Opportunistic Proposals by Union Shareholders*

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

November 2016

Corporate governance reformers hope that giving shareholders more voting rights will improve firm performance, but critics argue that some shareholders, such as labor unions and public pensions, will use their rights to advance private interests. This paper finds that labor unions use shareholder proposals "opportunistically" to influence contract negotiations. We show theoretically that shareholder proposals can be used as bargaining chips to extract side payments from management. Our empirical strategy is based on the observation that proposals have a higher than normal value for unions in contract expiration years, when a new contract must be negotiated. We find that during contract expiration years, unions increase their proposal rate by one-quarter (and by two-thirds during contentious negotiations); nonunion shareholders do not increase their proposal rate in expiration years. Unions are much more likely than other shareholders to make proposals concerning executive compensation, especially during expiration years. Opportunistic union proposals are associated with better wage outcomes for union workers. Union proposals primarily originate from their general funds, not the larger Taft-Hartley pension funds, which have legal barriers to activism. Overall, the evidence suggests a potential downside to enhanced shareholder rights.

* We are grateful for helpful comments from Tom Chang, Kenneth Dau-Schmidt, Harry DeAngelo, Ran Duchin, Leonard Kostovetsky, David Primo, Dennis C. Mueller, Paige Ouimet, Sakya Sarkar, Natalia Schnitser, Bernard Sharfman, Randall Thomas, Yanhui Wu, and workshop participants at USC, Yale Law School, the 16th Annual Strategy and the Business Environment Conference at the University of Rochester, the 3rd University of Washington Summer Finance Conference, and the 17th Workshop on Corporate Governance and Investment at Sabancı University. We thank USC and the Katz Research Fellowship for financial support. Contact authors at matsusak@usc.edu, ozbas@usc.edu, Irene.e.yi@gmail.com.

Opportunistic Proposals by Union Shareholders

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). One governance mechanism, the shareholder proposal, which allows shareholders to propose and vote on corporate policies, has emerged as a focus of reformers who want to expand its availability and scope (Bebchuk, 2005). While the idea of giving shareholders more influence has wide appeal, 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). Union pensions have a fiduciary duty to maximize fund returns, but they are also under pressure to advance union workers' current interests.[1] The prominence of labor unions as shareholder activists has raised concerns that they will use the proposal process "opportunistically" to threaten management and extract concessions that benefit union members and not shareholders at large. The purpose of this paper is to provide an empirical assessment of the extent to which labor unions use the proposal process to advance their private interests.

The D.C. Circuit Court of Appeals cast a spotlight on the potential dangers from opportunistic proposals in its 2011 *Business Roundtable* decision that vacated the SEC's new proxy access rules. The court found that the SEC had not adequately considered 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."[2] Yet the idea that unions might use proposals as bargaining chips to extract concessions is not self-evident, and experienced observers have advanced arguments why such proposals are unlikely. Schwab and Thomas (1998) argue that fiduciary responsibilities limit the ability of union pension funds to pursue goals other than value maximization, and Bebchuk (2005; p. 885) argues that "[t]his concern about potential 'blackmail,' however, does not appear to be

[1] The countervailing pressures on union pension funds, and concerns 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).

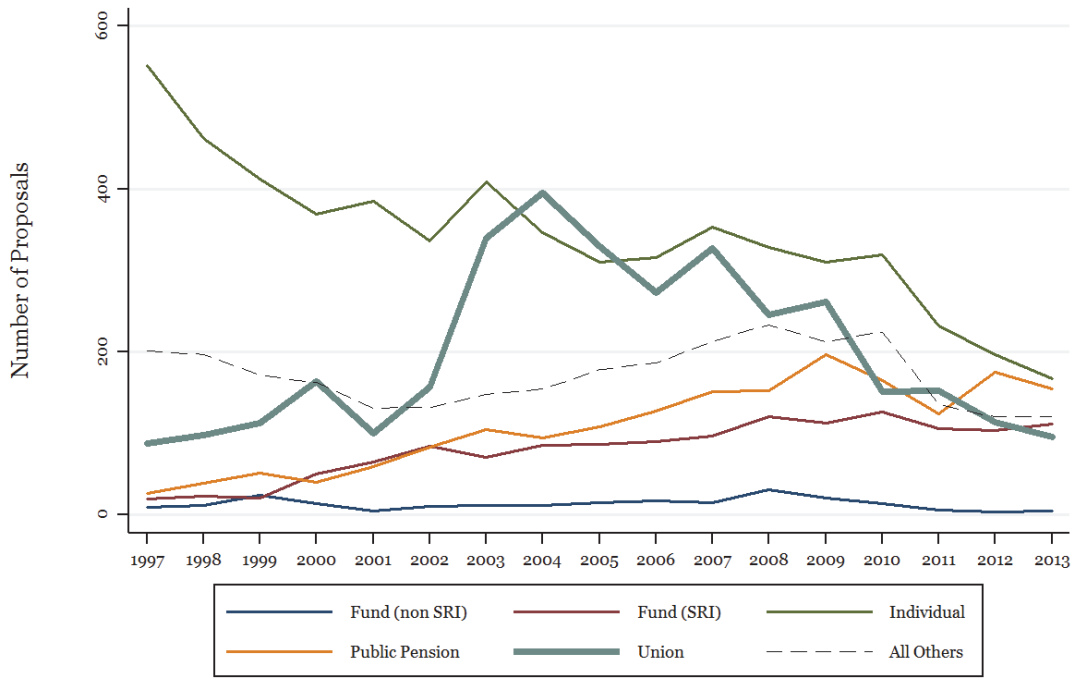
[2] *Business Roundtable and Chamber of Commerce of the United States of America v. Securities and Exchange Commission*, D.C. Circuit Court of Appeals, December 22, 2011. The SEC issued changes to both Rule 14a-8 (proposals) and Rule 14a-11 (director nominations), but the decision involved only Rule 14a-11; the underlying economic issues and concerns apply to both.

significant [because] management would not be particularly worried about a threat to bring a proposal for a change that would likely be value-decreasing."

The main challenge in studying opportunistic proposals is distinguishing opportunistic from "regular" proposals. 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 – even if the proposal is unlikely to be approved – and offering to withdraw its proposal if the company makes concessions. We assess the prevalence of opportunistic proposals by estimating the change in the number of union proposals in years with contract negotiations, relying for identification on the observation that negotiations occur when existing contracts expire, and expiration dates are essentially exogenous once established at the initiation of a contract.

Our main finding based on 3,501 firm-years of data during the period 1997-2013 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 rises by 4.7 percent during a year with a median-sized 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.

Figure 1. Shareholder Proposals by Sponsor Type



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 would be useful as bargaining chips only in negotiations where the terms are in dispute. As an additional check on the interpretation of our findings, we compare union proposal activity in companies that in the previous year experienced a work stoppage (typically a strike, but also including lockouts). The probability of a union proposal in an expiration year in a firm with previous labor strife is 18.1 percent higher than in a non-expiration year, much larger than the 3.4 percent incremental probability in a firm without labor strife in the previous year.

The theory that unions use shareholder proposals as bargaining chips suggests what type of proposals labor groups would make. The most effective proposals are those that impose direct costs on managers. As another test, we focus on proposals that best fit this description – restrictions on director and executive compensation – and investigate if unions emphasize such proposals in expiration years. We find that 38 percent of union proposals concern executive compensation, compared to 15 percent of nonunion proposals, and that union compensation proposals jump by 11.8 percent in contract expiration years with previous labor strife. Unions only modestly increase, if at all, other types of proposals in expiration years.

