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Corporate Governance Objectives of Labor Union Shareholders: Evidence from Proxy Voting

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Abstract

Labor union pension funds have become increasingly vocal in governance matters; however, their motives are subject to fierce debate. I examine the proxy votes of AFL-CIO union funds around an exogenous change in the union representation of workers across firms. AFL-CIO affiliated shareholders become significantly less opposed to directors once the AFL-CIO labor organization no longer represents a firm's workers. Other institutional investors, including mutual funds and public pension funds, do not exhibit similar voting behavior. Union opposition is also associated with negative valuation effects. The data suggest that some investors pursue worker interests, rather than maximize shareholder value alone.

JEL Classification Codes: J51, G30, G32, G34, G38, K22

Labor union pension funds, particularly those affiliated with the AFL-CIO, have come under scrutiny for their proxy votes in corporate director elections. Critics argue that union pension funds use their votes to pursue worker interests under the guise of increasing shareholder value. For example, in response to the AFL-CIO's calls to overhaul Safeway's board in 2004, Safeway Vice President Brian Dowling claimed:

Union leadership has threatened to attack Safeway CEO Steve Burd and individual members of Safeway's board as a pressure tactic to get better results during labor negotiations, and these union-backed pension funds are carrying through on that threat. – Safeway Proxy Materials, March 25, 2004

Union leaders, however, counter that their main goal is to protect pension assets:

Irresponsible directors must be removed to rein in excessive CEO pay that ultimately robs working families of their retirement security.
– Richard Trumka, AFL-CIO Secretary-Treasurer, Press Release, April 15, 2004

Empirically distinguishing amongst the potential motivations of institutional investors, such as union pension funds, is complicated because worker gains are often in line with equity value gains. The identification of shareholder preferences requires a setting in which institutional investors' labor interests vary independently of factors that affect shareholder value.

This paper exploits a natural experiment to test whether the proxy votes of union pension funds, an important class of institutional investors, are motivated by union labor interests rather than equity value maximization alone. In 2005, the AFL-CIO (the central federation of labor unions in the United States) split into two groups due in part to power struggles within its leadership (Chaison 2007). The AFL-CIO membership significantly contracted when several of its member unions left to form a new organization — called the Change To Win (CTW) Coalition. Consequently, the union affiliation of workers across many companies immediately switched from the AFL-CIO to the CTW. I examine the effects of this change on the proxy votes cast by AFL-CIO affiliated pension funds at annual director elections of U.S. corporations before and after the breakup of the AFL-CIO organization.¹ I compare the funds' votes at firms where workers become significantly less represented by the AFL-CIO with the funds' votes at firms where worker affiliations remain unchanged.

Canonical finance theory typically assumes that shareholders only care to maximize equity value (Shleifer and Vishny 1988). A growing literature in corporate

governance, however, examines heterogeneity in the objectives of various institutional investors. For example, a number of papers examine whether mutual funds suffer from agency costs of monitoring and conflicts of interest when casting proxy votes in director elections (Rothberg and Lilian 2006; Davis and Kim 2007; Matvos and Ostrovsky 2010). Others study whether public pension funds pursue political objectives at the expense of shareholder value (Romano 1993; Del Guercio and Hawkins 1999; Woidtke 2002). In contrast, this paper focuses on labor union pension funds, an important group of institutional investors that is widely considered the most vocal class of shareholder activists (Gillan and Starks 2000, 2007).²

There is mixed theoretical and empirical evidence on the motives and behavior of labor union pension funds, and in particular, whether these funds use their proxy votes to pursue union labor objectives. On one hand, Romano (2001), Bainbridge (2006), and Anabtawi and Stout (2008) argue that union pension funds cast their proxy votes in part to pursue worker objectives, rather than maximize shareholder value alone. On the other hand, Schwab and Thomas (1998) claim that union pension funds do not have the incentives to pursue such goals because of market forces and regulatory restrictions; they argue that federal rules (ERISA) governing union pension fund activities limit the ability of fund managers to use pension assets for the pursuit of nonshareholder value maximizing objectives. Consistent with this view, Prevost, Rao, and Williams (2009) and Martin and Thomas (1998) examine union-sponsored shareholder proposals and conclude that union activists do not use their shareholdings to pursue labor interests.

This paper evaluates the competing theories by presenting a novel empirical approach that uniquely identifies the preferences and impact of labor union shareholders. When a firm's unionized employees are no longer represented by the AFL-CIO, the AFL-CIO's pension funds become significantly less opposed to the firm's directors in subsequent board elections. The observed changes are especially pronounced amongst firms that experience plant-level conflict between unions and management during union member recruitment and collective bargaining. In contrast, the voting behavior of the AFL-CIO funds does not change at firms where workers remain affiliated with the AFL-CIO or at firms in which there are no unionized employees at all. These findings suggest that union pension funds cast proxy votes in part as a means of pursuing union labor objectives, rather than maximizing shareholder value alone.

The causal interpretation of these findings is dependent upon the identifying assumption that changes in employee-union affiliation are independent of simultaneous, unobservable changes in factors that affect shareholder value (such as director quality). This assumption is supported by a number of facts. First, numerous accounts indicate that the breakup of the AFL-CIO labor organization stemmed from personal conflicts among the federation's leaders, and that the labor group's reorganization was unrelated to the characteristics of sample directors and firms held by the union pension funds (Chaison, 2007). Second, I do not find any significant differences in observable variables, such as balance sheet measures or governance characteristics of firms whose workers stay in the AFL-CIO and firms whose workers switch to the CTW Coalition.

Third, I compare the AFL-CIO funds' proxy votes with the votes cast by other large institutional investors: the mutual funds Fidelity, Vanguard, and TIAA-CREF and the public pension fund CalPERS. If there are endogenous, unobservable changes occurring at the director level, then other institutional shareholders, who have incentives to monitor these developments and maximize shareholder value, should vote accordingly.³ The evidence indicates, however, that mutual fund and public pension funds do not change their votes around the breakup of the AFL-CIO. Therefore, it is unlikely that there are endogenous changes, occurring at the director level, that drive the AFL-CIO's votes.

I also examine the voting behavior of the United Brotherhood of Carpenters and Joiners of America (UBCJA) labor union pension funds. UBCJA pension funds uniformly cast proxy votes and the aggregate size of their holdings studied in this paper is on the order of \$20 billion. The UBCJA, which was previously independent of the AFL-CIO, joined the CTW coalition on its inception in 2005. After joining the coalition, the UBCJA's funds *increase* their opposition to directors of firms that employ CTW employees by at least 22%. This evidence not only further supports the identification assumption but also suggests that the effects of worker representation on director votes are more generally consistent with the behavior of union pension funds.

I also evaluate alternative explanations for the voting behavior of AFL-CIO funds. First, I find that union voting estimates do not appear to be biased by stock selection decisions. Turnover in the AFL-CIO fund holdings does not significantly change around union reorganization. Furthermore, the findings are robust to a restricted sample of firms

that appear in the AFL-CIO portfolios both before and after the CTW formation. Second, regression estimates reject the hypothesis that changes in the AFL-CIO's votes reflect changes in private information engendered by the union breakup. Third, I show that union voting patterns are not driven by underlying changes in shareholder monitoring incentives; the results are robust to the inclusion of controls for investor monitoring activity. Fourth, I find evidence that voting estimates are not biased by reverse causality.

I then estimate the various effects of union pension fund votes on firm behavior and performance. I show that AFL-CIO opposition has a noticeable impact on election outcomes. Directors who are opposed by union funds realize significantly less aggregate support. Union disapproval appears to be costly for shareholders; firms facing reduced opposition experience significantly large increases in equity value. In contrast, pension fund opposition seems to benefit union workers by reducing the frequency of labor-management disputes during union recruiting and collective bargaining. Overall, the data illustrate ways that unions benefit from pension fund activism, even when it leads to negative effects on shareholder value.

This paper makes several contributions. The study complements a growing literature on institutional investors by presenting a novel empirical approach that identifies the preferences and effects of union shareholder activists. The findings also add to the current reform debate over shareholder access to director election ballots (Bebchuk 2005; Harris and Raviv 2010). While union pension funds may be acting in the best interests of their pension participants, some argue that giving more powers to such investors could lead to reductions in total surplus for all stakeholders.

The paper proceeds as follows. Section 1 provides institutional background, while Section 2 describes the data. Section 3 presents the empirical framework, results, and analysis. Section 4 concludes.

1. Institutional Background

During the early 1900s, the American Federation of Labor (AFL) and the Congress of Industrial Organizations (CIO) were the two preeminent labor groups in the United States. In 1955, they merged to form the AFL-CIO, representing almost all organized workers in the American private sector. The AFL-CIO currently comprises many of the major unions in the United States, such as the United Auto Workers, United

Steel Workers, International Brotherhood of Electrical Workers, etc. Each member union of the AFL-CIO has local chapters that represent employees at different workplaces. The AFL-CIO is the governing body of the unions and coordinates worker representation across the national landscape.

Labor unions engage in two types of activities that are governed by the U.S. National Labor Relations Boards (NLRB): collective bargaining (negotiating compensation and employment conditions with employers) and union member recruiting. Each of these functions is often a source of conflict between firms and labor organizations. A common collective bargaining dispute arises when an employer refuses to recognize union representatives when setting wages for its workers, as in the recent case of Shaw's Supermarkets (National Labor Relations Board 2007). Another typical dispute arises when unions attempt to recruit nonrepresented laborers into their organizations, as recent turmoil at Wal-Mart illustrates (Greenhouse 2007). When such conflicts cannot be privately resolved, a labor union or a firm may file a complaint with the NLRB, citing an Unfair Labor Practice (ULP). The NLRB will in turn mediate between the various parties to develop a resolution in accordance with federal law.⁴

While the regulations governing labor unions have remained in place since the 1930's, the size and structure of unions have changed over time. Since its peak in 1954 at approximately 25 million workers or 39.2% of the U.S. workforce, the number of organized laborers has declined to 15.4 million or 12% of the U.S. workforce in 2006 (Congressional Digest 1993; Bureau of Labor Statistics 2007). In addition to declining membership, there has been more recently a shift in union organization. On September 27, 2005, six of the largest member groups of the AFL-CIO (Teamsters, United Food and Commercial Workers, Service Employees International, UNITE HERE, United Farm Workers, and the Laborers International Union of North America) formed their own organization — the CTW Coalition — and consummated an exit from the AFL-CIO. Approximately 35% of the 13 million workers in the AFL-CIO switched to the CTW. The workers remained unionized and mostly subject to the collective bargaining agreements that were previously in place with their respective employers. The main impact of the union reorganization on these workers is that they now fell under the umbrella of a different national entity.

Accounts of the union's dissolution center around two explanations, each of which is corroborated by Chaison (2007). The most common account is that the CTW union leaders were locked in an irreconcilable power struggle with then-current AFL-CIO president John Sweeney. Sweeney even remarked, "The fact is that the real issue for these unions is not one of policy or direction, but rather who controls and leads the Federation" (AFL-CIO, 2005). A second explanation is that the CTW unions had a different organizational and strategic vision for the future of the labor movement. The CTW coalition believed the AFL-CIO focused too much of its resources on electoral politics, rather than on the organization of new workers. Teamsters President James Hoffa went so far as to say that the AFL-CIO is content with "throwing away money to politicians" (Edsall 2005). In either case, the explanations are supportive of this paper's central identification assumption: the AFL-CIO's reorganization appears unrelated to the particular characteristics of unionized companies that could affect shareholder value.

The source of exogenous variation in the union representation of workers makes union pension fund behavior a natural setting in which to examine different preferences among shareholders. Union pension funds are comprised of contributions made by both union workers and their employers. Approximately 46% of all union pension assets are invested in domestic equities as of September 30, 2006 (Appell 2007). Ownership of voting shares in a U.S. publicly traded company gives shareholders the right to cast votes in the company's corporate elections. Like mutual funds and public pension funds, union funds will act as a "proxy" for individual pension fund participants and cast votes on their behalf; hence, the term proxy voting.

