Can Strong Corporate Governance Selectively Mitigate the Negative Influence of 'Special Interest' Shareholder Activists? Evidence from the Labor Market for Directors

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Diane Del Guercio
University of Oregon and ECGI

Tracie Woidtke
The University of Tennessee

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Abstract

Union and public pension funds, the most prolific institutional activists employing low-cost targeting methods, are often accused of pursuing private benefits. Extant literature finds that unions representing workers, as stakeholders, are not aligned with shareholders. Limiting shareholder power may mitigate "special interest" activism but can also exacerbate managerial agency problems. We examine the director labor market in two different settings, majority approved and withdrawn shareholder proposals, where conflicted activists arguably have additional leverage over management, and find evidence that corporate governance can selectively mitigate the negative influence that conflicted activists have over firms without stifling all influence of low-cost activists.

Keywords: shareholder activism, market for directors, public pension funds, labor unions

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Diane Del Guercio*
Gerry and Marilyn Cameron Professor of Finance
University of Oregon, Lundquist College of Business
1208 University of Oregon
Eugene, Oregon 97403-1208, United States
phone: +1 541 346 5179
e-mail: dianedg@uoregon.edu

Tracie Woidtke
David E. Sharp/Home Federal Bank Professor in Banking & Finance
The University of Tennessee, Haslam College of Business
428 Stokely Management Center
Knoxville, TN 37996-0540, United States
phone: +1 865 974 1718
e-mail: twoidtke@utk.edu

*Corresponding Author

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Diane Del Guercio
Lundquist College of Business and ECGI
1208 University of Oregon
Eugene, Oregon 97403-1208
e-mail: dianedg@uoregon.edu
541-346-5179

Tracie Woidtke
Haslam College of Business
428 Stokely Management Center
University of Tennessee
Knoxville, TN 37996-0540
e-mail: twoidtke@utk.edu
865-974-1718

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Can strong corporate governance selectively mitigate the negative influence of "special interest" shareholder activists? Evidence from the labor market for directors

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1. Introduction

The rise of shareholder activism from labor union and public pension funds has generated considerable controversy. Critics warn that giving shareholders more power through low-cost activism, such as shareholder proxy proposals, carries risks that certain shareholder activists will gain leverage over firms to pursue private benefits, or special interests.[1] An opposing argument to this view is that corporate CEOs, the most vocal critics of labor union and public pension fund activists, have the greatest incentive to discredit these "special interest" activists in order to protect themselves from low-cost monitoring by all shareholders. Because low-cost activism is the primary channel through which shareholders of the very largest public U.S. corporations can influence management, tradeoffs arising from policies intended to solve the special interest activist problem might also exacerbate managerial agency problems.[2] For example, pending legislation in Congress under the Financial Choice Act proposes reforms of Rule 14a-8 that dramatically increase the ownership requirement for shareholder proposal sponsors from $2,000 worth of stock held for one year to 1% ownership held for three years.[3] While such a policy change would presumably deter proposals sponsored by special interest activists, its across-the-board reduction of shareholder power would also deter many others, including the value-enhancing variety. In this paper, we are interested in whether an existing corporate governance mechanism can selectively mitigate the negative influence of special interest activists without stifling the influence of *all* of the firm's shareholders.

We use shareholder activists' stakeholder interests at the firm level to proxy for special, or conflicted, interests. Specifically, we classify labor union pension funds (LUPFs) who sponsor shareholder proposals at firms where they also represent workers under collective bargaining as conflicted activists. LUPF activists who target non-unionized firms and public pension fund (PPF) activists who do not represent private sector workers are classified as non-conflicted activists.[4]

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[1] In surveys of the literature, Ferri (2012) and Denes, Karpoff, and McWilliams (2016) divide shareholder activism research into studies of the high-cost variety, where primarily hedge fund activists employ costly methods such as amassing large ownership stakes and conducting proxy contests for board seats, versus the low-cost variety, where activists express dissatisfaction by sponsoring non-binding shareholder proposals or withholding votes in director elections.

[2] Because shareholder activism of the high-cost variety requires amassing large ownership stakes, it tends to be concentrated among smaller firms (Del Guercio, Seery and Woidtke, 2008; Brav, Jiang, and Kim, 2015).

[3] See https://www.congress.gov/bill/115th-congress/house-bill/10.

[4] This is not to say that public pension fund activism cannot be motivated by special interests but rather that conflicts need to be defined on a more granular level. Woidtke (2002), Woidtke (2015) and Wang and Mao (2015) find evidence

The labor and finance literature finds strong evidence that workers, and unions representing them, have interests that are not aligned with shareholders' (e.g., John, Litov, and Yeung, 2008; Faleye, Mehrotra, and Morck, 2006; Lee and Mas, 2012; Lin, Schmid, and Xuan, 2018). This literature also finds evidence that stakeholder influence is less pronounced in stronger corporate governance regimes, such as before the adoption of state anti-takeover laws restricting takeover market discipline (Bertrand and Mullainathan, 2003) or when country-level investor protection is strong (Atanassov and Kim, 2009), and when managerial ownership is large (Cronqvist, Heyman, Nilsson, Svaleryd and Vlachos, 2009).

We consider the labor market for directors as the corporate governance mechanism of interest for its potential to mitigate the conflicted activist problem specific to a firm. Because low-cost activism tends to be most prevalent in large firms, it is important for a corporate governance mechanism to be effective in firms where ownership is likely dispersed. Fama and Jensen (1983) argue that the labor market for directors can provide incentives to directors to make decisions in the interests of shareholders through ex post settling up, or a loss of directorships following lax monitoring. Several studies find strong support that poor director performance or decisions not in shareholders' interests are punished via a devaluation of the director's human capital, or reputational damage (e.g., Gerety and Lehn, 1997; Harford, 2003; Coles and Hoi, 2003; Srinivasan, 2005; Fich and Shivdasani, 2007; Fos and Tsoutsoura, 2014; and Bereskin and Smith, 2014). Thus, this mechanism has proven to be effective in re-aligning the interests of directors with those of shareholders in a variety of settings.

The main question addressed in this paper is whether the labor market for directors can selectively mitigate the conflicted activist problem and provide incentives to firms to withstand pressure from conflicted LUPFs who use shareholder proposals, a common low-cost activism tool, as leverage over management to extract union concessions. Specifically, we examine whether directors who provide private benefits to conflicted shareholder activists are selectively punished with a loss of directorships. To test this, we require a proxy for conflicted LUPF sponsors who successfully use shareholder proposals as tools to gain private benefits from target firms in the form of union concessions. While inherently difficult to observe directly, we posit two settings

consistent with targeting by public pension funds on socially responsible topics is associated with negative valuation effects and political motives. However, corporate governance targeting is not.

that provide useful proxies for when low-cost activist tools give LUPFs sufficient leverage over management to extract union concessions.

In the first setting, we use conflicted LUPF-sponsored executive compensation shareholder proposals that receive support from a majority of votes cast and are subsequently implemented by the board as a proxy for events where LUPFs are able to gain union concessions. Several results from the literature, as well as our own evidence, support the validity of this proxy. Matsusaka, Ozbas, and Yi (2017) find that unions opportunistically target compensation as a highly sensitive proposal topic of great concern to management in order to gain leverage in periods prior to collective bargaining negotiations. Moreover, several studies find consistent evidence that high vote support for LUPF-sponsored compensation proposals uniquely appears to provide unions with greater leverage over management through subsequent decreases in executive pay (Bauer, Moers and Viehs, 2015), negative valuation effects on target firms (Cai and Walkling, 2011), and increased market value of the voting right prior to the annual meeting (Kind and Poltera, 2017). These results are found only for the combination of union sponsor and executive compensation topic, and not for other sponsor-topic combinations.

Providing additional evidence of greater union leverage, we find that conflicted LUPF-sponsored compensation proposals tend to have the highest rates of implementation despite garnering the lowest vote outcomes among those with majority vote support. We also find significantly negative stock price reactions to conflicted LUPF-sponsored compensation proposals, but not to otherwise similar proposals by non-conflicted sponsors nor to other proposal topics by conflicted LUPFs, consistent with the market recognizing the leverage over management the compensation topic gives to conflicted union activists. Finally, we find that union relations significantly improve after implementation of a conflicted LUPF-sponsored compensation proposal, but deteriorate if not implemented, consistent with the proposal implementation being a proxy for the union's successful private benefit gains.

Under the assumption that compliance with a conflicted LUPF sponsor indicates the firm offers abnormal concessions to unions, and ignoring a conflicted LUPF sponsor indicates no such concession, we test whether the market for directors punishes directors who comply with conflicted activists. In a sample of 610 majority vote support proposals, we find that directors at firms succumbing to pressure from conflicted LUPF activists are punished with a significant abnormal loss in directorships relative to directors at firms staying resolute. The ex post settling

up costs for directors who allow stakeholders to benefit are both statistically and economically significant. On net, directors at firms complying with conflicted LUPFs experience an abnormal loss ranging from 0.3 to 0.5 directorships. These magnitudes equal or exceed those found in the literature using other major events associated with lax monitoring or poor stewardship of shareholders' interests (e.g., Fich and Shivdasani, 2007), and are strongest for subsamples where we expect our measure to better proxy for union concessions.

The significant, abnormal loss in directorships is found only for directors at firms capitulating to the pressure of conflicted LUPFs. Importantly, we find no evidence of labor market discipline for directors at firms complying with non-conflicted activist requests, including PPFs, even though these activists are frequently grouped under the "special interest" label. In contrast to the negative stock price reaction to conflicted LUPF compensation proposals, we find a positive reaction to PPF-sponsored proposals. We also find evidence that directors are rewarded with additional directorships when firms comply with, and punished with a loss in directorships when firms ignore, a PPF sponsor.

Together, our results are consistent with the director labor market selectively punishing only those directors whose firms succumb to conflicted activist pressure and providing incentives to directors to be vigilant in resisting stakeholder pressure. They also suggest that the "special interest" activist problem is confined to firm-specific conflicts rather than broad shareholder types, much like the definitions used in Agarwal (2012) and Ertimur, Ferri, and Muslu (2011). These results are robust to several alternative specifications (e.g., probit), alternative methods (e.g., vs. non-targeted matching control sample, or barely pass vs. barely fail proposal samples), and to controlling for other potential confounding events (e.g., revelation of fraud, or other low-cost activists' targetings).

We confirm our findings in a second low-cost activism setting, shareholder proposals that are withdrawn by the sponsor before the annual meeting. Relative to all proposals and to proposals with majority vote support, withdrawn proposals are dominated by LUPF and PPF sponsors.[5] While the prevalence of these activists makes this setting of particular interest, the outcome and circumstances associated with a withdrawn proposal are harder to observe. These proposals are typically privately negotiated between the sponsor and management and only infrequently appear

[5] Eighty-two percent of withdrawn proposals in our sample are sponsored by LUPFs and PPFs, compared to 38% of all voted proposals and 40% of majority vote support proposals (Renneboog and Szilagyi, 2011).

on the proxy statement. Thus, we treat the withdrawal of a conflicted LUPF-sponsored compensation proposal, similar to the implementation in the majority vote support setting, as a proxy for when a conflicted LUPF likely receives a private benefit in exchange for a withdrawal. Matsusaka and Ozbas (2017) show that management has incentives to make side payments to sponsors to induce them to withdraw their proposal to avoid a vote and consequent public scrutiny, especially when management faces sensitive issues like executive compensation. Two studies find evidence consistent with private benefits following withdrawn union-sponsored compensation proposals or withdrawn conflicted LUPF-sponsored proposals, including decreases in executive pay (Bauer et al., 2015) and increases in contractual union worker wages (Matsusaka et al., 2017).

In a sample of 454 LUPF and PPF withdrawn proposals, we find that directors in the conflicted LUPF-sponsored compensation subsample lose significantly more board seats relative to directors in other withdrawn subsamples. Furthermore, the LUPF withdrawn sample includes enough observations to compare two groups identical in both the compensation proposal topic and also the LUPF sponsor, the United Brotherhood of Carpenters and Joiners of America (UBCJA), but different in the existence of a stakeholder conflict. In the cleanest comparison, holding both sponsor and topic constant, we find an abnormal loss of 0.5 directorships when a UBCJA-sponsored compensation proposal is withdrawn at a unionized firm relative to at a non-unionized firm. Thus, our ex-post settling up results are highly consistent across two distinct settings.

Our paper makes several contributions to the literature and the ongoing debate on the balance of power between shareholders and the board with respect to low-cost activist tools. Our results serve as a reminder to consider the ability of corporate governance mechanisms to mitigate the special interest activist problem discriminately without resorting to diminishing shareholder power altogether. Specifically, to our knowledge, we are the first to analyze ex post settling up as a potential solution to mitigate the conflicted activist problem, as we confirm the power of director labor market discipline to motivate directors to protect *all* shareholders' interests and not acquiesce to *some* shareholders who are conflicted. Our setting examines events that are more frequent and ordinary in the life of a firm than typically examined in this literature (e.g., revelation of fraud, litigation, takeover bid response). Our findings also extend the labor and finance literature, providing evidence of another corporate governance mechanism that can mitigate the problem of stakeholder influence and restore alignment with shareholders.

The results in our paper additionally contribute to the shareholder activism literature and highlight the importance of evaluating conflicts at the firm level, rather than lumping all LUPF and PPF activity together. For example, in the United States Court of Appeals ruling overturning the Securities and Exchange Commission's (SEC) "proxy access" Rule 14a-11 in July 2011, the court criticized the SEC for not providing a 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."[6] This aggregation is also evident in the academic literature (e.g., Bainbridge, 2006; Anabtawi and Stout, 2008; Grundfest, 2010; Cohn, Gillan and Hartzell, 2016) where the general "special interest" or "labor-friendly" label is commonly applied to all PPFs and LUPFs. In defining a conflicted activist by whether the activist is also a stakeholder in the firm, PPF activists do not fit this definition conceptually, and we confirm that they do not fit empirically. This is consistent with Del Guercio, Seery and Woidtke (2008) who find that low-cost activist targeting motivated by firm performance in the form of "just vote no" campaigns is effective in compelling boards to fire underperforming CEOs and improve operating performance, overall and for firms targeted by PPFs. Thus, a more nuanced view of "special interest" activist is warranted.

The remainder of the paper is organized as follows. Section 2 discusses conflicted shareholder activists and the market for corporate directors. Section 3 describes the sample. Section 4 presents the empirical analysis, and Section 5 concludes.