One puzzling aspect of the apparent opportunistic behavior by unions is the fact that many union pension funds are so-called Taft-Hartley plans in which the trustees are evenly divided between management representatives and union representatives. It is difficult to imagine that management representatives would acquiesce to proposals that are intended to strengthen the union's hand (Schwab and Thomas, 1998). To shed more light on this issue, we manually identify the precise sponsors of each union proposal. The most active unions have assets in both Taft-Hartley funds (e.g., the SEIU's National Industry Pension Fund) and in funds fully controlled by the union (SEIU General Fund). We find that proposals from Taft-Hartley funds are relatively uncommon, only 18 percent of the total; instead, most union proposals originate from fully controlled general or reserve funds or by affiliated individuals. We also find

that proposals from these fully-controlled union entities increase significantly in contract expiration years. It appears that labor groups are not constrained by having joint trustees for their main pensions; they simply originate their proposals through funds that they fully control. The focus on union *pensions* as opportunistic proposers appears to be misplaced; most proposals are coming from other union-controlled entities.

We also report evidence on how union proposals affect collective bargaining outcomes and corporate governance. We rely on an equilibrium prediction derived from our model. In the model, a union withdraws its proposal when managers compromise on collective bargaining terms, implying that contract terms should be more favorable to a union when a proposal is withdrawn than when it goes to a vote. Proposal withdrawals are common: almost 40 percent of proposals that are not disqualified by the SEC are withdrawn without a vote. We examine 877 collective bargaining outcomes for firms in our sample, focusing on the wage part of the agreement. Annual wage increases under a new contract are 0.29 percent higher (compared to a mean of 2.81 percent) following negotiations with a withdrawn proposal than negotiations with a proposal that went to a vote.

Even if union proposals reduce firm value through higher labor costs, the proposals themselves might have an offsetting benefit from inducing 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. Firms are more likely to change these provisions in the "good governance" direction in years with a shareholder proposal, but 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.

Concrete examples of opportunistic proposals by unions are difficult to prove. A union is unlikely to admit that its proposal is being advanced for opportunistic reasons, and management is unlikely to admit that it made a side payment to the union in order to avoid a vote on an uncomfortable proposal. Nevertheless, a few cases have come to light based on SEC no-action letter requests. We include examples in Appendix A.

This paper contributes to several ongoing discussions. In terms of policy, the evidence responds to the D.C. Circuit Court's finding in the *Business Roundtable* decision that the SEC's rulemaking was arbitrary and capricious for not being based on rigorous evidence. As governance reformers continue to press for expanded shareholder rights, it seems important to have an evidentiary basis to evaluate future reform proposals. In terms of the scholarly literature, the paper sheds light on the consequences of shareholder power in corporate governance. By highlighting a potential downside of shareholder rights, it might help explain

studies that find lower firm values associated with increased shareholder rights (Akyol et al., 2012; Larcker et al., 2011; Stratmann and Verret, 2012).

At a broad level, our evidence suggests that some shareholders are likely to be worse monitors than others, because of conflicting interests. We focus on opportunistic proposals by labor unions, but other groups may have interests beyond value maximization as well – public pensions are often mentioned – and they might use the process opportunistically. Of course, this does not mean that shareholder rights are not valuable. Rather, it highlights that giving shareholders the right to bring pressure to bear on managers also has the effect of opening a window of influence for activists to bargain with management and possibly extract private benefits. In extreme cases, it is possible that shareholders can be harmed by having more rights. The value of enhanced shareholder rights would seem to involve a tradeoff of benefits from value-maximizing pressure against the costs of opportunism.

2. Institutional Background

Shareholders hold several control-related rights: they elect the directors and approve major transactions such as mergers; and they have a limited right to nominate candidates for the board. Our study focuses on the right to propose that a company take an 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. A proposer must have continuously held at least $2,000 in market value or 1 percent of the company's securities for at least one year by the date of the annual meeting. If a company intends to omit a proposal, it must submit an explanation to the SEC.[3] If the SEC agrees, it issues a so-called "no-action" letter indicating that it will not take any action against the company if it omits the proposal. In our sample, 20 percent of proposals are omitted following a no-action letter.

[3] According to Rule 14a-8, a company can omit a proposal from the proxy if: the proposer has not owned sufficient shares for one year; the company was not notified at least 120 days before the proxy statement is distributed; the proposal is longer than 500 words; the proponent offers more than one proposal; the company already has substantially implemented the proposal; the proposal conflicts with a management proposal; the proposal is the same as a recently defeated proposal; or the 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. Shareholders can also make "floor resolutions" directly at annual meetings.

Proposals to amend bylaws 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 can be ignored by management, and there is nothing legally significant about exceeding or falling 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 (Thomas and Cotter, 2007; Ertimur et al., 2010). Often a company enters into negotiations with a proposer, and if a mutually agreeable action can be found the proposal is withdrawn and does not come to a vote. In our sample, of the proposals that are not omitted by a no-action letter, 39 percent are voluntarily withdrawn by the sponsor before going to a vote.

3. Theory

The following model is developed to frame the empirical analysis. There are two actors, a union and a manager, with payoffs denoted u and v, respectively. The union's payoff depends on the wage, cost of making a proposal, and private benefit associated with the proposal: $u = W - kI_k + bI_{vote}$, where W is the wage, k is the cost of making a proposal, b is the private benefit of a proposal, I_k is an indicator variable for the union making a proposal, and I_{vote} is an indicator variable for a proposal going to a vote. The manager's payoff depends on profit and the private cost associated with a proposal: $v = \begin{cases} R - W & if \quad negotiation\ successful; \\ \theta R - c & if \quad negotiation\ unsuccessful; \end{cases}$ where R is the surplus to be divided between the manager and the union, and c is the manager's private cost if the proposal goes to a vote.

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.[4] If the proposal is not withdrawn (goes to 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 impact of the proposal. The manager's cost includes the expected disutility of the proposal passing as well as distraction, mental strife, and possible embarrassment from the vote itself; 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:

[4] See Matsusaka and Ozbas (2016) for an extended analysis of a related model.

- $t = 0$: The union learns b. The union has the option to make a proposal at a cost of $k > 0$; 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 of a wage $W < R$ that the union will receive. As part of the contract, the union commits to withdraw its proposal.[5]

- $t = 2$: The union chooses whether to accept the contract and withdraw its proposal, or reject the contract and take the proposal to a vote. 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 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.

At $t = 1$, the manager offers the union W. The manager expects the union to 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 and only if $b \geq \bar{b}$. The manager's expected payoff from an offer W is then

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

Solving the first order condition of (1) for W, and assuming an interior solution, gives the manager's optimal offer: $W^*(c) = .5((1 - \theta)R + \bar{b} + c)$.

[5] 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 is robust to alternative bargaining protocols.

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

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

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 large (or proposals never occur).

This setup leads to a series of implications that guide the subsequent empirical analysis. The probability of a proposal is $1 - \bar{b}$. If there is no concurrent wage negotiation, the probability of a proposal would be simply $1 - k$. This leads to the main implication:

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

When there is no concurrent wage negotiation, a proposal gives the union a certain payoff of $b - k$, while not proposing produces a payoff of zero. When there is a concurrent wage negotiation, the union's payoff from a proposal can never be below $b - k$: it has the option of proceeding to a vote and receiving $b - k$, but it could receive more than this if the manager offers a higher wage. Because the upside is potentially larger when there is a concurrent wage negotiation, the union is more willing to pay the cost of creating a bargaining chip. Note that the manager may grant the union concessions even if the proposal is unlikely to pass; the manager is willing to pay to avoid the personal cost of a vote as well as the risk of the proposal passing.

We next characterize equilibrium behavior in more detail:

Implication 2. *In equilibrium,* $E[W|no\ proposal] = E[W|DISAGREE] < E[W|AGREE]$.

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.