There are thousands of union pension funds with various sources of capital, such as independent laborers, like contractors, electricians, plumbers, etc., and corporate employees of blue-chip companies. Though union funds range widely in size and sources of capital, many funds affiliated with the same umbrella organization synchronize their proxy voting decisions by employing a third-party fiduciary to administer their votes. These fiduciaries cast votes in consultation with the head officers of the umbrella labor organization under which the individual union funds are associated, such as the AFL-CIO Office of Investment.⁵

Marco Consulting, one of the largest proxy voting services in the United States, is an example of one such third-party fiduciary (G.A.O. 2007). During the sample period

studied in this paper, Marco Consulting follows proxy voting guidelines established by the AFL-CIO and uniformly casts proxy votes across hundreds of AFL-CIO affiliated union pension funds, including the ones studied in this paper. For example, in a director election for Boeing, Marco Consulting casts identical votes for all AFL-CIO affiliated funds it manages that hold Boeing shares. According to Marco Consulting, the aggregate size of AFL-CIO affiliated pension funds that invest in the firms studied in this paper is on the order of \$100 billion in assets. ProxyVote Plus is another fiduciary that manages proxy votes for numerous pension funds belonging to the UBCJA. ProxyVote Plus also communicates with union fund officials and uniformly votes across many UBCJA pension funds. According to ProxyVote Plus, the aggregate size of the UBCJA holdings studied in this paper is on the order of \$20 billion in assets.

The AFL-CIO's role in corporate elections is noteworthy for several reasons. AFL-CIO union pension funds are some of the most involved shareholder activists, among all classes of investors that participate in elections (Gillan and Starks 2007). In 2006, union funds submitted 295 out of 699 shareholder plans at U.S. publicly traded corporations, while public pension funds issued thirty-one proposals and mutual funds issued twenty-three resolutions. The two most prolific issuers of union shareholder plans accounted for more than half of all union proposals: the AFL-CIO submitted twenty-eight, primarily through the funds examined in this paper, while the UBCJA submitted 120 (Burr 2007).

Although AFL-CIO funds comprise a small fraction of the shares in publicly traded corporations, their activism is perceived to have a strong impact on corporate directors and firm value. For example, at Safeway's May 20, 2004, shareholder meeting, investors withheld 17% of their votes from appointing CEO Steven Burd to the board of directors. Although he successfully gained a seat, labor union shareholders claimed victory, citing their pressure on management as a leading factor in the board's eventual decision to appoint a new lead independent director, remove two individuals from its audit and executive compensation committees, and eliminate three members of the board (Adamy 2004). Other examples of union pension funds targeting boards of directors include Verizon, CVS/Caremark, and Toll Brothers (Tse 2007).

The AFL-CIO is also in the middle of debate in regards to various financial market regulations. It has influenced the passage of recent reforms on mutual fund

proxy voting disclosure, board independence, and outside auditors, all of which are considered favorable reforms for labor union shareholders (AFL-CIO 2003; Cai, Garner, and Walkling 2009). More recently, the AFL-CIO has played an active role in promoting greater shareholder access to corporate ballots (Trumka 2003). On August 25, 2010, the SEC passed Rule 14(a)-11, which allows shareholders to nominate their own directors in corporate elections. While labor union activists support proposals that further increase shareholder powers, others argue that special-interest parties (singling out AFL-CIO pension funds) would use their improved position to pursue worker interests at the expense of outside investors (McKinnell 2003; Wall Street Journal, November 27, 2006).

2. Data

2.1 Proxy Votes and Firm Characteristics

I collect annual data from the AFL-CIO Office of Investment on the equity holdings of the AFL-CIO Reserve Fund and the AFL-CIO Staff Retirement Fund from January 1, 2003–December 31, 2006. The capital invested in these two funds, which are approximately \$180 million in size, are partially contributed by direct staff employees of the AFL-CIO.⁶ The proxy votes cast by these funds (herein referred to as AFL-CIO funds) are noteworthy for two reasons. First, the funds serve as the main vehicles for the AFL-CIO's shareholder activism. The AFL-CIO uses its ownership stakes via fund holdings to issue many of its activist shareholder proposals (Burr 2007). Additionally, the proxy votes for these holdings serve as voting recommendations made to other investors. Second, through Marco Consulting, the votes cast for these portfolios are representative of the votes of AFL-CIO affiliated union pension funds, whose aggregate holdings are on the order of \$100 billion in size; the sample of votes is therefore highly representative of the total population of union pension fund votes.

Across all firms in the two funds, I observe the shareholder elections in which the AFL-CIO funds participate. For each election, I observe all ballot items, such as individual director nominees, recommendations made by the board of directors, and votes cast by the AFL-CIO funds. For numerous director elections the nominees' names are missing. To complete the data, I refer to the original proxy statements for each firm on

the SEC Edgar Web site. Several companies' proxy statements are not available online; their filings are obtained from their respective Investor Relations departments.

Panels A and B of Table 1 contain descriptive statistics of the sample shareholder elections and proxy votes of the AFL-CIO funds. There are a total of 504 firms that hold director elections at least once in the sample period, for a total of 1,492 elections. On average there are approximately seven director nominees standing for election at each company, which yields a total sample of 10,407 directors over four years. Director elections are the most frequent ballot items in shareholder meetings. Boards recommend that shareholders vote in favor of all board-appointed director nominees. However, the AFL-CIO supports only approximately 65% of all candidates in the sample. [Set Table 1 about here.]

I also obtain the proxy votes cast by three mutual fund families: Fidelity, Vanguard, and TIAA-CREF. I collect their proxy votes from SEC N-PX filings for July 1, 2003–December 31, 2006. Within each mutual fund family, I choose an individual index fund that holds a broad array of securities: the Fidelity Spartan Total Market Index fund, the Vanguard Institutional Total Stock Market Index fund, and the TIAA-CREF Equity Index Fund. For each director nominee for which the AFL-CIO funds cast a vote in the sample, I record the matching vote cast by each of the index funds. As Panel C of Table 1 indicates, I am able to match the votes for approximately 75% of all director nominees for each investor from July 2003 and onwards.

I directly collect proxy voting data for the CalPERS pension fund from the CalPERS Investment Office. I am able to match 9,503 director votes from the AFL-CIO sample with the CalPERS data. Additionally, I obtain proxy voting data for the UBCJA labor union pension funds for their S&P 500 investments from August 5, 2004–December 31, 2006, from ProxyVote Plus. The votes analyzed for UBCJA funds in the sample correspond to holdings on the order of \$20 billion in aggregate size. I am able to match 4,515 director votes from the AFL-CIO sample with the UBCJA sample. The relatively low match rate is due to the limited time period for which director-level data are available and because of differences in holdings.

I also gather data on shareholder proposals and election outcomes. This data is extracted from SEC filings for sample firms (typically the proxy statement and the most recent 10-Q following the annual shareholders' meeting). For each election, I obtain the

aggregate votes cast for sample directors. I am able to collect votes for approximately 9,521 sample directors.⁷ For each sample shareholder proposal, I observe a description of the proposal and the number of votes that were cast for and against the proposal. I categorize the most frequently appearing proposals into one of four groups: separate CEO and Chairman, Board Declassification, Poison Pill, and Golden Parachute. Descriptive statistics concerning the frequency and support for these proposals is presented in Panel B of Table 1.

The vast majority of sample firms are in the S&P 500. Table 2 presents descriptive statistics tabulated from Compustat (where available) in regards to the firms held in the AFL-CIO's funds, along with S&P 500 attributes for comparison.⁸ *Assets* is the book value of assets. *Equity* is the market value of outstanding equity. *Leverage* is the ratio of long term debt to book value of equity. *EBITDA* is Earnings before interest, taxes, depreciation and amortization. *Capital Intensity* is the ratio of PPE (net plant, property, and equipment) to Assets. As of 2005, the average sample firm has \$54.4 billion worth of assets, while the average S&P 500 firm have assets worth \$48.4 billion. The average number of employees of sample firms is 48.3 thousand while it is 46.5 thousand for S&P 500 companies. *Capital Intensity* is measured to compare the production technologies across firms. The average ratio of PPE to Assets is 0.26 in the sample (0.24 for S&P 500 firms). [Set Table 2 about here.] There are no statistically significant differences between the balance sheet characteristics of sample firms and S&P 500 firms. Moreover, the distribution of industries of sample firms mirrors that of the S&P 500. Sample firms have some statistics that are slightly higher in magnitude than S&P 500 companies, which are caused by the inclusion of several large international firms that have U.S. publicly traded stock but are not members of the S&P 500, such as Magna International and Honda Motor Co.

Finally, I collect data on governance characteristics of sample firms and industries. I obtain data on corporate control transactions, specifically merger and acquisition activity, from SDC Platinum, for all sample industries. For each industry, to which a sample firm belongs, I calculate the total number of mergers that take place each year from 2003–2006. I also collect data on poison pills and board characteristics, such as individual insider/outsider status, board classification, and size, from Risk Metrics and Board Analyst. When sample directors do not appear in these databases, I supplement

the data with information from firms' proxy statements and 10-Q's where possible. Institutional ownership data is obtained from Thomson-Reuters Institutional Holdings Database, which aggregates investor holdings from SEC 13F filings.

2.2 Firms' Employee-Union Labor Relations

I collect data on the union affiliations of domestic workers involved in collective bargaining activity at each of the sample firms held by the AFL-CIO funds from a variety of publicly available sources. The primary sources of data have been utilized by previous researchers (Dinardo and Lee 2004; Cutcher-Gershenfeld and Kochan 2004; Gomez and Tzioumis 2006). Firm-level data on employee unionization is hand collected because there is currently no centralized, publicly available database that contains systematic information on firms' employee-union affiliations.

The primary source is the U.S. Department of Federal Mediation and Conciliatory Services (FMCS), a division of the U.S. Department of Labor. The FMCS maintains a monthly listing of F-7 notices, available through a Freedom of Information Act request. Unions are required to file F-7 notices with the FMCS thirty days prior to the expiration of an existing collective bargaining agreement. Using F-7 notices from January 2003–December 2006, I collect all filings in which any union cites an expiring bargaining agreement with a firm in the sample.⁹ It is possible that some firms have agreements with unions that do not expire in the sample period; although, most collective bargaining contracts last for approximately 3–5 years. It is also possible that some firms or unions are noncompliant with FMCS notification laws, leading to downward bias in union representation (see Dinardo and Lee 2004, for a related discussion).

I also consult various other sources of data. I inspect individual 10K's filed in 2006 for each sample company.¹⁰ Firms often mention specific labor union activity in 10K's when it is significant. Many companies also explicitly state that none of their employees belong to a union or are subject to a collective bargaining agreement. I examine the National Labor Relations Board union elections and petitions data from January 2001–December 2006, which contain records of all union elections and petitions that take place at any corporation in the United States during this period.¹¹ For each firm in the sample, I also search the U.S. Department of Labor's public database of voluntarily provided collective bargaining agreements. I also contact the investor relations

departments of several companies with unionized employees. Using these data sources, I identify whether firms have any unionized workers involved in collective bargaining, and, if so, to which unions they belong. Although this data is potentially subject to measurement error, it is likely that errors are restricted to firms in which union presence is minor (such as those with downward bias in union representation) and are unlikely to affect the estimation results. Furthermore, it is likely that this measurement error causes voting pattern estimates to suffer from attenuation bias and understate the true impact of union labor interests on proxy voting.

Using all sources, I categorize firms as belonging to one of three groups.¹² First, there are 258 nonunionized firms (e.g., Microsoft), which do not have any unionized workers in my sample. Second, there are 181 firms whose main unionized workers in the sample maintain association with the AFL-CIO throughout the entire sample period (e.g., Ford Motor Company, whose workers mostly belong to the United Auto Workers union). Herein these firms are referred to as AFL-CIO firms. Third, there are sixty-five firms whose primary unionized employees switch from the AFL-CIO to the CTW Coalition in 2005 (e.g., Costco, where most union workers are in Teamsters unions). Herein these firms are referred to as CTW firms.

2.3 Employer-Union Labor Strife

I collect data on plant-level disputes between firm management and labor unions that result in the filing of unfair labor practice charges with the U.S. National Labor Relations Board.¹³ The agency maintains data on all NLRA violation (ULP) charges filed by both firms and labor unions. Each charge is assigned a docket number that specifies the labor union and firm involved in the dispute, the section of the NLRA in question, the filing date, and the location of the conflict. I collect all dockets involving each firm in the sample, from January 1, 2002–December 31, 2007. Because the majority of dockets cite the specific sections of the NLRA in dispute, I am able to categorize conflict as belonging to at least one of two groups. First, I define *collective bargaining conflict* as any charge filed by labor unions against firms in violation of Section 8(a)(5) of the NLRA. Section 8(a)(5) states that employers cannot refuse to bargain collectively with employee representatives. Second, I define *unionization conflict* as any charge issued by firms against labor unions in violation of Section 8(b)(1)(A) of the NLRA.

Section 8(b)(1)(A) stipulates that labor unions cannot coerce employees into either joining or avoiding a labor union. See Appendix 2 for a more detailed description of each section of the NLRA and the data collection process.

