow for this possibility, regression (3) of Table 3 introduces an explanatory variable equal to the logarithm of the firm's assets. Consistent with previous research, we find that large firms were more likely to receive proposals. Inclusion of firm size reduces the magnitude and significance of the expiration variables, but does not change the main message: a firm was more likely to receive a proposal from a union when there was an expiring contract than when there was not an expiring contract.

Regression (4) of Table 3 adds several financial variables that are commonly used as controls in corporate finance research: the leverage ratio, cash as a fraction of assets, ROA, and stock return over the previous year (Denes et al, 2015; Table 3). These variables are endogenous and not strongly motivated theoretically so the merit of including them as control variables is debatable; we report the regression for comparability with other research. As can be seen, inclusion of the controls does not have a material impact on the estimated expiration effects. We do not report the coefficients on the financial control variables to conserve space, but none are reliably different from zero at conventional levels of statistical significance.

Regression (5) includes five corporate governance variables that are often used as control variables: a dummy = 1 if a firm had a poison pill (Denes et al., 2015), a dummy

[11] However, the correlation between firm size and the number of contract employees is only 0.19.

= 1 if the CEO also chaired the board, a dummy = 1 if the firm had a classified board, the number of directors, and the percentage of independent directors. Because of missing data, we lose about one-third of the sample when we include governance controls. The key coefficients on expiring contracts remain positive and statistically significant. An expiring contract involving the median employment level increased the probability of a union proposal by 5.1 percent. We do not report the coefficients on the governance variables to conserve space, but none of them are different from zero statistically except for a negative coefficient on the percent of independent directors. It has proven difficult to identify effects of board independence (Duchin et al., 2010); the evidence here suggests that independent boards might have the advantage of deterring strategic proposals from unions.

The regressions in Panel A of Table 3 test if unions are more likely to make at least one proposal in a contract expiration year compared to nonexpiration year. These estimates do not take into account the *number* of union proposals in a given year. In principle, a union might promote multiple proposals in order to have multiple bargaining chips. The regressions in Panel B of Table 3 allow for this possibility by estimating regressions in which the dependent variable is the number of union proposals in a given year (the maximum in the sample is seven proposals).[12] Regression (6) indicates that companies with expiring contracts received 0.074 more union proposals than companies without expiring contracts, an increase of about one-fifrth compared to the mean of 0.332. Regressions (7)-(10) also mirror the corresponding regressions in Panel A, all of them showing statistically significant and quantitatively nontrivial positive effects of contract expirations on the number of union proposals, for a sufficiently large number of employees.

To summarize, Table 3 shows that companies are more likely to receive proposals from a union in a year in which a contract expires, meaning a year in which the firm is

[12] Because the dependent variable is a count variable, the most compelling approach statistically is to estimate a negative binomial or Poisson regression. We estimated all regressions in Panel B of Table 3 using negative binomial and Poisson regressions; the signs and significance levels of the coefficients of interest were essentially the same as in the linear regressions. We report estimates from linear regressions for ease of interpretation.

involved in negotiations with the union. Since the union's private benefit from a proposal is likely to rise in expiration years, the evidence is consistent with the theory that unions use shareholder proposals as bargaining chips in contract negotiations.

We next investigate proposal activity by nonunion shareholders. One purpose of this exercise to assess our identifying assumption that expiration years make proposals more valuable for unions but not for other shareholders. It is conceivable that a contract expiration, for some reason that is not immediately apparent, creates opportunities for proposals to add value for all shareholders, and unions are simply exploiting the opportunities as a good investor should. If expirations create proposal opportunities for shareholders in general, we would observe increased proposal activity by nonunion shareholders as well as union shareholders in expiration years.

Table 4 reports linear probability regressions of nonunion proposals on contract expirations. As before, the regressions include firm and year fixed effects, and the coefficients are scaled by 100 to be interpreted as percentages. The dependent variable is a dummy equal to one if the firm received a proposal from a nonunion shareholder in a given year. The coefficient in regression (1) indicates that companies were 2.2 percent more likely to receive a proposal from a nonunion source in a year with an expiring contract. This point estimate is half of the corresponding coefficient in Table 3, and not distinguishable from zero at conventional levels of statistical significance.

Regression (2) of Table 4 introduces the number of employees covered by the contract as an additional explanatory variable. The coefficients are much smaller than in the Table 3 regressions, as are the net effects reported in the bottom two rows, and only one coefficient and no net effects are statistically different from zero at the 10 percent level. Regressions (3)-(5) of Table 4 introduce additional control variables. The most important appears to be firm size. Regression (3) shows that once firm size is included, the magnitude of the expiration effect drops to almost zero. The pattern is similar in regressions (4) and (5) that add financial and governance controls, respectively.

These estimates, of course, do not reject the possibility that nonunion proposals increase in expiration years – a positive effect is well within the confidence intervals. However, the point estimates are always quite a bit smaller than the corresponding values in Table 3 and never close to statistical significance. The regressions give little reason to conclude that expiration years produce opportunities for proposals that create

value for shareholders in general. The evidence fits easily with the view that union proposals are being used strategically in expiration years as bargaining chips.

To make the analysis more fine-grained, Table 5 reports regressions by type of nonunion proposer. For example, regression (1) reports the probability that a firm receives a proposal from a non-SRI fund in a contract expiration year.[13] Rather than report results for all of the different specifications, we report the regression including number of employees and firm size – an important determinant of proposal activity – but excluding the atheoretical finance control variables and the governance control variables that result in loss of one-third of sample; the results for other specifications are of a similar flavor to those we report.

In regression (1), the coefficients of interest are negative, small in magnitude, and never statistically different from zero. There is little reason to believe that non-SRI funds make more proposals in expiration years. In contrast, for SRI funds in regression (2) the coefficients of interest are positive; however, as for non-SRI funds, the effects are small and statistically insignificant. The coefficients for public pensions (regression (4)) and religious groups (regression (5)) tell the same story: for none of these groups is there compelling evidence of heightened proposal activity in years with expiring contracts.

The best evidence in Table 5 for increased proposal activity in expiration years by nonunion shareholders is for individuals (regression (3)) and special interest groups (regression (6)). Three of the four key coefficients are positive, and the net effects at the median and median employment levels range from 1.3 percent to 1.9 percent. Two of the coefficients can be distinguished from zero at the 10 percent level of significance, but the coefficient on #Employees in regression (6) is hard to explain, perhaps suggesting a spurious estimate. The point estimates remain well below the value for union proposals. We suspect that some of the proposals from individuals are in fact from individuals affiliated with unions (we were able to identify a number of such cases, and reclassified them as union proposals, but others may remain), and some of the special interest groups have social justice goals that overlap with union goals. So it seems possible that

[13] Again, the signs and significance levels are qualitatively similar if we estimate conditional logits instead of linear probability regressions.

some individuals and some special interest groups may be coordinating with unions. Leaving aside this speculation, the most natural interpretation of Table 5 is that no other major shareholder group is timing its proposals to the years of contract expirations like unions are doing.

B. Work Stoppages

Not all contract negotiations are contentious. There may be situations in which the parties quickly reach agreement on the main points, for example, if the contract follows the lead of a pattern contract negotiated at another company. Shareholder proposals are needed as bargaining chips only in negotiations where the main points are in dispute. As an additional check on the interpretation of our findings, we next examine union proposal activity specifically in contentious negotiations, defined to be those that resulted in a work stoppage (typically a strike, but also including lockouts). Because the decision to stop work is endogenous, the identification for these results is less airtight than our previous results that rely on exogenous contract expiration, but they have the advantage of isolating the cases most likely to be relevant. In our sample, 45 percent of firms experienced at least one work stoppage.

Table 6 reports linear regressions explaining the probability of receiving a proposal. In regressions (1)-(3), the dependent variable is a dummy equal to 1 if a firm received a union proposal. Regression (1) includes two explanatory variables, a dummy for expiring contracts that were accompanied by a work stoppage and a dummy for expiring contracts that were not accompanied by a work stoppage. The coefficient on expiring contracts with work stoppages indicates that union proposals were 14.5 percent more likely in expiration years with work stoppages than years without an expiring contract, and the coefficient is different from zero at the 1 percent level of statistical significance. Compared to the baseline probability of 22.1, this implies a two-thirds jump in the probability of a union proposal in a contentious expiration year. The coefficient on expiring contracts without work stoppages, 3.8, is also positive and statistically different from zero, but much smaller than the coefficient on work stoppages. Unions were more likely to make a proposal in years with a contract expiration, but the probability of a proposal was four times as large if the negotiation was contentious.