Implication 3. *The union's equilibrium payoff is nondecreasing in c.*

As the manager's personal cost increases, the manager is willing to offer a higher wage to avoid a vote. This leads to a greater likelihood of agreement, and a higher payoff for the union in equilibrium. If one considered a straightforward extension of the model in which the union could influence the distribution of *c*, the union would seek proposals that impose a high personal cost on the managers. As we discuss below, it is natural to think of the union influencing the manager's cost by selecting proposal topics that particularly impact the manager.

4. Data and Methods

A. Data Sources

This project involves the combination of seven data sets and additional hand-collected data; 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 Proposals 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.[6] 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.

The ISS Proposals database names the sponsor but does not reliably name the precise fund that holds the shares that are the basis for the proposal. For example, the database may identify the sponsor as "AFL-CIO" without specifying if it was the AFL-CIO Reserve Fund or the AFL-CIO Equity Index Fund. We manually collected this information from proxy statements

[6] 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.

and no-action letters. Table 2 lists the most active union sponsors, and the funds they use to make their proposals.

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 of 1935, firms with union contracts are required to file notices of contract expiration with the Federal Mediation and Conciliation Service. These filings contain information including employer name, labor union name, contract expiration and notice dates, and the number of employees involved in the collective bargaining. 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 be identified only 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 ISS Proposals database, which spans 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 employer 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 the 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 non-expiration-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 3 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. X_{it} is a vector of 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 value of a proposal is no different in expiration and non-expiration years. The identification strategy relies on the exogenous timing of collective bargaining contract expirations. A contract typically lasts 3-5 years, the expiration dates are set at the onset of the contract, and we observe almost no early renegotiation in our sample. In 52 percent of the cases, the length of the new contract is the same as the old contract, and in 83 percent of the cases, it differs by one year or less. Contract expiration dates for the most part appear to be orthogonal to fundamentals.

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 workforce 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 estimated the regressions with conditional logit specifications and obtained similar results. 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 with an expiring contract. Panel A of Table 4 presents estimates of the probability that a company receives a

union proposal, based on linear probability regressions.[7] The unit of observation is a firm-year, and the key explanatory variable is a dummy equal to one 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 4 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. 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 4 allows the probability of a union proposal to vary with the number of employees covered by the contract (#employees). Unions may be more likely to make opportunistic proposals when the expiring contract covers many rather than few employees. The coefficients on both the expiration dummy and #employees are positive and different from zero at conventional levels of significance. Unions were increasingly likely to make a proposal as the number of covered workers increased. The net effect of contract expiration in this specification is a linear combination of the coefficients on the dummy variable and #employees. The bottom two rows of Panel A report the effect of contract expiration when #employees is approximately the median (800) and 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 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 (although the correlation is only 0.19). Several studies have found that larger firms receive more proposals (Denes et al., 2015; Table 3). To control for this, regression (3) of Table 4 adds the logarithm of assets as an explanatory variable. Consistent with previous research, 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.

Regression (4) of Table 4 adds several financial variables that are common controls in governance research: leverage ratio, cash as a fraction of assets, ROA, and stock return over the

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

previous year (Denes et al, 2015; Table 3). These variables are endogenous and not strongly motivated theoretically so the propriety of their inclusion is debatable; we report the regression for comparability with other research. Inclusion of these 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.

Regression (5) of Table 4 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 = 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 these controls. The key coefficients on expiring contracts remain positive and statistically significant. An expiring contract with median #employees 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 4 test if unions are more likely to make at least one proposal in a contract expiration year compared to a non-expiration 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.[8] The regressions in Panel B of Table 4 report regressions in which the dependent variable is the number of union proposals in a given year (the sample maximum is seven proposals).[9] Regression (6) indicates that companies with expiring contracts received 0.074 more union proposals than companies without expiring contracts, which compares to a mean of 0.355. An expiring contract increased the number of union proposals by about one-fifth. Regressions (7)-(10) mirror the

[8] This requires coordination across multiple unions or individuals given that SEC Rule 14a-8(c) limits each shareholder to no more than one proposal per meeting.

[9] Given that 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 4 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.

corresponding regressions in Panel A, all of them showing statistically significant and quantitatively nontrivial positive effects of expiring contracts on the number of union proposals.

To summarize, Table 4 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 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 is to assess our identifying assumption that expiration years make proposals more valuable for unions but not for other shareholders. It is conceivable that an expiring contract, for reasons not immediately apparent, creates opportunities for proposals to add value for all shareholders, and unions are simply exploiting the opportunities as good investors should. If expirations create proposal opportunities for shareholders in general, nonunion shareholders should also increase their proposals in expiration years.

Table 5 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 shareholder in a year with an expiring contract. This point estimate is half of the corresponding coefficient in Table 4, rather small compared to the unconditional mean of 48.4 percent, and not distinguishable from zero at conventional levels of statistical significance.

Regression (2) of Table 5 adds the number of employees covered by the contract as an explanatory variable. The coefficients are much smaller than in the Table 4 regressions, especially related to the benchmark proposal probability of 48.4 percent, as are the net effects reported in the bottom two rows, and no net effects are statistically different from zero at the 10 percent level. Regressions (3)-(5) of Table 5 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 rather small compared to the benchmark probability 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.

Table 6 reports more fine-grained regressions that distinguish 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.[10] Rather than report results for all of the different specifications, we report the regression including number of employees and firm size but excluding the atheoretical finance and governance controls 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) of Table 6, 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. For SRI funds in regression (2) the coefficients of interest are positive, but small and statistically insignificant. The effects for individual proposers (regression (3)) are 1.8 and 1.9 percent, small compared to the unconditional probability of 32.0 percent, and not statistically significant. 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 6 for increased proposal activity in expiration years by nonunion shareholders is for special interest groups (regression (6)). The implied effects are positive and the 1.9 percent effect for a median #employees is different from zero at the 10 percent level. The magnitude of the effect is not large compared to the unconditional mean of 7.3 percent but perhaps not negligible. 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. It seems possible that some special interest groups may be coordinating with unions. Leaving aside this speculation, Table 6 suggests that no other major group is following unions in timing its proposals to years of contract expirations.

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

[10] The signs and significance levels are qualitatively similar if we estimate conditional logits instead of linear probability regressions.

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). In our sample, 45 percent of firms experienced at least one work stoppage.

Table 7 reports linear regressions explaining the probability of receiving a 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 a work stoppage indicates that union proposals were 14.5 percent more likely in expiration years with work stoppages than years without an expiring contract; the coefficient is different from zero at the 1 percent level. 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 a work stoppage, 3.8, is also positive and statistically different from zero, but much smaller than the coefficient on expiring contracts without a work stoppage. 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) of Table 7 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. To control for the attractiveness of large firms as targets, the regression also includes firm size. Both coefficients on #Employees are positive but neither is different from zero at conventional levels of statistical significance. The bottom rows show that years with an expiring contract and work stoppage had 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.

Because the decision to stop work is endogenous and possibly connected to the presence of a proposal, the coefficients in regressions (1) and (2) may not be causal. To mitigate this concern, the remaining regressions in the table capture whether there was a work stoppage at the company in the previous year instead of in the current year. One can think of this variable as being correlated with latent animosity or mistrust between management and workers.

The findings become more pronounced when we control for previous instead of current labor strife. Regression (3) of Table 7 includes only the two expiration dummies. An expiring contract in a company that experienced a work stoppage in the previous year is associated with

an 18.1 percent increase in the probability of a union proposal. An expiring contract in a company without a previous work stoppage is associated with a 3.4 percent increase in the probability of a union proposal. Both coefficients are statistically different from zero. The regression column (4) includes #Employees and firm size. An expiring contract in a company that experienced a work stoppage in the previous year has the effect of increasing the probability of a union proposal by 14.8 percent with the median #Employees and by 16.1 percent with the mean #Employees.