Table 3 contains descriptive statistics summarizing the charges of unfair labor practices at sample firms. I define *strife* at a firm as a binary indicator of whether there is any unfair labor practice charge related to collective bargaining or union member recruiting involving the firm in a given year. As illustrated in Panel A, there are a total of ninety-four AFL-CIO firms that experience unionization conflict in 2002, while there are twenty-nine CTW firms that experience unionization disputes in 2002.¹⁴ Similarly, in 2002 there are sixty-five AFL-CIO firms involved in collective bargaining strife, while there are twenty-five CTW firms involved in bargaining conflicts (Panel B). [Set Table 3 about here.]

There are several important facts presented in the table. First, there does not appear to be any significant difference between the likelihood of observing a unionization or collective bargaining dispute at any given firm associated with either the AFL-CIO or the CTW coalition, as the percentages of sample firms with conflict are similar across groups. Second, as Panel C indicates, the two types of disputes characterize relatively distinct groups of firms, since the correlation measures of both types of conflicts are below 0.6 for each set of unionized firms. This figure suggests that the two types of unfair labor practices provide wide coverage of labor-management relations across sample firms. Third, pre-sample measures of unfair labor practices accurately capture the overall frequency of disputes that arise between labor unions and management; as Panel D illustrates, the time-series correlation between ULP's in 2002 and each sample year from 2003–2006 is quite high (above 0.84 for unionization strife and above 0.69 for collective bargaining strife). It is also worth noting that the distribution of unfair labor practices in each sample year is similar to that of 2002; the median number of labor union-management disputes is zero each year.

3. Analysis

3.1 Natural Experiment Design and Sample

Although there is significant variation in the AFL-CIO's labor relations across firms, the companies where union affiliations change are remarkably similar to firms

where worker affiliations remain constant. Table 4 contains statistics that describe firms held by the AFL-CIO funds at the end of 2004 and 2005, i.e., around the breakup of the labor organization. Each column contains mean characteristics of firms grouped by affiliations of their unionized workers.

In Panel A, columns 1 and 2 indicate that in 2005 there are 140 sample firms whose unionized workers belong to the AFL-CIO during the entire sample period and fifty-three sample firms whose workers switch from the AFL-CIO to the CTW. The average market value of equity of AFL-CIO firms is approximately \$32 billion, while the average market capitalization of CTW firms is \$23 billion. Both types of unionized firms have similar production technologies, as measured by capital intensity (the ratio of PPE to assets is around 31%). [Set Table 4 about here.] In each year, there are no significant differences in the number of employees, ROA, or asset growth between AFL-CIO firms and CTW firms. The average changes in these firm characteristics from 2004–2005 are also statistically indistinguishable between the two types of firms. Nonunion firms tend to be larger in size than unionized companies; though, this difference is to be expected, since nonunionized firms include banks and insurance companies. Panel B contains statistics that describe the sample firms' governance characteristics around the formation of the CTW Coalition and shows that there are no significant differences in these traits across firms or across time for any subset of companies.

Although fundamentally untestable, this paper's identification assumption is supported by the sample descriptive statistics in Table 4. Along many observable dimensions, AFL-CIO firms are similar to CTW firms before and after the formation of the CTW coalition. To the extent that these dimensions are correlated with unobservable firm and director characteristics, it is unlikely that there are significant, endogenous disparities between the two types of unionized firms. Moreover, it is worth noting that differences in firm characteristics across the two groups per se do not invalidate the identifying assumption, if these characteristics are uncorrelated with variables that impact proxy votes (such as director quality).¹⁵

3.2 Changes in AFL-CIO Voting Behavior

Figure 1 and Table 5 (Panel A) depict the voting behavior of the AFL-CIO funds across three groups of firms: nonunionized companies, AFL-CIO firms, and CTW firms.

Each pair of columns shows the percentage of votes cast against directors within each group of companies before and after the formation of the CTW coalition.¹⁶ The AFL-CIO votes against approximately 31% of all directors at nonunionized companies, while it votes against approximately 44% of all AFL-CIO firms. Within each group of firms, the voting patterns are similar before and after the formation of the CTW coalition. However, the cross-sectional differences in voting patterns between nonunion and AFL-CIO are statistically significant. The disparity suggests that the AFL-CIO funds' director votes are affected by the AFL-CIO's labor relations. [Set Figure 1 about here.]

The rightmost columns of Figure 1 illustrate the significant changes in AFL-CIO votes for directors of CTW firms. Prior to the formation of the CTW coalition, the AFL-CIO funds vote against 45% of all director nominees. The voting patterns of the AFL-CIO funds at CTW firms prior to September 27, 2005, mirror the funds' contemporaneous voting patterns at other AFL-CIO firms. However, after the union realignment, the AFL-CIO funds vote against only 29% of all directors at CTW firms.

To control for additional factors that may explain the changes in voting, I estimate the following OLS linear probability model (results in Table 5, Panel B):

$$VoteMgt_{ijt} = \alpha + \beta_1(CTW_j \times Post_t) + \beta_2(CTW_j) + \beta_3(Post_t) + \beta_4(Union_j) + \beta_4(Union_j \times Post_t) + \beta_5(StockReturn_{jt}) + \beta_6(StockReturn_{jt} \times Post_t) + \beta_7(Year_t) + \beta_8(Firm_j) + \beta_9(Governance_{ijt}) + \varepsilon_{ijt}, \quad (1)$$

where subscripts ijt uniquely identify individual observations for nominee i , firm j , and time t . $VoteMgt_{ijt}$ is a binary indicator for whether the AFL-CIO votes against firm j 's management's recommendation for director i at time t . CTW_j is an indicator for whether firm j 's unionized workers switch from the AFL-CIO to the CTW Coalition. $Post_t$ indicates whether the election at time t takes place after the formation of the CTW coalition. $Union_j$ is an indicator for whether firm j has any unionized workers at all. $StockReturn_{jt}$ is calculated as the market-adjusted stock return for firm j over the year preceding time t , normalized by the standard deviation of the stock's historical annual excess returns.¹⁷ Year and firm fixed effects are denoted by $Year_t$ and $Firm_j$, respectively. A variety of additional governance-related control variables, $Governance_{ijt}$, are also included. Standard errors are robust to heteroscedasticity and clustered by election.¹⁸

[Set Table 5 about here.] Column 1 indicates that on average, AFL-CIO funds are 11% more likely to vote against directors of unionized firms than nonunionized firms. Column 2 presents the difference-in-difference estimate (β_1) of the effect of labor relations on AFL-CIO fund votes in director elections for the full sample of firms. The estimate of -0.179 indicates that the AFL-CIO funds become 17.9% more supportive of director nominees of CTW firms after the formation of the CTW coalition. The statistically insignificant estimates for *CTW* and *Post* further suggest that the treatment effect is not simply the result of changes in general voting policies across all firms or time periods.

Column 3 adds year and firm fixed effects, and column 4 adds stock return covariates in order to control for changes in stock performance.¹⁹ Columns 5–7 feature controls for various governance characteristics. Across all specifications, the data indicate that AFL-CIO funds are at least 14%–18% more likely to vote for a firm’s director nominees once the AFL-CIO no longer represents the firm’s unionized workers. The stable estimates of the main interaction term across all columns suggest that the AFL-CIO fund votes are not changing solely in response to changes in firms’ governance or performance characteristics.

3.3 Voting Behavior of Other Institutional Investors

3.3.1 Mutual Funds and Public Pension Funds

The identification assumption that is central to the causal interpretation of the findings is supported by comparison of the AFL-CIO funds with other large institutional investors. Mutual funds are large shareholders that have incentives to monitor the directors of firms in their portfolios and cast proxy votes to maximize equity value.²⁰ If there are unobservable changes occurring at the firm or director level that are correlated with changes in worker-union affiliation, then mutual funds should exhibit changes in voting patterns similar to those of the AFL-CIO. I estimate specification (1) using the votes for each of three mutual fund family index funds: the Fidelity Spartan Total Market Index Fund, the Vanguard Institutional Total Stock Market Index Fund, and the TIAA-CREF Equity Index Fund. These funds are chosen because of their broad stock coverage and because the voting patterns for these funds are representative of the votes cast by other funds in the same families (Rothberg and Lilien, 2006).

In Table 6, for each mutual fund I present two sets of regression estimates, each corresponding to the two leftmost columns of Table 5, Panel B. First, columns 1, 3, and 5 indicate that mutual funds are on average and in contrast to the AFL-CIO funds more likely to vote for directors of firms with unionized workers. This finding suggests that unionization is not associated with low director quality. Second, as indicated in columns 2, 4, and 6, none of the three mutual funds significantly alter their director votes in response to changes in worker–union representation. Moreover, the findings are robust to the exclusion of union firms from the sample and to the inclusion of other controls for stock performance, firm characteristics, etc., following the specifications of Table 5. [Set Table 6 about here.]

I also examine the votes cast by CalPERS, the world’s largest public pension fund, which is known for its corporate governance activism (Smith 1996; Nesbitt 1994; Wu 2004). If CalPERS monitors directors more closely than mutual funds, then CalPERS proxy votes should illustrate any changes in director quality that accompany changes in union–worker affiliation. Column 7 of Table 6, however, indicates that CalPERS does not provide a differential amount of support for directors of unionized firms than directors of nonunionized firms. Furthermore, column 8 shows that CalPERS does not significantly alter its director votes in response to changes in worker–union representation.

If the change in the AFL-CIO funds’ voting behavior at CTW firms is a shareholder value maximizing response to changes occurring at the firm or director level within those CTW companies, then it is reasonable to expect mutual funds and public pension funds to vote in a similar manner. However, the data indicate that other institutional investors do not vote like the AFL-CIO; they are more likely to vote for directors of unionized firms, and they do not alter their voting patterns in response to changes in the AFL-CIO’s internal organization. These patterns suggest there are no simultaneous, unobservable changes in firm or director characteristics affecting equity value, which is consistent with the empirical strategy’s central identification assumption.

3.3.2 Union Pension Funds Outside of the AFL-CIO

I also compare the AFL-CIO funds’ voting behavior with the votes cast by union pension funds that are not associated with the AFL-CIO. The United Brotherhood of

Carpenters and Joiners of America, which was independent of the AFL-CIO from 2001–2005, joined the CTW Coalition at its 2005 inception. The UBCJA manages many affiliated local chapter funds and uniformly casts proxy votes across their holdings.

Columns 9–10 of Table 6 present the UBCJA fund voting estimates from specification (1). $VoteMgt_{ijt}$ is now an indicator for whether the UBCJA funds vote for nominee i in firm j at time t .²¹ Column 9 indicates that UBCJA funds are 8.1% more likely to support directors of unionized firms than support directors of nonunionized firms. Column 10 indicates that UBCJA pension funds become 21.7% more opposed to director nominees of CTW after the UBCJA joins the CTW Coalition. The estimates in columns 9 and 10 are robust to the inclusion of year and firm fixed effects and stock performance controls.

The UBCJA funds' behavior further supports the identification assumption that changes in firm–union affiliation are not correlated with unobservable changes in director quality. When the UBCJA begins affiliating with union workers of CTW firms, the UBCJA pension funds become significantly more opposed to director nominees at these companies. If anything, the findings suggest that the preferences of the AFL-CIO may more generally reflect the objectives of other union pension funds.

3.4 Impact of Plant-Level Conflict Between Labor Unions and Management on Voting

I estimate the impact of plant-level disputes between labor unions and management on AFL-CIO pension fund votes, using the following OLS linear probability model:

$$\begin{aligned}
 VoteMgt_{ijt} = & \alpha + \beta_1(Strife_j \times CTW_j \times Post_t) + \beta_2(CTW_j \times Post_t) + \\
 & \beta_3(CTW_j \times Strife_j) + \beta_4(Strife_j \times Post_t) + \beta_5(Strife_j) + \beta_6(CTW_j) + \\
 & \beta_7(Post_t) + \beta_8(Union_j) + \beta_9(Union_j \times Post_t) + \beta_{10}(Union_j \times Strife_j) + \\
 & \beta_{11}(Union_j \times Strife_j \times Post_t) + \beta_{12}(StockReturn_{jt}) + \beta_{13}(StockReturn_{jt} \times \\
 & Post_t) + \beta_{14}(Year_t) + \beta_{15}(Firm_j) + \varepsilon_{ijt},
 \end{aligned} \tag{2}$$

where subscripts ijt uniquely identify individual observations for nominee i , firm j , and time t .