Regression (2) allows the expiration effect to vary with the number of employees by introducing two variables for the number of employees covered by the expiring contract. Both coefficients on #Employees are positive but neither is different from zero at conventional levels of statistical significance. Regression (3) introduces firm size as an explanatory variable, given its previously demonstrated empirical importance. The coefficients of interest decline in magnitude but the conclusion remains the same. Years with an expiring contract and work stoppage had an 12.5 and 12.7 percent greater probability of a union proposal for contracts of median and mean size, respectively; years with an expiring contract but no work stoppage had a 3.1 and 3.3 percent higher probability of a union proposal for contracts of median and mean size, respectively.

Regression (4) is the same as (3) except that the dummy variable indicates whether a firm received a proposal from a nonunion group or individual. As can be seen, the coefficients and net effects are small in magnitude (ranging from 0.4 to 1.1 percent) and never different from zero statistically. There is little evidence that nonunion proposals were more common in expiration years with or without work stoppages.

The evidence indicates that union proposals are much more likely in years with expiring contracts when labor relations are contentious. This further suggests that the main findings are not spurious, and supports the idea that union proposals play a role as bargaining chips in contract negotiations.

C. Topics of Proposals

The previous section establishes that unions increase proposal activity in the year of an expiring contract. We next investigate if they also change the content of their proposals. The theoretical model suggests that the best bargaining chips are proposals that impose high personal costs on managers (and directors) and provide low benefits to the union (so the union is willing to give up the proposal in negotiations). To the extent that unions make proposals to enhance their negotiating position, then, we expect to see a surge in proposals with high costs for managers in contract expiration years.[14]

[14] The union ends up with better outcome when the manager's cost of a proposal, c, is high rather than low. Our model assumes that c is exogenous, but in a more general model that allowed the union to

To conduct this analysis, we grouped the various proposal topics into six broad categories based on issue codes that ISS assigned to each proposal. The six categories are described in Table 7. To facilitate replication and future research, we provide a table in the appendix with a detailed breakdown of the topics in each category and a mapping between our categories and the ISS issue codes. Our classifications are similar to others used in the literature, such as Prevost et al. (2012). The topic that seems most likely to impose direct costs on managers and directors is compensation; these proposals aim to curtail executive compensation, link pay more closely to performance, and give shareholders more influence in compensation decisions. Such proposals provide few direct benefits to unions, so are relatively easy for them to trade away in negotiations. The other topic that is likely to impose direct costs on managers and directors is board selection; these proposals seek to make elections more competitive, open up the nomination process, and establish term limits on directors, among other things. By threatening their job security, such proposals may be personally costly for directors.

Figure 2 shows the distribution of topics proposed by union and nonunion shareholders for the firms in our sample. For unions, compensation proposals are by far the most common, comprising 38 percent of their proposals, followed by proposals related to director elections and qualifications, which comprise 24 percent of their proposals. In contrast to unions, nonunion shareholders are much less likely to make compensation-related proposals. The most common topic for nonunion shareholders is social issues, which comprise 38 percent of their proposals. Compensation is a distant second, comprising 15 percent of nonunion proposals.

Previous tables show that in contract expiration years, especially those with contentious negotiations, unions increased the number of their proposals. Table 8 explores specifically what topics they increased in expiration years. The bargaining chip theory suggests that the increases would come in the form of compensation proposals, or possibly in the form of proposals related to director elections and qualifications. Each column in the table is a regression in which the dependent variable is a dummy equal to 1 if the union initiated a proposal on the topic indicated at the top of each column. The

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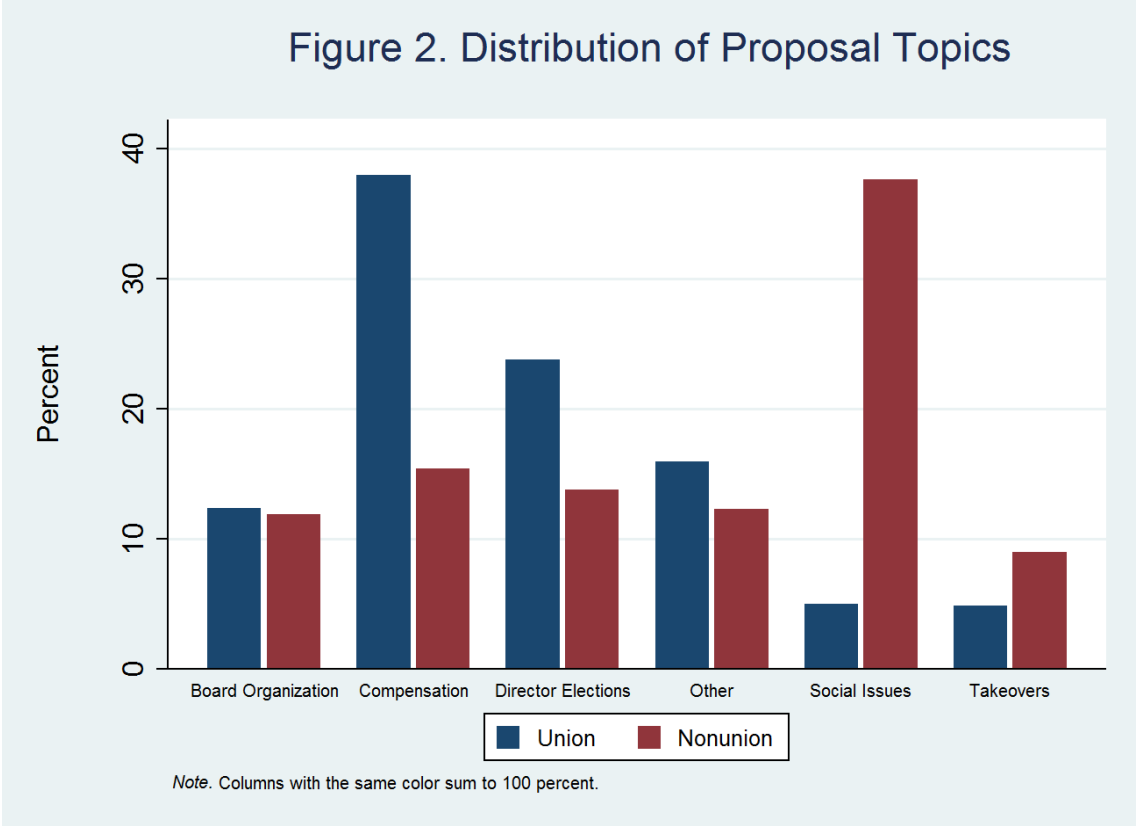
influence the manager's cost through topic choice, the union would have an incentive to choose proposals with high c.



regressions allow for the expiration effect to vary according to whether the negotiation was contentious or not, as measured by work stoppages (same layout as Table 6). As before, the regressions control for firm size and include firm and year fixed effects.

The net effects of an expiring contract (conditional on number of covered employees) are reported in the bottom four rows of Table 8. Our discussion focuses on those estimates. Regression (2) shows that unions increased the number of compensation-related proposals by 7.1 percent on years with an expiring contract and a contentious negotiation. This effect is statistically different from zero at the 5 percent level, and is the largest coefficient for any topic. The unconditional probability of a union compensation proposal is 10.1 percent. The second largest coefficient is for director elections and qualifications: the number of union proposals with this topic increased by 4.0 or 4.1 percent in years with a contentious expiring contract. The effects are different from zero statistically at the 10 percent level. The unconditional probability of a union proposal on this topic is 7.4 percent.

Table 8 shows an increase in proposals on most other topics in expiration years, but none of the estimated effects are statistically different from zero, and the coefficients

are smaller in magnitude than for compensation and direct election proposals. Again, the finding of an insignificant coefficient does not imply that its true value is zero or small – the standard errors allow for the possible of nontrivial effect in some cases – so the table is not definitive statistically. However, the finding of large, statistically significant effects for compensation and director election proposals, and the absence of conclusive evidence for similar effects for other types of proposals, does point in the direction of unions using compensation and director election proposals more often amidst contentious negotiation. This evidence is only loosely motivated by theory and not intended to be conclusive, but it tends to reinforce the basic idea that some union proposals in contract expiration years serve as bargaining chips for collective bargaining.

D. Withdrawn Proposals

More than 40 percent of shareholder proposals never come to a vote. Some of these are withheld from the proxy statement by management after receiving a no-action letter from the SEC, but more often they are withdrawn by the sponsor after negotiating an arrangement with management. The ability to withdraw proposals before they come to a vote makes them suitable as bargaining chips. Here we investigate if withdrawal activity is connected to contract negotiation.