Regressions (5) and (6) of Table 7 repeat the analysis for proposals from nonunion shareholders. Again the purpose is to investigate if heightened union activity in expiration years is due to greater recognition of opportunities to increase firm value, as opposed to opportunism related to contract negotiation. As can be seen, the coefficients and net effects are small in magnitude and never different from zero statistically. Nonunion shareholders do not increase their proposals in expiration years, and their proposal activity is not related to whether or not the company had previous labor strife.

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. Implication 3 of the theoretical model suggests that the best bargaining chips are proposals that impose high personal costs on managers and directors. 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.

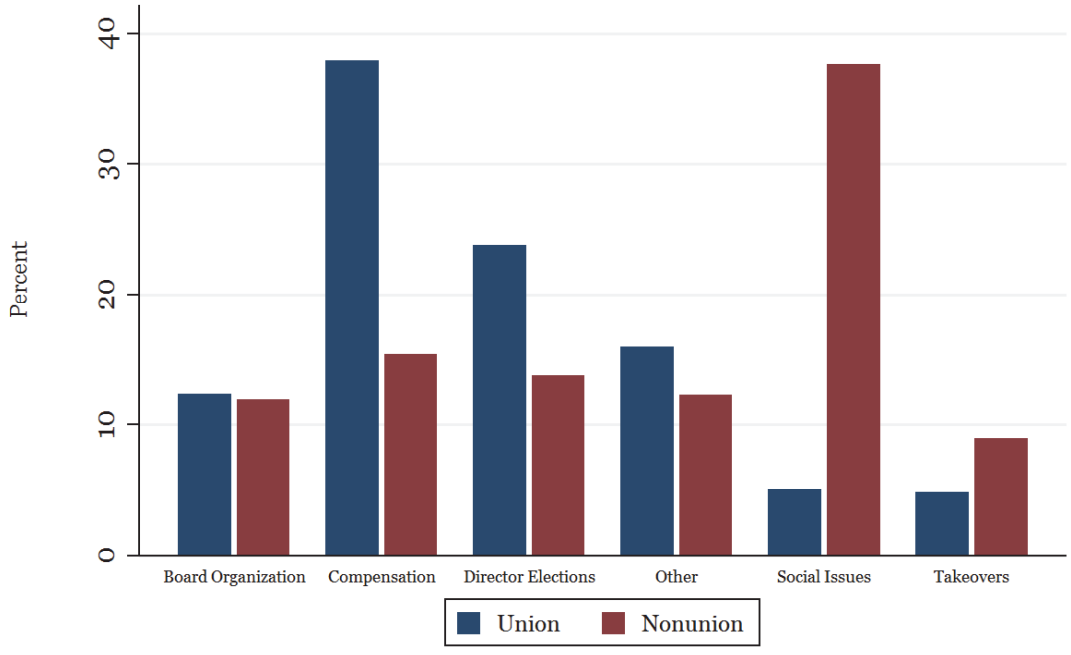
To conduct this analysis, we grouped the various proposal topics into six broad categories based on issue codes that ISS assigned to each proposal. The six categories are described in Table 8. To facilitate replication and future research, in Appendix C we provide a detailed breakdown of the topics in 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. 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 9 explores specifically what topics unions increased in expiration years. 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 regressions allow for the expiration effect to vary according to whether the negotiation was contentious or not, as measured by work stoppages in the previous year. Interactions terms with #Employees are not included because they are generally insignificant and have no material effect on the estimates of interest. As before, the regressions control for firm size and include firm and year fixed effects.

Regression (2) shows that unions increased the number of compensation-related proposals by 11.8 percent on years with an expiring contract and a previously contentious

Figure 2. Distribution of Proposal Topics



Note. Columns with the same color sum to 100 percent.

negotiation. This effect is statistically different from zero at the 1 percent level, and is the largest coefficient for any topic. This is by far the largest effect for any of the issues, both in absolute terms and in relation to the unconditional probability (the unconditional probability of a union compensation proposal is 10.1 percent.) The coefficient for noncontentious negotiations is small in magnitude and not statistically different from zero.

For the other topics, a few of the expiration coefficients are sizeable but none are statistically distinguishable from zero. The largest coefficients in this group are for miscellaneous topics and director elections and qualifications, which indicate 3.6 percent and 3.3 percent increases in the probability of a proposal in a contentious expiration year. Again, the finding of an insignificant coefficient does not imply that the true value is zero or small – the standard errors allow for the possibility of nontrivial effects in some cases. However, the finding of large, statistically significant effects for compensation proposals, and the absence of conclusive evidence for similar effects for other types of proposals, does point in the direction of unions using compensation proposals more often amidst contentious negotiation.

D. Taft-Hartley Trust Funds and Other Legal Constraints

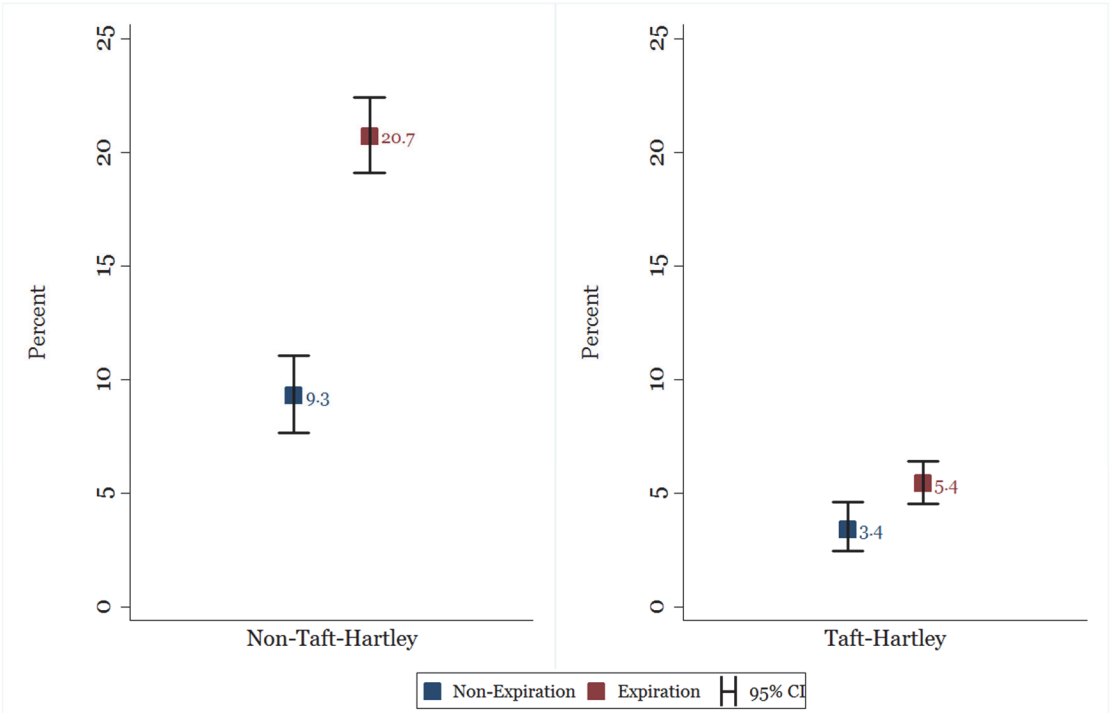
It has been argued that existing laws and regulations constrain union funds from advancing opportunistic proposals (Schwab and Thomas, 1998). One potentially important constraint arises from the Taft-Hartley Act of 1947, which applies to union pension plans that are funded by direct contributions from employers. Prominent examples include the Central Laborers' Pension, Welfare and Annuity Funds; Central Pension Fund of the International Union of Operating Engineers; National Electric Benefit Fund; Plumbers & Pipefitters National Pension Fund; SEIU National Industry Pension Fund; and Sheet Metal Workers National Pension Fund. These funds collectively manage in excess of $479 billion in assets.[11] Under Section 302 of the Taft-Hartley Act, such funds are required to have an equal number of management and union members as trustees. It seems unlikely that management trustees would be supportive of opportunistic proposals used as bargaining chips in wage negotiations.[12]

While so-called Taft-Hartley funds may be constrained by management trustees, unions operate other funds that are under full union control. These funds hold the asset of the unions

[11] As of June 30, 2015 (Milliman Multiemployer Pension Funding Study: http://us.milliman.com/mpfs/).