2. Conflicted shareholder activists and the market for corporate directors

2.1 The problem of conflicted (stakeholder) shareholder activism

While critics tend to make general statements about potential private benefits of activism by both LUPFs and "labor-friendly" PPFs, the labor and finance literature suggests that the conflict of interest is of greatest concern when shareholder activists and workers at the firm are one and the same. Because workers are fixed-income claimants, holding a contractual claim on firms' cash flows in the form of wages and salaries, several studies show that they are aligned with the interests of other fixed-income claimants, such as bondholders and banks, rather than with shareholders (e.g., John et al., 2008; Chen, Kacperczyk, and Ortiz-Molina, 2012; and Lee and Mas, 2012). The

[6] Business Roundtable and Chamber of Commerce v. Securities & Exchange Commission, No. 10-1305 (D.C. Cir. July 22, 2011) page 15.

results in these studies suggest a conflict of interest arises when a LUPF shareholder targets a firm where they simultaneously represent workers in collective bargaining negotiations (i.e., shareholders are also stakeholders). Thus, any targeting of individual firms by shareholders with stakeholder interests can represent a conflict of interest and provide additional leverage over management. For example, Agrawal (2012) finds that in the presence of this conflict, LUPFs exert pressure on boards through their opposing votes in director elections. Note that because PPFs do not represent workers in the private sector, their activism should not be motivated by the same type of stakeholder conflict of interest.[7] Under this same logic, even LUPF activists do not have the same conflict of interest when targeting non-unionized firms. Consistent with this view, Agrawal (2012) finds no evidence that CalPERS votes with unions and documents a positive market reaction when union shareholders no longer represent workers at a firm.

More specifically, we posit that the conflict of interest is most problematic in circumstances where the proxy rules provide stakeholder-shareholders an opportunity to have influence or leverage over corporate management. For example, a commonly stated concern is that the current rules allow workers or "labor friendly" shareholders to achieve private benefits and gain power to influence corporate policy despite a very small ownership stake, and at very low cost. According to Rule 14a-8 of the Securities and Exchange Act of 1934, any shareholder that holds $2,000 or more of stock for one year is eligible to submit a proposal and have it appear on the proxy to be distributed to shareholders at company expense.

Matsusaka et al. (2017) find evidence that LUPFs use shareholder proposals "opportunistically" during contract expiration years to influence union contract negotiations. They argue and find empirical support that opportunistic targeting by unions is most prevalent when the topic of the shareholder proposal is executive compensation, a sensitive topic unpopular with corporate management. Because management dislikes proposals aimed at them personally, these proposal types wield the most power over corporate boards and management. At the extreme, management might be willing to "make side payments" or offer concessions to activists to withdraw the proxy proposal altogether, which would result in the issue being dropped completely, avoiding public scrutiny. In fact, LUPFs have focused on executive compensation issues for

[7] Even though public pension funds do not represent private sector workers, it is possible that a stakeholder conflict exists if private sector union representatives serve on public pension fund boards and they are able to influence the fund's activism. In this case, we would expect to see similarities between public and union funds with stakeholder interests in their activism and the effects in the director market.

decades, presumably because it is a topic that resonates with union members, the public, and the popular press (see Schwab and Thomas (1998) and Jacoby (2008) for historical accounts of LUPF focus on compensation). For example, from 1997 to the present, the AFL-CIO has hosted the "Executive Paywatch" website to provide recent data on CEO pay packages and report the ratio relative to the average rank-and-file workers pay with the intent to draw attention to the largest outliers and provide evidence on "corporate greed." Eritmur, et al. (2011) and Cai and Walkling (2011) document that LUPFs are the dominant sponsor of shareholder proposals on executive compensation topics.

Another circumstance likely to be most problematic in terms of conflict of interest is when the sponsor of the proxy proposal is the same exact entity that represents workers at the firm. While it is common for LUPFs to coordinate their activism under one large umbrella organization (AFL-CIO) with many member unions, individual unions (e.g., Sheet Metal Workers, a member union of AFL-CIO) can also directly target firms where they represent workers. Coordinated efforts have the benefit of efficiencies in targeting expertise, shared knowledge on corporate governance issues, and larger collective ownership stakes in firms. There are also reasons, however, why unions affiliated under the umbrella organization may wield less power as a proposal sponsor than the union representing workers. First, it is clear that the individual union has the most to gain for the workers they directly represent, and any concessions gained from activist pressure on management will directly benefit their constituent worker members. Second, this entity might hold the most sway with management by virtue of their long-term presence at the firm and their unique ability to disrupt work. For example, managers might acquiesce to stakeholder-shareholders in order to "enjoy the quiet life" and have a harmonious and peaceful co-existence with workers (Bertrand and Mullainathan, 2003). More importantly, Huang, Jiang, Lie, and Que (2017) argue that the right to strike, as protected under the National Labor Relations Act, gives unions a powerful tool to exert pressure on companies. They find curbing CEO compensation mitigates the chance of a labor strike, suggesting firms pay CEOs less to avoid contentious labor relations. Thus, because of these quiet life private benefits, managers and boards might be more likely to offer concessions to the union organization they will actually negotiate with down the road.

In sum, we expect the implementation of shareholder proposals to align with shareholders' interests unless there is a firm-specific conflict of interest *and* circumstances are such that the conflicted activist sponsor has leverage over management. In the absence of either condition, we do not expect the proxy proposal process to facilitate private benefits to the activist.

2.2 The market for corporate directors and conflicted shareholder activists

The labor and finance literature provides strong and consistent evidence that workers' interests are not aligned with shareholders', which is exacerbated when unions have strong bargaining positions and governance is weak. For example, Cronqvist et al. (2009) find that firms faced with aggressive unions (i.e., exposed to a greater threat from worker disruption) more heavily favor workers when CEOs do not personally bear the cost of lower equity values through managerial ownership. In a cross-country study, Atanassov and Kim (2009) find that in the face of poor firm performance, strong union laws and poor investor protection increase job security not only for employees but also for underperforming managers. In sum, there is supportive evidence that strong corporate governance can mitigate the stakeholder influence problem.

We posit that one corporate governance mechanism found in the literature to be useful in incentivizing directors to make decisions in the interests of shareholders across many different settings is the labor market for directors. Our interest is whether the director labor market can also selectively mitigate the conflicted activist problem. If this mechanism can discern when boards allow actions that benefit stakeholders over shareholders in the face of conflicted activism, this would minimize the need for solutions that either limit shareholder power or increase the cost to activists of submitting proxy proposals. Because directors are charged with monitoring and ratifying CEO decisions, they are ultimately responsible for ensuring that important firm decisions are consistent with shareholders' interests. Fama (1980) and Fama and Jensen (1983) were the first to suggest that the labor market for directors, whereby directors gain or lose directorships based on whether they act in shareholders' interests, can align their incentives with shareholders.

In our context, we examine whether ex post settling up costs, i.e., an abnormal net loss in directorships, occur for directors who allow management to cede to pressure from conflicted activists. Several studies provide empirical support for the ex post settling up hypothesis, where poor director performance is punished via a devaluation of the director's human capital, or reputational damage (e.g., Gerety and Lehn, 1997; Harford, 2003; Coles and Hoi, 2003; Srinivasan, 2005; Fich and Shivdasani, 2007; Fos and Tsoutsoura, 2014; and Bereskin and Smith, 2014). The common interpretation is that directors observed to make poor decisions consequently either lose board appointments at other firms at which they sit or are subsequently invited as a new board member less frequently. A net loss in directorships provides a disciplinary mechanism, as it

will mean a loss of director compensation and/or social standing (Grundfest, 1993; Dyck and Zingales, 2002).

2.3 Empirical setting to observe director performance: director response to a majority vote support shareholder proposal

We would like to test the joint hypothesis that the proxy rules leave firms vulnerable to private benefit demands from conflicted shareholder activists in the form of union concessions for workers (higher wages, benefits, or job security) at the expense of shareholders and that the labor market for directors can mitigate this problem. Ideally, we would directly observe management providing a union concession and test whether the complicit directors are punished with a loss of directorships, but union concessions are difficult if not impossible to systematically observe. We argue that a reasonable proxy for acceding to pressure and offering a side payment to the union is when a sensitive shareholder proposal sponsored by a conflicted activist is implemented by the board of directors. Below, we explain the reasoning behind this assertion and provide empirical support for the quality of our proxy in section. 3.3

Rule 14a-8 shareholder proposals make a very specific but non-binding request to the board, such as "require shareholder approval of future golden parachutes." It is clear that management is not in favor of this policy change, because otherwise the firm would have previously implemented the change and the proposal would not have appeared on the proxy statement to be voted on by shareholders. Because the proposal is either implemented or not after the shareholder vote, there is a direct and observable link between the activist request and the firm's decision. Ertimur, Ferri, and Stubben (2010) report that in their sample only 3.2% of proposals with votes below 50% are implemented by firms, while 23.9% of proposals with vote outcomes between 50% and 60% are implemented. Because implementation is a very rare event for proposals that fail to get a majority vote support and including proposals with low vote support would diminish the power of our test, we focus exclusively on proposals with majority vote support (majority approved proposals, hereafter). Moreover, the vote outcome and subsequent firm decision for majority approved proposals is easily verifiable and likely known to market participants. Indeed, they are tracked by the Council of Institutional Investors (CII) and ISS,

presumably because it is of interest to investors.[8] This visibility also gives the activist proposal sponsor additional leverage over the board, especially when management cares deeply about the topic, such as executive compensation policies.

Generally speaking, one might expect proposals sponsored by conflicted activists with an incentive to extract private benefits to have low vote support (Schwab and Thomas, 1998). However, distortions in the voting market induced by regulation could allow savvy activists to gain a majority vote support even if the proposal is not in shareholders' interests. It is well known that some institutional investors outsource their voting to third-party proxy consultants, such as ISS, or have issue-based voting rules, such as "vote in favor of all shareholder proposals to redeem the poison pill," to minimize the costs of compliance with fiduciary voting requirements. Iliev and Lowry (2015) show that in order to minimize the costs of their research, ISS tends to issue "blanket recommendations" whereby they recommend to vote in favor of a proposal topic for all firms, rather than analyze the issue on a firm-specific basis. For example, they find that from 2006-2010 ISS recommends voting in favor of golden parachute shareholder proposals nearly 100% of the time, similar to what Morgan, Poulsen, Wolf and Yang (2011) report for an earlier sample period. Thus, it is possible that such proposals gain a majority of vote support due to rote policy voting practices, ignoring the sponsor's firm-specific conflict of interest.

There is supportive evidence, however, that at least some investors recognize the inherent conflict of interest. Cai and Walkling (2011) find that the stock price reaction is significantly negative at the announcement of LUPF-sponsored Say-on-Pay shareholder proposals, and there is no positive reversal when the proposal subsequently receives a majority vote. There is only a significantly positive adjustment when these proposals are defeated with low vote support. Ertimur et al. (2011) find evidence that ISS is less likely to recommend supporting a shareholder proposal on executive compensation, and the outcome of the vote support is significantly lower, when the proposal sponsor represents workers at the target firm. Together, this suggests that the market expects that high vote support provides additional leverage to the union to extract private benefits.

In sum, the question is whether the board accedes to the pressure a conflicted activist has over management when a proposal they sponsor garners a majority vote support, and if so, whether the labor market for directors subsequently punishes those directors with a loss in directorships.

[8] The CII is an investor group founded in 1985 to promote best practices in corporate governance. The membership is primarily union and public pension funds but also includes corporate pension funds.

To examine the robustness of our results to other settings, we will also test for director punishment after a conflicted activist withdraws a proxy proposal on a topic sensitive to management, which we assume indicates that the withdrawal was in exchange for a side payment to the union members. The advantage to management of a withdrawn proposal is that they typically do not appear on the proxy statement. Thus, offering a union concession at this early stage before the proxy is mailed to shareholders would effectively mean the issue disappears from the public eye. As we more fully describe later, both can lead to outcomes that benefit unions.

3. Sample

3.1 Sample construction and data sources

We analyze shareholder proposals during the 1996-2004 period. The beginning of this period coincides with beginning coverage by the Investor Responsibility Research Center (IRRC) (now ISS) director database and includes the 1997 creation by the AFL-CIO of an Office of Investment to coordinate corporate governance efforts on behalf of its member unions as well as the creation of the Executive Paywatch website (Jacoby, 2008). It also coincides with the emergence of additional LUPF leverage through sponsored compensation proposals first receiving majority vote support.[9] The end of this period coincides with the final year that CII publicly posted a list of company responses to majority approved proposals and the break-up of the AFL-CIO into two groups of unions. Most unions are members of the AFL-CIO, so the degree to which conflicted LUPFs pressured firms through collaboration is greater prior to 2005 (Agrawal, 2012).

The 1996 to 2004 period also provides test power and measurement advantages, including fewer confounding events and alternative pressures on firms relative to a later period (e.g., just vote no campaigns, media scrutiny, proxy access, say on pay). Increased alternate pressures could result in firms increasingly implementing shareholder proposals with majority votes for other reasons, unrelated to the leverage that conflicted LUPFs sponsors have over management, suggesting that our proxy for a union concession might be noisier after our sample period. In addition, unlike during our sample period, Bach and Metzger (2017a) find evidence of managements' manipulation of voting results. Namely there are "too many" shareholder proposals that barely fail with vote support just below 50% relative to proposals that barely pass, but only

[9]The IRRC bulletins list only one LUPF sponsored compensation proposal with a majority vote prior to 1996 (in 1995).

beginning in 2004, which they suggest is driven by management inducing retail investors to vote (who tend to favor management and therefore vote against shareholder proposals) and by exercising executive stock options to vote their shares against. This implies that management exploits additional tools to counter conflicted activist pressure in the later period. In section 4.5, we discuss corporate governance and activism trends since the end of our sample period and argue that they are consistent with the generalizability of our results.

Shareholder proposals receiving majority vote support from 1996 to 2004 are obtained from two main sources, the CII and the IRRC (now ISS). We use the CII's annual list containing the firm, proposal topic, proposal sponsor, and whether the company implemented the proposal from 1998 to 2004 as a starting point in collecting our sample. We supplement this with company responses from ISS and data on shareholder proposals from the IRRC Corporate Governance Bulletin. When ISS documents a response and CII does not, we conduct a search to verify the correct response. From ISS and IRRC, we add data on 49 proposals from 1996 and 1997 (years not covered by CII), 12 proposals from 1998 to 2004 that do not appear on the CII list, and the percentage of votes cast in favor. We determine firm responses for added proposals by examining press announcements, proxy statements, and 10-k filings in the subsequent year. We identify 643 proposals receiving a majority vote support from 1996 to 2004 and are able to obtain the necessary data on 610 proposals. We obtain the share ownership of the proposal sponsor directly from corporate proxy statements. Sponsor ownership is disclosed for 416 proposals.