I define two unique proxies for labor strife at the firm level. $Strife_j$ (unionization) is a binary indicator of whether any Unfair Labor Practice charges were raised by firm j against a labor union for unlawful attempts at strengthening union membership at firm j in 2002. $Strife_j$ (collective bargaining) is a binary indicator of whether any Unfair Labor

Practice charges were filed by a labor union against firm j for refusing to bargain collectively with worker representatives in 2002. Firms where $Strife = 1$ experience a greater frequency of conflict between labor unions and managers than do firms where $Strife = 0$, both before and during the sample period, as discussed in Section 2.3. Data on charges from 2002, as opposed to data from the sample years 2003–2006, are used to more plausibly satisfy the added identification assumption that measures of labor strife are independent of unobservable firm or director characteristics that are correlated with shareholder value and hence proxy votes during the sample years.²² All other covariates in specification (2) remain as defined in specification (1).

Table 7 presents estimates of unionization strife on the AFL-CIO funds' director votes. The univariate regression of column 1 shows that the AFL-CIO funds are 17.7% more likely to vote against directors at firms with unionization conflict in 2002 than at firms with no such disagreements. While this estimate suggests that the AFL-CIO funds have workers' interests in mind when proxy voting (they may vote against directors to express disapproval at management's interference with union recruiting efforts), this figure could also reflect the AFL-CIO funds' desire to limit labor conflict that they believe is value-decreasing (they may use their votes to hasten the removal of directors who allow costly disputes to occur at the firm). [Set Table 7 about here.]

To distinguish these two hypotheses, columns 2–5 presents estimates of how the sensitivity of proxy votes to labor strife changes at firms whose workers join the CTW coalition (β_I). If union–management conflict is costly to investors and the AFL-CIO is solely interested in maximizing shareholder value, then the union affiliation of workers involved with management disputes should not matter. However, the null hypothesis that β_I is zero is rejected by the data. Columns 2–3 indicate that the impact of changing union affiliation is especially strong when the sample of firms is restricted to companies characterized by labor strife. The treatment effect estimates of union affiliation range between -0.310 and -0.330. Columns 4–5 (approximately) compare the treatment effect estimates of changing union affiliation on AFL-CIO proxy votes for subsamples of high versus low strife firms. An increase in unionization strife at a firm is associated with a higher probability of voting against the firm's directors; however, when the firm's workers disaffiliate from the AFL-CIO, the probability of voting against directors decreases by 32%–33%. In other words, the impact of worker–union affiliation on AFL-

CIO proxy votes is particularly relevant for firms where management–worker relations are tenuous.

Similar results are found for collective bargaining conflicts.²³ The AFL-CIO funds are 13.9% more likely to vote against directors at firms involved in collective bargaining disputes than for nominees at firms without comparable disagreements. When the sample of firms is restricted to companies with conflict involving contract negotiations, the impact of changing labor relations on AFL-CIO proxy votes is particularly strong. The AFL-CIO funds become at least 21% more likely to support directors of such firms where workers switch union affiliation from the AFL-CIO to the CTW Coalition.

Using two distinct measures of management–labor conflict, I find that the AFL-CIO funds vote against directors more often when unions are involved in disputes with management. However, these voting patterns do not appear to reflect shareholder value-maximizing behavior, as the opposition to directors is primarily limited to firms in which the AFL-CIO represents workers. Instead, the AFL-CIO voting behavior is consistent with the hypothesis that the AFL-CIO funds oppose directors in part as a means of supporting union workers who face opposition from management during collective bargaining and union recruiting efforts.

3.5 Alternative Hypotheses

3.5.1 Portfolio Selection Bias

One alternative explanation for the findings is that the AFL-CIO funds' voting behavior could simply result from the endogenous stock selections by the AFL-CIO. For example, in response to the changes in the AFL-CIO's structure, it is possible that the AFL-CIO funds choose to invest in CTW firms, where it is value-maximizing to support directors differentially more than previous years' holdings. I address this hypothesis in several ways. First, I note that there are likely indexing constraints imposed on fund investment policies that mitigate the extent to which coefficient estimates are overstated due in part to selection bias. A number of papers find that pension funds, including public pension funds that do not solely aim to maximize shareholder value, are typically indexed (Woidtke 2002). As Table 2 indicates, similar to other pension funds, the vast majority of sample companies in the AFL-CIO holdings are members of the S&P 500,

which suggests that indexing is relevant for union pension funds. Furthermore, Appell (2007) finds that the vast majority of all union pension funds associated with the AFL-CIO are primarily invested in S&P 500 firms.

Second, I examine AFL-CIO holdings from 2003–2007 and find little evidence of significant portfolio turnover around the breakup of the AFL-CIO. In results not reported here, I find that the stock holdings of neither AFL-CIO firms nor CTW firms significantly fluctuate in the immediate years following the AFL-CIO’s reorganization, relative to earlier or later years; the fractions of either type of firm being added or dropped from the portfolios ranges between 1%–9% across all years. Third, I estimate specifications (1) and (2) for a subsample of firms that appear in the AFL-CIO’s portfolio in 2005 and 2006. The results are robust for this sample. Fourth, I note that even if there are changes in the composition of the portfolios, these changes do not necessarily engender new voting patterns; as discussed earlier, institutional investors, such as mutual funds and public pension funds, do not alter their votes as do the AFL-CIO funds.

I also explore whether changes in union director votes could be explained by changes in union fund ownership levels of the sample firms. I back out approximate changes in union pension fund holdings by measuring changes in aggregate institutional investor holdings.²⁴ As Panel B of Table 4 indicates, there are no significant changes in institutional ownership levels of sample firms around the breakup of the AFL-CIO. Additionally, I include controls for institutional ownership levels to the main regression specification of Panel B of Table 5 and find that estimates of the main interaction term remains unchanged. Overall, it does not appear that there are significant changes in turnover or ownership levels of union pension funds around the formation of the CTW Coalition, which suggests that the observed changes in AFL-CIO union fund proxy voting cannot be explained by portfolio selection bias.

3.5.2 Asymmetric Information

Another alternative explanation of the evidence is that the union reorganization caused the AFL-CIO funds to lose private information on director attributes after they stopped associating with workers of CTW firms. This hypothesis, however, is not supported by the triple difference estimates of the voting effects of labor strife and union relations. First, measures of labor strife in 2002 are unlikely to be correlated with

changes in information that occurred in 2005. Second, instances of labor strife during collective bargaining and union recruitment are public knowledge. Third, the coefficient of $CTW \times Post$ in columns 4–5 in Table 7 indicates the average effect of changing union affiliation is statistically insignificant. If the findings were driven by information changes, rather than by worker interests, this coefficient should be significantly negative, while the coefficient of $Strife \times CTW \times Post$ should be zero. The contrary evidence implies that the votes reflect worker interests, rather than changes in private information.

3.5.3 *Monitoring Incentives*

A third alternative explanation for the evidence is that the AFL-CIO funds faced changes in monitoring incentives around the formation of the CTW Coalition. For example, firms with common union affiliation may simply be firms where the benefits of monitoring outweigh the free rider problem that is relevant to most small shareholders (Grossman and Hart 1980). I test this hypothesis in several ways. First, I include controls in specification (1) for shareholder proposal activity; proposals are more likely to appear at firms where shareholders have incentive to monitor management. If there are changes in monitoring incentives for shareholders of firms where worker–union affiliations change, then controlling for shareholder proposals should attenuate treatment effect estimates. In contrast to this hypothesis however, as illustrated in Panel B and column 7 of Table 5, the inclusion of shareholder proposal controls does not impact the magnitude or significance of the main interaction term.

Second, as discussed in Section 3.5.1, there do not appear to be any significant changes in union ownership levels around the formation of the CTW coalition, and controlling for institutional ownership does not attenuate coefficient estimates. Finally, I note that if there are general changes in shareholder monitoring incentives that affect proxy votes, these changes should be manifest in the voting patterns of other institutional investors, such as mutual funds, public pension funds, and union pension funds, outside of the AFL-CIO. The absence of institutional investor vote changes, however, suggests that monitoring incentives are not changing for shareholders of CTW firms.

3.5.4 *Endogenous Timing of AFL-CIO Fund Voting and CTW Formation*

A fourth alternative explanation for the evidence is that the AFL-CIO was simply becoming more supportive of CTW firms over time and the formation of the CTW was

driven by the changing attitude of the AFL-CIO's leaders towards the management of firms with CTW employees. This hypothesis, however, is not supported by the data. There is no pre-period trend in the AFL-CIO voting patterns for CTW firms; in 2003 and 2004, the AFL-CIO funds vote against directors of CTW firms approximately 50% of the time in each year. Starting in 2005, however, when conflict begins to arise among union leaders within the AFL-CIO, the AFL-CIO becomes significantly more supportive of directors of CTW firms (Chaison 2007). Moreover, the UBCJA's increased opposition towards CTW firm directors suggests that union pension fund support for directors is an effect, rather than a cause, of changing worker affiliations.

3.6 Impact of AFL-CIO Fund Voting

3.6.1 Election Outcomes

If union pension fund opposition is large enough, then directors who face such disapproval should receive lower aggregate shareholder support than do directors who are approved by union funds. I test this hypothesis by comparing the aggregate support for directors who receive differential support from AFL-CIO union pension funds. The findings are presented in Table 8. [Set Table 8 about here.]

Consistent with this hypothesis, I find that for the entire sample, directors opposed by the AFL-CIO union pension funds receive 93.49% support, whereas directors supported by unions receive 96.06% support. The differences in aggregate support are particularly noticeable for unionized firms, firms experiencing conflict between labor unions and management, and firms with below-median institutional holdings: across all subsamples, the differences in aggregate support are at least 2.3% and highly statistically significant. The findings illustrate that directors who face union pension fund opposition receive less aggregate support in elections. Since the AFL-CIO union pension funds cast coordinated proxy votes and maintain assets on the order of \$100 billion in size, it is perhaps not surprising that union pension fund holdings are large enough to have tangible effects on election outcomes (O'Connor 2000).

I also find that the reduction in AFL-CIO opposition to directors of CTW firms leads to significant changes in aggregate support for directors of CTW firms. Prior to the AFL-CIO breakup, the aggregate level of support for directors of CTW firms is approximately 93.9%. In contrast, after the breakup of the AFL-CIO, directors of CTW

firms face less aggregate opposition; the average director receives 95.9% support from all shareholders. In contrast, there are no statistically significant changes in the levels of aggregate support for directors of AFL-CIO firms and nonunion companies. These findings imply that the changes in AFL-CIO union pension fund votes have a significant impact on total levels of shareholder support realized by directors of CTW firms.

A number of papers find evidence that even small percentage changes in director support have tangible effects on firm behavior and performance. Grundfest (2003) claims symbolic votes spur directors to action through negative publicity and embarrassment. Cai, Garner, and Walkling (2009) find that even though aggregate support is above 90% for the vast majority of U.S. public firm directors, director opposition impacts CEO compensation and governance mechanisms. Fischer et al. (2009) show that director opposition is associated with value increasing management and board turnover. Additionally, Del Guercio, Seery, and Woidtke (2008) find that vote-no campaigns against directors lead to CEO turnover and increased operating performance.

3.6.2 Shareholder Value

To estimate the valuation impact of union pension fund voting, I conduct event study analysis, using the empirical framework of Becht et al. (2009). If AFL-CIO union pension fund opposition to directors has a negative impact on shareholder value, then firms no longer facing such opposition should experience positive abnormal returns around the formation of the CTW Coalition. This prediction is motivated by the fact that directors of CTW firms realize greater aggregate support once they are no longer opposed by the AFL-CIO pension funds. The positive impact of reduced management opposition by union pension funds should be especially strong for firms experiencing conflict between management and unionized labor, where union pension funds exhibit the strongest opposition towards directors in order to pursue union labor objectives. Union funds should also have greater impact at firms where there is less institutional ownership and hence ostensibly less monitoring by other shareholders.

Consistent with these hypotheses, Table 9 illustrates the negative valuation effects of union pension fund opposition to directors. Each panel of Table 9 contains mean and median cumulative abnormal returns (CARs) for specific subsamples of firms in various windows around the formation of the CTW Coalition. Panel A includes all sample firms

whose workers switch from the AFL-CIO to the CTW Coalition. The average one-day abnormal return for these firms is highly positive and statistically significant at 0.50%; this estimate does not revert to zero, in fact the CAR persists and increases to 0.76% when the event window is expanded to seven days around formation of the CTW Coalition. [Set Table 9 about here.]