[12] Union pension funds are also subject to the Employee Retirement Income Security Act (ERISA) of 1974 (29 U.S. Code § 1104 (Fiduciary Duties)) that established a fiduciary duty of trustees to manage pension assets "solely in the interest of the participants and beneficiaries." Larcker and Tayan (2011), based in part on a Department of Labor report, argue that ERISA is not enforced when it comes to shareholder voting.

Figure 3. Proposals by Taft-Hartley Funds versus Other Funds



themselves, such as the AFL-CIO Reserve Fund and SEIU General Fund, or are collective investment trusts open to union members, such as the Trowel Trades S&P 500 Index Fund and the LongView funds operated by labor-controlled Amalgamated Bank. These funds give unions a relatively free hand, and unions could initiate their opportunistic proposals from these non-Taft-Hartley funds (or have individuals sponsor them based on personal holdings).

To test whether unions avoid the Taft-Hartley constraints by channeling opportunistic proposals through other entities that they control, we classified each union proposal in our sample according to whether it came from a Taft-Hartley fund or not. This information is not available in the original data, and had to be collected by manually examining proxy statements, no-action letters, and other miscellaneous sources to identify the precise entity holding the shares to make a proposal. We were able to classify 86 percent of the union proposals in our sample.

In our sample, only 18 percent of union proposals were proposed by Taft-Hartley funds. The remaining 82 percent of union proposals came from entities that do not have joint union-management trustees. Figure 3 presents the probability that a company received a union proposal from a Taft-Hartley fund versus another type of union entity in expiration and non-expiration years. The probability of receiving a proposal from a Taft-Hartley fund is 2 percent

higher in expiration than non-expiration years, a fairly small difference. In contrast, the probability of receiving a proposal from a non-Taft-Hartley entity jumps by 11 percent in expiration years, a much larger difference. This pattern suggests that the constraints on Taft-Hartley funds may be material, but they do not prevent union proposals; unions simply shift their proposal activity to controlled entities that are not subject to the Taft-Hartley constraints.

Another potential constraint on union opportunism arises from the SEC's proxy access rules. Rule 14a-8 allows a company to omit a proposal from its proxy if the proposal "is designed to result in a benefit to [the proponent], or to further a personal interest, which is not shared by the other shareholders at large." The SEC specifically disallowed a proposal from the publishers' employees union against Dow Jones in 1994 on the basis that it was intended to influence the union's ongoing negotiations with the company.[13] Perhaps as a result, most union proposals are brought by national unions, such as the AFL-CIO, that are not directly linked to ongoing negotiations. Examples of the SEC disallowing a union proposal on private-benefit grounds are now extremely rare, and this rule does not appear to pose a material obstacle to opportunistic proposals.

In short, while there are some legal barriers to opportunistic proposals by unions, there are also easy ways to work around the barriers. A popular workaround appears to be to sponsor proposals through non-pension funds. The emphasis on union pension funds as originators of opportunistic proposals, as raised by the D.C. Circuit Court, might be misdirected. Union pensions might matter for their voting strength, but are not central for opportunistic proposals.

E. Outcomes

Our evidence suggests that unions use the proposal process opportunistically. A related question is whether this influences outcomes such as wages or firm performance. Existing evidence on how proposals affect firm value is mixed (Karpoff et al., 1996; Denes et al., 2015). It is beyond the scope of our study to provide a comprehensive analysis of effects on outcomes, but we offer some suggestive evidence on wage settlements and governance structure.

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

[13] No-action letter: *Dow Jones & Company, Inc.*, January 24, 1994.

implication concerning equilibrium outcomes (Implication 2): average wages are higher when a proposal is withdrawn than when it goes to a vote. Here we offer some related evidence.

The data 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, with 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 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 3.[14] The average annual wage increase for the contracts we study was 2.81 percent.

We linked information on proposal withdrawals to the settlement data. 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; others are withdrawn by the sponsor after negotiating an arrangement with management. Proposals that were omitted following a no-action letter (20 percent of the total) were treated as if they did not occur. The remaining proposals were either voted or voluntarily withdrawn by the sponsor. Union proposals were withdrawn more often than nonunion proposals, 38 percent compared to 25 percent; union withdrawal rates were very different in expiration versus non-expiration years (37 percent versus 47 percent), but nonunion withdrawal rates were essentially the same in expiration and non-expiration years (25 percent versus 26 percent).

Table 10 reports the connection between wage settlements and withdrawals. 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, not statistically significant.

[14] 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.

Regression (2) in Table 10 reports the mean wage growth associated with withdrawn and voted union proposals. A firm was defined to have had a withdrawn union proposal if one or more proposals in a given year were withdrawn. Compared to a contract in which there was not a union proposal, contracts with a withdrawn proposal featured 0.22 percent higher wage growth (statistically significant at the 10 percent level) and contracts with a voted proposal featured 0.07 percent lower wage growth. The mean contract wage growth was 2.81 percent. The key prediction of the model, tested in the bottom row, is that wage outcomes are higher when a proposal is withdrawn than when it goes to a vote. The difference of 0.29 percent is consistent with the model and statistically different from zero at the 1 percent level. The magnitude of the difference is modest, perhaps because non-wage components of the contracts such as health care benefits were more important than the wage component.

This evidence is generally consistent with the idea that unions make proposals opportunistically, 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 because the model assumes that the two sides only bargain over wages; more realistically, unions could have preferences over different issues, and the compromise could involve both wages and those other issues. For example, allowing the manager and union to bargain over the proposal outcome as well, as in Matsusaka and Ozbas (2016), would mute the differences in wage outcomes in the model.

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 benefit the other 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. Here we offer some suggestive evidence.[15]

[15] 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 Marquette (1998) find that a firm is more likely to restructure its poison pill following a shareholder proposal; Thomas and Cotter (2007) find that the board is more likely to announce a governance change following a proposal that attracts a lot of votes. There is a related literature on shareholder activism, another strategy that shareholders use to engage corporations; see Denes et al. (2015) for an overview.

Our approach is to focus on union proposals targeted at specific corporate governance provisions, and estimate how often firms adjust these provisions following a union proposal. Because of endogeneity in the proposal decision, these estimates are correlations more than causal estimates, but they give an indication of how often proposals are followed by governance changes.

Our analysis focuses on the eight governance provisions listed in Table 11. We include a provision if it was tracked in the ISS Governance database and if our sample firms collectively received more than 25 proposals on the provision during the sample period.[16] The eight provisions that we study include the highest 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" (Gompers et al., 2003; Romano et al., 2008; Larcker et al., 2011), but many reformers believe them to be effective and proxy advisory firms often endorse them.

For each firm, year, and provision, we create a dummy variable equal to one if the firm changed its position on a provision to the one supported by "good governance" reformers. For the full sample, the probability of a governance change so defined in any given year was 5.3 percent. We also created a dummy variable equal to one if the firm received a shareholder proposal on the topic of the provision in the preceding year. We then estimate regressions to determine how often "good governance" changes were preceded by shareholder proposals.