Using primarily information reported in 10-k filings, we identify proposal targets where the firm has a unionized workforce. Although we check the robustness of our results to an alternate definition of a unionized workforce, we report results where we define a firm as unionized if any of its employees are subject to collective bargaining agreements.[10] Within proposals sponsored by LUPFs at unionized firms, we identify which union(s) represent some or all of the target firm's

[10] We use unionization data from Ertimur et al. (2011) for firms that overlap in our samples and thank these authors for generously sharing their data. We then supplement this for missing firms using the same data sources and variable definitions described in Appendix 5 of their paper. Specifically, we primarily use 10-k filings but also consult F-7 filings from the U.S. Department of Federal Mediation and Conciliatory Service (FMCS), available from their website, to supplement missing information. The National Labor Relations Act requires employers or employees' representatives to file a report 60 days prior to the termination or modification of a collective bargaining agreement. This filing provides the firm name, union name, bargaining unit size, and notice date. We also check the robustness of our results to an alternate definition of a unionized firm, such as 5% or more of employees are subject to collective bargaining agreements. Our results are qualitatively similar under these definitions.

unionized employees. We consider a proposal that is sponsored by the AFL-CIO or one of its member unions to be a conflicted LUPF-sponsored proposal if one of the firm's employee collective bargaining agreements is also with an AFL-CIO member union. Because of AFL-CIO's broad reach in terms of its large array of member unions during our sample period, we find that a conflicted LUPF sponsor and an LUPF sponsor of a proposal at a unionized firm is effectively the same thing.[11] Thus, we classify LUPF sponsors filing proposals at unionized firms as a conflicted LUPF for ease of exposition. Finally, we also examine an alternate definition where we require an exact match between the LUPF proposal sponsor and union representing workers at the firm (e.g., Sheet Metal Workers is the sponsor name on the proxy and the union name under that firm).

Similar to Faleye and Trahan (2011), we obtain data on union relations from the KLD SOCRATES database (now called MSCI ESG STATS). Each calendar year-end KLD assigns a score based on their analysts' review of company news, filings, or other public sources. Union Relations Strength = 1 if "the company has taken exceptional steps to treat its unionized workforce fairly," and = 0 otherwise. Union Relations Concerns = 1 if "the company has a history of notably poor union relations," and = 0 otherwise. The union relations score is computed as Union Relations Strengths minus Union Relations Concerns, and thus, the score has a minimum of -1 (poor relations) and a maximum of 1 (excellent relations).[12] We have union relations data for 387 of 424 proposals at unionized firms to examine the change in union relations around shareholder proposals.

3.2 Summary statistics

Summary statistics on our sample of majority approved proposals and the subsequent firm response are presented in Table 1. The header of Table 1 contains detailed variable definitions and data sources. The first column of Panel A shows that unconditionally over our sample period, majority approved proposals have a 17.7% probability of firms responding by fully complying with the activist request before the next annual meeting.[13] The average proposal receives 63.5%

[11] We find that more than 90% of majority approved proposals sponsored by LUPF sponsors at unionized firms are sponsored by LUPFs affiliated with the union representing workers at that firm.

[12] Other papers using KLD data to study labor and finance issues include Landier, Nair and Wulf (2009) and Bae, Kang and Wang (2011).

[13]We classify firm responses as either fully complying with or ignoring activists' requests. Full compliance excludes cases where the company agreed to let the poison pill expire but reserved the right to adopt a new plan without shareholder approval in the future if the board decides that it is in the best interest of shareholders to do so. Based on

of votes cast in favor, and the average proposal sponsor owns only 0.26% of shares outstanding. We define LUPF sponsors at unionized firms as conflicted LUPFs, while non-conflicted sponsors include LUPFs at non-unionized firms, PPFs, individuals, and private investor groups. We find that 69.8% of majority approved proposals are at unionized firms, and 21% of majority approved proposals are sponsored by conflicted LUPFs. For 7.5% of proposals, the proposal sponsor and the union representing workers at that firm are one and the same, which we label exact union match. For the subsample of unionized firms, the sample mean for union-management relations in the year prior to the annual meeting is -0.04, or slightly more negative than neutral.

The next columns in Table 1 Panel A report statistics by sponsor type. All LUPFs combined sponsor 32.8% of all majority approved proposals, while PPFs sponsor 7.4%. Renneboog and Szilagyi (2011) report that these sponsor types represent 33% and 4.8% of all shareholder proposals that come to a vote from 1996 to 2005, suggesting that LUPFs have proportionately similar but PPFs have disproportionately more success in garnering majority vote support. The firm full compliance rate is highest for proposals sponsored by conflicted LUPFs (29.1%), and especially those that match exactly (36.4%), and lowest for those sponsored by non-conflicted LUPFs (7.1%). In each case the mean for conflicted sponsors is significantly different than for non-conflicted sponsors at the 1% level. The average ownership of conflicted LUPF sponsors (0.02%) is smaller than non-conflicted sponsors generally, but it is possible that their ownership is underestimated due to their use of external portfolio managers who report holdings separately.[14] By definition, conflicted LUPF proposals are at unionized firms, but it is notable that the mean union relations score for conflicted LUPF targets is -0.13, which is significantly different from the average score of non-conflicted sponsor unionized targets at the 1% level. A magnitude of -0.13 is also large relative to the overall sample in that it represents 31% of the standard deviation from the mean score of -0.04.

3.3 Validation of our proxy for concessions paid to union stakeholders

press reports and the fact that companies tend to receive additional poison pill proposals in the year following the compromise, we infer that activists do not consider this board action as a satisfactory response to their request. In our tests we pool these compromises, or partial compliance, with ignoring activists' requests, but we note that our results are not sensitive to how we treat compromise responses.

[14] For example, the document "Facts about the AFL-CIO's Proxy Votes" explains that they sponsor shareholder proposals using their Reserve Fund, not subject to ERISA.

We argue earlier that a useful proxy for directors likely to acquiesce to unions' requests on labor matters is the implementation of a conflicted LUPF-sponsored proposal on executive compensation. The statistics in Table 1 Panels A and B show that over 50% of majority approved compensation proposals are sponsored by conflicted LUPFs and a quarter are sponsored by exact union matches. Despite having the lowest average vote support (58.8%), compensation proposals have the highest compliance rate (31.1%) relative to other topics, and Panel B shows that this is driven by the conflicted LUPF subsample. The compliance rate is 45.8% for conflicted LUPFs and 59.1% for the subsample of exact union matches, both significantly different than the compliance rate of 14.3% for non-conflicted sponsors. This is consistent with conflicted LUPFs having substantial leverage when their proposals receive majority vote support on sensitive issues important to management.

If compensation proposals sponsored by conflicted LUPFs leave firms vulnerable to pressure from unions seeking concessions, we might expect the market to recognize this. Cai and Walkling (2011) report a significant negative average reaction to the announcement of an LUPF sponsored Say-on-Pay proposal, which is only reversed if the proposal eventually fails. In Table 2 Panel A we report the stock price reaction to majority approved proposals. Cumulative adjusted returns (CARs) are calculated for two event dates to capture the market reaction. First, similar to other studies of shareholder proposals, we use the proxy filing with the SEC, when investors learn the specifics of the sponsor and topic, as the announcement date and measure CARs over days [0,5] to allow time for the proxy statement to reach investors by mail. Our results are similar if we instead use the proxy mailing date or a longer window [0,7]. Second, we measure CARs for days [-1,0] relative to the annual meeting date, when the vote outcome is determined. We focus on market reactions to barely passing proposals (greater than 50 to 55% votes in favor) and barely failing proposals (45 to 50% votes in favor) to compare firms that are similar in observable firm characteristics and focus on events that are likely a surprise (e.g., Cũnat, Gine and Guadalupe (2012)).[15]

Consistent with the view that conflicted LUPFs use compensation proposals to gain union concessions, the average CAR at the proxy filing date for compensation proposals is -1.18% when

[15] Bach and Metzger (2018a) show that the assumptions for regression discontinuity to support a "close call" analysis hold during our sample period, but not after due to an increased frequency of apparent vote manipulation by corporate management.

sponsored by conflicted LUPFs and -1.69% when sponsored by exact union matches. Both are significantly different from zero, and also significantly less than the average CAR for compensation proposals sponsored by non-conflicted LUPFs (0.52%) at the 10% level. The pattern of CARs at the annual meeting date when the outcome of a close call vote becomes known is also supportive of the interpretation that the market perceives majority vote support for compensation proposals sponsored by conflicted LUPFs to add to their influence over management as stakeholders. Similar to Cai and Walkling (2011), we find that the annual meeting CAR does not reverse the negative reaction at the proxy filing date for compensation proposals sponsored by conflicted LUPFs. The barely pass subsample CAR is -1.14%, and is significantly different from CARs for conflicted LUPF non-compensation barely pass proposals at the 10% level.[16] In contrast, the average CAR is 1.00% for conflicted LUPF compensation proposals that barely fail. While the magnitude is economically meaningful, it is not statistically significant, perhaps a result of the small sample size.

Taken together, the negative reaction to the announcement and passage of conflicted LUPF-sponsored compensation proposals is consistent with greater union concessions at these firms. An alternative interpretation is that implementing a majority approved shareholder proposal on executive compensation is "bad" for shareholders. For example, Cai and Walkling show that LUPFs tend to target large firms with Say-on-Pay proposals, and not necessarily firms with abnormal executive compensation or low pay-for-performance sensitivity, suggesting their targeting may have other motives (and therefore implementing these proposals would be bad for these firms). We note that both interpretations predict director punishment and are not mutually exclusive.

In contrast to conflicted LUPFs, PPFs do not sponsor a single proposal on executive compensation (Table 1 Panel B), and the market reacts positively when PPF-sponsored proposals barely pass (Table 2 Panel A). The average CAR for barely pass PPF-sponsored proposals is 2.08%, which is significantly different than zero and significantly greater than the average CAR

[16] The inferences remain the same if we include all majority approved executive compensation proposals instead of restricting our analysis to the close call executive compensation proposals.

of -1.35% for barely fail PPF-sponsored proposals. The contrasting results are consistent with conflicted interests among LUPFs with stakeholder interests but not among PPFs.[17]

Taken together, the results above suggest that the combination of executive compensation proposal topic and sponsorship by firm stakeholders are uniquely perceived to leave firms vulnerable to stakeholder pressure. To the extent that complying with a sensitive topic shareholder proposal request from a conflicted LUPF is a proxy for buying peace or offering abnormal union concessions, especially during times of poor union relations, we should also find that labor relations subsequently improve at firms complying with, relative to firms ignoring, conflicted LUPF requests. For example, Huang et al. (2017) find that reducing CEO compensation prior to labor negotiations mitigates the chance of a strike and the results are strongest when unions are more powerful, suggesting firms can improve or avoid contentious labor relations by ceding to unions through lower executive pay. For the subsample of unionized firms, we compute the change in the KLD union relations score from one year prior to both one year and two years after the annual meeting to measure the change in union relations. The change theoretically ranges from -2 to +2, with a positive value indicating that union relations improve, a negative value indicating worsening relations, and a zero indicating no change. However, the sample minimum and maximum are -1 and +1, indicating that no union relations in our sample go from excellent to poor, or vice versa, within two years. The mean change is -0.01, with a standard deviation of 0.24.

Table 2 Panel B reports the results for various sponsor categories by whether a firm ignored or complied with the activist sponsor's request. For completeness, we also report the average union relations score in the year prior to the annual meeting (year -1). Similar to the results in Table 1, both conflicted LUPF targets that ignore and those that comply tend to have poor average union relations in year -1. Even though conflicted LUPF targets that comply have the lowest average score (-0.200), it is not significantly different from conflicted LUPF targets that ignore (-0.105). Of greater interest, the bottom four rows in Panel B indicate that union relations improve when firms comply and worsen when firms ignore conflicted LUPF requests, and the mean change is significantly different at both the one- and two-year horizons. Comparing the percentage of firms with improving relations over two years confirms this pattern. Around 11% of the firms complying

[17] One result that does not conform to our predictions is the stock price reaction to poison pill and staggered board proposals sponsored by non-conflicted LUPFs. We find a significantly negative CAR to proposals that barely pass and a significantly positive CAR to proposals that barely fail, which we would only expect for conflicted LUPFs. We note, however, there are only 7 and 8 observations respectively in each of these subsamples.

with conflicted LUPF requests (i.e., firms purported to offer concessions to conflicted activists) experience improving relations compared to only 4% of the firms ignoring their request. This pattern is strongest for the exact union match subsample. Here, the difference in mean change is large in magnitude and significantly different at the 5% level at the two-year horizon. Around 17% of the firms complying with their requests experience improving relations compared to none of the firms ignoring their request. In fact, worsening union relations after firms ignore conflicted LUPF requests is consistent with these firms not offering union concessions.

In contrast, in the non-conflicted sponsor sample, firms that comply are just as likely to have improved or worsened union relations within two years (12% each). Moreover, the difference in the change in union relations across firms that ignore and comply with proposals of non-conflicted sponsors is not significantly different. Taken together, we find that union relations improve after firms comply with the request of a conflicted LUPF, consistent with compliance on a shareholder proposal being a proxy for the stakeholder gaining influence and leverage over the board to obtain private benefits for union members.

4. Empirical analysis

In this section we examine the ex post settling up associated with directors' monitoring of whether firms offer concessions to conflicted activists or not. We adopt three practices that are standard in the market for directors literature. First, we examine the change in number of external directorships up to three years following the event, in part because staggered board elections are a common governance structure.[18] Moreover, firm compliance with an activist request, our proxy for whether a union concession is likely, might not be disclosed until right before the next annual meeting. In such cases, any ex post settling up costs would not be revealed until year +2. Second, we exclusively analyze the reputational effect on outside directors and not on insiders, as these are the directors charged with monitoring management and ensuring that decisions are made in the best interests of shareholders. Finally, we examine the change in external directorships for the subsample of outside directors that have at least one external board seat, as directors serving on no

[18] The prediction for director turnover at target firms is less clear. In our setting, directors may experience greater security (similar to greater job security for CEOs who favor unions (Atanassov and Kim, 2009)) after ceding to conflicted LUPFs on the one hand. On the other hand, they may become more susceptible to turnover after ceding to conflicted LUPFs as punishment. Consistent with Fich and Shivdasani (2007), we find no abnormal director turnover at firms complying with conflicted LUPF sponsors.

other boards cannot lose an external seat.[19] An additional advantage to focusing on external seats is the effects are arguably exogenous to the target firm since we are measuring ex post settling up outcomes in the form of directorships gained or lost at *external firms*.

One caveat to interpreting net changes in directorships as rewards and punishment, however, is that we only observe the outcome of both supply and demand for director seats. Thus, if net directorships fall because a director demands fewer seats after an unpleasant event, we can misclassify a loss in seats as being offered fewer seats. However, we do not believe this is a significant concern in our setting because facing shareholder proposals is a common situation for directors, and our tests also compare across directors also facing proposals from similar sponsors and with similar proposal topics. We obtain directorships data from 1996 to 2007 using the IRRC (now ISS) director database in order to compute net changes in the number of external public company directorships for the three annual meetings subsequent to the majority vote (years +1, +2, and +3) for all non-employee directors at a firm listed by IRRC at the time of the annual meeting when the proposal garnered a majority vote (year 0). For brevity, we refer to the subsample of outside directors with one or more board seats as simply "directors" in the remainder of the paper. We use proxy statements and searches in Lexis-Nexis to identify board seats in cases where this information is missing from the IRRC database.