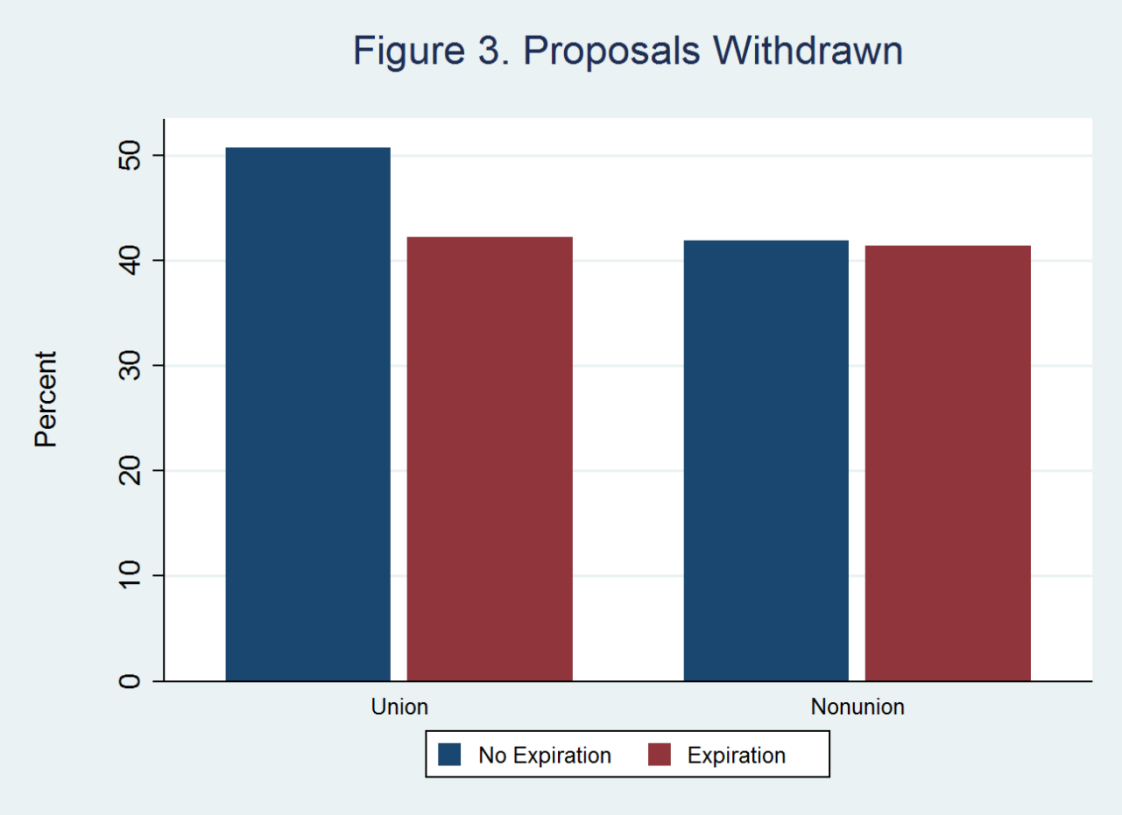
Figure 3 reports the percentage of proposals withdrawn by union and nonunion proposers from a total of 5,782 proposals. One thing to note is that union proposals are withdrawn a little more often than nonunion proposals, 44 percent compared to 41 percent. The important comparison for our purposes is between years with and without a contract expiration. Our model is not well suited to study withdrawals, so we do not have a clear prediction whether withdrawals should be more or less common when used as bargaining chips, but absent use as a bargaining chip, there is no reason to expect different withdrawal activity in expiration and nonexpiration years.[15]

[15] Taken literally, our model implies no withdrawals in nonexpiration years. This is because the model does not permit the manager to offer a (non-wage) compromise that might lead to withdrawal. For a theoretical study that does allow such compromises, see Matsusaka and Ozbas (2015).

Figure 3 shows a large difference in withdrawal activity by unions in expiration and nonexpiration years. Unions withdraw 51 percent of their proposals in nonexpiration years compared to 42 percent in expiration years. The 9 percent difference is distinguishable from zero statistically ($p = .026$). This difference in withdrawal rates could be due to something other than use of proposals as bargaining chips, for example, managers may be distracted with collective bargaining and thus less willing to work out compromises during expiration years. To assess this possibility, Figure 3 also reports the withdrawal rate of proposals from nonunion shareholders. The withdrawal rate is almost identical in expiration and nonexpiration years, 41.2 percent and 41.4 percent, respectively, and statistically indistiguishable at conventional levels of significance. It does not appear that the lower withdrawal rate is linked to some factor associated with contract expiration years.

We view this evidence as mainly suggestive because of the lack of clear theoretical prediction, and also because the classification of withdrawn proposals is noisier than normal.[16] Even so, the evidence in Figure 3 lends some additional support for the idea that unions use shareholder proposals as bargaining chips in contract negotiations. If proposals were not being used strategically, there is no reason to expect different withdrawal rates in expiration and nonexpiration years.

[16] The main limitation is that the original ISS Proposals database classifies many proposals as "omitted" from the proxy without explaining whether they were withdrawn by the proponent or deleted by management following a no-action letter from the SEC. We were able to classify some of these proposals by manually checking the data, but it is beyond the scope of this study to re-classify the entire data set.



E. Outcomes

Our evidence suggests that unions use the proposal process opportunistically. A related question of interest is whether this influences outcomes such as wages or firm performance. Evidence on how proposals affect outcomes is mixed (Denes et al. 2015), in part because of the difficulty of finding exogenous factors for causal identification. It is beyond the scope of our study to offer new causal estimates of the effect on outcomes, but we can offer some suggestive evidence on wage settlements and governance structure. One reason we view these results as suggestive is significant data limitations.

i. Wage Settlements

If unions use shareholder proposals as bargaining chips in contract negotiations, we expect that their bargaining outcomes would improve as a result. Identifying a causal effect of proposals on outcomes is complicated by the endogeneity of proposals, but the model produces an implication concern equilibrium outcomes (Equilibrium Implication (1)): average wages are higher when a proposal is withdrawn than when it goes to a vote.

The data we have on collective bargaining outcomes are qualitative in nature. We searched the BNA database for all settlement outcomes among our sample firms and their subsidiaries during the period 1997-2013. Settlement outcomes are multidimensional: they include information on wage levels or wage increases, bonuses, lump sum payments, retirement benefits, health care benefits and copayments, cost of living adjustments, duration of contract, and so forth. To make the task manageable, we focused on a core element of the contract, the annual wage increase. We standardized by hand the wage information into an annual percentage increase over the life of the contract, ignoring bonuses, one-time payments and so forth. We were able to collect this information for 877 contracts involving 183 firms, summarized in Table 2.[17] The average annual wage increase for the contracts we study was 2.81 percent. We linked information on proposal withdrawals to the settlement data.[18] Since both wage outcomes and proposal withdrawals are rough measures, and only available for a subset of the sample, we expect a fair amount of noise in the estimates.

Table 9 reports the results. Each column is a regression in which the dependent variable is the mean annual percentage increase in wages for the duration of the new contract. The unit of observation is a contract. The regressions include firm and year fixed effects, and standard errors are clustered at the firm level. Regression (1) reports the difference in wage outcomes between contracts with a concurrent union proposal and contracts without a union proposal. Our model implies that one should not expect a crisp connection between wages and union proposals (unconditionally) in equilibrium, but we report this relation for descriptive purposes. The coefficient on the union proposal dummy implies that contracts in which there was a union proposal during negotiations featured 0.04 percent more wage growth. The coefficient is not different from zero at conventional levels of statistical significance.

Regression (2) in Table 9 reports the mean wage growth associated with withdrawn and voted proposals. Compared to a contract in which there was not a

[17] We continue to include only firms that had at least one contract expiration involving more than 500 employees; among those firms we include contracts involving any number of workers.

[18] We classified a firm as having a withdrawn proposal if one or more proposals in a given year were withdrawn.

proposal, contracts with withdrawn proposals featured 0.14 percent higher wage growth and contracts that were not withdrawn featured 0.08 percent lower wage growth. Neither coefficient estimate is different from zero at conventional levels of significance. These numbers can be compared to the mean contract wage growth of 2.8 percent. The key prediction of the model is that equilibrium wage outcomes are higher when a proposal is withdrawn than when not withdrawn. The bottom row reports this difference: the pattern is consistent with the model and the difference of 0.22 percent is different from zero at the 5 percent level.