Table 12 presents the results. Each column is a linear probability 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 in a year with a shareholder proposal than a year without a shareholder proposal; the coefficient is statistically significant at the 1 percent level and the magnitude seems material compared to the unconditional change probability of 5.3 percent.

Regression (2) of Table 12 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

[16] 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.

conventional levels of significance. Nonunion proposals show a reliable connection with subsequent governance change.

The critical regression (3) of Table 12 distinguishes proposals that occur in expiration and non-expiration 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: union proposals were about 12 percent less likely to be followed by governance change in expiration than non-expiration years. While the magnitude is nontrivial, the coefficient is not precisely estimated and cannot be distinguished from zero statistically.[17] In an expiration year, the probability of change following a union proposal was 6.0 percent less than following a nonunion proposal, although not statistically different from zero.

Even though the regressions have almost 12,000 observations, the coefficients are not precisely estimated. One reason may be measurement error in the governance provisions. There are many cases in the sample in which a firm received a 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 the ownership necessary to call a special meeting), and others simply may be errors.

Regression (4) of Table 12 reports a regression based on a subsample that may be cleaner. 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 signs and magnitudes of the coefficients suggest that union proposals may be more effective than nonunion proposals in non-expiration years, and less effective in expiration years.

[17] The coefficient is statistically different from zero at the 10 percent level in a conditional logit regression.

6. 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 rules making it substantially easier for shareholders to access the proxy statement to nominate directors and make proposals. Yet the SEC's new rules were quickly vacated by the D.C. Circuit Court of Appeals in its *Business Roundtable* decision (2011). The court's decision was based not on a substantive objection to increased shareholder participation, but rather on the SEC's failure to consider adequately the potential costs of the rule: "By ducking serious evaluation of the costs that could be imposed upon companies from use of the rule by shareholders representing special interests, particularly union and government pension funds, we think the Commission acted arbitrarily."

One contribution of our study is to provide the first rigorous estimates of opportunistic behavior by a particularly important 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, we find evidence that unions do use shareholder proposals opportunistically, apparently as bargaining chips during wage negotiations. Union proposal activity increases by one-quarter in years where the union is negotiating a new contract with the company, and by two-thirds when 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 the concern that contract expiration years offer more opportunities for value-increasing proposals in general. We also find some evidence that when proposals are used as bargaining chips, the ultimate contract is more favorable to the union.

While our study focuses on union proposals during contract negotiations, the economic forces might be more general. If proposals have strategic value in contract negotiations, they may also have value in other situations where the firm can make side payments to the union. Appendix A gives an example of an opportunistic proposal that appears to have been intended to pressure the company to support a union organizing campaign. As another example, there is evidence that unions and public pensions target proposals at companies that contribute to Republican campaigns, presumably to pressure them to reduce their contributions (Min and You, 2016). If unions see a strategic value in proposals, it is likely that other groups do as well. We might expect opportunistic proposals by other groups with private interests such as public pensions and socially responsible investment funds. This suggests that the ability of certain

shareholder groups to serve as effective monitors may be limited by conflicting interests that they have to seek private benefits from the company.

We are hesitant to draw normative conclusions from our analysis. While the evidence suggests that unions use the proposal process to provide private benefits for their members in the form of wage concessions, which on the face of it seems undesirable, there are potential mitigating factors. For one thing, union proposals appear to be associated with governance reform, which could provide benefits for shareholders at large that offset the costs. Also, if companies have monopsony power in labor markets, or other strategic advantages that allow them to distort wages away from the competitive level, enhancing union strength could lead to more efficient contracts.[18] Having said this, we also note that a growing body of evidence finds 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.

A final observation is that the "blame" for opportunistic proposals does not lie entirely with unions. Opportunistic proposals can only be effective if managers are willing to make side payments to unions in order to make their proposals go away. Managers might be willing to make such compromises if they feared that shareholders at large might approve a bad proposal; indeed, managers would have a fiduciary duty to compromise in this case. However, in practice managers might agree to side payments for personal reasons, because the proposals impact their compensation or discretion in ways they dislike. One way to mitigate such behavior would be to prohibit withdrawal of proposals once they are submitted to the company. By taking away the ability to withdraw a proposal, its value as a bargaining chip would vanish, and there would be no rationale for making an opportunistic proposal in the first place.

[18] Abowd and Lemieux (1993) showed that the financial condition of firms influences wage settlements, and there is evidence that unionized firms hold less cash (Klasa et al., 2009) and maintain higher leverage (Bronars and Deere, 1991; Matsa, 2010), which could be motivated by a desire to enhance management's bargaining position.

Appendix A. Examples from SEC No-Action Letter Requests

Dow Jones / International Association of Publishers' Employees

This example is from a much-cited no-action letter from 1994 (No-action letter: Dow Jones & Company, January 24, 1994). This case established the precedent that a proposal intended to directly influence an ongoing contract negotiation could be omitted.

On September 8, 1993, Dow Jones & Company, Inc. received a proposal from a stockholder named Andy Zipser. The proposal called on the directors to limit the CEO's compensation to no more than 20 times the average wage of non-officer employees of the firm.

Dow Jones is a media company whose most prominent products were the Wall Street Journal and the Dow Jones Industrial Average. At the time of the proposal, the company was engaged in the tenth month of negotiations with the International Association of Publishers' Employees (IAPE), a union that was the collective bargaining representative of 2,000 of its employees.

The company requested a no-action letter from the SEC on the grounds that the IAPE, not Zipser, was the actual proponent and that the proposal arose "from IAPE's goals in collective bargaining to put pressure on Dow Jones to improve its labor contract to the benefit IAPE and its members." In support of this argument, the company noted that Zipser was a member of IAPE's board of directors and a member of the IAPE bargaining committee. In addition, on the day of submission, the IAPE held a press conference to publicize the proposal and issued a press release; two days after the proposal was submitted, the union sent a message to its officers stating that the proposal was part of its campaign to "put public pressure on Dow Jones to negotiate fair contracts with its workers;" and published a Bargaining Bulletin that the proposal was designed to "turn up the heat" on the company in the pending negotiations.

This proposal would have directly influenced the bargaining outcome because the CEO's compensation at the time was well above 20 times the average salary. Assuming the board did not wish to cut the CEO's pay, applying the principle would have required increasing the average compensation for non-officer employees.

Maguire Properties / SEUI

This example shows a union proposal that was intended to support a union organizing campaign, not a contract negotiation (No-action letter: Maguire Properties, Inc., March 2, 2005).

In 2002, the Service Employees International Union (SEIU) began a methodical campaign to organize security guards in Los Angeles County. In 2000, the SEIU had been successful in a similar campaign to organize janitors. That earlier effort had been championed by Maguire Properties, the largest landlord in Los Angeles' central business district, but the company resisted the SEIU's efforts to organize the security guards, believing that they should be represented by a different union.

On December 22, 2004, a stockholder named Richard W. Clayton III submitted a proposal for inclusion on the 2005 proxy statement. The proposal called for the separation of the position of board chairman and CEO, both of which were held at the time by company founder Robert F. Maguire III. Clayton, whose letter stated that he had "no 'material interest'

other than that I believe to be shared by stockholders of the company generally," was in fact a senior research analyst for the SEIU who was on record as having spoken on behalf of the SEIU in public relations campaigns related to previous labor disputes.