4.1 Univariate analysis of ex post settling up

Table 3 Panel A contains a univariate comparison of changes in external directorships for subsamples according to firm response within sponsor type categories of interest. Specifically, for each proposal sponsor category, we report the results of a two-sided t-test for differences in the mean change in directorships between directors at firms who comply with an activist request versus directors at firms who ignore an activist request. Under the assumption that compliance with a conflicted activist sponsor indicates the firm offered a concession to stakeholders and ignoring a conflicted activist sponsor indicates no such concession, we are testing for whether the market for directors punishes directors who comply with conflicted activists. Tests comparing the difference in changes in directorships across comply and ignore holds constant any targeting criteria of the sponsor and the general success of the proposal in terms of shareholder vote support.

[19] Our results are not sensitive to including outside directors with no additional external seats. We provide results analogous to Table 3 Panel A including these directors in internet appendix Table A1.

For completeness, we also report the average changes in directorships for the full majority approved sample, which includes 3,710 target directors who hold 2.25 external directorships, on average, at year 0.

Overall, we find ex post settling up costs for directors at firms who comply with conflicted LUPFs. Despite a similar number of average directorships at year 0 and year +1 before compliance is fully observable, we find the net change in directorships over years +2 and +3 is significantly lower (more negative) when firms comply with conflicted LUPFs relative to when firms ignore their requests. The difference is significant at the 5% and 1% level, respectively. The pattern is similar for the subsamples of conflicted LUPFs where the proposal topic is executive compensation and where there is an exact union match. Moreover, these results contrast starkly with those for directors at firms targeted by non-conflicted sponsors. Here, we actually find the opposite result that the net change in directorships is significantly lower at these horizons for directors when firms *ignore* non-conflicted activists' requests relative to when they comply.

We also report the results for separate subsamples of non-conflicted sponsors (proposals sponsored by individuals and private investment groups are not reported for brevity), although the sample sizes are considerably smaller. Unlike for conflicted LUPFs, we find no punitive ex post settling up for directors at years +2 and +3 for firms complying with requests from non-conflicted LUPFs. In addition, directors at firms ignoring PPFs experience a significantly lower net change in directorships relative to directors at firms that comply with their requests, though the difference is only significant at years +1 and +2. The latter is what we would expect if, in the absence of a stakeholder interest, board responsiveness to shareholder proposals garnering the support of a majority of votes cast is viewed positively and revealed earlier to the market, which the CAR evidence for PPF-sponsored proposals from Table 2 suggests. Given that most majority approved proposals sponsored by PPFs request removal of a staggered board, compliance here is potentially more newsworthy and thus more likely to be known prior to the next annual meeting.

The ex post settling up costs for directors at firms succumbing to pressure from conflicted LUPFs are economically large both in absolute and relative terms. We find that the net change ranges from -0.85 to -1.09 directorships within three years, compared to the range of -0.2 to -0.5 average net change in external directorships for studies of the revelation of fraud (Srinivasan, 2005; Fich and Shivdasani, 2007), opting in favor of protection from takeovers (Coles and Hoi, 2003), or having a board seat challenged in a proxy contest (Fos and Tsoutsoura, 2014). Moreover, these

directors lose 0.36 to 0.51 more directorships on net than directors at firms that withstand pressure from conflicted LUPFs. In contrast, when firms *ignore* PPFs, directors lose 0.29 (0.41 in year +2) more directorships than directors at firms that comply with these sponsors. Thus, PPFs continue to look quite different from conflicted LUPFs; we only find evidence of punitive ex post settling up when firms cede to pressure from conflicted LUPF activists.

While the reputational effect between boards' decisions to comply with the activist request differs substantially across sponsor types, one might question whether the difference is due to some reason other than punishment for poor monitoring at firms succumbing to pressure from conflicted activists. For example, conflicted LUPFs may systematically choose target firms that are both more likely to comply and more likely to have directors suffer a loss in directorships, such as firms with especially poor performance or governance. To check the robustness of our results to bias from selective targeting by LUPFs or from a positive correlation between vote outcomes and poor governance or performance, we examine a close call proposal sample of conflicted LUPF-sponsored proposals with votes cast in favor between 45% and 55%. Following Cũnat et al. (2012), we show in Appendix A3 that observable firm characteristics are not significantly different across the firms just above and below 50%.

Similar to the -0.85 in the full sample, we find that the magnitude of the ex post settling up costs for firm compliance with conflicted LUPFs is -0.90 in proposals that barely pass. Furthermore, similar to the -0.49 in the full sample, we continue to find that the magnitude of change in directorships is much smaller when firms ignore proposals from conflicted LUPFs that barely pass (-0.46) and barely fail (-0.39). Thus, in the close call proposal sample, we continue to find that the loss in directorships is significantly greater for directors when firms succumb to pressure from conflicted LUPFs relative to when firms do not. Importantly, we also find that firm and director characteristics of targets are ex ante similar whether the conflicted LUPF-sponsored proposal passes or fails by a close margin, validating that our tests address selection bias concerns.

While the Table 3 Panel A comparisons hold sponsor type constant, Panel B contains the p-value results of two-sided t-tests directly comparing the average three-year change in directorships at targets according to director response across sponsor types. For ease of readability, the average three-year change in directorships from Panel A is repeated below each sponsor type-response category label. The first block of results compares the three-year average change in directorships for firms that comply with conflicted LUPFs (i.e., make union concessions) relative

to firms that comply with non-conflicted sponsors (e.g., comply with governance concerns of shareholders). For example, the cell in the first row corresponding to the pair of conflicted LUPF comply and non-conflicted sponsor comply has a value of 0.00 indicating that the average three-year change in directorships across these two categories (-0.85 vs. -0.40) is significantly different at greater than the 1% level. We interpret this as evidence that firms complying with conflicted LUPFs are providing concessions to unions, which is punished in the director labor market, and firms complying with non-conflicted sponsors are not. Directors implementing governance changes requested in a proposal by non-conflicted sponsors might also be considered an action in shareholders' interests, and therefore relatively rewarded in the director market. Under either interpretation, the net loss in directors for complying with a conflicted LUPFs should be large and significant relative to complying with other sponsors. The statistics in the first three cells of row one are all consistent with these interpretations; firms complying with conflicted LUPFs and with other sub-categories of non-conflicted sponsors, such as non-conflicted LUPFs and PPFs, are also significantly different at the 10% level or better.

We argue earlier that the sub-categories where conflicted LUPFs either sponsor compensation proposals or are members of the same exact union representing workers at the firm are more likely to have leverage over management and gain union concessions. Consistent with this, in the next two rows we find stronger evidence for these two sub-categories. Here, the comparisons to the targets that comply with non-conflicted LUPFs and PPFs are even more significant, at the 5% level or better, as indicated in rows two and three. In sum, complying with conflicted LUPF activists, especially in circumstances when they have leverage over management, implies a greater loss in directorships than complying with any other sponsor type.

The bottom three rows contain the results of comparisons of the three-year average change in directorships for firms that ignore conflicted LUPFs (which is a good director response indicating not granting abnormal union concessions) relative to firms that comply with non-conflicted activists (which is also potentially a good director response indicating implementation of governance changes). Thus, there is no clear prediction here as to which of these director responses might generate a larger change in directorships, which is consistent with the lack of statistical difference we find among these comparisons.

Similarly, the top right quadrant in Panel B contain the results of comparisons of the three-year average change in directorships for firms that comply with conflicted LUPFs (make union

concessions) relative to firms that ignore non-conflicted sponsors (ignore the governance concerns of shareholders). The results indicate that complying with conflicted LUPFs results in a significantly greater loss in directorships relative to ignoring the concerns of non-conflicted activists, suggesting that favoring stakeholders is more damaging to directors' reputations as monitors than ignoring majority approved proposals. One exception is for the PPF sub-category of non-conflicted activists. Here, directors are punished equally for favoring stakeholders and for ignoring PPF requests, suggesting both are viewed as director decisions that are not in shareholders' interests. Finally, the results in the last three rows of the last column are consistent with this interpretation. This comparison shows a significant difference in punishment with a greater loss in directorships when ignoring PPF requests, relative to ignoring requests of conflicted LUPFs (resisting pressure from conflicted LUPFs to offer concessions). We further examine the robustness of these results in a multivariate setting in the next sections.

4.2 Multivariate analysis of ex post settling up

Table 4 Panel A contain the results of an ordinary least squares regression where the dependent variable is the change in the number of external directorships held by the director after two and three years, respectively. We aim to test whether our finding of director punishment when firms succumb to pressure from conflicted LUPFs is robust to a multivariate analysis. Thus, in columns (1) and (2), the first variable of interest is a dummy variable equal to one if the director is on a board of a firm that complies with a proposal sponsored by a conflicted LUPF, and equal to zero otherwise. In the remaining columns, we present the subsamples highlighted in the univariate analysis intended to capture when conflicted LUPFs have greater leverage over management to gain union concessions. Specifically, columns (3) and (4) contain a dummy variable equal to one if the director is on a board of a firm that complies with a compensation proposal sponsored by a conflicted LUPF, and equal to zero otherwise. Columns (5) and (6) contain a dummy variable equal to one if the director is on a board of a firm that complies with a proposal sponsored by a conflicted LUPF that directly represents workers in collective bargaining at the target firm, and equal to zero otherwise.

We also include separate dummy variables indicating all other proposal-sponsor-by-board-response categories. In all specifications, the omitted category is a dummy variable equal to one if the director is on a board that ignores a proposal sponsored by a conflicted LUPF, so the estimated

effects are relative to directors at firms that ignore conflicted LUPFs' requests (withstand conflicted activist pressure). We compute robust standard errors corrected for firm-level clustering. We control for the following year 0 director characteristics: age (between 65 and 69, or over 69), tenure, number of external public company directorships, gray designation, gender, committee membership, and chair of committee designation. We also control for the following firm characteristics: natural log of previous calendar year-end market value of equity, prior fiscal year-end leverage, percentage institutional ownership, prior calendar year market-adjusted stock return, and the market-adjusted stock return from year 0 to +2 (or 0 to +3 for the three-year specifications), beginning in March of year 0. We begin in March to include the annual meeting for most firms.

We continue to find evidence that directors are punished in the external labor market when firms comply with conflicted LUPF requests. For example, the three-year net change in directorships is significantly lower for directors after firms comply with a request by conflicted LUPFs, relative to directors when firms ignore these activists. Consistent with the univariate results, the effect continues to be statistically significant and larger in magnitude for the conflicted LUPF subsamples of compensation proposals and exact union match proposals. For example, the magnitude of the coefficient suggests a sizable incremental decrease of approximately one-third to one-half of a directorship by year +3, consistent with the univariate results. The results at the two-year horizon, however, only remain statistically significant for the subsample of proposals sponsored by the exact union representing the firms' workers.[20]

Table 4 Panel B contains additional specifications that are variations on the net change in external directorships measure. We include probit regression estimates of the probability that a director experiences a net loss in external directorships within three years following firm response in columns (1) to (3) and of the probability that a director experiences a net gain in columns (4) to (6). We find results consistent with Panel A. Namely, directors at firms complying with conflicted LUPFs are significantly more likely to have a net loss in directorships and less likely to have a net gain in directorships, relative to directors at firms withstanding their pressure.

In contrast, we find no evidence of punishment for directors at firms complying with non-conflicted sponsor types. Instead, in both Panels A and B, we find directors are significantly more likely to be rewarded with additional directorships when firms comply with PPFs. Moreover, the

[20] The lack of consistent significance over the shorter horizon could be due to the limited number of directors affected over the year after compliance is observed due to staggered boards.

net three-year change in directorships is significantly negative when firms *ignore* the requests of PPFs. These results provide additional support that ex post settling up costs of compliance are unique to directors who allow firms to cede to stakeholder pressure from conflicted LUPFs.

4.3 Additional robustness tests of ex post settling up

We repeat the analysis of Table 4 on three different samples and include additional controls to confirm robustness. The first sample includes only first-time majority approved proposals. The second sample includes control directors at non-targeted firms matched to target firms on the basis of both firm-size (sales) and recent market-adjusted stock performance. The third sample is the close call sample of directors. Finally, we repeat the analysis of Table 4 including other factors that may be related to the net change in directorships to mitigate concerns that our measure for union concessions coincides with other events that may be related to lax monitoring. Specifically, we include controls for financial fraud (Fich and Shivdasani, 2007), earnings restatements (Srinivasan, 2005), "Vote No" campaigns (Del Guercio et al., 2008; Ertimur et al., 2011), and whether a shareholder proposal is withdrawn (Matsusaka et al., 2017).

A more detailed discussion of the various robustness tests and tabulated results are included in the Internet Appendix. The main results continue to be robust, and the alternative methods and additional controls do not change inferences.

4.4. Is there ex post settling up in other settings – withdrawn shareholder proposals

We find evidence of director punishment for ceding to union pressure and offering concessions in the high profile setting of majority approved proposals. However, conflicted LUPFs can pressure firms through many tactics (e.g., threatening a work disruption, withholding votes in director elections, sponsoring proxy proposals). In this section, we test whether there is similar evidence of director punishment in another less visible setting. We examine shareholder proposals that are withdrawn by the sponsor before going to a vote at the annual meeting. These proposals are privately negotiated between the sponsor and management and typically do not appear on the proxy statement, and therefore may go unnoticed by the investing public.

Relative to a proposal that receives a majority of vote support, the outcome and circumstances associated with a withdrawn proposal are harder to observe. For example, it is clear that management is against any voted on shareholder proposal, as they state reasons for opposing

the proposal directly on the proxy statement. In contrast, a proposal might be withdrawn because management agrees that the requested change is in shareholders' interests and implements it. Alternatively, a proposal could be withdrawn for a very minor concession, such as management simply agrees to meet with the sponsor, for technical reasons that do not lead to any firm changes or concessions that satisfy the sponsor, or for concessions that privately benefit the sponsor.

The scenario of most interest for our question is when a withdrawn proposal signals that a sponsor likely receives a private benefit in exchange for agreeing to withdraw the proposal. Matsusaka and Ozbas (2017) model the proposal process and show that under certain conditions management may be willing to accommodate activist sponsors or offer them a side payment or concession in order to induce them to withdraw a proposal. They show that concessions to the sponsor (e.g., abnormal union wages) to induce them to withdraw are more likely when managers face topics that are more important to them than to the sponsor (e.g., executive compensation). Matsusaka et al. (2017) find empirical support that union-sponsored compensation proposals that are withdrawn indicate a private benefit to the union sponsor. They find that unions opportunistically target firms with shareholder proposals on executive compensation topics in contract expiration years. Moreover, they find that the percentage change in collectively bargained wage rates is positively and significantly related to whether a shareholder proposal sponsored by a union is withdrawn, and is unrelated to whether a voted on proposal is sponsored by a union.[21] Bauer et al. (2015) also find evidence of a benefit to unions in the form of decreases in executive pay following withdrawn compensation proposals.