This evidence is generally consistent with the idea that unions make proposals strategically, and withdraw them if the company offers significant wage concessions. While our model predicts a stark difference in wages between withdrawn and voted proposals, in some respects this is due to an unrealistic feature of the model. The model unrealistically asks wages to carry the full burden of the bargaining; more realistically, the compromise could involve both wages and the issue raised in the proposal (as in Matsusaka and Ozbas (2015)). Allowing the manager and union to bargain over the proposal outcome as well would likely mute the differences in wage outcomes in the model. Having noted this caveat, the findings nevertheless do point in the same direction as the rest of the evidence.

ii. Governance Outcomes

Even if unions use the proposal process opportunistically, and even if doing so allows them to achieve better collective bargaining outcomes, this does not preclude the possibility that union proposals might also benefit the rest of the shareholders. A union proposal might prod a company into adopting better governance practices at the same time that it allows the union to secure higher wages. Conceivably, this improvement in governance could even offset whatever value losses the firm suffers from wage concessions. Again, it is beyond the scope of this study to fully analyze the effect of union proposals on corporate governance, but we are able to offer some suggestive evidence.[19]

[19] Previous research on how proposals affect corporate governance provisions is limited. Wahal (1996) finds a connection between proposals from public pension funds and governance changes; Bizjak and

Our approach is to focus on union proposals targeted at specific corporate governance provisions, and estimate how often firms adjust these provisions following the union proposal. There is too much endogeneity in the proposal process to treat these as causal estimates with much confidence, but a finding that union proposals are followed by governance changes would go part way toward building a case that union proposals help nonunion shareholders.

Our analysis focuses on the eight governance provisions listed in Table 10. We include a provision if it was tracked in the ISS Governance database – we need this information to determine if a firm changed its governance structure – and if our sample firms collectively received more than 25 proposals concerning the provision during the sample period.[20] The eight provisions that we study include most of the high profile issues advanced by corporate governance reformers over the last two decades. There is disagreement among both academics and practitioners whether these provisions actually capture "good governance" (Larcker et al., 2011). Regardless, they are believed by many to be effective and are sometimes endorsed by proxy advisory firms, so it seems useful to understand if union proposals influence their prevalence.

For each firm, year, and provision, we create a dummy variable equal to one if the firm changed its position on the provision to the one supported by "good governance" reformers. We also created a dummy variable equal to 1 if the firm received a shareholder proposal on the topic of the provision in the preceding year.[21] We then estimated regressions to determine how often "good governance" changes were preceded by shareholder proposals.

Marquette (1998) find that a firm is more likely to restructure its poison pill following a shareholder proposal. There is a related literature on shareholder activism, another strategy that shareholders use to engage corporations; see Denes et al. (2015) for an overview.

[20] We excluded board independence because it is a continuous variable (e.g. the percentage of outside directors on the board) while the other provisions are recorded as dichotomous.

[21] The ISS Shareholder data often describe the subject of a proposal (e.g. "independent board chair") without explicitly stating the direction of the proposal (e.g. "require an independent board chair" versus "prohibit an independent board chair.") Casual examination of the data suggests that the proposals are overwhelmingly in the direction favored by good governance reformers.

Table 11 presents the results. Each column is a regression, with standard errors clustered by firm in parentheses beneath the coefficient estimates. We include year-provision fixed effects to allow for the possibility that issues gain attention in waves, and we include firm fixed effects to allow for the possibility that some firms are more amenable to shareholder-directed change than others. Regression (1) indicates that a governance change was 7.3 percent more likely following a shareholder proposal; the coefficient is statistically significant at the 1 percent level. Thus, the data show a relation between change and proposals that is consistent with the idea that proposals are effective; the magnitude of the association is modest, however.

Regression (2) of Table 11 estimates the connection between governance change and shareholder proposals separately for union and nonunion proposals. The coefficient on the union dummy indicates that union proposals were 3.9 percent less likely to be followed by a governance change than nonunion proposals; the coefficient is not different from zero at conventional levels of significance.

Regression (3) of Table 11 further distinguishes proposals that occur in expiration and nonexpiration years. To the extent that union proposals in expiration years are opportunistic, one would expect them to be less effective in bringing about corporate governance change. The coefficient on union proposals in expiration years is consistent with this hypothesis: it indicates that union proposals were 12.4 less likely to be followed by governance change in expiration than nonexpiration years. While the magnitude is large, the coefficient is not precisely estimated and cannot be distinguished from zero statistically.[22] In an expiration year, the probability of change following a union proposal was 6.0 percent less than following a nonunion proposal. In a nonexpiration year, the probability of governance change following a union proposal was 7.1 percent higher than following a nonunion proposal. While suggestive that union proposals are less effective in producing governance change during expiration years, none of the differences are measured precisely enough to distinguish from zero statistically.

Even though the regressions have almost 12,000 observations, the coefficients are not precisely estimated. We suspect one reason for this is measurement error in the governance provisions. There are many cases in the sample in which a firm received a

[22] The coefficient is statistically different from zero at the 10 percent level in a logistic regression.

shareholder proposal on a provision even though the ISS Governance database indicates that the company already had adopted the "good governance" provision. Some of these proposals may represent deterrence (e.g. forbidding a firm that does not have a poison pill from adopting one in the future) or may represent fine-tuning of a provision (e.g. lowering ownership requirements required to call a special meeting), and others simply may be errors. Regardless, our ability to measure governance change is less exact than one would like.

Regression (4) of Table 11 reports a regression based on a subsample that may be cleaner in some respects. In this regression, observations in which the ISS Governance database indicates that a firm had already adopted the "good governance" provision are excluded. Taken at face value, there is no reason to offer proposals at such firms because they have already made the decision that reformers want. The sample size drops by almost half, but the coefficients remain qualitatively similar, and the key coefficient on the union-expiration dummy increase in magnitude. However, the relevant coefficients remain statistically indistinguishable from zero.

As a whole, the evidence is inconclusive. The signs and magnitudes of the coefficients hint that union proposals may be more effective than nonunion proposals in nonexpiration years, and less effective in expiration years. However, the statistical imprecision of the estimates is also consistent with the view that union proposals are no different than nonunion proposals.

6. Policy Discussion and Conclusion

Corporate reformers increasingly see enhanced shareholder rights as an important part of controlling agency problems in large corporations. The reform movement scored what appeared to be a signal victory in this direction in August 2010 when, following years of discussion and pressure, the SEC adopted new proxy access rules that made it substantially easier for shareholders to nominate their own candidates for the board of directors. Yet the SEC's new rules were quickly struck down by the U.S. Court of Appeals

for the District of Columbia Circuit.[23] The court's decision was based not on a substantive objection to increased shareholder participation, but because the SEC "neglected its statutory responsibility to determine the likely economic consequences" of the rules and "inconsistently and opportunistically framed the costs and benefits." In particular, the court found that the SEC "failed adequately to quantify the certain costs," including the possibility that "union and state pension funds might use [proxy access] as leverage to gain concessions, such as additional benefits for unionized employees, unrelated to shareholder value." The SEC's failure to base its rules on rigorous research on benefits and costs was due in large part to an absence of such evidence in the scholarly literature. While shareholder rights have been much discussed in the scholarly literature, identification of causal effects has been elusive and much of the argumentation has been based on anecdotes and casual empiricism.

One contribution of our study is to provide rigorous causal estimates of opportunistic behavior by one particularly importance class of shareholders, labor unions. While some observers have downplayed the possibility of opportunistic behavior by labor unions because such behavior would be ineffective or is proscribed by law (Bebchuk, 2005; Schwab and Thomas, 1998), we find consistent evidence that unions do use shareholder proposals opportunistically, apparently as bargaining chips during wage negotiations. We find that the number of proposals by unions increases by about one-quarter in years where the union is negotiating a new contract with the company, and by about two-thirds if the negotiation is contentious as evidenced by a work stoppage. We do not find an increase in proposals from nonunion shareholders in contract expiration years, allaying concerns that the main finding is spurious. We also find some evidence that when proposals are used as bargaining chips, the ultimate contract is more favorable to the union.

While the evidence suggests that unions use the proposal process to acquire private benefits, the normative implications of our analysis are not simple. Our evidence does not imply that union proposals overall are harmful to other shareholders. Union

[23] *Business Roundtable and Chamber of Commerce of the United States of America v. Securities and Exchange Commission*, July 22, 2011. Although the SEC promulgated new rules concerning both 14a-8 and 14a-11, the court decision concerned only the proxy access rules for director elections, 14a-11.

shareholders appear to behave similarly to nonunion shareholders in nonexpiration years in terms of quantity and type of proposals. However, there is a growing body of evidence finding that investors do not necessarily gain from enhanced shareholder rights (Larcker et al., 2011; Stratmann and Verret, 2012) or from shareholder proposals themselves (Denes et al., 2015). Our study offers one explanation why enhanced rights might be a mixed blessing for shareholders: they might allow some shareholders to extract private benefits through concessions from the company's managers by threatening proposals that the managers find particularly uncomfortable (Matsusaka and Ozbas, 2015).

Theory and evidence together suggest that when considering policies to enhance shareholder rights, the analysis should take into account that some shareholders have conflicted interests. The presumption that all shareholder proposals are and will be motivated to increase the company's value seems too strong. And the assumption that proposals can never be used to extract benefits from managers also seems untenable. For this reason, it may be useful to consider rights policies that distinguish between shareholders that are currently involved in negotiations or transactions with the firm and shareholders that are purely investors. Allowing shareholders the power to control managers is a good thing if shareholders seek to maximize corporate value; if they have goals unrelated to corporate value then the case for empowering them is more complicated.