In its request for a no-action letter, the company claimed that Clayton was essentially acting as a proxy for the SEIU, and that the proposal was not in fact "a proposal to benefit the company's stockholders generally, but [was] intended to further the particular agenda of the SEIU (of which the proponent has been an outspoken representative), to apply pressure on the company in the hopes of influencing the company to modify its position with respect to the current labor dispute." As evidence that the proposal was part of a broader campaign to put pressure on the company, the company noted that the SEIU had organized protests at various company properties, had launched a website that featured negative stories about the company, and had even gone so far as to lobby the Los Angeles Unified School District not to renew a $38.7 million lease at a company-owned property.

Clayton did not submit a response to the company's request for a no-action letter. Instead, on February 28, 2005, he withdrew his proposal, stating that he had sold his stock. The reasons were not made public.

In January 2006, the SEIU launched a formal campaign to collect pro-union signatures from security guards in Los Angeles County. The campaign was kicked off by an event on the steps of Los Angeles City Hall with union officials, Mayor Antonio Villaraigosa, – *and* Robert F. Maguire III, who spoke out strongly in its favor. A final settlement was reached in April 2006, based on a pact with Maguire Properties.

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 15,562 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.

For our analysis of Taft-Hartley funds, we sought to identify the specific entities that sponsored each union proposal. In some cases, the identity listed in ISS Proposals was unambiguous. In the remaining cases, we consulted with proxy statements and no-action letters filed with the SEC. We classified an entity as a "Taft-Hartley fund" if it was required to have joint management-union trustees.

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 8. To facilitate replication and future research, we also provide in Appendix C in 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 11. 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.

Appendix C. 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 Executive**s*	
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.

References

Abowd, John A. and Thomas Lemieux, "The Effects of Product Market Competition on Collective Bargaining Agreements: The Case of Foreign Competition in Canada," *Quarterly Journal of Economics*, November 1993, Vol. 108(4), 983-1014.

Akyol, Ali C., Wei Fen Lim, and Patrick Verwijmeren, "Shareholders in the Boardroom: Wealth Effects of the SEC's Proposal to Facilitate Director Nominations," *Journal of Financial and Quantitative Analysis*, October 2012, Vol. 47(5), 1029-1057.

Anabtawi, Iman, "Some Skepticism about Increasing Shareholder Power," *UCLA Law Review*, 2006, Vol. 53, 561-599.

Bainbridge, Stephen M., "Director Primacy and Shareholder Disempowerment," *Harvard Law Review*, 2006, 119, 1735-1758.

Bebchuk, Lucian, "The Case for Increasing Shareholder Power," *Harvard Law Review*, January 2005, Vol. 118, 833-917.

Bizjak, John M. and Christopher J. Marquette, "Are Shareholder Proposals All Bark and No Bite? Evidence from Shareholder Resolutions to Rescind Poison Pills," *Journal of Financial and Quantitative Analysis*, December 1998, Vol. 33(4), 499-521.

Bronars, Stephen G. and Donald R. Deere, "The Threat of Unionization, the Use of Debt, and the Preservation of Shareholder Wealth," *Quarterly Journal of Economics*, 1991, Vol. 106(1), 231-254.

Denes, Matthew R., Jonathan M. Karpoff, and Victoria B. McWilliams, "Thirty Years of Shareholder Activism: A Survey of Empirical Research," working paper, University of Washington and Villanova University, May 18, 2015.

Duchin, Ran, John G. Matsusaka, and Oguzhan Ozbas, "When Are Outside Directors Effective?," *Journal of Financial Economics*, May 2010, Vol. 96(2), 195-214.

Ertimur, Yonca, Fabrizio Ferri, and Stephen R. Stubben, "Board of Directors' Responsiveness to Shareholders: Evidence from Shareholder Proposals," *Journal of Corporate Finance*, 2010, Vol. 16, 53-72.

Gompers, Paul, Joy Ishii, and Andrew Metrick, "Corporate Governance and Equity Prices," *Quarterly Journal of Economics*, 2003, Vol. 118(1), 107-156.

Karpoff, Jonathan M., Paul H. Malatesta, and Ralph A. Walkling, "Corporate Governance and Shareholder Initiatives: Empirical Evidence," *Journal of Financial Economics*, 1996, Vol. 42, 365-395.

Klasa, Sandy, William F. Maxwell, and Hernán Ortiz-Molina et al., "The Strategic Use of Corporate Cash Holdings in Collective Bargaining with Labor Unions," *Journal of Financial Economics*, June 2009, Vol. 92(3), 421–442.

Larcker, David F., Gaizka Ormazabal, and Daniel J. Taylor, "The Market Reaction to Corporate Governance Regulation," *Journal of Financial Economics*, August 2011, Vol. 101(2), 431-448.

Larcker, David F. and Brian Tayan, "Union Activism: Do Union Pension Funds Act Solely in the Interest of Beneficiaries?," *Stanford Closer Look Series*, December 11, 2012.

Matsa, David A., "Capital Structure as a Strategic Variable: Evidence from Collective Bargaining," *Journal of Finance*, May 2010, Vol. 65(3), 1197-1232.

Matsusaka, John G. and Oguzhan Ozbas, "A Theory of Shareholder Approval and Proposal Rights," working paper, University of Southern California, 2016.

Min, Geeyoung and Hye Young You, "Political Origins of Shareholder Activism: Corporate Political Spending and Shareholder Proposals," working paper, University of Virginia and Vanderbilt University, 2016.

Prevost, Andrew K. and Ramesh P. Rao, "Of What Value Are Shareholder Proposals Sponsored by Public Pension Funds?," *Journal of Business*, 2000, Vol. 73(2), 177-204.

Prevost, Andrew K., Ramesh P. Rao, and Melissa A. Williams, "Labor Unions as Shareholder Activists: Champions or Detractors?," *The Financial Review*, 2012, Vol. 47, 327-349.

Romano, Roberta, "Less Is More: Making Institutional Investor Activism a Valuable Mechanism of Corporate Governance," *Yale Journal of Regulation*, 2001, Vol. 18, 174-252.

Romano, Roberta, Sanjai Bhagat, and Brian Bolton, "The Promise and Peril of Corporate Governance Indices," *Columbia Law Review*, December 2008, Vol. 108(8), 1803-1882.

Schwab, Stewart J. and Randall S. Thomas, "Realigning Corporate Governance: Shareholder Activism by Labor Unions," *Michigan Law Review*, February 1998, Vol. 96(4), 1018-1094.

Shleifer, Andrei and Robert W. Vishny, "A Survey of Corporate Governance," *Journal of Finance*, June 1997, Vol 52(2), 737-783.

Stratmann, Thomas and J. W. Verret, "Does Shareholder Proxy Access Damage Share Value in Small Publicly Traded Companies?," *Stanford Law Review*, June 2012, Vol. 64(6), 1431-1468.

Thomas, Randall S. and James F. Cotter, "Shareholder Proposals in the New Millennium: Shareholder Support, Board Response, and Market Reaction," *Journal of Corporate Finance*, June 2007, Vol. 13, 368-391.

Wahal, Sunil, "Pension Fund Activism and Firm Performance," *Journal of Financial and Quantitative Analysis*, March 1996, Vol. 31(1), 1-23.

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. Percentages sum to 100.1 in last column due to rounding.