Panels B–K break down these returns into more detail. Panel B indicates that the positive CAR of the entire sample is specifically driven by firms where the AFL-CIO union pension funds oppose directors (i.e., vote against at least one director): the one-day average abnormal return is 0.49%, the three-day CAR is 0.52%, and the seven-day CAR is 1.03%. The abnormal returns are even more pronounced when we focus on firms where the AFL-CIO union pension funds specifically oppose insider directors who are more likely to directly interact with workers. Furthermore, Panels B and C indicate that the positive abnormal return response to the formation of the CTW Coalition is highly representative of the total sample of firms; approximately 70% of all sample firms experienced positive CARs around the event.

In contrast, Panels D and E show that firms, where the AFL-CIO union pension funds do not oppose directors, do not experience significant changes in shareholder value. Across almost all windows, the CARs are statistically indistinguishable from zero. These findings are noteworthy because they contradict the possibility that the positive CARs in Panels A–C are driven by changes in union organization unrelated to pension fund activism, rather than activism itself, because workers at these sample firms also disaffiliate from the AFL-CIO in order to join the CTW Coalition.

Panels F and G illustrate that firms experiencing labor union–management disputes, and hence more likely to face AFL-CIO opposition in director elections, also exhibit highly positive and statistically significant CARs around the breakup of the AFL-CIO. The mean (median) CAR ranges between 0.58% and 2.23% (0.38% and 3.00%). In contrast, Panels H and I show that firms with no disputes between management and labor unions did not realize significant valuation changes around the formation of the CTW Coalition.

Finally, Panels J and K illustrate conditions under which union pension funds are more likely to have an influence on firm behavior and performance. Union pension activism is more likely to have negative valuation effects when managers face less

monitoring by other institutional investors. Consistent with this hypothesis, Panel J illustrates that firms with below-sample median institutional holdings exhibit large CARs around the formation of the CTW Coalition (ranging between 0.67% and 1.13%), whereas Panel K shows that firms with above-median institutional holdings do not experience significant changes in shareholder value.

Across all panels, the estimated impact of reduced union pension fund opposition ranges between 0.49% and 3.00% of equity value. The negative effects of union funds are consistent with theories by Romano (2001), Bainbridge (2006), and Anabtawi and Stout (2008). Additionally, the magnitudes of the estimates are comparable to the findings of other studies on investor activism.²⁵ Becht et al. (2009) find that Hermes activism announcements are associated with CARs ranging between 3% and 5%, while Brav et al. (2008) estimate that hedge fund activist announcements have CARs of up to 7%.

3.6.3 Labor Union-Management Relations

I also examine the ways in which union pension fund votes appear to benefit labor unions. Brancato (1997) notes that many corporate managers view union pension fund activism as a means of “pressuring management in labor management disputes rather than pressing for better corporate governance and shareholder protections.” Consistent with this claim, Schwab and Thomas (1998) highlight the United Food and Commercial Workers’ push for a confidential voting proposal at Albertson’s in 1996, as part of the union’s strategy to force the company to allow its employees to unionize.

I estimate the impact of union pension fund opposition on the frequency of labor union–management conflict, stemming from unionization efforts and contract bargaining. If pension fund opposition is effective at pressuring management in labor–management disputes, then proxy voting opposition towards directors should be associated with reductions in unfair labor practice filings. I estimate the following regression model:

$$\text{Log}(ULP \text{ Filings})_{ijt} = \alpha + \beta_1(\text{VoteMgt}_{ij}) + \beta_2(\text{StockReturn}_{jt}) + \beta_3(\text{FirmSize}_{jt}) + \beta_4(\text{Year}_t) + \beta_5(\text{Firm}_j) + \varepsilon_{ijt}, \quad (3)$$

where subscripts ijt uniquely identify individual observations for nominee i , firm j , and time t . $\text{Log}(ULP \text{ Filings})_{ijt} = \log$ of (1 + number unfair labor practice charges involving

firm j in year t). $FirmSize_{jt}$ = log of book value of assets of firm j in year t . All other variables are defined as in specification (1).

The findings are presented in Table 10. Across columns 1–4 in Panel A, opposition towards individual directors is associated with at least a 2.5% reduction in the frequency of unfair labor practice filings related to unionization conflicts. When the sample is limited to union firms, the estimate becomes slightly larger in magnitude. Perhaps most importantly, when the sample is restricted to observations prior to the breakup of the AFL-CIO union, thereby excluding endogenous posttreatment observations, the evidence is even stronger, as the coefficient estimate more than doubles to -7.1%. Finally, I find that the impact of proxy voting opposition towards all directors on a board has a large effect on the incidence of unfair labor practices: total board disapproval is associated with an 11.5% reduction in unionization conflicts. The results are similar if we examine conflict during collective bargaining, as illustrated in Panel B. Votes against individual directors are associated with at least a 1% reduction in ULP filings, while total board disapproval is associated with a 9.9% reduction in ULP filings involving collective bargaining. [Set Table 10 about here.]

The evidence that director opposition is associated with reductions in labor union–management disputes, involving both unionization and collective bargaining is consistent with the theory that union pension fund activism aims to pressure management in labor conflicts. The data suggests that directors respond to union pension fund disapproval in board elections by ameliorating labor–management disputes, perhaps to reduce negative publicity associated with poor election outcomes (Grundfest 2003). Since several studies point to the reduction of ULP’s as a contributor to increased union wage differentials, these findings may also explain the observed effects of union votes on equity prices (Olson and Becker 1990; Freeman 1986; Hirsch 1991).

4. Conclusion

This paper presents evidence that suggests union pension funds have preferences that partly reflect union worker interests, rather than equity value maximization alone. Union funds are more likely to oppose directors of firms that employ workers of the same labor affiliation, particularly when conflicts arise between labor unions and management

during union recruiting efforts and collective bargaining. Their opposition also appears to benefit union workers at the expense of shareholder value.

More broadly, this study illustrates that directors react not only to aggregate support realized in elections, but that they also respond to the disparate interests of individual shareholder blocks. The influence of such constituencies is largely facilitated by the dispersion of ownership for many large companies. Nonvalue maximizing entities, such as union pension funds, and potentially public pension funds, family shareholders, government owners, etc., have more sway when their shareholdings are relatively larger. In these circumstances, their votes are likely to be important for issues, such as labor relations, board characteristics, management compensation, and other decisions where directors have influence.

The efficiency implications of disparate shareholder preferences are unclear. Union pension funds may be fully acting in the best interests of pension fund participants and increasing total surplus for all stakeholders. Conversely, other activists might be raising equity value at the expense of total gains for all constituents. Identifying the effects of disparate shareholder interests on value creation as well as value distribution is an important issue that needs to be addressed in future research.

Appendix 1:

Union Relations

I construct estimates of employee–union affiliation across all sample firms, using a variety of publicly available sources. There is no centralized, publicly available database that contains information on firm employee–union associations; I consult data sources that have been used by previous researchers (Dinardo and Lee 2004; Cletcher-Gershenfeld and Kochan 2004; Gomez and Tzioumis 2006, are recent examples).

First, I search the 2006 10-K filings for each company in the AFL-CIO portfolios. Some firms do not have 2006 10-K’s, due in part to mergers, acquisitions, or exchange rules; for these firms, I rely on the most recent 10-K available (prior to 2006). If no 10-K is available, I consult the 2006 or most recent annual report prior to 2006 released by the firm itself (available online or through investor relations departments). If the 10-K or equivalent annual report explicitly states that none of the U.S. fulltime equivalent workers in the firm belong to a union or are subject to a collective bargaining agreement, I categorize the firm as “non-union”.

If the 10-K does not explicitly state that a firm’s domestic workers are nonunionized, then I consult the U.S. FMCS listing of F-7 notices from January 2003–December 2006 to identify expiring union contracts. This data is available through a Freedom of Information Act request. For each company in the AFL-CIO sample, I search for the company name under the “Employer” field in each F-7 notice. I check the industry description in the F-7 filing with the SIC code and industry description of the firm in the 10-K and verify that the F-7 notice is not identifying spurious firm names or contracts for firm subcontractors. Then, for each company with F-7 notices, I identify the total number of workers associated with AFL-CIO-affiliated unions and CTW-affiliated unions. The union name and size of the bargaining unit associated with each firm is available in the F-7 notice. For each firm, I sum the numbers of workers in bargaining units associated with each labor organization. If the percentage of workers belonging to unions associated with the CTW Coalition is greater than 90%, I categorize the firm as CTW; otherwise, if at least 10% of the workers belong to an AFL-CIO union, the firm is categorized as AFL-CIO.

Some firms explicitly state which unions are associated with their workers in the 10-K; if no FMCS filings are available for these firms, I rely on information in the 10-K’s to estimate union workforces. Six firms (railroads and airlines) are not covered under the National Labor Relations Act (NLRA), mandating that the FMCS must be notified of expiring union contracts. Based on information in the 10-K’s and discussions with the firms’ investor relations departments, I categorize these firms as “AFL-CIO firms”. The results are similar if we exclude these six firms from the sample.

If a firm does not explicitly state that it has union workers and there are no F-7 notices associated with the firm from 2003–2006, I categorize the firm as “non-union”. There are several firms which suggest in the 10-K’s that they employ union workers, however, I do not find an F-7 notice for these firms. For this small subsample of firms, I consult additional sources in order to more precisely identify employee–union affiliation. First, I look at FMCS filings for 2001–2007. This yields F-7 notices for four companies; using the latest F-7 notice available, I categorize the firm as AFL-CIO or CTW, depending on the affiliation of the union described in the filing. The findings are similar if these four firms are excluded from the sample. For the remaining companies in the subsample, I then consult NLRB elections and petitions from 2001–2007 (limiting the

search to elections with twenty workers or more, following Dinardo and Lee 2004). For two firms, this data yields union information and hence union categorization. The results are similar if we exclude these two firms from the sample. Finally, I contact the investor relations departments for remaining firms and was able to ascertain the union affiliation of workers at four firms: Affiliated Computer Services and VF Corporation, which are both categorized as CTW firms, and Decoma and Magna International, which are both categorized as AFL-CIO firms. The results are similar if we exclude these four firms from the sample.

There are several potential sources of measurement error; however, it is likely that this measurement error causes voting pattern estimates to understate the true impact of union worker interests on proxy voting. First, FMCS data may be missing some unions or firms which do not comply with the legal requirements of the NLRA (leading to downward bias in union representation). Second, I utilize U.S. government filings; I restrict the unionization estimates to include U.S. full-time equivalent employees who are unionized—not international workers who may belong to a labor union, since data on international unionization is not standardized across firms. Third, for each company, I search the FMCS and NLRB filings, using only the primary company name associated with the ticker symbol—not uniquely named subsidiaries for each firm. Sometimes subsidiaries will be listed alongside the parent company name in F-7 notices and this will be included in the dataset; other times a subsidiary will have a different name from the parent company and this will not be included in the dataset. I assume that the F-7 notices associated with a parent company are representative of the F-7 notices associated with a parent company and all of its subsidiaries.

Appendix 2:

NLRB Unfair Labor Practice data

There are primarily two types of unfair labor practices (ULP). First, collective bargaining ULP's are charges filed by labor unions against firms in violation of Section 8(a)(5) of the NLRA, which stipulates that an employer cannot "refuse to bargain collectively with the representatives of his employees, subject to the provisions of section 9(a)," where section 9(a) reads:

Representatives designated or selected for the purposes of collective bargaining by the majority of the employees in a unit appropriate for such purposes, shall be the exclusive representatives of all the employees in such unit for the purposes of collective bargaining in respect to rates of pay, wages, hours of employment, or other conditions of employment: *Provided*, that any individual employee or a group of employees shall have the right at any time to present grievances to their employer and to have such grievances adjusted, without the intervention of the bargaining representative, as long as the adjustment is not inconsistent with the terms of a collective-bargaining contract or agreement then in effect: *Provided further*, that the bargaining representative has been given opportunity to be present at such adjustment.

Second, unionization ULP's are charge issued by firms against labor unions, in which labor unions are accused of engaging in illegal unionization practices (a violation of Section 8(b)(1)(A) of the NLRA). Section 8(b)(1)(A) specifically stipulates that: It shall be an unfair labor practice for a labor organization or its agents to restrain or coerce employees in the exercise of the rights guaranteed in section 7: *Provided*, that this paragraph shall not impair the right of a labor organization to prescribe its own rules with respect to the acquisition or retention of membership therein;

Section 7 states:

Employees shall have the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection, and shall also have the right to refrain from any or all such activities except to the extent that such right may be affected by an agreement requiring membership in a labor organization as a condition of employment as authorized in section 8(a)(3).