Appendix A. Proof of Proposition 2

Consider equation (2). The first term can be expanded to:

$$\Pr(W^* < b) = \Pr\Big(.5\Big((1-\theta)R + \bar{b} + c\Big) < b\Big) = \Pr\big(c < 2b - (1-\theta)R - \bar{b}\big).$$

There are three cases to consider depending on the value of b:

- *Case 1.* $b < .5(1-\theta)R + .5\bar{b}$. In this case, $\Pr(W^* < b) = 0$ and $E[u(AGREE)|W^* > b] = .5(1-\theta)R + .5\bar{b} + .25$, so that $F\big(b, \bar{b}\big) = .5(1-\theta)R + .5\bar{b} + .25$.

- *Case 2.* $.5(1-\theta)R + .5\bar{b} \leq b \leq .5(1-\theta)R + .5\bar{b} + .5$. Here, $\Pr(W^* < b) = 2b - (1-\theta)R - \bar{b}$, and $E[u(AGREE)|W^* > b] = .5(b + .5(1-\theta)R + .5\bar{b} + .5)$, so that

  $$F\big(b, \bar{b}\big) = \big(2b - (1-\theta)R - \bar{b}\big) \cdot b + \big(1 - 2b + (1-\theta)R + \bar{b}\big) \cdot .5\big(b + .5(1-\theta)R + .5\bar{b} + .5\big).$$

- *Case 3.* $b > .5(1-\theta)R + .5\bar{b} + .5$. In this case, $\Pr(W^* < b) = 1$, and $E[u(AGREE)|W^* > b]$ is undefined, so that $F\big(b, \bar{b}\big) = b$.

Observe that F is continuous and monotonically nondecreasing in b for any $\bar{b}$. Thus, for any $\bar{b}$, there is a cutoff level of b below which proposals are not optimal and above which proposals are optimal (either group could be empty). We assume k is such that in equilibrium proposals are observed with positive probability but not with certainty. Formally, this requires $k \in (F\big(0, \bar{b}\big), F\big(1, \bar{b}\big))$ where F is defined as in Case 2.

Now recall that the equilibrium cutoff value $\bar{b}$ is established by $F\big(b = \bar{b}, \bar{b}\big) = k$ in Case 2. Using the implicit function theorem, differentiate $F\big(b = \bar{b}, \bar{b}\big) = k$ with respect to $(1-\theta)R$, which yields $\frac{\partial \bar{b}}{\partial (1-\theta)R} = \frac{\bar{b} - (1-\theta)R - 1}{\bar{b} - (1-\theta)R + 1} < 0$. The inequality is signed by noting that $2b - (1-\theta)R - \bar{b} < 1$ in this region; which becomes $\bar{b} - (1-\theta)R < 1$ when $b = \bar{b}$. QED

Appendix B. Description of Data

A. Shareholder Proposals, Sponsors, Withdrawals

All information related to shareholder proposals was taken from the ISS Proposals database (formerly RiskMetrics). This database reports information on shareholder meeting date, sponsor of the proposal, type of sponsor (e.g. individual, labor union, religious group), topic of proposal, and outcome (e.g. withdrawn, voted, not in proxy). The database covers firms included in the S&P 1500 index and there are 15,627 proposals from 1997 to 2013.

Because of inconsistencies, errors, and a large number of omissions in the database's sponsor information, we created new sponsor categories, as defined in Table 1. Proposers are assigned to categories based on the categorizations in the original database, and if that failed (because of an error, ambiguity, or omission), we manually assigned a sponsor category based on investigation of the sponsor. We paid special attention to union proposals, and assigned individuals to the union category if they were officials or otherwise affiliated with a union. If a proposal had multiple sponsors, we chose the primary sponsor.

The database assigns each proposal a four-digit topic code ("issue code"). We grouped the various topics into six broad categories based on issue codes, as described in Table 7. To facilitate replication and future research, we also provide in the appendix table a detailed breakdown of the topics in each category and a mapping between our categories and the ISS issue codes.

The database assigns an "outcome" to each proposal, such as voted, withdrawn, or omitted. The classifications are sometimes used interchangeably and often are omitted. We define a proposal as having been withdrawn if its status is indicated as not filed, not in proxy, not presented, not proposed, not revised, omitted, or withdrawn. The rest of the proposals are categorized as not withdrawn, except for the cases of bankruptcy, invalidated by court, meeting cancelled or postponed, merger, no-action letter, not available, not applicable, or not disclosed; we exclude these case from the analysis of withdrawals. Outcomes without an explicit statement are assumed to have gone to a vote, which is the case in 100 percent of the observations we checked individually.

The database does not provide the date that a proposal was made, but rather the date of the annual meeting at which the proposal would be put to a vote. In about 80 percent of observations, the meeting date is missing, so we added the information based on company annual reports.

We also fill in missing entries on firm identifiers, meeting dates, sponsors, and proposal outcomes based on SEC form DEF 14A, requests for SEC no-action letters, and other online

resources. We exclude proposals related to proxy contests throughout our analysis as they are different in nature from other shareholder proposals.

B. Contract Expirations

Information on labor contract expirations was taken from the BNA Labor Plus database maintained by the Bureau of National Affairs. Under the National Labor Relations Act, firms with labor union contracts are required to file notices of contract expiration with the Federal Mediation and Conciliation Service. These filings include information on employer names, labor union names, contract expiration and notice dates, and the number of employees involved in the collective bargaining. Expiration dates were converted to expiration quarters.

The database does not have firm identifiers such as CUSIP or GVKEY, so firms had to be identified by their names as they appear on the BNA filings. We manually matched these employer names with the company names in Compustat. The names in the BNA database are often at a plant or a subsidiary level, in which cases we identified and matched with the ultimate parent. When a division or plant changed its ownership during the sample period, we identified the owner at the point of contract expiration.

To make the project manageable and reduce noise, we limited the sample to contracts that involve 500 or more contract employees. This filter is needed because there are more than 210,000 unique names in the full contract listing database, and the only way to confirm a match is to check if each employer name can be matched with a firm in the Compustat universe. Once a firm passed this filter, we included all contracts involving these firms using company-specific keywords and manually corrected wrong matches. For example the keywords we use for TJX Companies Inc. are TJ MAXX, T J MAXX, TJX, T.J. MAXX, MARSHALLS, MARMAXX, where the latter two are subsidiaries of the company.

C. Work Stoppages

The BNA Work Stoppage database reports employer name, work stoppage start and end dates, union, and the number of employees under work stoppage. Work stoppages include strikes and lockouts. As with the BNA Labor Plus database, only firm names were available, not firm identifiers, so companies had to be matched to the other databases manually. We include only firms that had at least one contract expiration involving more than 500 employees; among those firms we include work stoppages involving any number of workers. Stoppage dates were assigned to the year in which the stoppage occurred.

D. Collective Bargaining Outcomes

The BNA Settlement database includes employer, union, settlement effective date, contract expiration date, contract term, wage increase, original wage, and a description of other contractual terms. Most of the information is in text format (e.g., "3.66% 1st yr, 2nd yr, 3rd yr, 4th yr, 5th yr" and "$30 (was $22) per hr for tutors over term"), and outcomes are multidimensional: they include information on wage levels or wage increases, bonuses, lump sum payments, retirement benefits, health care benefits and copayments, cost of living adjustments, duration of contract, and so forth. To make the task manageable, we focused on a core element of the contract, the annual wage increase. We standardized by hand the various wage increase information into an annual percentage increase over the life of the contract, ignoring bonuses, one-time payments, and so forth.

Because our unit of observation is a settlement outcome, we treat multiple observations with identical employer, union, effective date, expiration date, and wage increase rate as one observation. As in the work stoppage data, all settlement observations for our sample firms and their subsidiaries at the expiration date are included for the settlement. As with the other BNA databases, there were no firm identifiers, so companies had to be matched to the other databases manually.

E. Governance Provisions

Information on firm-specific corporate governance provisions and board structure was taken from the ISS Governance database (formerly known as the IRRC Takeover Defense database) and the ISS Directors database, respectively. Both databases cover the S&P 1500 companies. The ISS Governance database contains information on corporate governance provisions and state takeover laws. The ISS Directors database includes information related to individual directors (name, age, tenure, gender, committee memberships, independence classification, etc.).

Our analysis focuses on the eight governance provisions listed in Table 10. We included a provision if it was tracked in the ISS Governance database – we need this information to determine if a firm changed its governance structure – and if our sample firms collectively received more than 25 proposals concerning the provision during the sample period. We excluded board independence because it is a continuous variable (e.g. the percentage of outside directors on the board) while the other provisions are recorded as dichotomous.