Table 2. Union Summary Information

Labor Group	Specific Funds	# in full ISS database	# in this paper's sample
AFL-CIO	AFL-CIO Equity Index Fund; AFL-CIO Reserve Fund	358	131
Amalgamated Bank	LongView Collective Investment Fund; LongView LargeCap 500 Index Fund; LongView MidCap 400 Index Fund	346	82
Carpenters	Massachusetts Carpenters Pension and Annuity Fund; Massachusetts State Carpenters Pension Fund; United Brotherhood of Carpenters Pension Fund	851	234
Electrical Workers	International Brotherhood of Electrical Workers Pension Benefit Fund; National Electrical Benefit Fund	269	119
Laborers	Central Laborers' Pension, Welfare and Annuity Funds; Laborers Local Union and District Council Pension Fund; Massachusetts Laborers' Pension Fund	331	96
Others	Independent Association of Publishers' Employees; International Brotherhood of DuPont Workers; Trowel Trades S&P 500 Index Fund; UNITE Staff Retirement Plan	407	180
Plumbers	Plumbers & Pipefitters National Pension Fund; United Association S&P 500 Index Fund	155	64
SEIU	SEIU General Fund; SEIU Master Trust	132	37
Sheet Metal Workers	Sheet Metal Workers' Local Unions and Councils Pension Fund; Sheet Metal Workers National Pension Fund	243	85
Teamsters	International Brotherhood of Teamsters General Fund; Teamsters Affiliates Pension Plan (TAPP)	271	102

Note. This table reports the labor organizations that submit shareholder proposals, and the number of proposals submitted by each union during the period 1997-2013.

Table 3. 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)	3.63	0.74	14.5	0.001	264.7	2,274
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 contract for settlement data.

Table 4. Expiring Contracts and Union Proposals

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

			Mean = 22.1%		
	(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

			Mean = 0.355		
	(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**	0.0038**	0.0034***
		(0.0015)	(0.0015)	(0.0015)	(0.0011)
Log(assets)	...	...	0.158***	0.169***	0.161***
			(0.048)	(0.050)	(0.056)
Finance control variables	...	...	...	Yes	Yes
Governance control variables	...	...	...	...	Yes
R^2	.057	.070	.153	.164	.160
N	3,501	3,456	3,348	3,198	2,295
Expiring dummy + 0.8 × #Employees expiring	...	0.075**	0.060*	0.063*	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 1997-2013. All regressions include firm-specific and year-specific fixed effects. The financial controls are: debt/assets, cash/assets, ROA, and annual stock return. The governance controls 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 Nonunion Proposals

	Mean = 48.4%				
	(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 6. Expiring Contracts and Proposals by Type of Nonunion Proposer

	Funds (non-SRI) Mean = 1.6% (1)	Funds (SRI) Mean = 8.9% (2)	Individuals Mean = 32.0% (3)	Public Pensions Mean = 12.5% (4)	Religious Mean = 16.6% (5)	Special Interest Mean = 7.3% (6)
Dummy = 1 if firm had an expiring contract	-0.4 (0.5)	0.2 (1.3)	1.7 (1.7)	0.4 (1.2)	0.05 (1.5)	2.0* (1.0)
#Employees under expiring contract (in thousands)	-0.011 (0.012)	0.049 (0.052)	0.043 (0.063)	-0.073* (0.042)	0.056 (0.041)	-0.106* (0.056)
Log(assets)	0.4 (0.8)	5.7*** (2.0)	10.3*** (2.8)	3.8* (2.1)	5.8*** (2.2)	4.6*** (1.6)
R^2	.015	.096	.181	.069	.133	.097
Expiring dummy + 0.8 × #Employees expiring	-0.4 (0.5)	0.3 (1.3)	1.8 (1.7)	0.4 (1.2)	0.1 (1.5)	1.9* (1.0)
Expiring dummy + 4.0 × #Employees expiring	-0.4 (0.5)	0.4 (1.3)	1.9 (1.7)	0.1 (1.2)	0.3 (1.5)	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 7. Union Proposals, Expiring Contracts, and Work Stoppages

	Union Proposals				Nonunion Proposals	
	Stoppage in current year		Stoppage in previous year		Stoppage in previous year	
	(1)	(2)	(3)	(4)	(5)	(6)
Dummy = 1 if expiring contract & work stoppage	14.5***	12.5***	18.1***	14.5***	2.6	-0.5
	(3.7)	(3.7)	(4.1)	(4.1)	(3.5)	(3.6)
Dummy = 1 if expiring contract & no work stoppage	3.8**	3.1*	3.4**	3.0*	1.5	-0.1
	(1.7)	(1.8)	(1.7)	(1.7)	(2.1)	(2.2)
#Employees under expiring contract, work stoppage	...	0.063	...	0.039	...	-0.022
		(0.089)		(0.096)		(0.070)
#Employees under expiring contract, no stoppage	...	0.058	...	0.049	...	0.081
		(0.065)		(0.050)		(0.059)
Log(assets)	...	9.0***	...	8.8***	...	14.9***
		(2.6)		(2.6)		(3.0)
R^2	.068	.144	.071	.148	.012	.177
N	3,501	3,348	3,501	3,348	3,501	3,348
Dummy (expiring & stoppage) + 0.8 × #Employees	...	12.5***	...	14.8***	...	-0.6
		(3.7)		(4.1)		(3.6)
Dummy (expiring & stoppage) + 4 × #Employees	...	12.7***	...	16.1***	...	-0.6
		(3.6)		(4.0)		(3.5)
Dummy (expiring & no stoppage) + 0.8 × #Employees	...	3.1*	...	3.0*	...	0.0
		(1.8)		(1.7)		(2.2)
Dummy (expiring & no stoppage) + 4 × #Employees	...	3.3*	...	3.2*	...	0.3
		(1.8)		(1.7)		(2.1)

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. A stoppage is a strike or lockout. Significance levels are indicated: * = 10 percent, ** = 5 percent, *** = 1 percent.

Table 8. Topics of Shareholder Proposals

Topic	# in this paper's sample	# in full ISS database
Board Organization and Processes Director independence, committee independence, board chair, meetings	688	1,951
Compensation of Directors & Executives Director compensation, executive compensation, shareholder approval	1,145	3,043
Director Elections and Qualifications 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 Table for details.

Table 9. Regression by Topic of Proposal

	Board Organization & Processes	Compensation of Directors & Executives	Director Elections & Qualifications	Miscellaneous	Social Issues	Takeovers, Mergers, and Divestitures
	Mean = 3.7%	Mean = 10.1%	Mean = 7.4%	Mean = 4.7%	Mean = 1.6%	Mean = 1.6%
	(1)	(2)	(3)	(4)	(5)	(6)
Dummy = 1 if expiring contract & work stoppage previous year	0.9	11.8***	3.3	3.6	-0.2	0.6
	(1.7)	(3.5)	(2.6)	(2.4)	(1.1)	(1.3)
Dummy = 1 if expiring contract & no work stoppage previous year	0.6	1.2	1.8	0.1	0.6	-0.4
	(0.8)	(1.3)	(1.1)	(0.8)	(0.5)	(0.4)
Log(assets)	3.2***	2.4	4.7***	1.8*	1.7*	0.4
	(1.3)	(1.6)	(1.4)	(1.0)	(1.0)	(0.6)
R^2	.035	.108	.051	.088	.049	.012

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 8. #Employees is expressed in thousands. Significance levels are indicated: * = 10 percent, ** = 5 percent, *** = 1 percent.

Table 10. 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	...	0.22* (0.12)
Dummy = 1 if union made a proposal, proposal later voted	...	-0.07 (0.12)
R^2	.073	.074
Test: [Dummy, withdrawn] – [Dummy, voted] = 0	...	0.29*** (0.10)

Note. Each column is a regression of the annual percentage 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 11. 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 be 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 actions, such as removing a director, amending bylaws, 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 12. Corporate Governance Changes and Shareholder Proposals

	Full sample			Excluding firms that already adopted provision
	(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 expiring contract	…	…	0.4	0.6
			(0.6)	(0.8)
Dummy = 1 if proposal & expiring contract	…	…	0.03	2.0
			(3.0)	(3.9)
Dummy =1 if union proposal & expiring contract	…	…	-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 column 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 and standard errors are scaled by 100 to represent percentages. Significance levels are indicated: * = 10 percent, ** = 5 percent, *** = 1 percent.