RAA maintains a database of all individual charges (dockets) filed with the NLRB. I hand collect filings relevant to a particular firm by searching for the firm's name in the "Employer" field of each docket in the database. If there are no unfair labor practices for a given firm, that firm is recorded as having 0 ULP. I repeat this procedure for every firm in the sample. I search amongst all ULP charges filed between January 1, 2002 and December 31, 2002, for the pre-sample strife measures used in this paper. For within-sample ULP data from January 1, 2003–December 31, 2006, I utilize data obtained from the NLRB through a FOIA request (RAA does not maintain complete ULP data for this period).

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Table 1
Proxy Voting Summary Statistics

This table presents descriptive statistics that summarize the sample shareholder elections and proxy voting behavior of various institutional investors. Panel A depicts the AFL-CIO funds' firm holdings and director elections in which they cast proxy votes. *Firms (total)* is the total number of firms held by the AFL-CIO funds in which the union funds participate in shareholder elections from Jan. 2003–Dec. 2006. *Elections (total)* is the total number of shareholder elections in the sample. *Director Nominees (avg. per election)* is the average number of directors up for election at any given shareholder meeting. Panel B summarizes the AFL-CIO funds' voting behavior across director elections and auditor approvals, and also presents the number of shareholder proposals and aggregate shareholder support for each. Panel C summarizes the matched director votes of each institutional investor with the AFL-CIO funds' director votes. In both Panel B and C, *Number of votes* is total number of sample votes cast during for each proposal type and *% Support* is the percentage of institutional investor votes cast in favor of board vote recommendations to shareholders.

Panel A: AFL-CIO Director Election Statistics

Firms (total)	504
Elections (total)	1,492
Elections (avg. per yr.)	373
Director Nominees (total)	10,407
Director Nominees (avg. per election)	6.98

Panel B: AFL-CIO Election Ballot Items and Voting Statistics

	<u>Number of Items</u>	<u>% Support</u>
Director Nominees	10,407	65
Auditor Approvals	1,332	38
Shareholder Proposals:		
Separate CEO and Chairman	88	28
Declassify Board	145	80
Poison Pill	75	61
Golden Parachute	55	52

Panel C: Institutional Investor Director Voting Statistics

	<u>Number of Votes</u>	<u>% Support</u>
Fidelity Spartan Total Market Index Fund	7,501	98
Vanguard Institutional Total Stock Market Index Fund	7,949	89
TIAA-CREF Institutional Equity Index Fund	7,805	93
CalPERS Pension Fund	9,503	80
UBCJA Pension Funds	4,515	55

Table 2
Characteristics of Firms Held By AFL-CIO Funds (2003–2006)

This table presents descriptive statistics that summarize the characteristics of all sample firms held by the AFL-CIO funds from 2003–2006 and the S&P 500. Data is as of the end of 2005 from Compustat, where available. *Assets* (US\$billion) is the book value of assets. *Equity* (US\$billion) is the market value of outstanding equity. *Leverage* (US\$billion) is the ratio of long term debt to book value of equity. *EBITDA* (US\$billion) is earnings before interest, taxes, depreciation and amortization. *Capital Intensity* is the ratio of *PPE* (net plant, property, and equipment, in US\$billion) to *Assets*. *Employees* (thousand) is the number of employees. *Industry* (two-digit SIC) refers to industry grouping based on the two-digit SIC code of firms. It is the number of firms belonging to particular industry, as a percentage of total firms in the AFL-CIO fund holdings or the S&P 500 used to calculate descriptive statistics for balance sheet information. Standard errors are reported in parentheses.

	<u>AFL-CIO holdings</u>	<u>S&P 500</u>
Assets	54.35 (3.19)	48.36 (6.61)
Equity	24.75 (0.83)	23.50 (1.75)
Leverage	0.84 (0.07)	0.92 (0.20)
Sales	16.97 (0.60)	15.98 (1.35)
EBITDA	3.48 (0.14)	3.39 (0.32)
Capital Intensity	0.26 (0.00)	0.24 (0.01)
Employees	48.28 (1.87)	46.54 (4.57)
<u>Industry (2 digit SIC)</u>		
0–20	10.4%	9.6%
21–40	37.4%	39.6%
41–60	28.3%	27.4%
61–99	23.8%	23.4%
Total Number of Sample Firms	504	500

Table 3**Labor Relations and Unfair Labor Practices at Firms held by AFL-CIO Funds**

This table presents descriptive statistics summarizing labor-management relations and Unfair Labor Practice (ULP) charges at all sample firms. Each column refers to all firms within a particular group—*AFL-CIO* is the set of AFL-CIO firms, *CTW* is the set of CTW firms, *Full Sample* refers to all firms in the sample. Panels A and B summarize pre-sample (2002) unionization and collective bargaining ULP charges, respectively. *Firms with >(=)0 Strife* is the number of firms with more than (exactly) 0 ULP charges of each type in 2002. Percentages of total firms within each group are indicated in parentheses. Panel C summarizes the correlation between Collective Bargaining and Unionization ULP charges in 2002. *Correlation of conflict measures* is the correlation of collective bargaining and unionization ULP charge indicators at the firm level. Panel D summarizes correlations between 2002 and annual within-sample (2003–2006) measures of labor-management conflicts; “All Conflict” refers to within-sample correlations of collective bargaining and unionization only. *Total Firms* is the total number of sample firms in each group.

	AFL-CIO	CTW	Full Sample
Panel A: Unionization Conflict			
Firms with >0 Strife	94 (52%)	29 (45%)	129 (26%)
Firms with 0 Strife	87 (48%)	36 (55%)	375 (74%)
Panel B: Collective Bargaining Conflict			
Firms with >0 Strife	65 (36%)	25 (38%)	92 (18%)
Firms with 0 Strife	116 (64%)	40 (62%)	412 (82%)
Panel C: All Conflict			
Correlation of conflict measures	0.444	0.563	0.593
Panel D: Pre-Sample and Within-Sample Conflict Correlation			
Unionization	0.897	0.846	0.844
Collective Bargaining	0.694	0.784	0.730
All Conflict	0.497	0.696	0.627
Total Firms	181	65	504

Table 4**Characteristics of Firms held by AFL-CIO Funds in 2004 and 2005**

This table presents descriptive statistics of characteristics of firms held by the AFL-CIO funds and firms in the *S&P 500* at the end of the years before (2004) and after (2005) the formation of the CTW. AFL-CIO fund firms are categorized into three groups—*Nonunion* firms, *AFL-CIO* firms, and *CTW* firms. Panel A contains balance sheet characteristics. *Equity* (\$Bil) is the market value of outstanding equity. *Capital Intensity* is the ratio of *PPE* (net plant, property, and equipment, in US\$billion) to book value of assets (US\$billion). *ROA* is the ratio of EBITDA to market value of assets, where market value of assets is the sum of book value of assets plus the market value of equity, minus the sum of book-valued equity and deferred taxes. *Employees* is the total number of employees (thousands). *Asset growth* is the ratio of book value of assets in current year to previous year. Two-digit SIC refers to percentage of each column's firms in each two-digit SIC industry group. Standard errors are in parentheses. Panel B contains governance characteristics. *Mergers* is the mean number of mergers across sample industries. *Poison Pill (Classified Board)* is the fraction of sample firms with a poison pill (classified board). *Insider Fraction* is the fraction of the board that is composed of insiders, *Board Size* is the total number of board members, and *Institutional Holdings* is the fraction of shares outstanding that are held by institutional investors. Standard deviations are in parentheses.

Panel A: Balance Sheet Characteristics

2004	<u>AFL-CIO</u>	<u>CTW</u>	<u>Nonunion</u>	<u>S&P 500</u>
Equity	30.24 (4.25)	23.96 (5.96)	29.43 (3.36)	22.70 (1.80)
Capital Intensity	0.34 (0.02)	0.33 (0.02)	0.17 (0.02)	0.25 (0.01)
ROA	0.08 (0.00)	0.08 (0.00)	0.06 (0.00)	0.07 (0.00)
Employees	61.94 (6.02)	64.58 (10.73)	47.25 (10.81)	44.58 (4.36)
Asset Growth	1.08 (0.01)	1.10 (0.02)	1.12 (0.02)	1.12 (0.01)
<u>Two-digit SIC</u>				
0–20	10%	16%	12%	10%
21–40	49%	29%	26%	40%
41–60	31%	29%	29%	27%
61–100	10%	25%	34%	23%
# Firms	147	51	173	500
2005				
Equity	32.06 (4.44)	23.43 (5.61)	30.12 (3.29)	23.50 (1.75)
Capital Intensity	0.32 (0.02)	0.30 (0.02)	0.16 (0.02)	0.24 (0.01)
ROA	0.08 (0.00)	0.08 (0.00)	0.07 (0.00)	0.08 (0.00)
Employees	64.54 (6.42)	67.91 (11.31)	46.64 (11.39)	46.54 (4.57)
Asset Growth	1.06 (0.02)	1.07 (0.03)	1.12 (0.02)	1.11 (0.01)

(Table 4, Panel A, continued)

<u>Two-digit SIC</u>				
0-20	11%	13%	12%	10%
21-40	50%	30%	27%	40%
41-60	28%	26%	28%	27%
61-100	11%	30%	33%	22%
# Firms	140	53	172	500

Panel B: Governance Characteristics

2004	<u>AFL-CIO</u>	<u>CTW</u>	<u>Nonunion</u>
Mergers	182.61 (375.67)	265.09 (494.34)	204.10 (295.19)
Poison Pill	0.51 (0.50)	0.50 (0.51)	0.57 (0.50)
Classified Board	0.56 (0.50)	0.52 (0.51)	0.60 (0.49)
Insider Fraction	0.15 (0.08)	0.18 (0.08)	0.16 (0.08)
Board Size	10.99 (2.40)	10.57 (2.21)	10.89 (2.85)
Institutional Ownership	0.52 (0.17)	0.59 (0.18)	0.56 (0.17)
2005			
Mergers	195.12 (406.97)	254.36 (522.40)	222.29 (304.55)
Poison Pill	0.51 (0.50)	0.54 (0.50)	0.57 (0.50)
Classified Board	0.58 (0.50)	0.56 (0.50)	0.56 (0.50)
Insider Fraction	0.13 (0.06)	0.17 (0.08)	0.15 (0.08)
Board Size	10.89 (2.08)	10.16 (1.91)	10.73 (2.64)
Institutional Ownership	0.53 (0.13)	0.58 (0.13)	0.56 (0.16)

Table 5**Effects of Firm–Union Relations on AFL-CIO Funds’ Director Votes**

This table presents the difference-in-difference analysis and regression results of AFL-CIO proxy votes for director nominees estimated as a function of firm-union workers’ affiliations. Panel A presents the fraction of votes cast against directors of firms that employ union workers primarily affiliated with either the AFL-CIO or the CTW Coalition (rows) before and after the formation of the CTW Coalition (columns). “Difference” refers to the differences in mean votes by row or column. The bottom, rightmost cell contains the difference-in-difference estimate of proxy votes against directors. Standard errors are in parentheses. Panel B contains regression estimates for the baseline specification of the following OLS linear probability model:

$$VoteMgt_{ijt} = \alpha + \beta_1(CTW_j \times Post_t) + \beta_2(CTW_j) + \beta_3(Post_t) + \beta_4(Union_j) + \beta_4(Union_j \times Post_t) + \beta_5(StockReturn_{jt}) + \beta_6(StockReturn_{jt} \times Post_t) + \beta_7(Year_t) + \beta_8(Firm_j) + \beta_9(Governance_{ijt}) + \varepsilon_{ijt},$$

where subscripts ijt uniquely identify individual observations for nominee i , firm j , and time t . $VoteMgt_{ijt} = 1$ (0) if the AFL-CIO votes against (for) firm j ’s recommendation for nominee i at time t . $CTW_j = 1$ (0) if firm j is a CTW firm. $Post_t = 1$ (0) if election takes place after (before) the CTW formation. $StockReturn_{jt}$ is the market-adjusted stock return for firm j over the year preceding time t , normalized by the standard deviation of the stock’s past annual excess returns. $Union_j = 1$ (0) if firm has (no) unionized workers in either the AFL-CIO or CTW Coalition. Year and firm fixed effects are denoted by $Year_t$ and $Firm_j$, respectively. $Governance_{ijt}$ refer to various controls: $\text{Log}(\text{Mergers})_{jt}$ is the log number of mergers in year t for firm j ’s industry, Poison Pill_t and $\text{Classified Board}_{jt} = 1$ (0) if firm j in year t has a poison pill and classified board, $\text{insider director}_{ijt} = 1$ (0) if nominee i is an insider at firm j in year t , $\text{SH proposal}_{jt} = 1$ (0) if firm j receives a shareholder proposal that wins majority support in year t election, $\text{Inst. Holdings}_{jt} =$ fraction of outstanding equity of firm j held by institutional investors in year t . Standard errors, reported in parentheses, are heteroscedasticity-robust and clustered by election.