Until 2006, the observations in the ISS Governance dataset are either biannual or triannual, which results in a significant shrinkage of the sample when governance provisions are used as controls. In order to minimize the loss, if the observation for year t is missing and the

observations for year $t-1$ and $t+1$ are the same, we assign the year $t-1$ classification to year t. Governance provisions are well known to be sticky, so we believe our imputation has little cost. When we study changes in governance provisions, we do not impute missing values, rather we drop observations with missing values.

F. Financial Information

Firm financial information is taken from Compustat using GVKEY as a firm identifier. The variables we use as controls are the logarithm of book value of assets, total debt divided by total assets, cash and short-term investments divided by total assets, ROA (operating income before depreciation divided by total assets), and annual stock return based at the time of the fiscal year close. In the case of a merger, firm financial information before the merger often can be found in the new company formed after the merger. For example, Bell Atlantic merged with GTE to form Verizon Communications in 2000. Bell Atlantic does not exist in the Compustat database, but Verizon Communications' financial information goes back to 1984, around the time Bell Atlantic was formed. In such cases, we retrieve financial information from Verizon Communications and assign to Bell Atlantic.

G. Combining the Databases

After manually matching the firms in the BNA databases with Compustat using company names, we merge the data on contract expiration with the data on shareholder proposals from ISS using 6-digit CUSIP as our primary identifier. 6-digit CUSIPs are often missing in the ISS Proposals database, and some firms used multiple 6-digit CUSIPs during the sample period. In such cases, we use ticker as our secondary identifier and manually verify that each match with the ticker is correct.

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Table 1. Overview of Sponsor Types

Sponsor Type	Description	Leading Examples	% Firm-years with at least one proposal	% Proposals in ISS database
Fund (non SRI)	Investment funds, mutual funds, private equity funds, financial advisors	TIAA-CREF, Cevian Capital, Miller/Howard Investments, RAM Trust	1.6	1.5
Fund (SRI)	Investment funds with objectives beyond maximizing shareholder return	Calvert, Domini Social Inv., Harrington Inv., Trillium Asset Man., Walden Asset Man.	8.9	8.8
Individual	Individual shareholders not representing or affiliated with one of the other organizations	Gerald Armstrong, John Chevedden, Evelyn Davis, Rossi Family, Ken & William Steiner	32.0	37.3
Other	Educational organizations, nonfinancial companies, multiple sponsors		0.4	3.0
Public Pension or Public Union	Public employee pension funds, public employee unions	CalPERS, New York City pension funds, NYS Common Connecticut Retirement Plans & Trust Funds, AFSCME	12.5	11.9
Religious	Religious groups, pension funds controlled by religious groups	Adrian Dominican Sisters, Capuchin Franciscan Province of St. Joseph, GBOPHB (United Methodist Church), ICCR	16.6	11.7
Special Interest	Groups advancing special interest objectives	Action Fund Management, As You Sow, National Legal and Policy Center, PETA, United for a Fair Economy	7.3	4.1
Union	Private sector labor unions and pension funds, retiree associations, bank controlled by unions, individuals affiliated with union or retiree association	AFL-CIO, Amalgamated Bank/LongView, Carpenters, IBEW, LiUNA, Teamsters, SEIU, Sheet Metal Workers	22.1	21.8

Note. The main sample contains 3,501 firm-years. The ISS Proposals database (1997-2013) contains 15,224 observations, excluding observations that do not include sponsor information.

Table 2. BNA Summary Information

	Mean	Median	S.D.	Min	Max	N
Contract Expiration						
Dummy = 1 if expiring contract	0.66	1	0.47	0	1	3,501
#Employees under expiring contract (thousands)	3.67	0.82	14.5	0.001	264.7	2,280
Work Stoppages						
Dummy = 1 if work stoppage	0.08	0	0.28	0	1	3,501
#Employees under work stoppage (thousands)	4.08	0.40	16.28	0.007	185	276
Settlement						
Average wage increase over life of contract (percent)	2.81	2.92	1.21	-5.00	9.97	877
#Employees under settlement (thousands)	0.39	0.35	0.29	0.002	1.4	371

Note. This table summarizes BNA data during the period 1997-2013 for our sample firms. The unit of observation is a firm-year for contract expiration and work stoppages, and a settlement outcome for settlement data.

Table 3. Expiring Contracts and Union Proposals

Panel A. Dependent: Dummy = 1 if Company Received Proposal from Union

	(1)	(2)	(3)	(4)	(5)
Dummy = 1 if firm had an expiring contract	4.4**	4.6***	3.6**	3.9**	5.0***
	(1.8)	(1.8)	(1.8)	(1.9)	(1.9)
#Employees under expiring contract (in thousands)	...	0.089*	0.080*	0.081	0.073
		(0.048)	(0.047)	(0.051)	(0.059)
Log(assets)	...	...	9.2***	9.6***	9.1***
			(2.6)	(2.6)	(3.3)
Finance control variables	...	...	...	Yes	Yes
Governance control variables	...	..	..	...	Yes
R^2	.055	.060	.137	.145	.145
N	3,501	3,456	3,348	3,198	2,295
Expiring dummy + 0.8 × #Employees expiring	...	4.7***	3.7**	4.0**	5.1***
		(1.8)	(1.8)	(1.9)	(1.9)
Expiring dummy + 4.0 × #Employees expiring	...	5.0***	3.9**	4.3**	5.3***
		(1.8)	(1.8)	(1.9)	(1.9)

Panel B. Dependent: Number of Proposals Received from Unions

	(6)	(7)	(8)	(9)	(10)
Dummy = 1 if firm had an expiring contract	0.074**	0.072**	0.056*	0.059*	0.046
	(0.032)	(0.031)	(0.031)	(0.033)	(0.030)
#Employees under expiring contract (in thousands)	...	0.0038**	0.0037**	0.0039**	0.0035***
		(0.0015)	(0.0015)	(0.0015)	(0.0011)
Log(assets)	...	...	0.158***	0.168***	0.161***
			(0.048)	(0.050)	(0.056)
Finance control variables	...	...	...	Yes	Yes
Governance control variables	...	...	...	...	Yes
R^2	.057	.070	.153	.164	.159
N	3,501	3,456	3,348	3,198	2,295
Expiring dummy + 0.8 × #Employees expiring	...	0.075**	0.059*	0.062*	0.048
		(0.032)	(0.031)	(0.034)	(0.030)
Expiring dummy + 4.0 × #Employees expiring	...	0.087***	0.071**	0.075**	0.059**
		(0.033)	(0.033)	(0.035)	(0.030)

Note. Each column reports estimates from a linear regression; the dependent variable is indicated at the top of each panel. Standard errors clustered by firm are in parentheses beneath coefficient estimates. Coefficients and standard errors in Panel A are scaled by 100 to represent percentages. The unit of observation is a firm-year, and the panel runs from 1997-2013. All regressions include firm-specific and year-specific fixed effects. The financial control variables are: debt/assets, cash/assets, ROA, and annual stock return. The governance control variables are: dummies = 1 if the firm had a poison pill, if the CEO was chair of the board, if the board was classified; the percentage of independent directors; and the number of directors. Significance levels are indicated: * = 10 percent, ** = 5 percent, *** = 1 percent.

Table 4. Expiring Contracts and Nonunion Proposals

	(1)	(2)	(3)	(4)	(5)
Dummy = 1 if firm had an expiring contract	2.2 (2.1)	1.8 (2.2)	0.5 (2.2)	0.4 (2.2)	0.4 (2.6)
#Employees under expiring contract (in thousands)		0.061* (0.036)	0.044 (0.041)	0.065 (0.058)	0.052 (0.045)
Log(assets)	...	...	14.8*** (3.0)	16.1*** (3.3)	7.6*** (4.4)
Finance control variables	...	...	...	Yes	Yes
Governance control variables	...	...	...	...	Yes
R^2	.012	.015	.177	.185	.135
N	3,501	3,456	3,348	3,198	2,295
Expiring dummy + 0.8 × #Employees expiring	...	1.8 (2.1)	0.5 (2.2)	0.5 (2.2)	0.4 (2.6)
Expiring dummy + 4.0 × #Employees expiring	...	2.0 (2.1)	0.6 (2.2)	0.7 (2.2)	0.6 (2.6)

Note. Each column reports estimates from a linear probability regression; the dependent variable is a dummy equal to one if the firm received a proposal from a nonunion group or individual. Standard errors clustered by firm are in parentheses beneath coefficient estimates. Coefficients and standard errors are scaled by 100 to represent percentages. The unit of observation is a firm-year, and the panel runs from 1997-2013. All regressions include firm-specific and year-specific fixed effects. The financial control variables are: debt/assets, cash/assets, ROA, and annual stock return. The governance control variables are: dummies = 1 if the firm had a poison pill, if the CEO was chair of the board, if the board was classified; the percentage of independent directors; and the number of directors. Significance levels are indicated: * = 10 percent, ** = 5 percent, *** = 1 percent.