We identify 639 withdrawn corporate governance proposals from 1996 to 2004 from the IRRC Corporate Governance Bulletin, and 522 of these (82%) are sponsored by LUPFs (63%) or PPFs (19%), which is considerably higher than their representation among voted on proposals from 1996-2005 (38%) according to Table 1 from Renneboog and Szilagyi (2011). Bauer et al. (2015) find a similar percentage of 78% of withdrawn corporate governance proposals from 1997-2009 are sponsored by LUPFs (62%) and PPFs (12%).[22] To classify withdrawn proposals, we use SEC filings and press articles to identify the reasons for withdrawal.[23] Given the focus of our study and

[21] They do not examine whether wage increases are related to voted on proposals with a majority of vote support, or to the subset of these proposals that are implemented by the board, nor do they examine proposal topic. Instead, they pool all of the voted on proposals into one category.
[22] They include PPFs under "institutional investors," so the PPF percentage is an approximation.
[23] We supplement the data from Ferri and Sandino (2009) to identify voluntary adoption of expensing options. We thank the authors for generously sharing their data.

to make the task of hand-collection manageable, we restrict our analysis to the 522 withdrawn proposals sponsored by LUPFs and PPFs. We exclude 68 proposals (13%) that appear to be withdrawn for technical reasons, such as the sponsor decided to sell their shares before the annual meeting or the sponsor is made aware of a duplicate proposal by another sponsor.[24] The final sample includes 454 proposals withdrawn by an LUPF or PPF sponsor.

For the reasons mentioned above, we argue that withdrawn compensation shareholder proposals sponsored by conflicted LUPFs serve as a useful proxy for when management cedes to union pressure and offers a private benefit or side payment. Using similar arguments to our analysis of majority approved proposals, other proxies for concessions to a union sponsor include the subsample of withdrawn conflicted LUPF proposals sponsored by an exact union match and whether management fully complies with a conflicted LUPF compensation proposal request. Because of the difficulty in observing the reason as well as the variation in reasons that are observed for a withdrawal, full compliance may be the strongest publicly-available indicator that a firm is ceding to union pressure. Finally, the withdrawn proposal context allows for an additional measure of instances when managers display vulnerability to union stakeholder pressure. Namely, we include in our list of proxies an indicator for instances when a conflicted LUPF-sponsored compensation proposal is withdrawn in the same year as a voted on shareholder proposal, labelled concurrent voted proposals. We assert that in these cases, management reveals a willingness to induce a conflicted LUPF to withdraw a sensitive proposal at the same time that they are clearly willing to let other topics from other sponsors appear on the proxy and go to a vote.

Table 5 Panel A contains summary statistics for the withdrawn sample. The majority (55%) are sponsored by conflicted LUPF sponsors, followed by 34% non-conflicted LUPF and 11% PPF sponsors. While the majority approved sample is primarily comprised of proposals on poison pill and staggered board topics (73%), and much less by proposals on compensation (15%) and other topics (13%), the withdrawn sample is comprised much less (14%) of poison pill and staggered board proposals, and is instead dominated by proposals on other topics (58%) and compensation (28%). We find that 31% of withdrawn proposals sponsored by conflicted LUPFs are sponsored by the exact union that represents workers at the firm and that the average union relations score is -0.06 overall. While the former is similar to the majority approved sample, average union relations

[24] Other exclusions include when the firm is forced to respond due to a lawsuit settlement, when the firm explains that the proposal request was previously adopted, or when the point is moot (firm is about to be sold or merged).

is substantially better relative to the majority approved sample (-0.13). We also find the percentage of full compliance (implemented what was requested in the withdrawn proposal within one year) is lowest (20%) for poison pill or staggered board proposals and highest for Other proposals (40%), and ranges from 33% for LUPF to 47% for PPF sponsors. At the other extreme, we are unable to observe any management response for 23% of withdrawn proposals across all sponsor types and for 60% of poison pill or staggered board proposals. The proportion of withdrawn proposals at firms that do not acquiesce on other proposals (i.e., have a concurrent voted shareholder proposal during the same year) ranges from 20% for PPF to 32% for conflicted LUPF sponsors. Within conflicted LUPFs, the proportion is 47% for compensation proposals, but only 26% for non-compensation proposals. Together, this suggests that management displays greater reluctance to have conflicted LUPF-sponsored compensation proposals go to a vote relative to other topics or sponsor types.

To the extent that these subsets of conflicted LUPF-sponsored withdrawn proposals are reasonable proxies for firm concessions to unions, we expect to observe director punishment in terms of a net loss in directorships. Table 5 Panel B contains univariate results regarding ex post settling up after withdrawn proposals. Consistent with the analogous majority approved sample results of Table 3 Panel B, we find that directors experience a significantly greater net change in directorships of -0.66 within three years of a withdrawn compensation proposal sponsored by a conflicted LUPF, relative to other withdrawn proposal types. For example, all withdrawn proposals sponsored by non-conflicted sponsors, or even compensation withdrawn proposals sponsored by non-conflicted sponsors, have a similar net change in directorships of approximately -0.45, comparable to the net change of -0.40 when firms comply with majority approved proposal requests of non-conflicted sponsors. The difference across withdrawn compensation proposals sponsored by conflicted LUPFs and non-conflicted sponsors is significant at the 1% level under each pairwise comparison. When the proxy for union concessions is more easily observable through either full compliance or a concurrent voted proposal, we find evidence that directors experience a significantly greater loss sooner, within two years, and that the three-year loss is larger in magnitude (-0.72). Moreover, the difference across conflicted and non-conflicted sponsors is significant at the 5% level or better under each pairwise comparison using these alternative proxies.

Unlike the majority approved sample results, we find no significant difference in net change in directorships for a withdrawn proposal at a firm where the sponsor represents unionized workers at that particular firm (exact union match sponsor) relative to a withdrawn proposal from a non-conflicted sponsor. However, it is difficult to directly compare results across the majority approved and withdrawn exact union match subsamples given large differences in the proposal topic mix. In the majority approved sample, the vast majority (81%) of exact union match-sponsored proposals implemented are executive compensation topics. In contrast, only 15% of withdrawn proposals where the firm fully complies with the exact union match sponsors are on the topic of executive compensation. Given the conceptual arguments for proposals on sensitive topics, along with the strong results we find for proposals on the executive compensation topic across both majority approved and withdrawn samples, the non-results are perhaps not surprising.

Holding constant the executive compensation topic across withdrawn proposals with different sponsor types, we find the loss in directorships is significantly greater for compensation proposals withdrawn by conflicted LUPFs relative to compensation proposals withdrawn by non-conflicted sponsors. We are also able to compare withdrawn proposals holding both the proposal topic *and* the proposal sponsor constant. Namely, we compare the change in directorships following a withdrawn compensation proposal depending on whether the same LUPF sponsor is conflicted or non-conflicted (i.e., the target firm is unionized or non-unionized).[25] Analyzing the subsample of compensation proposals withdrawn by the United Brotherhood of Carpenters and Joiners of America (UBCJA) allows us to control for sponsor specific reasons for withdrawn compensation proposals to better disentangle the difference in directorship changes associated with whether the LUPF is conflicted or non-conflicted. The bottom two rows show that directors at firms with withdrawn UBCJA-sponsored compensation proposals experience a significantly greater three-year loss in directorships (-0.84) when UBCJA has a stakeholder conflict relative to when UBCJA does not (-0.36), significantly different at the 1% level.

Consistent with the univariate results, in Table 5 Panel C we continue to find that the net change in directorships is significantly lower for directors at firms when there is a withdrawn conflicted LUPF compensation proposal, especially when the firm does not acquiesce on other

[25] Note that we are unable to conduct an analogous within-sponsor test for majority approved proposals because we do not have a large enough sample of both conflicted and non-conflicted observations within the proposals implemented by the board for the same LUPF sponsor.

shareholder proposals or full compliance is observable to investors, after controlling for firm and director characteristics in a multivariate regression. Moreover, we find similar patterns, though the relative net loss is twice as large, when restricting the sample to UBCJA-sponsored withdrawn proposals in Table 5 Panel D (e.g., -0.18 vs. -0.37 in column 2 Panel C vs. Panel D). We continue to find no evidence that directors at firms with withdrawn PPF, or non-conflicted LUPF, proposals are punished relative to directors at firms with withdrawn conflicted LUPF compensation proposals. Taken together, these results indicate that the director labor market provides ex post settling up incentives to selectively mitigate the negative influence of conflicted LUPFs in a less visible setting than majority approved proposals – a setting that Matsusaka and Ozbas (2017) and Matsusaka et al. (2017) argue is more susceptible to shareholder private agendas.

Taken together, the results are consistent with the view that directors monitoring firms that comply with conflicted LUPFs, i.e., proxy for favoring workers' interests over shareholders', are punished in the external market while directors that withstand the pressure are not. In contrast, directors monitoring firms who comply with requests from PPFs before the annual meeting (i.e., withdrawn proposal) or after a majority vote are relatively rewarded with a greater net gain in external seats. In contrast to the labeling of all LUPFs and PPFs as "special interest" activists, the differential ex post settling up outcomes between complying with conflicted LUPFs and with PPFs, combined with the different stock market reactions to their proposals, are consistent with the market perceiving different motivations and the director labor market selectively mitigating the negative effects of conflicted activism.

4.5. Generalizability: LUPF activism and the market for directorships after 2004

We argue earlier that our sample period provides a useful and relatively clean setting to identify director labor market responses to instances of directors allowing abnormal union concessions to shareholder-stakeholders. To examine the generalizability of our results, we now consider the potential impact of changes both in low-cost activism strategies by LUPFs and in the market for directors since 2004. Overall, we conclude that stakeholder activism remains a significant concern today, and recent evidence suggests that the labor market for directors continues to incentivize directors to act in shareholders' interests. We address each of these in turn.

Recent evidence suggests that LUPFs continue to use similar low-cost activist tools and strategies, with a similar focus on compensation shareholder proposals (Ferri and Göx, 2018).

Matsusaka et al. (2017) present evidence of LUPF's opportunistic targeting of unionized firms with compensation proposals over a sample that overlaps with ours and extends to 2013. According to Voting Analytics, 27% of voted corporate governance proposals between 2005 and 2012 are sponsored by LUPFs, and 39% of those are focused on compensation.[26] Cai and Walkling (2011) and Kind and Poltera (2017) use later sample periods and find evidence consistent with our Table 2 evidence on the negative valuation effects unique to LUPF compensation targeting. Cai and Walkling's sample includes LUPF-sponsored Say-on-Pay shareholder proposals from 2006 to 2008, while Kind and Poltera examine the market value of a voting right for shareholder proposals from 2002 to 2013. Interestingly, Kind and Poltera find that within close-vote shareholder proposals, the value of a voting right does not vary with proposal sponsor *except* in the case of LUPF-sponsored proposals on executive compensation topics. Given Cai and Walkling's evidence, they attribute the increased voting right value to shareholders' desire to counter or avoid the negative valuation effects of LUPF-sponsored compensation proposals.

The findings of these three papers are consistent with conflicted LUPFs' continued opportunistic use of shareholder proposals to achieve private benefits, and with continued harm to firm value. The evidence in more recent samples that the market recognizes the conflict of interest suggests that LUPFs have not become more sophisticated or better able to avoid perceptions of conflicts of interest. Moreover, Bach and Metzger (2017b) report that the implementation rate of shareholder proposals ranges from 7% to 35% from 1997 to 2003, and increases to ranging from 31% to 54% in the 2004 to 2011 period, suggesting that activists, including conflicted LUPFs, gain additional leverage over management in the more recent period. In short, there is still a role for a corporate governance mechanism that can mitigate the special interest activist problem.

For our results to remain relevant, the market for directors must continue to be well-functioning, providing incentives for directors to act in all shareholders' interests. Recent evidence suggests that at least some elements of board governance have changed over time that could impact the market for directors. For example, directors tend to hold fewer directorships in recent years, given the negative press suggesting that "busy" directors are poor monitors. While in our sample period 43% of outside directors have 3 or more directorships, a common definition of "busy,"

[26] According to Table 1 of Renneboog and Szilagyi (2011), 33% of voted proposals between 1996 and 2005 are sponsored by LUPFs, and 36% of these are focused on compensation. Thus, these numbers are reasonably similar across the two periods.

Chen and Guay (2018) report that only 21% of directors are "busy" in 2007-2016. While the reduction in average seats per director is clear, the implications for incentives is less so. To the extent that fewer directorships implies that each seat is more valuable, directors may care more than before about the loss of a directorship. On the other hand, capacity constraints imply that there is greater competition among firms for experienced directors, which may result in directors being less concerned about losing any given seat. Importantly, in a sample from 1996 to 2011, Dou (2017) provides evidence that the director labor market remains well-functioning using a variety of corporate events examined in the previous literature, including class action lawsuits, earnings restatements, severe dividend reductions, and debt covenant violations. Given his findings of a significant loss in directorships, we would also expect directors to continue to be punished for favoring stakeholders in the more recent period.

5. Conclusion

The dominance of labor union and public pension funds among activists pursuing low-cost activism strategies and lobbying for reforms that empower shareholders has been highly contentious. As boards and shareholders compete for corporate influence and control, each side has an incentive to discredit the other and publicly question their motives as self-serving, increasing the need for additional evidence on this issue. We find robust empirical support for the hypothesis that an existing governance mechanism, the labor market for directors, can selectively mitigate the negative potential influence of conflicted activists without limiting the influence of all low-cost activists. We find that directors who succumb to stakeholder pressure from conflicted LUPF activists and offer union concessions are punished with a significant loss in directorships. In contrast, PPF sponsors are the only activist type associated with both rewards to directors for complying with their requests and punishment for ignoring them, suggesting that public pension fund officials are not deserving of blanket criticisms that their activism is motivated by private benefits or "labor-friendly" sentiment. Our results suggest that concerns over empowering shareholders may be overblown, consistent with the findings of Cohn et al. (2016) who document a positive reaction to the announcement of the SEC proxy access rule and a negative reaction when proxy access was overturned.

Clawing back shareholder power and tilting it further toward management could have the detrimental effect of worsening governance, especially in poorly governed firms. Recent evidence

suggests that management successfully uses existing tools at their disposal to check shareholder power. Soltes, Srinivasan and Vijayaraghavan (2017) show that management routinely contest shareholder proposals with the SEC and are frequently allowed to omit the proposal from the proxy statement. Bach and Metzger (2017a) find a pattern of shareholder proposal vote outcomes whereby an unusually high number are just below the passing threshold, suggesting that management can exert influence on vote outcomes. Thus, careful consideration of the existing overall balance of power between shareholders on one hand, and management and boards on the other, is needed whenever evaluating changes to the proxy rules.