Panel A: Difference-in-Difference Analysis			
	Pre-Period	Post-Period	Difference
AFL-CIO	0.429 (0.009)	0.443 (0.015)	-0.014 (0.024)
CTW	0.452 (0.016)	0.287 (0.022)	0.165*** (0.038)
Difference	-0.024 (0.025)	0.156 (0.037)	-0.179*** (0.062)

***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively

Table 5 (continued):

Panel B: Regression Analysis							
VoteMgt	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CTW × Post		-0.179** (0.081)	-0.144** (0.063)	-0.138** (0.063)	-0.141** (0.069)	-0.140** (0.069)	-0.137** (0.065)
CTW		0.024 (0.045)					
Post		-0.001 (0.036)	0.097 (0.086)	0.064 (0.086)	0.098 (0.086)	0.105 (0.088)	0.098 (0.087)
Union	0.111*** (0.024)	0.114*** (0.032)					
Union × Post		0.015 (0.061)	0.036 (0.046)	0.036 (0.046)	0.055 (0.050)	0.060 (0.051)	0.037 (0.048)
Stock Return				0.007 (0.017)			
Stock Ret. × Post				-0.086* (0.051)			
Log(Mergers)					0.031 (0.042)		
Poison Pill					0.201*** (0.067)		
Classified Board						0.091* (0.054)	
Insider Director						0.123*** (0.014)	
SH Proposal							-0.018 (0.037)
Inst. Holdings							0.213** (0.095)
Constant	0.314*** (0.016)	0.314*** (0.019)	0.276*** (0.087)	0.272*** (0.088)	0.003 (0.242)	0.197** (0.090)	0.170* (0.100)
Year F.E.	No	No	Yes	Yes	Yes	Yes	Yes
Firm F.E.	No	No	Yes	Yes	Yes	Yes	Yes
Sample Firms	All	All	All	All	All	All	All
# of Firms	504	504	504	503	462	462	493
# of Obs.	10,407	10,407	10,407	10,390	9,277	9,274	10,084

***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively

Table 6
Effects of Firm-Union Relations on Institutional Investors' Director Votes

This table presents the regression results of various institutional investors' proxy votes for director nominees as a function of union-firm workers' affiliations. The baseline specification is an OLS linear probability model which, for each institutional investor, corresponds to the two leftmost columns of Table 5's Panel B:

$$VoteMgt_{ijt} = \alpha + \beta_1(CTW_j \times Post_t) + \beta_2(CTW_j) + \beta_3(Post_t) + \beta_4(Union_j) + \beta_5(Union_j \times Post_t) + \varepsilon_{ijt},$$

where subscripts ijt uniquely identify individual observations for nominee i , firm j , time t . $VoteMgt_{ijt} = 1$ (0) if the institutional investor votes against (for) firm j 's recommendation for nominee i at time t . $CTW_j = 1$ (0) if firm j is a CTW firm. $Post_t = 1$ (0) if election takes place after (before) the CTW formation. $Union_j = 1$ (0) if firm has (no) unionized workers in either the AFL-CIO or CTW Coalition. Standard errors, reported in parentheses, are heteroskedasticity-robust and clustered by election.

	Fidelity		Vanguard		TIAA-CREF		CalPERS		UBCJA	
VoteMgt	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
CTW × Post		0.002 (0.015)		-0.056 (0.035)		-0.043 (0.050)		0.048 (0.046)		0.217* (0.124)
CTW		-0.005 (0.014)		0.085*** (0.028)		0.040 (0.033)		-0.049 (0.032)		-0.235*** (0.073)
Post		-0.011 (0.008)		-0.112*** (0.018)		-0.038 (0.023)		-0.165*** (0.021)		0.133** (0.064)
Union	0.003 (0.007)	0.007 (0.012)	-0.054*** (0.013)	-0.091*** (0.018)	-0.026 (0.016)	-0.049** (0.021)	0.018 (0.016)	0.034 (0.022)	-0.081* (0.045)	0.000 (0.067)
Union × Post		-0.009 (0.013)		0.046** (0.023)		0.045 (0.037)		-0.038 (0.033)		-0.083 (0.096)
Constant	0.012*** (0.004)	0.017** (0.007)	0.142*** (0.010)	0.185*** (0.014)	0.084*** (0.012)	0.098*** (0.016)		0.240*** (0.015)	0.493*** (0.033)	0.419*** (0.046)
Sample Firms	All	All	All	All	All	All	All	All	All	All
# of Firms	455	455	467	467	460	460	487	487	343	343
# of Obs	7,433	7,433	7,949	7,949	7,785	7,785	9,503	9,503	4,515	4,515

***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively

Table 7
Effects of Management-Labor Conflict on AFL-CIO Votes

This table presents the regression results of AFL-CIO votes for director nominees as a function of labor strife at the plant level and union-firm workers' affiliations. The baseline specification is an OLS linear probability model:

$$VoteMgt_{ijt} = \alpha + \beta_1(Strife_{jt} \times CTW_j \times Post_t) + \beta_2(CTW_j \times Post_t) + \beta_3(CTW_j \times Strife_{jt}) + \beta_4(Strife_{jt} \times Post_t) + \beta_5(Strife_{jt}) + \beta_6(CTW_j) + \beta_7(Post_t) + \beta_8(Union_j) + \beta_9(Union_j \times Post_t) + \beta_{10}(Union_j \times Strife_{jt}) + \beta_{11}(Union_j \times Strife_{jt} \times Post_t) + \beta_{12}(StockReturn_{jt}) + \beta_{13}(StockReturn_{jt} \times Post_t) + \beta_{14}(Year_t) + \beta_{15}(Firm_j) + \varepsilon_{ijt},$$

where subscripts *ijt* uniquely identify individual observations for nominee *i*, firm *j*, time *t*. *Strife_{it}* = 1 (0) if there were (not) any charges filed by firm *j* against a labor union for unfair unionization practices in 2002. All other variables are as defined in Table 5. Standard errors, reported in parentheses, are heteroscedasticity-robust and clustered by election.

VoteMgt	(1)	(2)	(3)	(4)	(5)
Strife × CTW × Post				-0.326*** (0.125)	-0.315** (0.125)
CTW × Post		-0.311** (0.13)	-0.330*** (0.083)	-0.002 (0.093)	-0.001 (0.093)
Strife × Post				0.257 (0.192)	0.249 (0.190)
Union × Post			-0.109 (0.201)	-0.023 (0.054)	-0.022 (0.054)
Union × Strife					
Union × Strife × Post				-0.095 (0.206)	-0.092 (0.203)
Strife	0.177*** (0.032)				
CTW		0.020 (0.070)			
Post		0.093 (0.080)	-0.079 (0.249)	0.089 (0.086)	0.061 (0.086)
Constant	0.335*** (0.013)	0.507*** (0.042)	0.835*** (0.163)	0.282*** (0.087)	0.279*** (0.088)
Firm Fixed Effects	No	No	Yes	Yes	Yes
Year Fixed Effects	No	No	Yes	Yes	Yes
Sample Firms	All	Union	All	All	All
Strife=1	No	Yes	Yes	No	No
# of Observations	10,407	2,263	2,298	10,407	10,390

***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively

Table 8
AFL-CIO Proxy Votes and Aggregate Director Support

This table illustrates the impact of AFL-CIO union pension fund voting on aggregate shareholder support given to sample directors. *Director Subsample* refers to the sample of directors that is analyzed in each row. The second (third) main column, AFL-CIO Opposes (Supports), refers to directors within each sample that are Opposed (Supported) by AFL-CIO union pension funds. Within each of these main columns, the aggregate shareholder support received by each subsample of directors is presented, along with standard errors and sample size. The fourth main column presents the difference in aggregate support between the subsamples of directors facing disparate AFL-CIO support.

Panel A: Aggregate Director Support						
Director Subsample	AFL-CIO Opposes:		AFL-CIO Supports:		Difference:	
	Aggregate Support (%)	Std. Error (%)	Aggregate Support (%)	Std. Error (%)	Aggregate Support (%)	Std. Error (%)
All Firms	93.49	0.14	96.06	0.07	-2.57***	0.14
No. of Obs.	3,320		5,938		9,258	
Union Firms	93.24	0.19	96.02	0.10	-2.78***	0.20
No. of Obs.	1,962		2,960		4,922	
Insider Directors	92.61	0.29	95.51	0.16	-2.90***	0.33
No. of Obs.	932		1,000		1,932	
Unionization Strife	93.22	0.23	96.17	0.11	-2.95***	0.24
No. of Obs.	1,184		1,604		2,788	
Coll. Barg. Strife	94.35	0.26	96.66	0.22	-2.31***	0.34
No. of Obs.	666		740		1,406	
Below Median Inst.						
%	93.94	0.17	96.36	0.08	-2.42***	0.17
No. of Obs.	1,661		2,881		4,542	

***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively

Table 9
Effects of AFL-CIO Proxy Votes on Stock Prices

This table presents mean and median CARs (%) in various windows around the formation of the CTW Coalition for firms whose workers disaffiliate from the AFL-CIO and which subsequently face less opposition from AFL-CIO union pension funds in director elections.

Window	Mean (%)	<i>t</i>	Median (%)	<i>z</i>	Positive pct (%)	<i>N</i>
Panel A: All firms						
[-0,+0]	0.50	3.58	0.36	2.00	65.63	64
[-1,+1]	0.30	1.05	0.34	0.88	53.13	64
[-3,+3]	0.76	1.80	0.90	1.11	65.63	64
Panel B: Firms which face union pension fund opposition						
[-0,+0]	0.49	3.31	0.37	2.24	70.00	50
[-1,+1]	0.52	1.64	0.41	1.48	56.00	50
[-3,+3]	1.03	2.16	1.64	1.65	70.00	50
Panel C: Firms which face union pension fund opposition to insider directors						
[-0,+0]	0.50	2.90	0.31	2.46	69.23	39
[-1,+1]	0.81	2.16	0.76	2.41	64.10	39
[-3,+3]	1.15	1.97	1.73	1.94	69.23	39
Panel D: Firms which do not face union pension fund opposition						
[-0,+0]	0.54	1.45	-0.02	0.70	50.00	14
[-1,+1]	-0.50	-0.85	-0.42	-0.80	42.86	14
[-3,+3]	-0.24	-0.28	0.32	-0.49	50.00	14
Panel E: Firms which do not face union pension fund opposition to insider directors						
[-0,+0]	0.49	2.08	0.36	0.98	60.00	25
[-1,+1]	-0.51	-1.34	-0.26	-0.99	36.00	25
[-3,+3]	0.14	0.25	0.78	-0.06	60.00	25
Panel F: Firms experiencing unionization conflict						
[-0,+0]	0.81	3.12	0.55	1.89	72.00	25
[-1,+1]	0.72	1.69	0.92	0.99	68.00	25
[-3,+3]	2.23	3.86	3.00	1.62	84.00	25
Panel G: Firms experiencing collective bargaining conflict						
[-0,+0]	0.58	2.55	0.38	1.70	68.97	29
[-1,+1]	0.43	1.04	0.76	1.12	65.52	29
[-3,+3]	1.22	2.24	0.78	1.05	65.52	29
Panel H: Firms experiencing no unionization conflict						
[-0,+0]	0.30	1.97	0.16	1.67	61.54	39
[-1,+1]	0.03	0.07	-0.26	0.56	43.59	39
[-3,+3]	-0.19	-0.35	0.17	0.35	53.85	39
Panel I: Firms experiencing no collective bargaining conflict						
[-0,+0]	0.43	2.48	0.31	1.88	62.86	35
[-1,+1]	0.19	0.48	-0.26	0.42	42.86	35
[-3,+3]	0.38	0.60	0.92	0.94	65.71	35
Panel J: Firms with below median institutional holdings						
[-0,+0]	0.67	3.12	0.52	2.67	78.13	32
[-1,+1]	0.63	1.59	0.69	1.78	65.63	32
[-3,+3]	1.13	2.05	0.85	1.39	71.88	32
Panel K: Firms with above median institutional holdings						
[-0,+0]	0.32	1.85	0.09	1.01	53.13	32
[-1,+1]	-0.04	-0.09	-0.39	-0.10	40.63	32
[-3,+3]	0.38	0.59	0.97	0.64	59.38	32

Table 10
Effects of AFL-CIO Proxy Votes on Labor-Management Disputes

This table presents regression results of unfair labor practice (ULP) filings as a function of AFL-CIO proxy votes. The baseline OLS specification is:

$$\text{Log}(\text{ULP Filings})_{ijt} = \alpha + \beta_1(\text{VoteMgt}_{ijt}) + \beta_2(\text{StockReturn}_{jt}) + \beta_3(\text{Log}(\text{Assets}_{jt})) + \beta_4(\text{Year}_t) + \beta_5(\text{Firm}_j) + \varepsilon_{ijt}$$

where subscripts ijt uniquely identify individual observations for nominee i , firm j , time t (columns 1–4, 6–9). $\text{Log}(\text{ULP Filings})_{ijt}$ = log of 1 + number unfair labor practice charges involving firm j in year t . VoteMgt_{ijt} = 1 (0) if the AFL-CIO votes against (for) firm j 's recommendation for nominee i at time t . $\text{Log}(\text{Assets})_{jt}$ = log of book value of assets of firm j in year t . Year and firm fixed effects are denoted by Year_t , Firm_j , respectively. Columns 5 and 10 present results for sample consisting of observations aggregated across directors i for firm j in year t . Robust standard errors are reported in parentheses.