Table 5. Expiring Contracts and Proposals by Type of Nonunion Proposer

	Funds (non-SRI) (1)	Funds (SRI) (2)	Individuals (3)	Public Pensions (4)	Religious (5)	Special Interest (6)
Dummy = 1 if firm had an expiring contract	-0.4	0.2	1.7	0.4	0.05	2.0*
	(0.5)	(1.3)	(1.7)	(1.2)	(1.5)	(1.0)
#Employees under expiring contract (in thousands)	-0.011	0.049	0.043	-0.073*	0.056	-0.106*
	(0.012)	(0.052)	(0.063)	(0.042)	(0.041)	(0.056)
Log(assets)	0.4	5.7***	10.3***	3.8*	5.8***	4.6***
	(0.8)	(2.0)	(2.8)	(2.1)	(2.2)	(1.6)
R^2	.015	.096	.181	.069	.133	.097
Expiring dummy + 0.8 × #Employees expiring	-0.4	0.3	1.8	0.4	0.1	1.9*
	(0.5)	(1.3)	(1.7)	(1.2)	(1.5)	(1.0)
Expiring dummy + 4.0 × #Employees expiring	-0.4	0.4	1.9	0.1	0.3	1.5
	(0.5)	(1.3)	(1.7)	(1.2)	(1.5)	(1.0)

Note. Each column reports estimates from a linear probability regression; the dependent variable is a dummy equal to one if the firm received a proposal from the type of proposer indicated at the top of the column. Standard errors clustered by firm are in parentheses beneath coefficient estimates. Coefficients and standard errors are scaled by 100 to represent percentages. The unit of observation is a firm-year, and the panel runs from 1997-2013. All regressions include firm-specific and year-specific fixed effects and include 3,348 observations. The financial and governance control variables are not included. Significance levels are indicated: * = 10 percent, ** = 5 percent, *** = 1 percent.

Table 6. Union Proposals, Expiring Contracts, and Work Stoppages

	Union Proposals			Nonunion Proposals
	(1)	(2)	(3)	(4)
Dummy = 1 if expiring contract & work stoppage	14.5***	14.6***	12.5***	1.0
	(3.7)	(3.9)	(3.7)	(3.3)
Dummy = 1 if expiring contract & no work stoppage	3.8**	4.0**	3.1*	0.4
	(1.7)	(1.8)	(1.8)	(2.2)
#Employees under expiring contract, work stoppage	...	0.057	0.063	0.020
		(0.090)	(0.089)	(0.044)
#Employees under expiring contract, no stoppage	...	0.074	0.058	0.059
		(0.065)	(0.065)	(0.082)
Log(assets)	...	...	9.0***	14.8***
			(2.6)	(3.0)
R^2	.068	.072	.144	.178
N	3,501	3,456	3,348	3,348
Dummy (expiring & stoppage) + 0.8 × #Employees	...	14.7***	12.5***	1.0
		(3.9)	(3.7)	(3.3)
Dummy (expiring & stoppage) + 4 × #Employees	...	14.8***	12.7***	1.1
		(3.8)	(3.6)	(3.3)
Dummy (expiring & no stoppage) + 0.8 × #Employees	...	4.1**	3.1*	0.4
		(1.8)	(1.8)	(2.1)
Dummy (expiring & no stoppage) + 4 × #Employees	...	4.3**	3.3*	0.6
		(1.8)	(1.8)	(2.2)

Note. Each column reports estimates from a linear regression; the dependent variable is a dummy equal to one if the firm received a proposal from a union or nonunion, as indicated at the top of each column. Standard errors clustered by firm are in parentheses beneath coefficient estimates. Coefficients and standard errors are scaled by 100 to represent percentages. The unit of observation is a firm-year, and the panel runs from 1997-2013. All regressions include firm-specific and year-specific fixed effects. #Employees is expressed in thousands. Significance levels are indicated: * = 10 percent, ** = 5 percent, *** = 1 percent.

Table 7. Topics of Shareholder Proposals

Topic	# in this paper's sample	# in full ISS sample
Board Organization and Processes Director independence, committee independence, board chair, meetings	686	1,951
Compensation Director compensation, executive compensation, shareholder approval	1,145	3,043
Director Qualifications and Selection Direction elections, proxy access, majority votes, cumulative voting, nominating committee, classified board	907	2,917
Miscellaneous Shareholder pre-emptive rights, auditors, internal labor issues, political contributions, shareholder proposals	747	1,892
Social Issues Human rights, animal welfare, internal labor standards, nuclear power, environment, tobacco, sexual orientation	1,777	4,254
Takeovers, Mergers, and Divestitures Poison pill, fair price provisions, state competition laws, study divestiture	468	1,505

Note. This table summarizes the specific issues addressed in each of six broad topics, and reports the number of each type of proposal during the period 1997-2013. Data are from ISS. See Appendix A for details.

Table 8. Regression by Topic of Proposal

	Board Organization & Processes (1)	Compensation of Directors & Executives (2)	Director Elections & Qualifications (3)	Miscellaneous (4)	Social Issues (5)	Takeovers, Mergers, and Divestitures (6)
Dummy = 1 if expiring contract & work stoppage	1.5	7.1**	4.1*	3.2	-0.5	0.4
	(1.7)	(3.1)	(2.5)	(2.1)	(0.8)	(1.0)
Dummy = 1 if expiring contract & no work stoppage	0.2	1.4	1.9*	-0.055	0.6	-0.2
	(0.8)	(1.3)	(1.1)	(0.081)	(0.5)	(0.4)
#Employees under expiring contract, work stoppage	0.028	-0.007	-0.023	0.149**	0.043	0.011
	(0.080)	(0.080)	(0.040)	(0.070)	(0.038)	(0.021)
#Employees under expiring contract, no work stoppage	0.085	0.088	0.004	0.095	-0.025**	-0.011
	(0.082)	(0.065)	(0.053)	(0.72)	(0.012)	(0.010)
Log(assets)	3.1**	2.7	4.8***	1.8*	1.6	0.4
	(1.3)	(1.6)	(1.4)	(1.0)	(1.0)	(0.6)
R^2	.039	.104	.051	.093	.048	.013
Dummy (expiring & stoppage) + 0.8 × #Employees expiring	1.5	7.1**	4.1*	3.3	-0.5	0.4
	(1.6)	(3.1)	(2.5)	(2.0)	(0.8)	(1.0)
Dummy (expiring & stoppage) + 4.0 × #Employees expiring	1.6	7.1**	4.0*	3.8*	-0.3	0.5
	(1.6)	(3.1)	(2.4)	(2.0)	(0.8)	(1.0)
Dummy (expiring & no stoppage) + 0.8 × #Employees expiring	0.3	1.5	1.9*	0.02	0.6	-0.3
	(0.8)	(1.3)	(1.1)	(0.8)	(0.5)	(0.4)
Dummy (expiring & no stoppage) + 4.0 × #Employees expiring	0.6	1.8	1.9*	0.3	0.5	-0.3
	(0.8)	(1.3)	(1.1)	(0.8)	(0.5)	(0.4)

Note. Each column reports estimates from a linear probability regression; the dependent variable is a dummy equal to one if the firm received a proposal from a union on the topic indicated at the top of the column. Standard errors clustered by firm are in parentheses beneath coefficient estimates. Coefficients and standard errors are scaled by 100 to represent percentages. The unit of observation is a firm-year, and the panel runs from 1997-2013. All regressions include firm-specific and year-specific fixed effects and include 3,348 observations. Topic categories are defined in Table 7. #Employees is expressed in thousands. Significance levels are indicated: * = 10 percent, ** = 5 percent, *** = 1 percent.

Table 9. Wage Increases from Collective Bargaining

	(1)	(2)
Dummy = 1 if union made a proposal	0.04	...
	(0.11)	
Dummy = 1 if union made a proposal, proposal later withdrawn	...	0.14
		(0.12)
Dummy = 1 if union made a proposal, proposal later went to vote	...	-0.08
		(0.12)
R^2	0.073	.073
Test: [Dummy, withdrawn] – [Dummy, went to vote] = 0	...	0.22**
		(0.10)

Note. Each column is a regression of the mean percentage annual wage increase under the new collective bargaining agreement. The unit of observation is a contract. If a union made multiple proposals in the year of a contract settlement, the proposal is classified as "withdrawn" if at least one of the proposals was withdrawn. All regressions are based on 877 observations and include firm and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. Significance levels are indicated: * = 10 percent, ** = 5 percent, *** = 1 percent.