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Table 1. Majority approved shareholder proposals (1996-2004)

This table reports the frequency of majority approved shareholder proposals, defined as a Rule 14a-8 proposal where the percentage of votes cast is greater than or equal to 50%. We obtain data on majority approved proposals from the Council of Institutional Investors annual list and the IRRC (now ISS) shareholder proposal database. Proposal sponsors are classified as either a "Conflicted LUPF" or a "Non-conflicted" sponsor. The Conflicted LUPF category includes labor union pension fund (LUPF) sponsors at firms where at least some of the target company's employees are under a collective bargaining agreement. Within Conflicted LUPF sponsors, the Exact union match category includes sponsors where the LUPF sponsor name and the union representing workers at the firm are the same (e.g., Sheet Metal Workers sponsors a proposal at a firm where Sheet Metal Workers represents workers). Eight observations are classified as exact union match where AFL-CIO sponsors a proposal where an AFL-CIO member union represents workers at the firm. We obtain information on the specific unions at proposal firms from either the 10-k filing on EDGAR or F-7 filings reported on the U.S. Department of Federal Mediation and Conciliatory Service (FMCS) website. Non-conflicted sponsors include LUPF, public pension fund (PPF), and other sponsors that do not also represent employees at the target firm. Within Non-conflicted sponsors, the Other sponsor type includes individuals and private investor groups. Proposal topics include 1) remove or vote on poison pill or remove the staggered board, 2) change or vote on executive compensation (includes expense stock options at time of grant and vote on golden parachutes, pension benefits, and executive compensation structure), and 3) Other (e.g., confidential voting, majority of independent directors on board, eliminate supermajority voting, restore shareholders rights to a special meeting). A majority approved proposal is categorized as full compliance if a firm fully complies with the request of the proposal before the next annual meeting. % vote support is the percentage of votes cast in favor of the proposal. Sponsor ownership % is the percentage of shares outstanding of the target firm owned by the proposal sponsor(s). The number of shares owned by the proposal sponsor is disclosed along with the sponsor's statement in support of the proposal in the proxy statement. 416 out of the 610 proposals disclose share ownership information. The ownership means below are based on 416 proposals with available information. A firm is categorized as Unionized if any of its employees belong to a union as reported in the 10-K in the year prior to the annual meeting. F-7 filings are used to supplement information from the 10-k when union information is missing. We supplement unionization data we received from Ertimur et al. (2011), using the definitions and procedure outlined in their Appendix 5. We obtain data on union relations from the KLD SOCRATES database (now called MSCI ESG STATS). The union relations score is computed as Union Relations Strengths minus Union Relations Concerns. Each calendar year-end KLD assigns a score of either 0 or 1 based on their analysts' review of company news, filings, or other public sources. Union Relations Strength =1 if "the company has taken exceptional steps to treat its unionized workforce fairly," and =0 otherwise. Union Relations Concerns = 1 if "the company has a history of notably poor union relations," and = 0 otherwise. Thus, the union relations score has a minimum of -1 (poor relations) and a maximum of 1 (excellent relations), and we report summary statistics only for the unionized target firms, as non-unionized firms would all have scores of 0. We have union relations data for 387 of 424 proposals at unionized firms.

Table 1. Majority approved shareholder proposals (1996-2004) (continued)

Panel A. Compliance rates, votes in favor, and union status of target firms by sponsor type and proposal topic

***, **, * indicate the results of a two-sided t-test for differences in means of targets in a particular Conflicted (Non-conflicted) sponsor column to that of targets in the Non-conflicted (Conflicted) All sponsor column (e.g., mean full compliance rate of targets of Non-conflicted PPF sponsors relative to that of targets of ALL Conflicted LUPF sponsors) or differences in means between targets in a particular proposal topic group and targets in all other proposal topic groups.

		Sponsor Type						Proposal Topic		
		Conflicted LUPF		***Non-conflicted sponsors***						
	All	***Conflicted LUPF All***	Exact union match	***Non-conflicted sponsors All***	LUPF (non-unionized firm)	PPF		Poison pill or Staggered board	Executive Compensation	Other
Number of proposals	**610**	129	46	481	71	45		443	90	77
Number full compliance	**108**	37	16	70	5	12		58	28	21
Full compliance%	**17.7**	29.1***	36.4***	14.6***	7.1***	26.7		13.2***	31.1***	28.0**
Vote support %	**63.5**	62.3	62.3	63.9	61.6	65.0		64.5***	58.8***	63.4
Sponsor Own %	**0.26**	0.02*	0.01	0.34*	0.01**	0.52***		0.33	0.02	0.22
Unionized firm %	**69.8**	100.0***	100.00***	61.7***	NA	51.1***		72.9***	58.9**	64.9
Union relations score	**-0.04**	-0.13***	-0.07	0.00***	NA	-0.05		-0.03	-0.14*	0.00
Conflicted LUPF %	**21.1**	100.0	100.00	NA	NA	NA		16.9***	53.3***	7.8***
Exact union match %	**7.5**	35.7	100.00	NA	NA	NA		5.0***	24.4***	2.6*

Table 1. Majority approved shareholder proposals (1996-2004) (continued)

Panel B. Number of majority approved proposals and compliance rates by sponsor type and proposal topic

***, **, * indicate the results of a two-sided t-test for differences in means of targets in a particular Conflicted (Non-conflicted) sponsor row to that of targets in the Non-conflicted (Conflicted) All sponsor row (e.g., mean full compliance rate of targets of Non-conflicted PPF sponsors relative to that of targets of ALL Conflicted LUPF sponsors) for the same proposal topic (i.e., in the same column); a, b, c indicate the results of a two-sided t-test for differences in means of targets in a particular proposal topic group and targets in all other proposal topic groups in a particular sponsor row (e.g., mean full compliance rate of executive compensation targets of Conflicted LUPF sponsors relative to that of all other targets of Conflicted LUPF sponsors).

		Proposal Topic		
Sponsor Type	**All**	Poison pill and Staggered board	Executive Compensation	Other
All sponsors	**610**	443	90	77
Full compliance%	**17.7**	13.2[a]	31.1[a]	28.0[b]
Conflicted LUPF sponsor	129	75	48	6
Full compliance%	29.1***	17.6[a]	45.8***, [a]	40. 0
Exact union match	46	22	22	2
Full compliance%	36.4***	14.3[a]	59.1***, [a]	0.0
Non-conflicted sponsor	481	368	42	71
Full compliance%	14.6***	12.3[a]	14.3***	27.1 [a]
Non-conflicted LUPF sponsor	71	34	34	3
Full compliance%	7.1***	2.9**	11.8***	0.0
PPF sponsor	45	38	0	7
Full compliance%	26.7	21.1[b]	NA	57.1[b]

Table 2. Announcement returns for targeting and change in union relations around firm response by sponsor type and proposal topic

Panel A. Proxy filing CARs [0, 5], Barely pass annual meeting CARs [-1,0], and Barely fail annual meeting CARs [-1,0] of majority approved proposals by sponsor type and proposal topic

Panel A reports two-sided t-test results for differences between mean Proxy filing date (Proxy filing) and Barely Pass Annual meeting (AM) CARs for each Conflicted (Non-conflicted) sponsor subgroup and the mean Proxy filing and Barely Pass AM CARs for the corresponding Non-conflicted ALL (Conflicted ALL) sponsor group. CARs are calculated using the market model with the CRSP value-weighted index and a pre-estimation period of [-250,-50] relative to the event date. Barely Pass indicates greater than 50% to 55% votes in favor, while Barely Fail indicates 45% to 50% votes in favor. Two-sided t-test results are also reported for differences between mean Barely Fail Annual Meeting and Barely Pass Annual Meeting CARs within each subgroup. ***, **, * indicate significance at the 1%, 5%, 10% for subgroup comparisons holding the proposal topic constant (i.e., within the same column). a, b, c indicate significance at the 1%, 5%,10% for subgroup comparisons for a two-sided t-test between the mean CAR for a given proposal topic compared to the mean CAR for all other proposal topics holding the sponsor type constant (i.e., within the same row). CARs in bold indicate the CAR is significantly different than zero in a two-sided test in one or more of the following tests – the Patell test (Patell, 1976), the standardized cross-section test (Boehmer, Musumeci and Poulsen, 1991), and the generalized sign test.

		Proposal Topic		
Sponsor Type	**All**	Poison pill & Staggered board	Executive Compensation	Other
Conflicted LUPF sponsor ALL:	129	75	48	6
Proxy filing CAR [0,5]	0.37	1.63[b]	**-1.18** [c]	-2.84
	[128]	[74]	[48]	[6]
Barely Pass AM CAR [-1,0]	0.01	**1.49**[b]	-1.14[c]	**-1.39**
	[27]	[12]	[13]	[2]
Barely Fail AM CAR [-1,0]	0.73	0.90	1.00	**-0.69**[*]
	[23]	[11]	[9]	**[3]**
Exact union match:	46	22	22	2
Proxy filing CAR [0,5]	**-0.76**	0.83	**-1.69**	-7.98
	[46]	[22]	[22]	[2]
Barely Pass AM CAR [-1,0]	-0.20	0.52	-0.28	-1.10
	[10]	[2]	[7]	[1]
Barely Fail AM CAR [-1,0]	0.51	0.57	0.26	NA
	[5]	[4]	[1]	[0]
Non-conflicted sponsor ALL:	481	368	42	71
Proxy filing CAR [0,5]	0.37	0.54	0.04	-0.33
	[472]	[361]	[42]	[69]
Barely Pass AM CAR [-1,0]	0.21	0.11	0.18	0.70
	[81]	[57]	[12]	[12]
Barely Fail AM CAR [-1,0]	0.28	0.48	-0.05	-0.17
	[128]	[83]	[15]	[31]
Non-conflicted LUPF sponsor:	71	34	34	3
Proxy filing CAR [0,5]	0.80	1.14	0.52[*]	0.04
Barely Pass AM CAR [-1,0]	-0.86	**-2.63**[***, b]	0.27[b]	NA
	[18]	[7]	[11]	[0]
Barely Fail AM CAR [-1,0]	**1.19**[**]	1.71[**]	0.59	**1.17**
	[18]	[8]	[7]	[3]
PPF sponsor:	44	37	0	7
Proxy filing CAR [0,5]	2.17	2.04	NA	2.87
Barely Pass AM CAR [-1,0]	**2.08**[*]	**2.08**	NA	NA
	[9]	[9]	[0]	[0]
Barely Fail AM CAR [-1,0]	-1.35[*]	-0.34	-0.49	-3.00
	[11]	[4]	[3]	[4]

Table 2. Announcement returns for targeting and change in union relations around firm response by sponsor type and proposal topic (continued)

Panel B. Change in union relations score surrounding majority approved proposals of unionized target firms

For each proposal sponsor type and firm response category (ignore or comply with the proposal), the table reports mean values of the union relations score in the year prior to the annual meeting of the majority approved proposal, and the number of observations in brackets. Statistics are only computed for unionized firms, as non-unionized firms have 0 scores for all observations. The union relations score is defined in Table 1. We report the percentage of negative scores and percentage of positive scores, but omit the percentage of 0 scores. The table also reports corresponding statistics for the change in the union relations score from one year prior to the annual meeting to one year and two years after the annual meeting. Across all unionized observations, the mean union relations score in year -1 is -0.04 and the standard deviation is 0.42. The mean change in union relations score ranging from -1 to +1 is -0.01, and the standard deviation is 0.24. ***, **, * indicate the results of a two-sided t-test for differences in means (or percentage positive or negative) of target firms that ignore the proposal versus those that comply with the proposal. The test is conducted separately within each proposal sponsor category.

	Conflicted LUPF sponsor						**Non-Conflicted sponsor**			
	Conflicted LUPF sponsor ALL		**Conflicted LUPF sponsor Compensation**		**Conflicted LUPF sponsor Exact union match**		**Non-Conflicted sponsor ALL**		**PPF sponsor**	
	Ignore	Comply	Ignore	Comply	Ignore	Comply	Ignore	Comply	Ignore	Comply
Year -1										
Level	-0.105 [86]	-0.200 [35]	-0.16 [25]	-0.19 [21]	0.000 [27]	-0.188 [16]	0.01 [229]	-0.054 [37]	-0.067 [15]	0.000 [4]
% negative	12.79	22.86	24.00	23.81	7.41	18.75	8.30	13.51	6.67	0.00
% positive	2.33	2.86	8.00	4.76	7.41	0.00	9.17	8.11	0.00	0.00
Changes										
Change -1 to 1	-0.086 [81]	0.029* [34]	-0.087 [23]	0.00 [21]	-0.040 [25]	0.067 [15]	-0.009 [222]	.0556 [36]	0.071 [14]	0.000 [3]
Change -1 to +2	-0.083 [72]	0.071* [28]	-0.091 [22]	0.056 [18]	-0.130 [23]	0.167** [12]	-0.043 [209]	0.000 [33]	0.000 [14]	0.000 [3]
Change -1 to +2 (% worsening)	12.50	3.57	13.64	5.56	13.04	0.00	6.22	12.12	7.14	0.00
Change -1 to +2 (% improving)	4.17	10.71	4.54	11.11	0.00	16.67**	1.91	12.12***	7.14	0.00

Table 3. Univariate analysis of the net change in external directorships

Panel A. T-tests for differences in the net change in directorships for directors at firms that comply versus for directors at firms that ignore the activist, by sponsor type

Panel A reports two-sided t-test results for differences in the mean level or change in external directorships between comply and ignore for each subgroup (e.g., Conflicted LUPF comply versus Conflicted LUPF ignore), where ***, **, * indicate the difference is significant at the 1%, 5%, and 10% levels. Conflicted Barely Pass comply means are compared to means for Conflicted Barely Pass ignore and, separately, to means for Conflicted Barely Fail. The magnitude of the difference across these two pairs is similar, and the statistical significance is the same regardless of the comparison group. Barely Pass indicates greater than 50% to 55% votes in favor, while Barely Fail indicates 45% to 50% votes in favor. N is reported in parentheses. The number of directorships in year 0 includes only external directorships (i.e., does not count being a director in the target firm as a directorship), and directors of target firms that are acquired or bankrupt are included. The sample includes only non-insider directors with one or more external directorships.