Panel A: Unionization Conflict					
Log(Unfair Labor Practices)	(1)	(2)	(3)	(4)	(5)
Vote Against	-0.026*** (0.007)	-0.025*** (0.007)	-0.034*** (0.011)	-0.071*** (0.012)	-0.115** (0.057)
Stock Performance		0.009* (0.005)	0.003 (0.009)	0.008 (0.009)	0.013 (0.029)
Log(Assets)		0.073*** (0.021)	0.205*** (0.047)	-0.004 (0.045)	-0.029 (0.152)
Constant	0.410*** (0.004)	-0.307 (0.209)	-1.301*** (0.458)	0.784* (0.439)	1.029 (1.446)
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	No	Yes	Yes	Yes	Yes
Sample Firms	All	All	Union	Union	Union
Sample Years	All	All	All	< 2006	< 2006
Observations	10,407	10,390	5,620	4,134	581

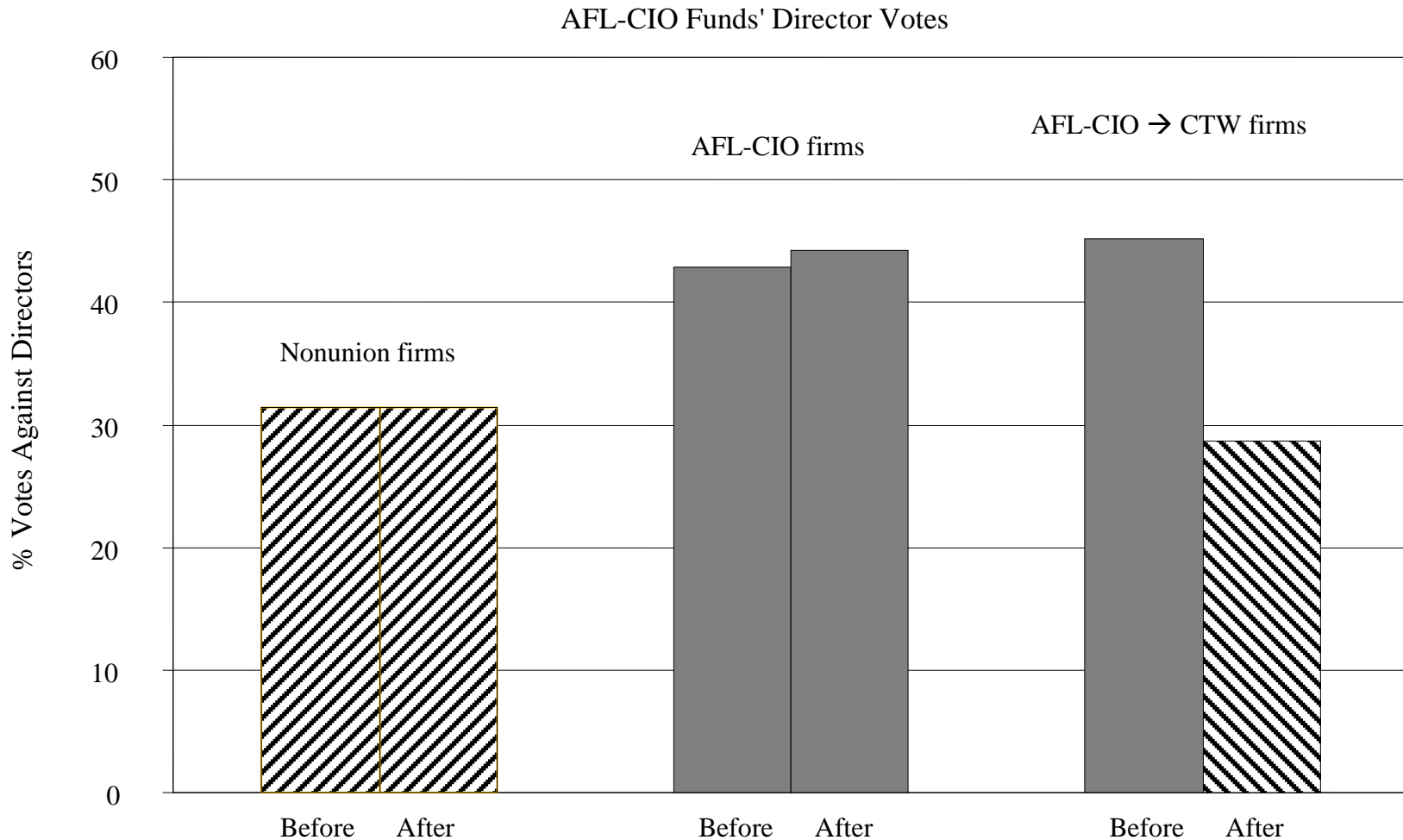
Panel B: Collective Bargaining Conflict					
Log(Unfair Labor Practices)	(6)	(7)	(8)	(9)	(10)
Vote Against	-0.016** (0.008)	-0.010 (0.008)	-0.027* (0.014)	-0.053*** (0.014)	-0.099 (0.072)
Stock Performance		-0.023*** (0.006)	-0.049*** (0.012)	-0.032*** (0.012)	-0.007 (0.037)
Log(Assets)		-0.165*** (0.029)	-0.302*** (0.064)	-0.122* (0.069)	-0.159 (0.194)
Constant	0.528*** (0.004)	2.136*** (0.292)	3.788*** (0.632)	2.054*** (0.680)	2.414 (1.842)
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	No	Yes	Yes	Yes	Yes
Sample Firms	All	All	Union	Union	Union
Sample Years	All	All	All	< 2006	< 2006
Observations	10,407	10,390	5,620	4,134	581

***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively

Figure 1

AFL-CIO Funds' Director Votes as a Function of Firm Worker-Union Affiliation

This figure illustrates AFL-CIO funds' votes for directors across all sample firms. Each pair of columns represents the percentage of AFL-CIO fund votes withheld from directors across three groups of firms (% against directors given on y-axis). The leftmost pair represents firms whose workers are not unionized, the middle pair portrays AFL-CIO-firms, and the rightmost pair depicts CTW-firms. "Before" and "After" refer to the time periods surrounding the breakup of the AFL-CIO. Solid colored (striped) columns are for directors of firms whose workers are (not) primarily affiliated with the AFL-CIO at the time of the election.



* Before and After refer to the date of the director election relative to the AFL-CIO split
** Standard Errors are at most 2.5% in each column

Footnotes

¹ The funds maintain assets on the order of \$100 billion in size.

² Since 1994, union pension funds have replaced public pension funds as the most prolific sponsors of corporate governance proposals (Romano 2001). Union pension funds are also extremely active through the media (Schwab and Thomas 1998) and have been successful in influencing regulatory reform (Davis and Kim 2007; Bainbridge 2006).

³ In particular, mutual funds and private pension funds have been found to be effective monitors of management (Brickley et al. 1988; Borokhovich et al. 2006; Agrawal and Mandelkar 1990; Chen, Harford, and Li 2007; Carleton, Nelson, and Weisbach 1998). Additionally, the presence of institutional investors provides incentives for directors to pursue shareholder-value maximizing strategies (Allen, Bernardo, and Welch 2000).

⁴ In particular, the National Labor Relations Act of 1935 stipulates various conditions that must be satisfied by labor unions and employers regarding activities, such as collective bargaining, new member unionization, worker strikes, etc.

⁵ The AFL-CIO Office of Investment produces its own set of Proxy Voting Guidelines, which are available online at: http://www.AFL-CIO.org/corporatewatch/capital/upload/proxy_voting_guidelines.pdf. The AFL-CIO's stated goals, i.e., as pension fund managers, are consistent with the findings in this paper.

⁶ It is likely that the Reserve fund's assets are partly comprised of union membership dues.

⁷ I do not observe the aggregate votes cast for directors of firms that do not disclose detailed election outcomes in SEC filings (e.g., international corporations).

⁸ I also obtain stock performance data from CRSP.

⁹ The dates correspond to the "Notice Date" in each filing.

¹⁰ I also collect information from 10-K's in 2003 for a large subsample of firms to corroborate information from 2006 reports.

¹¹ NLRB elections and petitions data is obtained from Research Associates of America (RAA), a nonprofit union research entity.

¹² See Appendix 1 for further details on firm-union classification and data sources.

¹³ Unfair labor practice data is obtained from the Research Associates of America (RAA) and from the NLRB through a Freedom of Information Act (FOIA) request.

¹⁴ The use of 2002 (pre-sample) data and 2003–2006 (within-sample) data on unfair labor practices in the empirical analysis is explained in Section 3.4.

¹⁵ For example, Table 4 suggests that firms in the CTW sample are more likely to belong to industries with an SIC code of 61–100, while AFL-CIO constant firms are more likely to belong to industries with SIC codes of 21–40. Differences in industries, however, are not contrary to the identification assumption, as it is unlikely that static differences in industries correspond to dynamic changes in unobservable director quality for CTW firms relative to AFL-CIO firms. Industry differences are further discussed in Section 3.2.

¹⁶ The CTW Coalition was officially formed in its founding convention on September 27, 2005. I use this date to demarcate an unambiguous change in labor relations between the AFL-CIO and CTW unions.

¹⁷ The use of stock returns as an explanatory variable for director votes is potentially problematic because proxy votes and firm performance are simultaneously determined and therefore serially correlated (Gillan and Starks 2007; Hermalin and Weisbach 1998, 2003).

¹⁸ The results are robust to more aggregate levels of clustering such as grouping by firm. See Petersen (2009) for further reference on clustering standard errors in corporate finance datasets.

¹⁹ Although endogenous, stock performance covariates do not significantly affect the magnitude of the difference-in-difference estimates. I include this covariate, in spite of the issues of serial correlation, to address the hypothesis that AFL-CIO fund director votes are exclusively a function of past stock performance; the data suggest that even the inclusion of this endogenous variable as a regressor does not significantly impact the treatment effect estimates.

²⁰ See Shleifer and Vishny (1986), Zeckhauser and Pound (1990), Black (1992), Brickley et al.(1988), Agrawal and Mandelkar (1990), Borokhovich et al. (2006), Chen, Harford,

and Li (2007), Allen, Bernardo, and Welch (2000), and Carleton, Nelson, and Weisbach (1998).

²¹ I define $VoteMgt_{ijt} = 0$ if the UBCJA data sample states they vote explicitly “for” a director, and $VoteMgt_{ijt} = 1$ otherwise. For thirty-one elections in the UBCJA sample, the votes cast for all directors in the election are listed as “split”. For each director in these elections, I define $VoteMgt_{ijt} = .5$. The results are similar if these elections are removed from the sample or if I define $VoteMgt_{ijt} = 1$.

²² As illustrated in table 3, the relative frequency of labor conflict involving either unionization or collective bargaining in 2002 is the same within each group of unionized sample firms, lending support to the added identification assumption. Furthermore, the results are not sensitive to the choice of pre-sample or within-sample ULP data.

²³ Results are available upon request; they are not reported here for brevity.

²⁴ Data on union fund ownership levels is not publicly available.

²⁵ See Gillan and Starks (2007), Karpoff (2001), and Black (1998) for surveys.