Table 10. Description of Governance Provisions Favored by Reformers

	ISS Issue Code	#Proposals	#Changes
Require Independent Board Chair Require chair of board of directors to be an independent member of board; prohibit CEO and other managers from serving as chair of the board.	2214	227	135
De-Classify Board Eliminate classification of directors; require all directors to be elected annually.	2300	332	76
Allow Cumulative Voting for Directors Allow a shareholder to cast a number of votes per share equal to the number of directors to be elected; votes may applied to a single nominee or distributed over multiple nominees.	2220	153	5
Limit Golden Parachutes Limit compensation arrangements that provide top executives with compensation based on a merger, acquisition, or other control transaction.	2414	115	91
Require Majority Vote for Directors Require nominee for director to receive votes from a majority instead of a plurality of shareholders in order to be elected.	2111	181	34
Rescind Poison Pill Rescind shareholder rights plan that allows existing shareholders to acquire stock at a discounted price in the event of a merger or acquisition.	2310	228	86
Allow Special Meetings Allow shareholders to call a special meeting of shareholders, subject to ownership and other conditions.	2325	133	160
Reduce Supermajority Vote Requirement for Corporate Decisions Reduce supermajority requirement for shareholder votes to approve certain corporate actions, such as removing a director, amending bylaws and charter, and takeovers.	2320, 2321	146	49

Note. This table reports the governance provisions tracked in the ISS Governance database that attracted at least 25 shareholder proposals among our sample firms over the period 1997-2013. Each provision is described with the change desired by "good governance" reformers. #Changes is the number of firm-years in which the indicated governance provision changed in the direction recommended by reformers.

Table 11. Corporate Governance Changes and Shareholder Proposals

	(1)	(2)	(3)	(4)
Dummy = 1 if there was a proposal on a given topic	7.3***	8.3***	8.2***	4.9
	(1.2)	(1.4)	(2.5)	(3.4)
Dummy = 1 if there was a proposal by union	...	-3.9	6.4	7.1
		(2.7)	(8.6)	(9.5)
Dummy = 1 if contract expiration	...	...	0.4	0.6
			(0.6)	(0.8)
Dummy = 1 if proposal & contract expiration	...	...	0.03	2.0
			(3.0)	(3.9)
Dummy =1 if union proposal & contract expiration	...	...	-12.4	-15.8
			(9.1)	(9.9)
R^2	.163	.163	.164	.315
N	11,988	11,988	11,988	7,043

Notes. Each row reports estimates from a linear probability regression in which the unit of observation is a firm-year-provision. The dependent variable is a dummy equal to one if a company changed a given provision in the direction favored by "good governance" reformers in a given year. The proposal dummies indicate whether the firm received a shareholder proposal on a particular provision in the preceding year. All regressions include year-provision and firm fixed effects. Standard errors clustered at the firm level are reported in parentheses beneath the coefficients. Coefficients are scaled by 100 to be interpretable as probabilities. Significance levels are indicated: * = 10 percent, ** = 5 percent, *** = 1 percent.

Appendix Table. Proposal Topics Mapped into ISS Issue Codes

Topic	ISS Codes
Board Organization and Process	
Meetings	
Improve meeting reports	2120
Annual report on web	2121
Change annual meeting location	2130
Change annual meeting date	2131
Right to call special meeting	2325
Right to act by written consent	2326
Miscellaneous meetings	2903
Miscellaneous routine	2904 (select)
Miscellaneous shareholder	2906 (select)
Organization and Process	
Report prior government service of execs	2020, 3222
Board inclusiveness, diversity	2201
Increase board independence	2202
Limit director tenure/set retirement age	2203
Require directors to own stock	2204
Create shareholder committee	2212
Independent board chair	2214
Lead director	2215
Director liability	2240
Create compensation committee	2420
Hire independent compensation consultant	2421, 2431
Compensation committee independence	2422
Audit committee independence	2500
Key committee independence	2501
Miscellaneous board related	2900 (select)
Miscellaneous shareholder	2906 (select)
Miscellaneous social issue	3907 (select)
Compensation of Directors and Executives	
Director compensation	
Limit/restrict	2402
Pay in stock	2405
Restrict pensions	2407
Miscellaneous board related	2900 (select)
Miscellaneous director pay	2905
Miscellaneous shareholder	2906 (select)
Executive compensation	
Restrict/reform	2400
Disclose	2401
Limit	2403
Approve/advisory vote	2406, 2908
Link to social criteria	2408
Limit option repricing	2409
Vote on golden parachutes	2414
Link stock/option awards to performance	2415, 2423
Expense options	2416
Approve/disclose retirement plans	2418
Requires options to be held	2419
Miscellaneous executive pay	2901
Miscellaneous board (select)	2900 (select)
Miscellaneous shareholder	2906 (select)

Miscellaneous shareholder	2908
Miscellaneous social	3907 (select)

Director Elections and Qualifications

Confidential voting	2100
Counting votes	2101
Prohibit discretionary voting	2102
Equal access to proxy	2110
Majority vote to elect directors	2111
Allow union/employee reps on board	2205
Nominating committee independence	2210
Create nominating committee	2211
Adopt cumulative voting	2220
Require nominee statement in proxy	2230
Double board nominees	2231
Repeal classified board	2300
Miscellaneous	2900 (select)
Miscellaneous routine	2904 (select)
Miscellaneous shareholder	2906 (select)

Miscellaneous

Auditors

Shareholders approve auditors	2000
Limit non-audit fees	2002
Rotate auditors	2003
Miscellaneous routine	2904 (select)
Miscellaneous shareholder	2906 (select)

Labor

Pension fund surplus	2417
Miscellaneous shareholder	2906 (select)
Review job cuts/relocations	3600, 3611
Miscellaneous workplace	3906 (select)

Other

Shareholder pre-emptive rights	2010
Miscellaneous board	2900 (select)
Miscellaneous shareholder	2906 (select)
Miscellaneous shareholder	2907
Miscellaneous shareholder	2909

Politics

Encouragement of political contributions	2022, 3224
Review political spending	3220
Limit political spending	3221
Miscellaneous contributions	3902 (select)

Shareholder Proposals

Miscellaneous shareholder	2906 (select)

Social Issues

Report on human rights policy	3000
Review impact on local groups	3005
Burma review	3031, 3701
China forced labor/code of conduct	3040, 3041, 3710, 3711
Review military contracting criteria	3100, 3111
Review space weapons	3120
Review foreign military sales	3130
Report on foreign offset agreements	3131
Limit nuclear weapon production	3150
Contributions to abortion providers	3200

Review/disclose charitable giving	3202, 3210
Limit charitable giving	3215
Review/limit tobacco marketing	3300, 3301, 3302, 3303, 3305, 3309, 3311
Tobacco industry	3307
Tobacco harm	3308
Review/promote animal welfare	3320
Review/alter drug pricing/distribution	3340, 3341
Review pandemics	3342
Adopt principles for health care reform	3345
Prohibit use of fetuses	3350
Review nuclear waste policy	3400, 3402
Review energy efficiency/renewables	3410
Adopt Ceres principles	3420
Limit pollutants	3422
Report on environmental impact	3423, 3424
Report on climate change	3425, 3428
Review product toxicity	3426, 3427
Label GMO products	3430
Report on natural habitats	3440
Review developing country debt	3500
Review social impact of financial ventures	3503
Review on fair lending	3520, 3905
Report on EEO	3610
Review product safety	3612, 3730
Sexual orientation	3613, 3614, 3615
Review labor policy in Mexico	3621, 3622
Adopt/encourage McBride principles (N. Ireland)	3630, 3632
Review global labor practices	3680
Monitor/adopt ILO conventions	3681, 3801, 3802
Report on sustainability	3700
Review ethics policy	3720
Miscellaneous international labor	3800
Miscellaneous human rights	3900
Miscellaneous uranium/terror	3901
Miscellaneous contributions	3902 (select)
Miscellaneous health/animal	3903
Miscellaneous energy/environment	3904
Miscellaneous workplace	3906 (select)
Miscellaneous social	3907 (select)
Miscellaneous	3999, 9999

Takeovers, Mergers, and Divestitures

Miscellaneous	1909
Study sale or spinoff	2030
Redeem or vote on poison pill	2310
Eliminate/reduce supermajority provision	2320, 2321
Repeal fair price provision	2324
Prohibit targeted stock placement	2330
Opt out of state takeover law	2341
Change state/country of incorporation	2342
Prohibit greenmail	2350
Miscellaneous antitakeover	2902
Miscellaneous shareholder	2906 (select)

Note. Issue codes are the ISS classifications. If a code is followed by (select), then items with that code were spread across multiple topics.