	Level	**Net Change**		
	Year 0	**Year (0 to 1)**	**Year (0 to 2)**	**Year (0 to 3)**
All majority approved proposal firms:	2.25	-0.201	-0.409	-0.581
	(3710)	(3695)	(3687)	(3676)
Conflicted LUPF sponsor (comply):	2.24	-0.281	-0.567**	-0.852***
	(218)	(217)	(217)	(216)
Conflicted LUPF sponsor (ignore):	2.26	-0.192	-0.395	-0.490
	(529)	(527)	(527)	(527)
Conflicted LUPF sponsor	2.42*	-0.280	-0.636	-1.000***
Compensation (comply):	(144)	(143)	(143)	(142)
Conflicted LUPF sponsor	2.16	-0.287	-0.506	-0.494
Compensation (ignore):	(166)	(164)	(164)	(164)
Conflicted LUPF sponsor	2.36	-0.274	-0.736**	-1.085***
Exact union match (comply):	(107)	(106)	(106)	(106)
Conflicted LUPF sponsor	2.16	-0.149	-0.468	-0.578
Exact union match (ignore):	(155)	(154)	(154)	(154)
Conflicted LUPF sponsor	2.08	-0.158	-0.395	-0.895**
Barely Pass (comply):	(38)	(38)	(38)	(38)
Conflicted LUPF sponsor	2.15	-0.123	-0.311	-0.459
Barely Pass (ignore):	(123)	(122)	(122)	(122)
Conflicted LUPF sponsor	2.30	-0.166	-0.229	-0.390
Barely Fail (non-majority approved):	(N=148)	(N=145)	(N=140)	(N=136)
Non-conflicted sponsors (comply):	2.19	-0.172	-0.272***	-0.399***
	(420)	(418)	(416)	(416)
Non-conflicted sponsors (ignore):	2.26	-0.201	-0.421	-0.607
	(2527)	(2517)	(2511)	(2501)
Non-conflicted LUPF sponsor (comply):	1.92	-0.333*	-0.277	-0.277
	(48)	(48)	(47)	(47)
Non-conflicted LUPF sponsor (ignore):	2.05	-0.138	-0.303	-0.448
	(402)	(398)	(396)	(393)
PPF sponsor (comply):	2.43	0.155***	-0.069**	-0.534
	(58)	(58)	(58)	(58)
PPF sponsor (ignore):	2.40	-0.271	-0.479	-0.824
	(167)	(166)	(165)	(165)

Table 3. Univariate analysis of the net change in external directorships

Panel B. T-tests for differences in the net change in directorships for year (0 to 3) across sponsor type subsample and firm response.

Panel B reports two-sided t-test results for differences in the mean change in external directorships for year (0 to 3) between each Conflicted LUPF sample and each Non-conflicted sponsor sample from Panel A by same and different firm response. The net change in external directorships is presented for each sample, and p-values are presented for each pairing. Same firm response (e.g., Conflicted LUPF comply, Non-conflicted comply) is shaded. Different firm response (e.g., Conflicted LUPF comply, Non-conflicted ignore) is not shaded.

		Comply			**Ignore**		
		Non-conflicted ALL (-0.399)	Non-conflicted LUPF (-0.277)	PPF (-0.399)	**Non-conflicted ALL (-0.607)**	Non-conflicted LUPF (-0.448)	PPF (-0.824)
Comply	**Conflicted LUPF (-0.852)**	.00	.00	.09	.01	.00	.83
	Compensation (-1.000)	.00	.00	.03	.00	.00	.23
	Exact union match (-1.085)	.00	.00	.01	.00	.00	.10
Ignore	**Conflicted LUPF (-0.490)**	.26	.27	.80	.06	.63	.00
	Compensation (-0.494)	.39	.29	.84	.28	.70	.02
	Exact union match (-0.578)	.11	.13	.82	.79	.28	.07

Table 4. Analysis of the net change in external directorships, and lost or gained directorships for directors following a majority approved proposal

Panel A contains estimates from an OLS regression of the change in external directorships from year 0 to year +2 or year 0 to year +3 for a sample of outside directors of target firms with a majority approved proposal. Panel B contains probit regression estimates of the probability that an outside director experiences a net loss or net gain in external directorships within three years of the annual meeting of the majority approved proposal. Indicator variables are included to identify each sponsor type and firm response combination. The omitted category is Conflicted LUPF target firm directors where the firm ignored the activist request. Director characteristics are measured in year 0 and are from the IRRC (now ISS) director database, or if missing, from proxy statements. Directors of target firms that are acquired or bankrupt are included. Directors who die before the next annual meeting are set to missing. P-values, reflecting robust standard errors corrected for firm-level clustering, are in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels.

Table 4. Analysis of the net change in external directorships, and lost or gained directorships for directors following a majority approved proposal (continued)
Panel A. Analysis of the net change in external directorships for directors following a majority approved proposal

	Net change in the number of directorships		Net change in the number of directorships		Net change in the number of directorships	
	(0 to +2)	**(0 to +3)**	**(0 to +2)**	**(0 to +3)**	**(0 to +2)**	**(0 to +3)**
	(1)	(2)	(3)	(4)	(5)	(6)
Comply with Conflicted LUPF	-0.13	-0.34**				
	(0.195)	(0.014)				
Comply with Conflicted LUPF * Compensation			-0.13	-0.40**		
			(0.289)	(0.021)		
Comply with Conflicted LUPF * Non-compensation			-0.12	-0.21		
			(0.275)	(0.151)		
Comply with Conflicted LUPF * Exact union match					-0.24*	-0.49**
					(0.066)	(0.011)
Comply with Conflicted LUPF * Non-exact union match					-0.01	-0.18
					(0.895)	(0.191)
Comply with Non-conflicted LUPF	-0.00	-0.03	-0.00	-0.03	-0.00	-0.02
	(0.970)	(0.848)	(0.970)	(0.848)	(0.981)	(0.863)
Comply with PPF	0.37**	0.02	0.37**	0.02	0.38**	0.03
	(0.013)	(0.895)	(0.013)	(0.890)	(0.012)	(0.876)
Comply with Other sponsor	0.06	0.04	0.06	0.04	0.07	0.04
	(0.464)	(0.643)	(0.464)	(0.644)	(0.457)	(0.631)
Ignore Non-conflicted LUPF	0.05	-0.08	0.05	-0.07	0.06	-0.07
	(0.557)	(0.470)	(0.557)	(0.474)	(0.537)	(0.487)
Ignore PPF	-0.06	-0.30*	-0.06	-0.30*	-0.06	-0.29*
	(0.599)	(0.055)	(0.600)	(0.055)	(0.608)	(0.057)
Ignore Other sponsor	-0.04	-0.15*	-0.04	-0.15*	-0.04	-0.15*
	(0.571)	(0.054)	(0.572)	(0.054)	(0.576)	(0.055)
Director age 65 to 69	-0.30***	-0.51***	-0.30***	-0.51***	-0.30***	-0.51***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Director age >= 70	-0.67***	-0.77***	-0.67***	-0.76***	-0.67***	-0.76***

	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Director tenure	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
	(0.268)	(0.752)	(0.267)	(0.747)	(0.259)	(0.740)
Number of external directorships	-0.24***	-0.36***	-0.24***	-0.36***	-0.24***	-0.36***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Director is gray	-0.04	-0.15*	-0.04	-0.15*	-0.04	-0.15*
	(0.583)	(0.079)	(0.584)	(0.081)	(0.552)	(0.070)
Director is female	0.07	0.01	0.07	0.01	0.07	0.01
	(0.200)	(0.887)	(0.200)	(0.879)	(0.201)	(0.891)
Director is on compensation committee	0.05	0.04	0.05	0.04	0.05	0.03
	(0.234)	(0.453)	(0.235)	(0.459)	(0.247)	(0.475)
Director is on audit committee	0.05	0.12**	0.05	0.12**	0.05	0.12**
	(0.297)	(0.042)	(0.297)	(0.041)	(0.296)	(0.041)
Director is on nominating committee	0.03	0.05	0.03	0.05	0.03	0.04
	(0.539)	(0.362)	(0.539)	(0.353)	(0.547)	(0.371)
Director chairs a committee	-0.07	-0.08	-0.07	-0.08	-0.07	-0.08
	(0.155)	(0.230)	(0.156)	(0.237)	(0.159)	(0.234)
Market capitalization, year -1	-0.02	-0.01	-0.02	-0.01	-0.02	-0.01
	(0.257)	(0.610)	(0.259)	(0.628)	(0.279)	(0.652)
Leverage, year -1	-0.16	-0.26	-0.16	-0.25	-0.15	-0.24
	(0.301)	(0.238)	(0.302)	(0.250)	(0.337)	(0.266)
Percentage institution ownership	-0.46***	-0.60***	-0.46***	-0.61***	-0.45***	-0.59***
	(0.006)	(0.006)	(0.006)	(0.005)	(0.007)	(0.006)
Market-adjusted stock return, year -1 to 0	0.02	0.08	0.02	0.08	0.02	0.07
	(0.751)	(0.362)	(0.751)	(0.365)	(0.823)	(0.412)
Market-adjusted stock return, year 0 to +2	-0.03	-0.02	-0.03	-0.02	-0.03	-0.03
(or year 0 to +3 for 3-year change)	(0.422)	(0.480)	(0.424)	(0.476)	(0.358)	(0.422)
Constant	0.78***	1.01***	0.78***	1.01***	0.76***	0.99***
	(0.004)	(0.003)	(0.004)	(0.003)	(0.004)	(0.004)
Observations	3498	3487	3498	3487	3498	3487
Adjusted R^2	0.16	0.24	0.16	0.24	0.16	0.24

Table 4. Analysis of the net change in external directorships, and lost or gained directorships for directors following a majority approved proposal (continued)
Panel B. Probit analysis of the directorship loss and directorship gain following a majority approved proposal

	Directorship Loss			Directorship Gain		
	(0 to +3)	(0 to +3)	(0 to +3)	(0 to +3)	(0 to +3)	(0 to +3)
	(1)	(2)	(3)	(4)	(5)	(6)
Comply with Conflicted LUPF	0.25*			-0.37**		
	(0.089)			(0.027)		
Comply with Conflicted LUPF * Compensation		0.24			-0.44*	
		(0.166)			(0.055)	
Comply with Conflicted LUPF * Non-compensation		0.29			-0.27	
		(0.149)			(0.217)	
Comply with Conflicted LUPF * Exact union match			0.43**			-0.51**
			(0.032)			(0.015)
Comply with Conflicted LUPF * Non-exact union match			0.09			-0.27
			(0.603)			(0.243)
Comply with Non-conflicted LUPF	-0.04	-0.04	-0.04	0.09	0.09	0.09
	(0.798)	(0.797)	(0.788)	(0.585)	(0.587)	(0.576)
Comply with PPF	0.10	0.10	0.10	0.19*	0.19*	0.19*
	(0.666)	(0.665)	(0.678)	(0.088)	(0.086)	(0.086)
Comply with Other sponsor	-0.07	-0.07	-0.07	0.13	0.13	0.13
	(0.564)	(0.563)	(0.557)	(0.326)	(0.327)	(0.321)
Ignore Non-conflicted LUPF	0.12	0.12	0.12	0.11	0.11	0.11
	(0.267)	(0.266)	(0.276)	(0.390)	(0.388)	(0.381)
Ignore PPF	0.25	0.25	0.25	-0.24	-0.24	-0.24
	(0.147)	(0.147)	(0.152)	(0.200)	(0.201)	(0.203)
Ignore Other sponsor	0.04	0.04	0.04	-0.11	-0.11	-0.11
	(0.664)	(0.664)	(0.668)	(0.252)	(0.253)	(0.255)
Director age 65 to 69	0.42***	0.42***	0.42***	-0.46***	-0.46***	-0.46***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Director age >= 70	0.75***	0.75***	0.74***	-0.80***	-0.80***	-0.80***
	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)	(0.001)

Director tenure	-0.00	-0.00	-0.00	-0.02*	-0.02*	-0.02*
	(0.854)	(0.852)	(0.877)	(0.070)	(0.070)	(0.070)
Number of external directorships	0.31***	0.31***	0.31***	-0.14***	-0.14***	-0.14***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Director is gray	0.19**	0.19**	0.19**	-0.18	-0.18	-0.18
	(0.032)	(0.032)	(0.028)	(0.150)	(0.154)	(0.143)
Director is female	-0.16*	-0.16*	-0.16*	-0.06	-0.06	-0.06
	(0.069)	(0.070)	(0.070)	(0.535)	(0.538)	(0.534)
Director is on compensation committee	-0.05	-0.05	-0.04	0.04	0.04	0.04
	(0.376)	(0.374)	(0.397)	(0.612)	(0.614)	(0.622)
Director is on audit committee	-0.05	-0.05	-0.05	0.05	0.05	0.05
	(0.452)	(0.454)	(0.448)	(0.527)	(0.519)	(0.522)
Director is on nominating committee	-0.11*	-0.11*	-0.11*	0.12*	0.12*	0.12*
	(0.091)	(0.091)	(0.093)	(0.081)	(0.080)	(0.083)
Director chairs a committee	0.07	0.07	0.07	-0.08	-0.07	-0.07
	(0.275)	(0.273)	(0.291)	(0.397)	(0.404)	(0.401)
Market capitalization, year -1	0.01	0.01	0.00	-0.05*	-0.05*	-0.05*
	(0.845)	(0.839)	(0.893)	(0.059)	(0.063)	(0.064)
Leverage, year -1	0.17	0.17	0.15	-0.30	-0.29	-0.29
	(0.467)	(0.461)	(0.505)	(0.281)	(0.291)	(0.293)
Percentage institution ownership	0.84***	0.84***	0.84***	-0.56**	-0.56**	-0.55**
	(0.002)	(0.002)	(0.002)	(0.047)	(0.045)	(0.048)
Market-adjusted stock return, year -1 to 0	-0.14	-0.14	-0.13	0.03	0.03	0.02
	(0.116)	(0.116)	(0.143)	(0.771)	(0.762)	(0.816)
Market-adjusted stock return, year 0 to +3	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03
	(0.404)	(0.404)	(0.442)	(0.459)	(0.460)	(0.441)
Constant	-1.36***	-1.37***	-1.35***	0.33	0.33	0.32
	(0.001)	(0.001)	(0.001)	(0.390)	(0.397)	(0.405)
Observations	3487	3487	3487	3487	3487	3487
Pseudo R^2	0.107	0.107	0.108	0.066	0.066	0.066

Table 5. Withdrawn LUPF and PPF shareholder proposals (1996-2004)
Panel A. Descriptive statistics by sponsor type and proposal topic

Shareholder proposals that are withdrawn by LUPFs or PPFs are identified from IRRC. SEC filings and press releases are searched to identify the reason a shareholder proposal is classified as withdrawn by IRRC. Proposals that are classified as withdrawn for technical reasons as opposed to sponsor satisfaction with firm response (e.g., the sponsor sells their shares or the requested provision is already in place) are excluded from the sample. IRRC and Georgeson proxy season lists are used to determine if a firm with a withdrawn proposal has a shareholder proposal voted on during the same year as a proposal is withdrawn. Proposal sponsors are classified as either a "Conflicted LUPF" or a "Non-conflicted" sponsor. The Conflicted LUPF category includes labor union pension fund (LUPF) sponsors at firms where at least some of the target company's employees are under a collective bargaining agreement. Within Conflicted LUPF sponsors, the Exact union match category includes sponsors where the LUPF sponsor name and the union representing workers at the firm are the same (e.g., Sheet Metal Workers sponsors a proposal at a firm where Sheet Metal Workers represents workers). Eleven observations are classified as exact union match where AFL-CIO sponsors a proposal where an AFL-CIO member union represents workers at the firm. We obtain information on the specific unions at proposal firms from either the 10-k filing on EDGAR or F-7 filings reported on the U.S. Department of Federal Mediation and Conciliatory Service (FMCS) website. Non-conflicted sponsors include LUPF sponsors at non-unionized firms and public pension fund (PPF) sponsors. Proposal topics include 1) remove or vote on poison pill or remove the staggered board, 2) implement, change or vote on executive compensation (includes expense stock options at time of grant and vote on golden parachutes, pension benefits, and executive compensation structure), and 3) Other (e.g., in addition to those included in the majority approved sample, requests for reports on directors' or strategic plan, limit consulting by auditor, and allow shareholder director nominees). We obtain data on union relations from the KLD SOCRATES database (now called MSCI ESG STATS). The union relations score is computed as Union Relations Strengths minus Union Relations Concerns. Each calendar year-end KLD assigns a score of either 0 or 1 based on their analysts' review of company news, filings, or other public sources. Union Relations Strength =1 if "the company has taken exceptional steps to treat its unionized workforce fairly," and =0 otherwise. Union Relations Concerns = 1 if "the company has a history of notably poor union relations," and = 0 otherwise. Thus, the union relations score has a minimum of -1 (poor relations) and a maximum of 1 (excellent relations), and we report summary statistics only for the unionized target firms, as non-unionized firms would all have scores of 0. We have union relations data for 244 of 250 conflicted LUPF proposals. Full compliance equals one when the withdrawn proposal is implemented (e.g., sponsor requests that the firm expense options and the firm subsequently adopts this practice within one year) and equals zero, otherwise. Observable response equals one if full compliance equals one or some other management response is identified (e.g., no measurable implementation but LUPF reports as "settled" or union sponsor reported to have accepted willingness of CEO to have discussions and explain policy) and equals zero, otherwise. Concurrent voted proposal equals one when a firm has a voted shareholder proposal during the same proxy season a proposal is withdrawn and equals zero, otherwise. ***, **, * indicate the results of a two-sided t-test at the 1%, 5%, and 10% level for differences in means of targets in a particular Conflicted (Non-conflicted) sponsor column to that of targets in the Non-conflicted (Conflicted) All sponsor column (e.g., mean full compliance rate of targets of Non-conflicted PPF sponsors relative to that of targets of ALL Conflicted LUPF sponsors) or differences in means between targets in a particular proposal topic group and targets in all other proposal topic groups.

Table 5. Withdrawn LUPF and PPF shareholder proposals (1996-2004) (continued)
Panel A. Descriptive statistics by sponsor type and proposal topic

	Sponsor Type							Proposal Type		
	Conflicted LUPF sponsors			Non-conflicted sponsors						
	Conflicted ALL	Compensation	Non-Compensation	**Non-conflicted ALL**	LUPF (non-unionized firm)	PPF		Poison Pill or Staggered Board	Compensation	Other
Number of proposals	**250**	66	184	**204**	155	49		64	126	264
Conflicted LUPF%	**100.0**	100.0	100.0	**0.0**	0.0	0.0		60.9	52.4	54.9
Exact union match%	**31.2**	39.4	28.3	**NA**	NA	NA		29.7***	20.6	12.5***
Union relations score	**-0.06**	-0.10	-0.05	**NA**	NA	NA		-0.05	-0.10	-0.05
Full compliance%	**32.8**	27.3	34.8	**36.8**	33.5	46.9*		20.3***	30.2	40.2***
Observable response%	**76.8**	81.8	75.0	**77.9**	79.4	73.5		39.1***	77.0	86.7***
Concurrent voted proposal%	**31.6**	47.0**	26.1	**26.5**	28.4	20.4		18.8	40.5	26.5

Table 5. Withdrawn LUPF and PPF shareholder proposals (1996-2004) (continued)
Panel B. Univariate analysis of the net change in external directorships

Panel B reports two-sided t-test results for differences in the mean level or change in external directorships. The mean values for the Conflicted LUPF sponsor ALL group and the Conflicted subgroups are each compared to the corresponding mean values for the Non-conflicted LUPF & PPF sponsor ALL group. The mean values for the Non-conflicted LUPF & PPF sponsor ALL group and the Non-conflicted subgroups are each compared to the corresponding mean values for the Conflicted LUPF sponsor ALL group. ***, **, * indicate significance at the 1%, 5%, and 10% level. N is given in parentheses. The bottom section holds the sponsor (The United Brotherhood of Carpenters and Joiners of America, UBCJA, and proposal topic, Compensation, constant but allows the stakeholder conflict to vary (i.e., Conflicted when target firm is unionized but Non-conflicted when target firm is non-unionized). The final two rows present the difference in means between the mean level or change in external directorships for the two UBCJA subsamples for the same period.

	Year 0	**(Year 0 to 1)**	**(Year 0 to 2)**	**(Year 0 to 3)**
All LUPF & PPF withdrawn proposals:	2.32 (3078)	-0.21 (2937)	-0.36 (2772)	-0.43 (2613)
Conflicted LUPF sponsor ALL:	2.29 (1844)	-0.20 (1781)	-0.34 (1683)	-0.42 (1591)
Conflicted LUPF sponsor Compensation:	2.52* (511)	-0.27 (499)	-0.46 (484)	-0.66*** (457)
Conflicted LUPF sponsor Compensation Concurrent voted proposal:	2.47 (244)	-0.29 (240)	-0.54** (237)	-0.72*** (229)
Conflicted LUPF sponsor Compensation Full compliance:	2.49 (157)	-0.29 (152)	-0.58** (146)	-0.72** (139)
Conflicted LUPF sponsor Exact union match:	2.41 (587)	-0.18 (563)	-0.32 (535)	-0.44 (508)
Conflicted LUPF sponsor No exact union match:	2.24* (1257)	-0.22 (1218)	-0.36 (1148)	-0.41 (1083)
Non-conflicted LUPF & PPF sponsor ALL:	2.35 (1234)	-0.22 (1156)	-0.38 (1089)	-0.43 (1022)
Non-conflicted LUPF sponsor:	2.43** (1012)	-0.22 (946)	-0.40 (902)	-0.43 (853)
PPF sponsor:	1.95*** (222)	-0.20 (210)	-0.31 (187)	-0.45 (169)
Non-conflicted compensation:	2.29 (356)	-0.25 (330)	-0.38 (311)	-0.46 (281)
UBCJA withdrawn proposals:	2.42 (275)	-0.28 (254)	-0.49 (243)	-0.62 (230)
UBCJA Conflicted Compensation:	2.47 (137)	-0.32 (133)	-0.57 (128)	-0.84*** (123)
UBCJA Non-conflicted Compensation:	2.37 (138)	-0.24 (121)	-0.40 (115)	-0.36 (107)

Table 5. Withdrawn LUPF and PPF shareholder proposals (1996-2004) (continued)
Panel C. Multivariate analysis of net change in external directorships

The omitted category in Columns (1) and (2) is directors at firms where a Non-conflicted LUPF or PPF sponsor withdraws any proposal. The omitted category in Columns (3) – (8) is directors at firms where a Non-conflicted LUPF or PPF sponsor withdraws any proposal or a Conflicted LUPF withdraws a non-compensation proposal.

	Net Change in Directorships							
	(0 to +2)	**(0 to +3)**	**(0 to +2)**	**(0 to +3)**	**(0 to +2)**	**(0 to +3)**	**(0 to +2)**	**(0 to +3)**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Conflicted LUPF * Compensation	-0.03	-0.18**						
	(0.681)	(0.040)						
Conflicted LUPF * Non-compensation	0.05	0.05						
	(0.313)	(0.446)						
Conflicted LUPF * Compensation *			-0.11	-0.28**				
Voted shareholder proposal			(0.203)	(0.015)				
Conflicted LUPF * Compensation *			-0.01	-0.14				
No voted shareholder proposal			(0.883)	(0.118)				
Conflicted LUPF * Compensation *					-0.22**	-0.28***		
Full compliance					(0.021)	(0.007)		
Conflicted LUPF * Compensation *					0.01	-0.18**		
Non-full compliance					(0.895)	(0.046)		
Conflicted LUPF * Exact union match							0.09	-0.01
							(0.169)	(0.867)
Conflicted LUPF * No exact union match							0.00	-0.01
							(0.972)	(0.848)
No voted shareholder proposal	0.13**	0.10	0.11*	0.08	0.13**	0.11	0.13**	0.13*
	(0.038)	(0.140)	(0.093)	(0.277)	(0.032)	(0.131)	(0.024)	(0.065)
Director age 65 to 69	-0.23***	-0.43***	-0.23***	-0.42***	-0.22***	-0.42***	-0.23***	-0.43***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Director age >= 70	-0.55***	-0.43**	-0.55***	-0.43**	-0.56***	-0.43**	-0.56***	-0.44**
	(0.000)	(0.019)	(0.000)	(0.017)	(0.000)	(0.018)	(0.000)	(0.014)
Director tenure	-0.00	0.00	-0.00	0.00	-0.00	0.00	-0.00	0.00
	(0.777)	(0.994)	(0.780)	(0.991)	(0.800)	(0.970)	(0.782)	(0.954)
Number of external directorships	-0.23***	-0.33***	-0.23***	-0.33***	-0.23***	-0.33***	-0.23***	-0.33***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

Director chairs a committee	0.10	0.07	0.09	0.07	0.09	0.07	0.10	0.07
	(0.178)	(0.283)	(0.190)	(0.301)	(0.192)	(0.317)	(0.170)	(0.293)
Market capitalization, year -1	-0.01	0.02	-0.01	0.02	-0.00	0.02	-0.01	0.02
	(0.644)	(0.380)	(0.711)	(0.327)	(0.802)	(0.314)	(0.536)	(0.493)
Leverage, year -1	0.13	0.49**	0.19	0.55**	0.18	0.54**	0.12	0.53**
	(0.525)	(0.047)	(0.354)	(0.019)	(0.380)	(0.024)	(0.551)	(0.034)
Market-adjusted stock return, year -1 to 0	0.04	0.06	0.04	0.06	0.04	0.06	0.03	0.04
	(0.610)	(0.473)	(0.599)	(0.462)	(0.588)	(0.466)	(0.640)	(0.602)
Market-adjusted stock return, year 0 to +2	-0.10**	-0.07*	-0.10**	-0.07*	-0.10**	-0.07*	-0.09**	-0.07*
(or year 0 to +3 for 3-year change)	(0.036)	(0.060)	(0.035)	(0.062)	(0.035)	(0.065)	(0.046)	(0.069)
Constant	0.23	0.11	0.25	0.13	0.21	0.10	0.25	0.14
	(0.240)	(0.646)	(0.210)	(0.587)	(0.275)	(0.672)	(0.192)	(0.574)
Observations	2680	2525	2680	2525	2680	2525	2680	2525
Adjusted R^2	0.14	0.19	0.14	0.19	0.14	0.19	0.14	0.19

Table 5. Withdrawn UBCJA LUPF shareholder proposals (1996-2004) (continued)
Panel D. Multivariate analysis of net change in external directorships

The sample includes only proposals withdrawn by the United Brotherhood of Carpenters and Joiners of America (UBCJA). The omitted category in Columns (1) and (2) is directors at firms where UBCJA withdraws a proposal at a non-unionized firm (i.e., non-conflicted LUPF withdrawn). The omitted category in Columns (3) – (8) is directors at firms where UBCJA withdraws a proposal at a non-unionized firm (i.e., non-conflicted LUPF withdrawn) or UBCJA withdraws a non-compensation proposal at a unionized firm (i.e., conflicted LUPF Non-compensation withdrawn).

	Net Change in Directorships							
	(0 to +2)	**(0 to +3)**	**(0 to +2)**	**(0 to +3)**	**(0 to +2)**	**(0 to +3)**	**(0 to +2)**	**(0 to +3)**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Conflicted LUPF * Compensation	-0.10	-0.37***						
	(0.315)	(0.006)						
Conflicted LUPF * Non-compensation	0.21**	0.08						
	(0.020)	(0.455)						
Conflicted LUPF * Compensation *			-0.28*	-0.46***				
Voted shareholder proposal			(0.069)	(0.007)				
Conflicted LUPF * Compensation *			-0.10	-0.34				
No voted shareholder proposal			(0.532)	(0.146)				
Conflicted LUPF * Compensation *					-0.39***	-0.54***		
Full compliance					(0.000)	(0.000)		
Conflicted LUPF * Compensation *					-0.15	-0.37**		
Non-full compliance					(0.225)	(0.019)		
Conflicted LUPF * Exact union match							0.29	0.00
							(0.148)	(0.979)
Conflicted LUPF * No exact union match							0.07	-0.09
							(0.395)	(0.418)
No voted shareholder proposal	0.08	0.12	0.07	0.11	0.11	0.14	0.14	0.22**
	(0.334)	(0.231)	(0.490)	(0.303)	(0.221)	(0.187)	(0.119)	(0.041)
Director age 65 to 69	-0.14*	-0.46***	-0.12*	-0.45***	-0.13*	-0.45***	-0.13*	-0.46***
	(0.052)	(0.000)	(0.097)	(0.000)	(0.086)	(0.000)	(0.082)	(0.000)
Director age >= 70	-0.48**	-0.30	-0.50***	-0.31	-0.50***	-0.32	-0.50***	-0.36
	(0.011)	(0.418)	(0.010)	(0.397)	(0.009)	(0.395)	(0.008)	(0.339)
Director tenure	0.00	0.01	0.00	0.01	0.00	0.01	0.00	0.01
	(0.451)	(0.432)	(0.466)	(0.433)	(0.433)	(0.422)	(0.466)	(0.438)

Number of external directorships	-0.20***	-0.29***	-0.20***	-0.30***	-0.21***	-0.30***	-0.20***	-0.30***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Director chairs a committee	0.05	0.11	0.04	0.11	0.04	0.11	0.05	0.11
	(0.622)	(0.344)	(0.678)	(0.348)	(0.687)	(0.362)	(0.567)	(0.343)
Market capitalization, year -1	-0.04	0.05	-0.03	0.06	-0.03	0.06	-0.04	0.06
	(0.182)	(0.283)	(0.348)	(0.230)	(0.404)	(0.219)	(0.215)	(0.310)
Leverage, year -1	0.04	0.61*	0.21	0.69**	0.22	0.69**	-0.03	0.64
	(0.892)	(0.062)	(0.508)	(0.033)	(0.514)	(0.037)	(0.920)	(0.103)
Market-adjusted stock return, year -1 to 0	-0.06	-0.12	-0.06	-0.12	-0.06	-0.11	-0.07	-0.15
	(0.534)	(0.293)	(0.533)	(0.306)	(0.575)	(0.327)	(0.439)	(0.247)
Market-adjusted stock return, year 0 to +2	-0.09	-0.11*	-0.09	-0.11*	-0.09	-0.11*	-0.07	-0.09
(or year 0 to +3 for 3-year change)	(0.210)	(0.061)	(0.224)	(0.069)	(0.218)	(0.065)	(0.311)	(0.116)
Constant	0.47	-0.33	0.42	-0.36	0.37	-0.39	0.39	-0.41
	(0.139)	(0.475)	(0.180)	(0.438)	(0.252)	(0.412)	(0.203)	(0.447)
Observations	695	658	695	658	695	658	695	658
Adjusted R^2	0.12	0.18	0.12	0.18	0.12	0.18	0.12	0.17

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